LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
May 10, 2007

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, 2007

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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

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 o

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

As of April 30, 2007, there were 20,065,856 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 share data)
(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 390,345	$ 186,542
Short-term investments	116,540	106,588
Accounts receivable, net	12,633	76,420
Contracts-in-process	128,781	40,433
Inventories	93,036	82,183
Other current assets	55,909	55,534
Total current assets	797,244	547,700
Property, plant and equipment, net	562,535	558,879
Long-term receivables	92,985	81,164
Investments in and advances to affiliates	94,676	97,202
Goodwill	312,861	305,691
Other assets	131,930	139,275
Total assets	$ 1,992,231	$ 1,729,911
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 68,833	$ 67,604
Accrued employment costs	33,501	43,797
Customer advances and billings in excess of costs and profits	256,576	242,661
Income taxes payable	1,584	2,567
Accrued interest and preferred dividends	11,606	20,097
Other current liabilities	25,327	42,828
Total current liabilities	397,427	419,554
Pension and other post retirement liabilities	170,656	167,987
Long-term debt	128,054	128,084
Long-term liabilities	165,009	153,028

Total liabilities	861,146	868,653
Minority interest	225,617	214,256
Commitments and contingencies		
Shareholders equity:		
Series A-1 Cumulative 7.5% convertible preferred stock, $0.01 par value 2,200,000 shares authorized, 136,526 shares issued and outstanding	40,237	
Series B-1 Cumulative 7.5% convertible preferred stock, $0.01 par value 2,000,000 shares authorized, 858,486 shares issued and outstanding	253,013	
Common stock, $.01 par value	201	200
Paid-in capital	637,828	644,708
Accumulated deficit	(63,106)	(37,981)
Accumulated other comprehensive income	37,295	40,075
Total shareholders equity	905,468	647,002
Total liabilities and shareholders equity	$ 1,992,231	$ 1,729,911

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 Ended March 31, 2007	Three Months Ended March 31, 2006
Revenues from satellite manufacturing	$ 187,677	$ 136,492
Revenues from satellite services	32,855	35,484
Total revenues	220,532	171,976
Cost of satellite manufacturing	174,101	125,948
Cost of satellite services	24,967	23,830
Selling, general and administrative expenses	33,262	28,414
Operating loss	(11,798)	(6,216)
Interest and investment income	6,554	4,544
Interest expense	(2,813)	(5,168)
Other income	4,046	1,014
Loss before income taxes, equity losses in affiliates and minority interest	(4,011)	(5,826)
Income tax provision	(3,401)	(2,594)
Loss before equity losses in affiliates and minority interest	(7,412)	(8,420)
Equity losses in affiliates	(2,425)	(1,420)
Minority interest	(6,986)	(6,000)
Net loss	(16,823)	(15,840)
Preferred dividends	(2,063)	
Beneficial conversion feature related to the issuance of Loral Series A-1 Preferred Stock (Note 11)	(24,476)	
Net loss applicable to common shareholders	$ (43,362)	$ (15,840)
Basic and diluted loss per common share:		
Basic loss per share	$ (2.16)	$ (0.79)
Diluted loss per share	$ (2.16)	$ (0.79)
Weighted average shares outstanding:		
Basic	20,041	20,000
Diluted	20,041	20,000

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Operating activities:		
Net loss	$ (16,823)	$ (15,840)
Non-cash operating items	26,435	24,977
Changes in operating assets and liabilities:		
Accounts receivable, net	63,926	48,849
Contracts-in-process	(89,159)	22,706
Inventories	(11,233)	1,221
Long-term receivables	(106)	(2,261)
Other current assets and other assets	3,807	4,646
Accounts payable	656	(15,835)
Accrued expenses and other current liabilities	(31,117)	(11,875)
Customer advances	4,894	20,692
Income taxes payable	(983)	181
Pension and other postretirement liabilities	1,894	4,295
Long-term liabilities	621	3,668
Other		15
Net cash (used in) provided by operating activities	(47,188)	85,439
Investing activities:		
Capital expenditures	(20,447)	(6,066)
Increase in restricted cash in escrow	(2,796)	
Proceeds received from the disposition of an orbital slot		5,742
Proceeds received from the sale of short-term investments	107,670	
Purchase of short-term investments	(117,622)	
Net cash used in investing activities	(33,195)	(324)
Financing activities:		
Proceeds from the sale of preferred stock	293,250	
Proceeds from the exercise of stock options	1,653	
Preferred stock issuance costs	(8,948)	
Cash dividends paid on preferred stock of subsidiary	(1,769)	
Net cash provided by financing activities	284,186	
Net increase in cash and cash equivalents	203,803	85,115

Cash and cash equivalents beginning of period		186,542		275,796
Cash and cash equivalents end of period	$	390,345	$	360,911

See notes to condensed consolidated financial statements.

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 manufacturing and satellite-based communications services. New 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).

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 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: Our subsidiary, Loral Skynet Corporation (Loral Skynet), operates a global fixed satellite services business. Loral Skynet leases transponder capacity to commercial and government customers for video distribution and broadcasting, high-speed data distribution, Internet access and communications, as well as provides managed network services to customers using a hybrid satellite and ground-based system. Loral Skynet has four in-orbit satellites and has one satellite under construction at SS/L. It also provides professional services to other satellite operators such as fleet operating services.

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.

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. Pursuant to the Plan of Reorganization, among other things, the business and operations of Old Loral were transferred to New Loral, and

Loral Skynet and SS/L emerged intact as separate subsidiaries of reorganized Loral.

Certain appeals (the Appeals) filed by Old Loral shareholders acting on behalf of the self-styled Loral Stockholders Protective Committee (LSPC) seeking, among other things, to revoke the Confirmation Order and to rescind the approval of the Federal Communications Commission (FCC) of the transfer of our FCC licenses from Old Loral to New Loral remain outstanding. We believe that these Appeals are completely without merit and will not have any effect on the completed reorganization (see Note 12).

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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 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, 2007 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2006 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 Securities and Exchange Commission.

Cash and Cash Equivalents and Short-term Investments

As of March 31, 2007, the Company had $521.7 million of cash, short-term investments and restricted cash, of which $116.5 million is in the form of short-term investments and $15 million is in the form of restricted cash ($3 million included in other current assets and $12 million included in other assets on our consolidated balance sheet). Short-term investments consist of investments whose maturity at time of purchase was greater than 90 days and less than one year or investments which had been long-term whose final maturity is less than one year from March 31. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date. Our short-term investments include corporate bonds, Euro dollar bonds, certificates of deposit, commercial paper, Federal Agency notes and auction rate securities. Auction rate securities are long-term obligations that are sold and purchased through an auction process for a period of 7, 28, 35 or 49 days. Auction rate securities are considered to be short-term investments and are classified as available-for-sale securities. Available-for-sale securities are carried at fair value with unrealized gains and losses, if any, reported in accumulated other comprehensive income. The carrying value of our auction rate securities at March 31, 2007 approximates their cost.

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, long-term receivables and advances and loans to affiliates (see Note 6). 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 include companies in emerging markets or the development stage, some of which are highly leveraged or partially funded. Management believes that its credit evaluation, approval and monitoring processes combined with contractual billing arrangements provide for effective management of potential credit risks with regard to our current customer base.

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.

The Loral Skynet Preferred Stock is reflected as minority interest on our condensed consolidated balance sheet and accrued dividends of $6.7 million and $6.0 million for the three months ended March 31, 2007 and 2006,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively, are reflected as minority interest on our condensed consolidated statement of operations. On January 12, 2007, Loral Skynet paid a dividend on its Loral Skynet Preferred Stock of $12.86 million, which covered the period from July 14, 2006 through January 11, 2007. The dividend consisted of $1.77 million in cash and $11.09 million through the issuance of 55,434 additional shares of Loral Skynet Preferred Stock. At March 31, 2007, 1,126,715 shares of Loral Skynet Preferred Stock, with a carrying value of $225.3 million, were issued and outstanding.

Income Taxes

Effective January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For benefits to be recognized in the financial statements, a tax position must be more-likely-than-not to be sustained upon examination by the taxing authorities based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Based upon our analysis, the cumulative effects of adopting FIN 48 have been recorded as an increase of $6.2 million to accumulated deficit, an increase of $7.2 million to goodwill, a decrease of $6.3 million to deferred income tax liabilities and an increase of $19.7 million to long-term liabilities. As of January 1, 2007, the estimated value of our uncertain tax positions is a liability of $60.8 million. We do not anticipate material changes to this liability for the next twelve months, other than additional accruals for interest.

The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense on a quarterly basis. As of January 1, 2007, we had accrued approximately $5.7 million and $12.6 million for the payment of tax-related interest and penalties, respectively.

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2003. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. While we intend to contest any future tax assessments that materially exceed our FIN 48 liability for uncertain tax positions, no assurance can be provided that we would ultimately prevail.

The liability for uncertain tax positions is included in long-term liabilities in the Condensed Consolidated Balance Sheet as of March 31, 2007. For the three months ended March 31, 2007, we increased our FIN 48 liability for uncertain tax positions by $1.2 million for additional interest. If our positions are sustained by the taxing authorities, approximately $42.5 million would be treated as a reduction of goodwill and $13.1 million would reduce the Company s effective tax rate. There were no significant changes to our uncertain tax positions in the first quarter of 2007.

Prior to adopting FIN 48, our policy was to maintain tax contingency liabilities for potential audit issues. The tax contingency liabilities were 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 December 31, 2006, we had $42.6 million of tax contingency liabilities included in long-term liabilities.

During 2007 and 2006, we maintained a 100% valuation allowance against our net deferred tax assets except with regard to our deferred tax assets related to 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with any excess treated as an increase to paid-in-capital. The income tax provision for the three months ended March 31, 2007 and 2006 includes our current provision for foreign income taxes and adjustment, if required, to our FIN 48 liabilities for uncertain tax positions and tax contingency liabilities for potential audit issues. The provision for 2007 also includes certain changes to the valuation allowance.

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 Three Months Ended March 31,		Other Benefits Three Months Ended March 31,	
	2007	2006	2007	2006
Service cost	$ 2,412	$ 3,375	$ 360	$ 300
Interest cost	5,432	5,700	1,250	1,125
Expected return on plan assets	(5,837)	(5,425)	(10)	
Amortization of prior service credits and net actuarial gain	(700)		(75)	
	$ 1,307	$ 3,650	$ 1,525	$ 1,425

Effective July 1, 2006, we amended our pension plan to standardize the future benefits earned at all company locations. These amendments did not change any benefits earned through June 30, 2006. As a result of the amendments, all locations now have a career average plan that requires a contribution in order to receive the highest level of benefits. All current participants now earn future benefits under the same formula and have the same early retirement provisions. The amendments did not apply to certain employees under a bargaining unit arrangement. Additionally, employees hired after June 30, 2006, do not participate in the defined benefit pension plan, but participate in our defined contribution savings plan with an enhanced benefit.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Additional Cash Flow Information

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