

PANAMSAT CORP /NEW/
Form 10-Q
November 15, 2004

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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, 2004

COMMISSION FILE NO. 0-22531

PANAMSAT CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

95-4607698
(I.R.S. EMPLOYER IDENTIFICATION NO.)

20 WESTPORT ROAD, WILTON, CT 06897
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: **203-210-8000**

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 11, 2004, an aggregate of 109,677,413 shares of our common stock were outstanding.

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Unless the context otherwise requires, in this Quarterly Report on Form 10-Q, the terms "we," "our," the "company" and "PanAmSat" refer to PanAmSat Corporation and its subsidiaries.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q contains certain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Quarterly Report on Form 10-Q, the words "estimate," "project," "plan," "anticipate," "expect," "intend," "outlook," "believe" and other similar expressions are intended to identify forward-looking statements and information. Actual results may differ materially from any results which might be projected, forecasted, estimated or budgeted due to certain risks and uncertainties, including without limitation: (i) risks associated with operating our in-orbit satellites, (ii) risks of satellite launch failures, satellite launch and construction delays and in-orbit failures or reduced performance, (iii) risk that we may not be able to obtain new or renewal satellite insurance policies on commercially reasonable terms or at all, (iv) risks related to possible future losses on satellites that are not adequately covered by insurance, (v) risks related to domestic and international government regulation, (vi) risks related to our contracted backlog or expected contracted backlog for future services, (vii) risks related to pricing pressure and overcapacity in markets in which we operate, (viii) risks of inadequate access to capital markets, (ix) risks related to competition, (x) risks related to customer defaults on their obligations owed to us, (xi) risks of doing business internationally, (xii) risks associated with our high level of indebtedness, (xiii) risks related to control by our controlling stockholders and (xiv) litigation. PanAmSat cautions that the foregoing list of important factors is not exclusive, and PanAmSat undertakes no obligation to publicly update any forward-looking statement. Such risks are more fully described under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003. Reference is also made to such other risks and uncertainties detailed from time to time in our filings with the United States Securities and Exchange Commission.

WEBSITE ACCESS TO COMPANY'S REPORTS

PanAmSat's Internet website address is www.panamsat.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PANAMSAT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 2004	September 30, 2003
REVENUES:		
Operating leases, satellite services and other	\$ 203,268	\$ 206,033
Outright sales and sales-type leases	3,827	4,047
Total revenues	207,095	210,080
OPERATING COSTS AND EXPENSES:		
Cost of outright sales and sales-type leases	2,224	
Depreciation and amortization	74,322	85,018
Direct operating costs (exclusive of depreciation and amortization)	38,649	38,563
Selling, general and administrative expenses	21,509	19,323
Facilities restructuring and severance costs	2,080	727
Transaction-related costs	154,535	
Total operating costs and expenses	293,319	143,631
INCOME (LOSS) FROM OPERATIONS	(86,224)	66,449
INTEREST EXPENSE NET	57,794	38,904
INCOME (LOSS) BEFORE INCOME TAXES	(144,018)	27,545
INCOME TAX EXPENSE (BENEFIT)	(67,363)	6,549
NET INCOME (LOSS)	\$ (76,655)	\$ 20,996
NET INCOME (LOSS) PER COMMON SHARE basic and diluted	\$ (0.16)	\$ 0.03
Weighted average common shares outstanding	470,248,000	655,686,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

PANAMSAT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 2004	September 30, 2003
REVENUES:		
Operating leases, satellite services and other	\$ 607,165	\$ 600,853
Outright sales and sales-type leases	12,185	12,576
Total revenues	619,350	613,429
OPERATING COSTS AND EXPENSES:		
Cost of outright sales and sales-type leases	2,224	
Depreciation and amortization	220,969	232,194
Direct operating costs (exclusive of depreciation and amortization)	118,484	103,983
Selling, general and administrative expenses	88,814	58,687
Satellite impairment loss	99,946	
Facilities restructuring and severance costs	4,508	1,390
Transaction-related costs	155,035	
Total operating costs and expenses	689,980	396,254
INCOME (LOSS) FROM OPERATIONS	(70,630)	217,175
INTEREST EXPENSE NET	122,503	106,311
INCOME (LOSS) BEFORE INCOME TAXES	(193,133)	110,864
INCOME TAX EXPENSE (BENEFIT)	(95,215)	28,712
NET INCOME (LOSS)	\$ (97,918)	\$ 82,152
NET INCOME (LOSS) PER COMMON SHARE basic and diluted	\$ (0.16)	\$ 0.13
Weighted average common shares outstanding	593,809,000	655,528,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

PANAMSAT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 2004	December 31, 2003
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 48,204	\$ 511,248
Short-term investments		38,936
Accounts receivable net	62,549	77,006
Net investment in sales-type leases	25,634	23,068
Prepaid expenses and other current assets	29,191	20,428
Insurance claim receivable		260,000
Deferred income taxes	7,048	7,688
Assets held for sale	3,257	
	<u>175,883</u>	<u>938,374</u>
Total current assets	175,883	938,374
SATELLITES AND OTHER PROPERTY AND EQUIPMENT Net	2,036,651	2,306,705
NET INVESTMENT IN SALES-TYPE LEASES	90,165	116,653
GOODWILL	2,246,122	2,243,611
DEFERRED CHARGES AND OTHER ASSETS Net	333,761	129,534
	<u>4,882,582</u>	<u>5,734,877</u>
TOTAL ASSETS	\$ 4,882,582	\$ 5,734,877
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 75,037	\$ 71,794
Current portion of long-term debt	95,416	3,500
Current portion of satellite incentive obligations	13,218	12,654
Accrued interest payable	17,694	45,462
Deferred gains and revenues	23,645	22,436
	<u>225,010</u>	<u>155,846</u>
Total current liabilities	225,010	155,846
LONG-TERM DEBT	3,673,740	1,696,500
DEFERRED INCOME TAXES	31,459	430,512
DEFERRED CREDITS AND OTHER (principally customer deposits, satellite incentive obligations and deferred revenue)	278,954	273,261
	<u>4,209,163</u>	<u>2,556,119</u>
TOTAL LIABILITIES	4,209,163	2,556,119
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock \$0.01 par value; 1,329,271,891 shares authorized; 238,380,931 and 655,864,175 shares issued; and 109,677,413 and 655,864,175 shares outstanding at September 30, 2004 and December 31, 2003, respectively)	2,384	6,559
Additional paid-in-capital	818,260	2,536,275

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	September 30, 2004	December 31, 2003
	<u> </u>	<u> </u>
Treasury stock, at cost (128,703,518 and 0 shares outstanding at September 30, 2004 and December 31, 2003, respectively)	(692,286)	
Accumulated other comprehensive income (loss)	772	(1,567)
Retained earnings	547,707	645,625
Other stockholders' equity	(3,418)	(8,134)
	<u> </u>	<u> </u>
TOTAL STOCKHOLDERS' EQUITY	673,419	3,178,758
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,882,582	\$ 5,734,877
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

PANAMSAT CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004
(IN THOUSANDS, EXCEPT SHARE DATA)

	Common Stock			Treasury Stock, at Cost		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Other Stockholders' Equity	Total	Comprehensive Income (Loss)
	Shares	Amount	Additional Paid-In Capital	Shares	Amount					
BALANCE, JANUARY 1, 2004	655,864,175	\$ 6,559	\$ 2,536,275		\$	\$ (1,567)	\$ 645,625	\$ (8,134)	\$ 3,178,758	\$
Additional Issuances of common stock	807,882	8	3,766						3,774	
Purchase of Treasury shares			(57)	(546,994,644)	(2,783,742)				(2,783,799)	
Retirement of Treasury shares	(418,291,126)	(4,183)	(2,087,273)	418,291,126	2,091,456					
Realized and unrealized net gain on cash flow hedge						2,002			2,002	791
Unrealized gain on short- term investments						1			1	1
Foreign currency translation adjustment						336			336	336
Deferred compensation								(197)	(197)	
Amortization of deferred compensation			201					1,929	2,130	
Net customer guarantee received pursuant to the Transactions			2,723						2,723	
Transaction costs capitalized to equity			(9,157)						(9,157)	
Modification of options			1,237						1,237	
Tax basis step-up and tax indemnification			377,068						377,068	
Cashing out of restricted stock units			(6,523)					2,984	(3,539)	
Net loss							(97,918)		(97,918)	(97,918)
BALANCE, SEPTEMBER 30, 2004	238,380,931	\$ 2,384	\$ 818,260	(128,703,518)	\$ (692,286)	\$ 772	\$ 547,707	\$ (3,418)	\$ 673,419	\$ (96,790)

Other Stockholders' Equity:

	September 30, 2004	January 1, 2004
Excess of purchase price over historical cost basis of net assets acquired	\$ (3,418)	\$ (3,418)
Deferred compensation, net		(4,716)
TOTAL OTHER STOCKHOLDERS' EQUITY	\$ (3,418)	\$ (8,134)

The accompanying notes are an integral part of these condensed consolidated financial statements.

PANAMSAT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(IN THOUSANDS)

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (97,918)	\$ 82,152
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	220,969	232,194
Deferred income taxes	(98,457)	27,683
Amortization of debt issuance costs and other deferred charges	7,698	7,435
Provision for uncollectible receivables	31,982	1,168
Loss on early extinguishment of debt	20,589	5,660
Satellite impairment loss	99,946	
Loss on Galaxy 10R XIPS anomaly	9,090	
Facilities restructuring and severance costs	4,309	1,390
Reversal of sales-type lease liabilities	(3,727)	
Gain on disposal of fixed assets	(1,332)	
Other non-cash items	(3,950)	(593)
Changes in assets and liabilities:		
Collections on investments in sales-type leases	19,035	16,921
Operating leases and other receivables	6,166	(15,515)
Prepaid expenses and other assets	(4,222)	21,847
Accounts payable and accrued liabilities	(44,336)	(56,785)
Deferred gains and revenues	1,209	(1,454)
	<u>167,051</u>	<u>322,103</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures (including capitalized interest)	(108,308)	(87,161)
Insurance proceeds from satellite recoveries	286,915	
Net sales of short-term investments	38,936	44,393
Acquisitions, net of cash acquired	(522)	(15,695)
	<u>217,021</u>	<u>(58,463)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(1,443,459)	(550,000)
Issuance of new long-term debt	3,512,615	
Capitalized transaction costs	(152,064)	
New incentive obligations	16,250	5,642
Repayments of incentive obligations	(9,571)	(8,726)
Repurchase of Common Stock	(2,784,556)	
Re-issuance of Treasury Stock	757	
Capital contributed by affiliate	9,200	
Other equity related transactions	3,384	1,852
	<u>(847,444)</u>	<u>(551,232)</u>
NET CASH USED IN FINANCING ACTIVITIES		
EFFECT OF EXCHANGE RATE CHANGES ON CASH	328	362
NET DECREASE IN CASH AND CASH EQUIVALENTS	(463,044)	(287,230)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	511,248	783,998
	<u>\$ 48,204</u>	<u>\$ 496,768</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD		

	September 30, 2004	September 30, 2003
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash received for interest	\$ 6,955	\$ 11,756
Cash paid for interest	\$ 134,453	\$ 149,248
Cash received for taxes	\$ 122	\$ 4,498
Cash paid for taxes	\$ 3,422	\$ 2,734

The accompanying notes are an integral part of these condensed consolidated financial statements.

PANAMSAT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The condensed consolidated financial statements include all normal and recurring adjustments that management considers necessary to present fairly the financial position as of September 30, 2004, results of operations for the three and nine month periods ended September 30, 2004 and 2003 and cash flows for the nine months ended September 30, 2004 and 2003. Certain prior period amounts have been reclassified to conform to the current period's presentation. Operating results for the three and nine months ended September 30, 2004 and 2003 are not necessarily indicative of the operating results for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission ("SEC") on March 15, 2004, all amendments thereto, and all of our other filings filed with the SEC from March 15, 2004 through the date of this report.

(2) PanAmSat Merger, Subsequent Sale and Related Transactions

On April 20, 2004, we entered into a definitive transaction agreement with The DIRECTV Group, Inc. ("The DIRECTV Group"), PAS Merger Sub, Inc. ("Merger Sub"), a wholly-owned subsidiary of The DIRECTV Group, and Constellation, LLC ("Constellation"), an affiliate of Kohlberg Kravis Roberts & Co. L.P. ("KKR"), for the merger of our company with Merger Sub (the "Merger") and subsequent sale to Constellation. On May 17, 2004, Constellation assigned the right to purchase a portion of the shares of our common stock to limited liability companies affiliated with The Carlyle Group ("Carlyle") and Providence Equity Partners, Inc. ("Providence," and Providence, together with KKR and Carlyle, the "Sponsors"). On August 12, 2004, The DIRECTV Group entered into a letter agreement with the Sponsors which amended certain terms of the transactions, including the purchase price paid to The DIRECTV Group. The Merger, the purchase transactions, the related financing transactions and the related contractual arrangements entered into with The DIRECTV Group described below are referred to collectively as the "Transactions."

Pursuant to the terms of the transaction agreement, on August 18, 2004, Merger Sub merged with and into us, with PanAmSat as the surviving entity. As of the effective time of the Merger, holders of shares of our common stock (other than The DIRECTV Group and members of management who agreed not to have certain of their equity interests cashed out in the Merger) had no further ownership interest in us. Instead, such holders of our common stock received \$23.50 in cash per share of our common stock.

On August 20, 2004, as part of the Transactions, a portion of the shares of our common stock beneficially owned by The DIRECTV Group was repurchased by us at a purchase price of \$21.84 in cash per share. Following the repurchase, The DIRECTV Group sold all of its remaining shares of our common stock to the Sponsors at a purchase price of \$21.84 in cash per share. Following that sale, The DIRECTV Group and The News Corporation Limited ("News Corporation") were no longer related parties of ours.

As a result of and immediately following the Transactions, entities affiliated with KKR owned approximately 44% of our common stock, entities affiliated with Carlyle and Providence each owned approximately 27% of our common stock and certain executive officers and directors had beneficial ownership of the remainder of our common stock.

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