LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
November 12, 2013

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 September 30, 2013

Commission file number 1-14180

Loral Space & Communications Inc.

888 Seventh Avenue

New York, New York 10106

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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 þ 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 þ

As of October 31, 2013, 21,414,212 shares of the registrant's voting common stock and 9,505,673 shares of the registrant's non-voting common stock were outstanding.

LORAL SPACE & COMMUNICATIONS INC.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended September 30, 2013

Table of Contents

PART 1.

FINANCIAL INFORMATION

Item 1. ***Financial Statements***

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,997	$ 87,370
Notes receivable	67,333	34,917
Income taxes receivable	11,577	571
Deferred tax assets	12,377	4,165
Other current assets	767	2,084
Total current assets	116,051	129,107
Property and equipment, net	92	42
Long-term receivables	33,667	67,333
Income taxes receivable	8,321	—
Investments in affiliates	91,565	62,517
Long-term deferred tax assets	93,468	117,381
Other assets	2,612	2,612
Total assets	$ 345,776	$ 378,992
LIABILITIES AND EQUITY		
Current liabilities:		
Accrued employment costs	$ 2,200	$ 4,922
Income taxes payable	—	34,505
Other current liabilities	26,446	32,089
Total current liabilities	28,646	71,516
Pension and other postretirement liabilities	24,103	25,174
Long-term liabilities	97,620	95,841
Total liabilities	150,369	192,531
Commitments and contingencies		

Equity:		
Loral shareholders' equity:		
Preferred stock, 0.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock:		
Voting common stock, 0.01 par value; 50,000,000 shares authorized, 21,568,706 and 21,416,834 issued	216	214
Non-voting common stock, 0.01 par value; 20,000,000 shares authorized 9,505,673 issued and outstanding	95	95
Paid-in capital	1,019,579	1,027,266
Treasury stock (at cost), 154,494 shares of voting common stock	(9,592)	(9,592)
Accumulated deficit	(779,886)	(794,128)
Accumulated other comprehensive loss	(35,005)	(37,394)
Total equity	195,407	186,461
Total liabilities and equity	$ 345,776	$ 378,992

See notes to condensed consolidated financial statements.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
General and administrative expenses	$ (3,452)	$ (10,316)	$ (10,559)	$ (19,191)
Operating loss	(3,452)	(10,316)	(10,559)	(19,191)
Interest and investment income	307	423	939	1,313
Interest expense	(5)	(30)	(13)	(87)
Other expense	(215)	(2,875)	(586)	(3,498)
Loss from continuing operations before income taxes and equity in net income of affiliates	(3,365)	(12,798)	(10,219)	(21,463)
Income tax benefit	7,589	36,616	2,604	39,157
Income (loss) from continuing operations before equity in net income of affiliates	4,224	23,818	(7,615)	17,694
Equity in net income of affiliates	33,358	41,586	26,209	37,102
Income from continuing operations	37,582	65,404	18,594	54,796
(Loss) income from discontinued operations, net of tax	(1,987)	4,271	(4,352)	17,716
Net income	35,595	69,675	14,242	72,512
Net loss attributable to noncontrolling interest	—	214	—	230
Net income attributable to Loral common shareholders	35,595	69,889	14,242	72,742
Other comprehensive income, net of tax	526	2,285	2,389	7,496
Comprehensive income attributable to Loral common shareholders	$ 36,121	$ 72,174	$ 16,631	$ 80,238
Net income per share attributable to Loral common shareholders:				
Basic				
Income from continuing operations	$ 1.22	$ 2.13	$ 0.60	$ 1.79
(Loss) income from discontinued operations, net of tax	(0.06)	0.14	(0.14)	0.58
Net income	$ 1.16	$ 2.27	$ 0.46	$ 2.37
Diluted				
Income from continuing operations	$ 1.19	$ 2.05	$ 0.58	$ 1.76
(Loss) income from discontinued operations, net of tax	(0.06)	0.14	(0.14)	0.58
Net income	$ 1.13	$ 2.19	$ 0.44	$ 2.34
Weighted average common shares outstanding:				
Basic	30,920	30,745	30,827	30,684
Diluted	31,004	30,997	30,997	30,980

See notes to condensed consolidated financial statements.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

(Unaudited)

	Common Stock					Treasury Stock		Retained	Accumulated	Shareholders'		
	Voting		Non-Voting			Voting		Earnings	Other	Equity		
	Shares		Shares		Paid-In			(Accumulated	Comprehensive	Attributable to	Noncontro	T
	Issued	Amount	Issued	Amount	Capital	Shares	Amount	Deficit)	Loss	Loral	Interest	E
Balance, January 1, 2012	21,230	$212	9,506	$95	$1,014,724	136	$(8,400)	$94,303	$(154,475)	$946,459	$1,126	$
Net income (loss)								421,322			(231)	
Other comprehensive income									117,081			
Comprehensive income										538,403		
Elimination of noncontrolling interest resulting from the Sale											(895)	
Common dividends declared ($13.60 per share)								(417,606)		(417,606)		
Special distribution declared ($29.00 per share)								(892,147)		(892,147)		
Exercise of stock options	169	2			1,633					1,635		
Shares surrendered to fund withholding taxes	18				(6,992)					(6,992)		
					16,919					16,919		

Tax benefit associated with stock-based compensation												
Stock-based compensation					1,151					1,151		
Cash settlement of restricted stock units					(169)					(169)		
Voting common stock repurchased						18	(1,192)			(1,192)		
Balance, December 31, 2012	21,417	214	9,506	95	1,027,266	154	(9,592)	(794,128)	(37,394)	186,461	—	
Net income								14,242				
Other comprehensive income									2,389			
Comprehensive income										16,631		
Exercise of restricted stock units	175	2			(2)					—		
Equitable adjustment to restricted stock units for dividends and distributions	120	1			(1)					—		
Shares surrendered to fund withholding taxes	(143)	(1)			(8,896)					(8,897)		
Tax benefit associated with stock-based compensation					795					795		
Stock-based compensation					417					417		
Balance, September 30, 2013	21,569	$216	9,506	$95	$1,019,579	154	$(9,592)	$(779,886)	$(35,005)	$195,407	$—	$

See notes to condensed consolidated financial statements.

5

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Operating activities:		
Net income	$14,242	$72,512
Loss (income) from discontinued operations, net of tax	4,352	(17,716)
Adjustments to reconcile net income to net cash used in operating activities:		
Non-cash operating items (Note 2)	(4,953)	(22,309)
Changes in operating assets and liabilities:		
Long-term receivables	—	(3,253)
Other current assets and other assets	1,812	1,842
Accrued expenses and other current liabilities	(6,648)	4,462
Income taxes receivable and payable	(18,711)	(383)
Pension and other postretirement liabilities	(1,695)	(1,528)
Long-term liabilities	(1,702)	(54,186)
Net cash used in operating activities – continuing operations	(13,303)	(20,559)
Net cash used in operating activities – discontinued operations	(43,060)	(11,726)
Net cash used in operating activities	(56,363)	(32,285)
Investing activities:		
Distributions received from affiliate	—	420,199
Proceeds from sale of investments, net	1,150	1,316
Capital expenditures	(58)	—
Net cash provided by investing activities – continuing operations	1,092	421,515
Net cash used in investing activities – discontinued operations	—	(98,520)
Net cash provided by investing activities	1,092	322,995
Financing activities:		
Cash dividend paid	—	(417,606)
Voting common stock repurchased	—	(1,664)
Proceeds from the exercise of stock options	—	1,635
Cash settlement of restricted stock units	—	(169)
Funding of withholding taxes for stock-based compensation	(8,897)	(6,301)
Excess tax benefit associated with stock-based compensation	795	—
Net cash used in financing activities – continuing operations	(8,102)	(424,105)
Net cash provided by financing activities – discontinued operations	—	—
Net cash used in financing activities	(8,102)	(424,105)
Decrease in cash and cash equivalents	(63,373)	(133,395)
Cash and cash equivalents — beginning of period	87,370	197,114
Cash and cash equivalents — continuing and discontinued operations — end of period	23,997	63,719

Cash and cash equivalents — discontinued operations — end of period	—	(9,787)
Cash and cash equivalents — end of period	$23,997	$53,932

See notes to condensed consolidated financial statements.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Principal Business

Loral Space & Communications Inc., together with its subsidiaries ("Loral", the "Company", "we", "our" and "us") is a leading satellite communications company engaged, through our ownership interests in affiliates, in satellite-based communications services. Prior to completion of the sale of our wholly-owned subsidiary, Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc. ("SS/L")), we were also engaged in the satellite manufacturing business.

Sale of SS/L

On November 2, 2012, Loral completed the sale (the "Sale") of its wholly-owned subsidiary, SS/L, to MDA Communications Holdings, Inc. ("MDA Holdings"), a subsidiary of MacDonald, Dettwiler and Associates Ltd. ("MDA"). Pursuant to the purchase agreement (the "Purchase Agreement"), dated as of June 26, 2012, as amended on October 30, 2012 and March 28, 2013, by and among Loral, SS/L, MDA and MDA Holdings, Loral received total cash payments of $967.9 million plus, for the sale of certain real estate used in connection with SS/L's business, a three-year promissory note in the principal amount of $101 million (the "Land Note"). Transaction costs related to the Sale were $35.2 million.

Subsequent to the closing of the Sale and pursuant to the Purchase Agreement, Loral, in December 2012, paid MDA $6.5 million as a result of the resolution of a contingency (see Note 16). Also, in April 2013, pursuant to the Purchase Agreement, we completed the final allocation of qualified pension plan assets between Loral and SS/L (see Note 14).

The transaction was taxable, and, for tax purposes, treated as a sale of assets.

Under the terms of the Purchase Agreement, Loral is obligated to indemnify SS/L for certain litigation costs and litigation damages, subject to certain capped cost-sharing by SS/L, and has retained control of the defense of the lawsuit against SS/L and Loral by ViaSat, Inc. ("ViaSat") as well as SS/L's counterclaims against ViaSat in that lawsuit. Under the terms of the Purchase Agreement, following a change of control of Loral, the liability of Loral for certain litigation costs and litigation damages is subject to a dollar cap. In addition, Loral is obligated to indemnify SS/L from liabilities with respect to certain pre-closing taxes.

The Land Note originally issued at closing provided for interest at the rate of 1% per annum with amortization in three equal annual installments on each March 31, commencing March 31, 2013. The Land Note was amended as described below and is backed by a letter of guarantee from Royal Bank of Canada.

On November 7, 2012, in connection with the receipt of the proceeds from the Sale, our Board of Directors declared a special distribution of $29.00 per share for an aggregate distribution of $892.1 million. The special distribution was paid on December 4, 2012 to holders of record of Loral voting and non-voting common stock as of November 19, 2012. In accordance with Loral's stock incentive plan, an equitable adjustment was made to outstanding stock-based awards to reflect the special distribution.

On March 28, 2013, Loral and MDA amended the Purchase Agreement to modify SS/L's capped cost sharing obligations related to Loral's indemnification of certain litigation costs and litigation damages and also amended the Land Note to defer to March 31, 2014 the due date of the principal payment from MDA to Loral of $33.7 million due originally on March 31, 2013 with an increase in the interest rate applicable to this tranche of the Land Note from 1.0% to 1.5% effective as of April 1, 2013.

Reclassification to Discontinued Operations

For 2012, the operations of SS/L, previously reported as the satellite manufacturing operating segment, have been reclassified as discontinued operations in our statements of operations and cash flows.

Description of Business

Subsequent to the Sale, Loral has one operating segment consisting of satellite-based communications services. Loral participates in satellite services operations through its ownership interest in Telesat Holdings Inc. ("Telesat Holdco") which owns Telesat Canada ("Telesat"), a global satellite services provider. Telesat owns and leases a satellite fleet that operates in geosynchronous earth orbit approximately 22,000 miles above the equator. In this orbit, satellites remain in a fixed position relative to points on the earth's surface and provide reliable, high-bandwidth services anywhere in their coverage areas, serving as the backbone for many forms of telecommunications.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Loral holds a 62.8% economic interest and a 32.7% voting interest in Telesat Holdco (see Note 7). We use the equity method of accounting for our ownership interest in Telesat Holdco.

Loral, a Delaware corporation, was formed on June 24, 2005, to succeed to 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") pursuant to the terms of the fourth amended joint plan of reorganization, as modified (the "Plan of Reorganization").

2. Basis of Presentation

The accompanying unaudited condensed consolidated 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 annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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 and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2012 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the SEC.

Ownership interests in Telesat and XTAR, LLC ("XTAR") are accounted for using the equity method of accounting. Income and losses of affiliates are recorded based on our beneficial interest. Intercompany profit arising from transactions with affiliates is eliminated to the extent of our beneficial interest. Equity in losses of affiliates is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist. The Company monitors its equity method investments for factors indicating other-than-temporary impairment. An impairment loss would be recognized when there has been a loss in value of the affiliate that is other-than-temporary.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of income (loss) reported for the period. Actual results could differ from estimates.

Significant estimates include the fair value of stock-based compensation, the realization of deferred tax assets, uncertain tax positions, our pension liabilities and the fair value of indemnification liabilities.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and receivables. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Our receivables are from large multinational corporations for which the creditworthiness is generally substantial. In addition, the Land Note is guaranteed by Royal Bank of Canada. As a result, management believes that its potential credit risks are minimal.

Fair Value Measurements

U.S. GAAP defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. U.S. GAAP also establishes a fair value hierarchy that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are described below:

Level 1: Inputs represent a fair value that is derived from unadjusted quoted prices for identical assets or liabilities traded in active markets at the measurement date.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Level 2: Inputs represent a fair value that is derived from quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities, and pricing inputs, other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013			December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash equivalents						
Money market funds	$20,513	$ —	$—	$86,820	$ —	$—
Note receivable						
Land Note	$—	$ —	$101,000	$—	$ —	$101,000
Liabilities						
Indemnifications						
Sale of SS/L	$—	$ —	$16,000	$—	$ —	$16,528
Globalstar do Brasil S.A.	$—	$ —	$1,800	$—	$ —	$1,510

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments. The carrying amount of the Land Note approximates fair value because the stated interest rate is consistent with current market rates. The fair value of indemnifications related to the sale of SS/L was estimated using Monte Carlo simulation based on the potential probability weighted cash flows that would be a guarantor's responsibility in an arm's length transaction. The fair value of indemnifications related to Globalstar do Brasil S.A. was estimated using expected value analysis. The Company does not have any non-financial assets or non-financial liabilities that are recognized or disclosed at fair value on a recurring basis as of September 30, 2013.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

We review the carrying values of our equity method investments when events and circumstances warrant and consider all available evidence in evaluating when declines in fair value are other than temporary. The fair values of our investments are determined based on valuation techniques using the best information available and may include quoted market prices, market comparables and discounted cash flow projections. An impairment charge is recorded when the carrying amount of the investment exceeds its current fair value and is determined to be other than temporary.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740)*: *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This new standard requires the netting of unrecognized tax benefits ("UTBs") against available deferred tax assets for losses and other carryforward benefits that would be available to offset the liability for uncertain tax positions rather than presenting the UTB on a gross basis. The guidance, effective for the Company on January 1, 2014, will have no impact on our consolidated financial statements as the Company has already adopted this methodology.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830) - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* ASU No. 2013-05 clarifies that the cumulative translation adjustment should be released into net income only when a reporting entity ceases to have a controlling financial interest in a subsidiary or a business within a foreign entity. Further, for an equity method investment that is a foreign entity, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. The guidance, effective for the Company on January 1, 2014, is not expected to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405) – Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. ASU No. 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of: (a) The amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors, and (b) Any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance, effective for the Company on January 1, 2014, is not expected to have a material impact on our consolidated financial statements.