

LORAL SPACE & COMMUNICATIONS INC.

Form 10-Q

May 09, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2006
Commission file number 1-14180
Loral Space & Communications Inc.
600 Third Avenue
New York, New York 10016
Telephone: (212) 697-1105
Jurisdiction of incorporation: Delaware
IRS identification number: 87-0748324**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by a check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Act). Yes No

As of April 30, 2006, there were 20,000,000 shares of Loral Space & Communications Inc. common stock outstanding.

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PART 1.
FINANCIAL INFORMATION

Item 1. Financial Statements

LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 360,911	\$ 275,796
Accounts receivable, net	24,758	59,347
Contracts-in-process	79,244	73,584
Inventories	48,972	51,871
Other current assets	26,273	31,066
Total current assets	540,158	491,664
Property, plant and equipment, net	509,654	520,503
Long-term receivables	48,016	48,155
Investments in and advances to affiliates	103,196	104,616
Deposits	9,840	9,840
Goodwill	340,094	340,094
Other assets	154,234	164,105
Total assets	\$ 1,705,192	\$ 1,678,977
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 53,426	\$ 72,594
Accrued employment costs	26,045	35,277
Customer advances and billings in excess of costs and profits	231,292	172,995
Income taxes payable	2,358	2,177
Accrued interest and preferred dividends	15,264	4,881
Other current liabilities	30,423	32,324
Total current liabilities	358,808	320,248
Pension and other post retirement liabilities (Note 3)	242,243	237,948
Long-term debt	128,166	128,191
Long-term liabilities	164,028	165,426
Total liabilities	893,245	851,813
Minority interest	200,000	200,000
Commitments and contingencies (Notes 2, 7, 9 and 10)		
Shareholders' equity:		

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Common stock, \$.01 par value	200	200
Paid-in capital	642,793	642,210
Retained deficit	(31,101)	(15,261)
Accumulated other comprehensive income	55	15
Total shareholders equity	611,947	627,164
Total liabilities and shareholders equity	\$ 1,705,192	\$ 1,678,977

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Successor Registrant	Predecessor Registrant
	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenues from satellite services	\$ 35,484	\$ 34,571
Revenues from satellite manufacturing	136,492	97,807
Total revenues	171,976	132,378
Cost of satellite services	23,830	35,171
Cost of satellite manufacturing	125,948	88,237
Selling, general and administrative expenses	28,414	27,296
Loss before reorganization expenses due to bankruptcy	(6,216)	(18,326)
Reorganization expenses due to bankruptcy		(5,633)
Operating loss	(6,216)	(23,959)
Interest and investment income	4,544	1,788
Interest expense (contractual interest was \$11,854 for the three months ended March 31, 2005, Note 2)	(5,168)	(978)
Other income (expense)	1,014	(617)
Loss before income taxes, equity losses in affiliates and minority interest	(5,826)	(23,766)
Income tax provision	(2,594)	(1,730)
Loss before equity losses in affiliates and minority interest	(8,420)	(25,496)
Equity losses in affiliates (Note 7)	(1,420)	(739)
Minority interest	(6,000)	14
Net loss	\$ (15,840)	\$ (26,221)
Basic and diluted loss per share (Note 11):		
Loss per share	\$ (0.79)	\$ (0.59)
Weighted average shares outstanding:		
Basic and diluted	20,000	44,108

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Successor Registrant	Predecessor Registrant
	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Operating activities:		
Net loss	\$ (15,840)	\$ (26,221)
Non-cash items:		
Equity losses in affiliates	1,420	739
Minority interest	6,000	(14)
Deferred taxes		188
Depreciation and amortization	16,288	23,529
Amortization of stock option compensation	583	
(Recoveries of) provisions for bad debts on billed receivables	540	(247)
Provisions for inventory obsolescence	1,678	
Warranty accruals	(390)	1,501
Loss on equipment disposals		283
Net gain on the disposition of an orbital slot	(1,149)	
Non cash net interest and (gain) loss on foreign currency transactions	7	349
Changes in operating assets and liabilities:		
Accounts receivable, net	48,849	1,009
Contracts-in-process	22,706	(48,545)
Inventories	1,221	1,812
Long-term receivables	(2,261)	(5,131)
Other current assets and other assets	4,646	2,953
Accounts payable	(15,835)	6,703
Accrued expenses and other current liabilities	(11,875)	(5,333)
Customer advances	20,692	(21,133)
Income taxes payable	181	593
Pension and other postretirement liabilities	4,295	5,059
Long-term liabilities	3,668	(256)
Other	15	(32)
Net cash provided by (used in) operating activities	85,439	(62,194)
Investing activities:		
Capital expenditures	(6,066)	(724)
Proceeds received from the disposition of an orbital slot	5,742	
Investments in and advances to affiliates		(7,353)
Net cash used in investing activities	(324)	(8,077)

Financing activities:

Net cash provided by (used in) financing activities			
Net increase (decrease) in cash and cash equivalents		85,115	(70,271)
Cash and cash equivalents	beginning of period	275,796	147,773
Cash and cash equivalents	end of period	\$ 360,911	\$ 77,502

See notes to condensed consolidated financial statements.

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**LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. Organization and Principal Business

Loral Space & Communications Inc. (New Loral) together with its subsidiaries is a leading satellite communications company with substantial activities in satellite-based communications services and satellite manufacturing. New Loral was formed to succeed the business conducted by its predecessor registrant, Loral Space & Communications Ltd. (Old Loral), which emerged from chapter 11 of the federal bankruptcy laws on November 21, 2005 (the Effective Date).

We adopted fresh-start accounting as of October 1, 2005, in accordance with Statement of Position No. 90-7, *Financial Reporting of Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7). Accordingly, our financial information disclosed under the heading Successor Registrant for the period ended March 31, 2006, is presented on a basis different from, and is therefore not comparable to, our financial information disclosed under the heading Predecessor Registrant for the period ended March 31, 2005.

The terms, Loral, the Company, we, our and us, when used in this report with respect to the period prior to our emergence, are references to Old Loral, and when used with respect to the period commencing after our emergence, are references to New Loral. These references include the subsidiaries of Old Loral or New Loral, as the case may be, unless otherwise indicated or the context otherwise requires.

Loral is organized into two operating segments:

Satellite Services, conducted by our subsidiary, Loral Skynet Corporation (Loral Skynet), generates its revenues and cash flows from leasing satellite capacity on its four-satellite fleet to commercial and governmental customers for video and direct to home (DTH) broadcasting, high-speed data distribution, internet access and communications, as well as providing satellite-based networking services. It also provides professional services to other satellite operators including satellite construction oversight and fleet operating services.

Satellite Manufacturing, conducted by our subsidiary, Space Systems/ Loral, Inc. (SS/ L), generates its revenues and cash flows from designing and manufacturing satellites, space systems and space system components for commercial and government customers whose applications include fixed satellite services, DTH broadcasting, broadband data distribution, wireless telephony, digital radio, military communications, weather monitoring and air traffic management.

2. Reorganization

On July 15, 2003, Old Loral and certain of its subsidiaries (the Debtor Subsidiaries and collectively with Old Loral, the Debtors), including Loral Space & Communications Holdings Corporation (formerly known as Loral Space & Communications Corporation), Loral SpaceCom Corporation (Loral SpaceCom), SS/ L and Loral Orion, Inc. (now known as Loral Skynet Corporation), filed voluntary petitions for reorganization under chapter 11 of title 11 (Chapter 11) of the United States Code (the Bankruptcy Code) in the U.S. Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) (Lead Case No. 03-41710 (RDD), Case Nos. 03-41709 (RDD) through 03-41728 (RDD)) (the Chapter 11 Cases). Also on July 15, 2003, Old Loral and one of its Bermuda subsidiaries (the Bermuda Group) filed parallel insolvency proceedings in the Supreme Court of Bermuda (the Bermuda Court), and, on that date, the Bermuda Court entered an order appointing certain partners of KPMG as Joint Provisional Liquidators (JPLs) in respect of the Bermuda Group (see Basis of Presentation Note 3).

The Debtors emerged from Chapter 11 on November 21, 2005 pursuant to the terms of their fourth amended joint plan of reorganization, as modified (the Plan of Reorganization). The Plan of Reorganization had previously been confirmed by order (the Confirmation Order) of the Bankruptcy Court entered on August 1, 2005.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pursuant to the Plan of Reorganization:

The business and operations of Old Loral have been transferred to New Loral, and Loral Skynet and SS/ L have emerged intact as separate subsidiaries of reorganized Loral.

Our new common stock has been listed on NASDAQ under the symbol LORL .

SS/ L has emerged debt-free.

The initial distributions to creditors of Old Loral and its subsidiaries have been completed in accordance with the Plan of Reorganization as follows:

All holders of allowed claims against SS/ L and Loral SpaceCom have been, or will be paid in cash in full, including interest from the petition date to the Effective Date.

20 million shares of New Loral common stock were issued to our distribution agent on the Effective Date, 18.8 million of which have been distributed to creditors.

\$200 million of Loral Skynet preferred stock was issued to our distribution agent on the Effective Date, \$197.5 million of which has been distributed to creditors.

The remaining undistributed shares of New Loral common stock and Loral Skynet preferred stock have been reserved to cover disputed claims and will be distributed quarterly in accordance with the Plan of Reorganization upon resolutions of those claims.

Pursuant to a rights offering, Loral Skynet issued on the Effective Date, \$126 million, principal amount, of senior secured notes (the Loral Skynet Notes , see Note 9) to certain creditors who subscribed for the notes and to certain creditors who committed to purchase any unsubscribed notes (i.e., backstopped the offering).

Old Loral will be liquidated; the common and preferred stock of Old Loral were cancelled on the Effective Date, and no distribution was made to the holders of such stock.

Certain Old Loral shareholders acting on behalf of the self-styled Loral Stockholders Protective Committee (LSPC) have filed various appeals seeking, among other things, to revoke the Confirmation Order, to overturn the Bankruptcy Court 's denial of the LSPC 's motion to compel Old Loral to hold a shareholders ' meeting, to overturn various rulings of the Bankruptcy Court related to fees and expenses and to rescind the approval of the Federal Communications Commission (FCC) of the transfer of our FCC licenses from Old Loral to New Loral (the Appeals). We believe that the Appeals are completely without merit and will not have any effect on the completed reorganization. For further details about the Appeals see Note 10.

Reorganization expenses due to bankruptcy were as follows (in thousands):

	Predecessor Registrant	
	Three Months Ended	
	March 31, 2005	
Professional fees	\$	5,489
Employee retention costs		182
Severance costs		503

Vendor settlement charges		125
Interest income		(666)
Total reorganization expenses due to bankruptcy	\$	5,633

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LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements (the financial statements) have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2005 balance sheet has been derived from the audited consolidated financial statements at that date. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The accompanying consolidated financial statements for the Predecessor Registrant have been prepared in accordance with SOP 90-7 and on a going concern basis, which contemplates continuing operations, realization of assets and liquidation of liabilities in the ordinary course of business. In addition, the consolidated statements of operations of the Predecessor Registrant portray our results of operations during the Chapter 11 proceedings. As a result, any revenue, expenses, realized gains and losses, and provision for losses resulting directly from the reorganization and restructuring of the organization are reported separately as reorganization items. We did not prepare combining financial statements for Old Loral and its Debtor Subsidiaries, since the subsidiaries that did not file voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code were immaterial to our consolidated financial statements.

As noted above, we emerged from bankruptcy on November 21, 2005 and pursuant to SOP 90-7, we adopted fresh-start accounting as of October 1, 2005. We engaged an independent appraisal firm to assist us in determining the fair value of our assets and liabilities. Upon emergence, our reorganization enterprise value as determined by the Bankruptcy Court was approximately \$970 million, which after reduction for the fair value of the Loral Skynet Notes and Loral Skynet Series A preferred stock (see Note 9 and minority interest below), resulted in a reorganization equity value of approximately \$642 million. This reorganization equity value was allocated to our assets and liabilities. Our assets and liabilities were stated at fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* (SFAS 141). In addition, our accumulated deficit was eliminated, and our new debt and equity were recorded in accordance with distributions pursuant to the Plan of Reorganization. The allocation of the reorganization equity value to individual assets and liabilities may change based upon completion of the fair valuation process, as additional information becomes available, and may result in differences to the fresh-start adjustments presented in this financial information. The Company expects to finalize this allocation in the first half of 2006. (See Note 4 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission.)

Net amortization of fresh-start accounting fair value adjustments relating to contracts-in-process, long-term receivables, customer advances and billings in excess of costs and profits, deferred revenue and long-term liabilities was \$(6.1) million during the quarter ended March 31, 2006.

Minority Interest

On November 21, 2005, Loral Skynet issued 1 million of its 2 million authorized shares of series A 12% non-convertible preferred stock, \$0.01 par value per share (the Loral Skynet Preferred Stock), which were distributed in accordance with the Plan of Reorganization.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Loral Skynet Preferred Stock is reflected as minority interest on our condensed consolidated balance sheet and accrued dividends of \$6.0 million for the three months ended March 31, 2006 are reflected as minority interest on our condensed consolidated statement of operations.

Accounting for Stock Based Compensation

Effective October 1, 2005, in connection with our adoption of fresh-start accounting, we adopted the fair value method of accounting for stock options for all options granted by us after October 1, 2005 pursuant to the prospective method provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS 123R). We use the Black-Scholes-Merton option-pricing model to measure fair value of these stock option awards.

Prior to October 1, 2005, we followed the disclosure-only provisions of SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* (SFAS 148), an amendment of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). We accounted for stock-based compensation for employees using the intrinsic value method (as defined below) as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations. Under APB 25, no compensation expense was recognized for employee share option grants because the exercise price of the options granted equaled the market price of the underlying shares on the date of grant (the intrinsic value method). We used the Black-Scholes-Merton option pricing model to determine the pro forma effect. Our pro-forma net loss and pro-forma loss per share would not have been materially different than reported on the accompanying consolidated statement of operations for the three months ended March 31, 2005, if we used the fair value method under SFAS 123R.

Income Taxes

During 2006 and 2005, we continued to maintain the 100% valuation allowance against our net deferred tax assets. However, upon emergence from bankruptcy in 2005, we reversed our valuation allowance related to \$2.0 million of deferred tax assets for AMT credit carryforwards. We will continue to maintain the valuation allowance until sufficient positive evidence exists to support its reversal. If, in the future, we were to determine that we will be able to realize all or a portion of the benefit from our deferred tax assets, a reduction to the valuation allowance as of October 1, 2005 will first reduce goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital. The income tax provision for the three months ended March 31, 2006 and 2005 includes our current provision for federal, state and foreign income taxes and adjustment, if required, to tax contingency liabilities for potential audit issues. The provision for 2005 also includes certain changes to the valuation allowance.

Our policy is to establish tax contingency liabilities for potential audit issues. The tax contingency liabilities are based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits. At March 31, 2006, the Company had \$43.6 million and \$0.4 million of tax contingency liabilities included in long-term liabilities and income taxes payable, respectively. At December 31, 2005, the Company had \$41.8 million and \$0.4 million of tax contingency liabilities included in long-term liabilities and income taxes payable, respectively.

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LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pensions and Other Employee Benefits

The following table provides the components of net periodic benefit cost for our qualified and supplemental retirement plans (the Pension Benefits) and health care and life insurance benefits for retired employees and dependents (the Other Benefits) (in thousands):

	Pension Benefits		Other Benefits	
	Successor Registrant	Predecessor Registrant	Successor Registrant	Predecessor Registrant
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Service cost	\$ 3,375	\$ 2,846	\$ 300	\$ 352
Interest cost	5,700	5,778	1,125	1,313
Expected return on plan assets	(5,425)	(5,105)		(15)
Amortization of prior service cost		(9)		(481)
Amortization of net loss		1,557		693
	\$ 3,650	\$ 5,067	\$ 1,425	\$ 1,862

Additional Cash Flow Information

The following represents non-cash activities and supplemental information to the condensed consolidated statements of cash flows (in thousands):

	Successor Registrant	Predecessor Registrant
	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Non-cash activities:		