

LORAL SPACE & COMMUNICATIONS INC.

Form 10-Q

November 09, 2011

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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 September 30, 2011

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 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 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

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 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 October 31, 2011, 21,207,448 shares of the registrant's voting common stock and 9,505,673 shares of the registrant's non-voting common stock were outstanding.

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PART 1.
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30,	December 31,
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 239,270	\$ 165,801
Contracts-in-process	233,406	186,896
Inventories	86,186	71,233
Deferred tax assets	66,220	66,220
Other current assets	18,158	28,927
Total current assets	643,240	519,077
Property, plant and equipment, net	198,468	235,905
Long-term receivables	346,410	319,426
Investments in affiliates	340,219	362,556
Intangible assets, net	8,911	11,110
Long-term deferred tax assets	258,968	294,019
Other assets	24,368	12,816
Total assets	\$ 1,820,584	\$ 1,754,909
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 91,516	\$ 95,952
Accrued employment costs	54,060	52,017
Customer advances and billings in excess of costs and profits	338,978	261,603
Other current liabilities	23,055	30,375
Total current liabilities	507,609	439,947
Pension and other postretirement liabilities	229,208	244,817
Long-term liabilities	178,006	169,196
Total liabilities	914,823	853,960
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, \$.01 par value; 50,000,000 shares authorized, 21,205,994 and 20,924,874 issued and outstanding	212	209
	95	95

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Non-voting common stock, \$.01 par value; 20,000,000 shares authorized, 9,505,673 issued and outstanding		
Paid-in capital	1,013,765	1,028,263
Retained earnings (accumulated deficit)	(12,590)	(32,374)
Accumulated other comprehensive loss	(96,689)	(95,873)
Total shareholders' equity attributable to Loral	904,793	900,320
Noncontrolling interest	968	629
Total equity	905,761	900,949
Total liabilities and equity	\$ 1,820,584	\$ 1,754,909

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)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2011	2010	2011	2010
Revenues	\$ 268,845	\$ 323,438	\$ 801,166	\$ 832,314
Cost of revenues	226,579	263,405	671,784	710,483
Selling, general and administrative expenses	27,895	20,412	70,988	61,022
Gain on disposition of net assets			(6,913)	
Directors' indemnification expense				14,357
Operating income	14,371	39,621	65,307	46,452
Interest and investment income	4,494	3,602	16,786	9,714
Interest expense	(680)	(593)	(1,989)	(1,797)
Gain on litigation, net			4,535	
Other expense	(996)	(1,168)	(4,433)	(256)
Income before income taxes and equity in net				
(loss) income of affiliates	17,189	41,462	80,206	54,113
Income tax provision	(17,225)	(9,081)	(53,007)	(12,242)
(Loss) income before equity in net (loss) income of				
affiliates	(36)	32,381	27,199	41,871
Equity in net (loss) income of affiliates	(77,262)	40,011	(7,076)	40,229
Net (loss) income	(77,298)	72,392	20,123	82,100
Net income attributable to noncontrolling interest	(70)		(339)	
Net (loss) income attributable to Loral	(77,368)	72,392	19,784	\$ 82,100
Net (loss) income per share attributable to Loral				
common shareholders:				
Basic	\$ (2.52)	\$ 2.40	\$ 0.64	\$ 2.74
Diluted	\$ (2.52)	\$ 2.29	\$ 0.63	\$ 2.63
Weighted average common shares outstanding:				
Basic	30,706	30,206	30,680	30,017
Diluted	30,706	31,204	31,195	30,777

See notes to condensed consolidated financial statements.

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

	Common Stock		Paid-In		Retained	Accumulated	Noncontrolling	Total	
	Voting Shares Issued	Non-Voting Shares Amount	Capital	Capital	Earnings/ (Accumulated Deficit)	Other Loss			Interest
Balance, January 1, 2010	20,391	\$ 204	9,506	\$ 95	\$ 1,013,790	\$ (519,220)	\$ (62,878)	\$ 431,991	
Net income						486,846	\$ 495	487,341	
Other comprehensive loss							(32,995)	(32,995)	
Comprehensive income								454,346	
Exercise of stock options	547	5			13,990			13,995	
Shares surrendered to fund withholding taxes	(13)				(2,477)			(2,477)	
Tax benefit associated with exercise of stock options					412			412	
Stock based compensation					2,548			2,548	
Contribution by noncontrolling interest							134	134	
Balance, December 31, 2010	20,925	209	9,506	95	1,028,263	(32,374)	(95,873)	629	900,949
Net income						19,784	339	20,123	
Other comprehensive loss							(816)	(816)	
Comprehensive income								19,307	
Exercise of stock options	281	3			445			448	
					(16,905)			(16,905)	

Shares surrendered to fund withholding taxes										
Tax benefit associated with exercise of stock options						1,095				1,095
Stock based compensation						867				867
Balance, September 30, 2011	21,206	\$ 212	9,506	\$ 95	\$ 1,013,765	\$ (12,590)	\$ (96,689)	\$ 968	\$ 905,761	

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	2010
Operating activities:		
Net income	\$ 20,123	\$ 82,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash operating items (Note 3)	64,190	(6,197)
Changes in operating assets and liabilities:		
Contracts-in-process	(65,086)	(66,135)
Inventories	(14,953)	13,506
Long-term receivables	(1,557)	(4,432)
Other current assets and other assets	5,296	(165)
Accounts payable	(4,726)	8,693
Accrued expenses and other current liabilities	2,178	(2,646)
Customer advances	71,643	16,012
Income taxes payable	(4,091)	1,110
Pension and other postretirement liabilities	(15,609)	(7,032)
Long-term liabilities	9,409	3,551
Net cash provided by operating activities	66,817	38,365
Investing activities:		
Capital expenditures	(28,192)	(40,624)
Proceeds from sale of net assets	61,482	
Increase in restricted cash	(11,275)	
Net cash provided by (used in) investing activities	22,015	(40,624)
Financing activities:		
Proceeds from the exercise of stock options	447	9,262
Funding of withholding taxes on employee cashless stock option exercises	(16,905)	(779)
Excess tax benefit associated with exercise of stock options	1,095	
Net cash (used in) provided by financing activities	(15,363)	8,483
Increase in cash and cash equivalents	73,469	6,224
Cash and cash equivalents beginning of period	165,801	168,205
Cash and cash equivalents end of period	\$ 239,270	\$ 174,429

See notes to condensed consolidated financial statements.

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**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 satellite communications company engaged in satellite manufacturing with ownership interests in satellite-based communications services.

Loral has two segments (see Note 17):

Satellite Manufacturing

Our subsidiary, Space Systems/Loral, Inc. (SS/L), designs and manufactures satellites, space systems and space system components for commercial and government customers whose applications include fixed satellite services (FSS), direct-to-home (DTH) broadcasting, mobile satellite services (MSS), broadband data distribution, wireless telephony, digital radio, digital mobile broadcasting, military communications, weather monitoring and air traffic management.

Satellite Services

Loral participates in satellite services operations principally through its ownership interest in Telesat Holdings Inc. (Telesat Holdco) which owns Telesat Canada (Telesat), a global FSS 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 holds a 64% economic interest and a 33¹/₃% voting interest in Telesat Holdco (see Note 9). 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, 2011 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2010 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.

As noted above, we emerged from bankruptcy on November 21, 2005, and we adopted fresh-start accounting as of October 1, 2005 and determined the fair value of our assets and liabilities. Upon emergence, our reorganization equity value was allocated to our assets and liabilities, which were stated at fair value in accordance with the purchase method of accounting for business combinations. In addition, our accumulated deficit was eliminated, and our new equity was recorded in accordance with distributions pursuant to the Plan of Reorganization.

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Ownership interests in Telesat and XTAR, L.L.C. (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 amounts of revenues and expenses reported for the period. Actual results could differ from estimates.

Most of our satellite manufacturing revenue is associated with long-term contracts which require significant estimates. These estimates include forecasts of costs and schedules, estimating contract revenue related to contract performance (including performance incentives) and the potential for component obsolescence in connection with long-term procurements. Significant estimates also include the allowances for doubtful accounts and long term receivables, estimated useful lives of our plant and equipment and finite lived intangible assets, the fair value of indefinite lived intangible assets and goodwill, the fair value of stock based compensation, the realization of deferred tax assets, uncertain tax positions, the fair value of and gains or losses on derivative instruments and our pension liabilities.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts, contracts-in-process and long-term receivables. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Historically, our customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, we have added commercial customers which are highly leveraged, as well as those in the development stage which are partially funded. Management believes that its credit evaluation, approval and monitoring processes combined with contractual billing arrangements and our title interest in satellites under construction provide for management of potential credit risks with regard to our current customer base. However, swings in the global financial markets that include illiquidity, market volatility, changes in interest rates, and currency exchange fluctuations can be difficult to predict and negatively affect certain customers' ability to make payments when due.

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.

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.

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The following table presents our assets and liabilities measured at fair value on a recurring basis at September 30, 2011:

	Level 1	Level 2	Level 3
	(In thousands)		
Assets:			
Cash equivalents			
Money market funds	\$ 233,510	\$	\$
Available-for-sale securities			
Communications industry	\$ 404	\$	\$
Derivatives			
Foreign exchange contracts	\$	\$ 1,730	\$
Non-qualified pension plan assets	\$ 1,080	\$	\$
Liabilities:			
Derivatives			
Foreign exchange contracts	\$	\$ 9,261	\$

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, 2011.

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 would be recorded when the carrying amount of the investment exceeds its current fair value and is determined to be other than temporary. We had no equity-method investments required to be measured at fair value at September 30, 2011.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220) - Presentation of Comprehensive Income*. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity and requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The guidance, effective for the Company on January 1, 2012, requires changes in presentation only and will not have a significant impact on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (ASC Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The changes to the ASC as a result of this update are effective prospectively for interim and annual periods beginning after December 15, 2011. We do not expect that the adoption of this guidance, effective for the Company on January 1, 2012, will have a significant impact on our consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	2010
Non-cash operating items:		
Equity in net loss (income) of affiliates	\$ 7,076	\$ (40,229)
Deferred taxes	35,599	3,635
Depreciation and amortization	24,024	26,627
Stock based compensation	867	6,615
Provisions for inventory obsolescence		4,297
Warranty expense accruals (reversals)	566	(1,259)
Amortization of prior service credits and net actuarial gain	996	(106)
Gain on disposition of net assets	(6,913)	