PANAMSAT CORP /NEW/
Form 10-Q
October 26, 2001

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, 2001

Commission File No. 0-22531

PanAmSat Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware	95-4607698
(State or other Jurisdiction of Incorporation or Organization)	(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 X NO

As of October 23, 2001, an aggregate of 149,847,692 shares of the Company's Common Stock were outstanding.

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. When used in this Quarterly Report on Form 10-Q, the words "estimate," "plan," "project," "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 by PanAmSat Corporation ("PanAmSat" or the "Company") due to certain risks and uncertainties, including without limitation: (i) risks of launch failures, launch and construction delays and in-orbit failures or reduced performance, (ii) risks of government regulation, (iii) risks of doing business internationally, (iv) risks of uninsured loss, (v) risks associated with

Internet businesses, (vi) risks of inadequate access to capital for growth and (vii) risks associated with the Company's planned refinancing. Such risks are more fully described in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q and under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (the "Form 10-K"). Reference is also made to such other risks and uncertainties detailed from time to time in the Company's filings with the Securities and Exchange Commission. The Company cautions that the foregoing list of important factors is not exclusive. Furthermore, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PANAMSAT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
For the Three Months Ended September 30, 2001 and 2000
(In Thousands, Except Share Data)

	September 30, 2001
REVENUES:	
Operating leases, satellite services and other	$ 202,006
Outright sales and sales-type leases	50,943
Total revenues	252,949
OPERATING COSTS AND EXPENSES:	
Cost of outright sales and sales-type leases	12,766
Depreciation and amortization	104,123
Direct operating costs	33,408
Selling, general and administrative expenses	33,627
Severance costs	6,892
Total operating costs and expenses	190,816
INCOME FROM OPERATIONS	62,133
INTEREST EXPENSE, net	27,616

INCOME BEFORE INCOME TAXES	34,517
INCOME TAXES	15,014
NET INCOME	$ 19,503
NET INCOME PER COMMON SHARE - basic and diluted	$ 0.13
Weighted average common shares outstanding	149,825,000

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

PANAMSAT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
For the Nine Months Ended September 30, 2001 and 2000
(In Thousands, Except Share Data)

	September 30, 2001
REVENUES:	
Operating leases, satellite services and other	$ 604,446
Outright sales and sales-type leases	61,960
Total revenues	666,406
OPERATING COSTS AND EXPENSES:	
Cost of outright sales and sales-type leases	12,766
Depreciation and amortization	304,743
Direct operating costs	114,386
Selling, general and administrative expenses	91,611
Severance costs	6,892
Total operating costs and expenses	530,398
INCOME FROM OPERATIONS	136,008
INTEREST EXPENSE, net	87,467
INCOME BEFORE INCOME TAXES	48,541
INCOME TAXES	21,115
NET INCOME	$ 27,426
NET INCOME PER COMMON SHARE - basic and diluted	$ 0.18

Weighted average common shares outstanding	149,763,000

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

PANAMSAT CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands, Except Share Data)

	September 30, 2001
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 359,075
Accounts receivable-net	48,806
Net investment in sales-type leases	24,254
Prepaid expenses and other (principally prepaid insurance)	38,181
Deferred income taxes	2,886
Insurance claim receivable	-
Total current assets	473,202
SATELLITES AND OTHER PROPERTY AND EQUIPMENT-Net	3,150,146
NET INVESTMENT IN SALES-TYPE LEASES	233,475
GOODWILL-Net of amortization	2,254,899
DEFERRED CHARGES	141,393
TOTAL ASSETS	$ 6,253,115

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

PANAMSAT CORPORATION
CONSOLIDATED BALANCE SHEETS - (UNAUDITED)-(continued)
(In Thousands, Except Share Data)

	September 30, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 113,555
Deferred revenues	13,093
Total current liabilities	126,648
DUE TO AFFILIATES (merger-related indebtedness)	1,725,000
LONG-TERM DEBT	750,000
DEFERRED INCOME TAXES	394,107
DEFERRED CREDITS AND OTHER (principally customer deposits and deferred revenue)	269,844
TOTAL LIABILITIES	$3,265,599

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

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PANAMSAT CORPORATION
CONSOLIDATED BALANCE SHEETS - (UNAUDITED)-(continued)
(In Thousands, Except Share Data)

September 30,
2001

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common Stock, $0.01 par value -- 400,000,000 shares authorized; 149,840,500 and 149,675,117 outstanding at September 30, 2001 and December 31, 2000, respectively	$ 1,498
Additional paid-in-capital	2,528,151
Retained earnings	457,867
Total stockholders' equity	2,987,516
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,253,115

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

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PANAMSAT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the Nine Months Ended September 30, 2001 and 2000
(In Thousands)

	September 30, 2001
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
Net income	$ 27,426
Adjustments to reconcile net income to net cash provided by operating activities:	
Gross profit on sales and sales-type leases	(32,715)
Depreciation and amortization	304,743
Deferred income taxes	28,459
Amortization of debt issuance costs	4,581
Provision for uncollectible receivables	15,339
Changes in assets and liabilities:	
Collections on investments in sales-type leases	16,060
Operating leases and other receivables	(11,233)
Prepaid expenses and other assets	(30,278)
Accounts payable and accrued liabilities	8,257
Deferred gains and revenues	30,429
Net cash provided by operating activities	$ 361,068

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

PANAMSAT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - (continued)
For the Nine Months Ended September 30, 2001 and 2000
(In Thousands)

	September 30, 2001
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures (including capitalized interest)	$ (241,654)
Insurance proceeds from satellite recoveries	132,435
Net cash used in investing activities	(109,219)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayments of long-term debt	(21,216)
Repayments of incentive obligations	(6,400)
Stock issued in connection with employee benefit plans	5,497
Net cash used in financing activities	(22,119)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	229,730
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	129,345
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 359,075
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash received for interest	$ 11,985
Cash paid for interest	$ 127,369
Cash received for taxes	$ 7,396
Cash paid for taxes	$ 1,799

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

PANAMSAT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) General

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments which are of a normal recurring nature necessary to present fairly the financial position, results of operations and cash flows as of and for the three and nine month periods ended September 30, 2001 and 2000 have been made. Certain prior period amounts have been reclassified to conform with the current year's presentation. Operating results for the three and nine months ended September 30, 2001 and 2000 are not necessarily indicative of the operating results for the full year. For further information, refer to the financial statements and footnotes thereto included in the Form 10-K.

(2) New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", which is effective July 1, 2001. SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption and requires the Company to evaluate the carrying value of goodwill for impairment annually thereafter. The Company is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting For Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets

and the associated asset retirement costs. It applies to legal obligations

associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Company is required to adopt the provisions of SFAS No. 143 at the beginning of fiscal 2002. The Company has not determined the impact, if any, the adoption of this statement will have on its financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This Statement also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. This Statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This Statement also broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this Statement are required to be adopted by the Company at the beginning of fiscal 2002. The Company has not determined the impact, if any, adoption of this statement will have on its financial position or results of operations.

(3) Satellite Developments

Reference is made to "Item 1. - Business - Strategy - Expanding the Network and -The Satellite Network" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Satellite Deployment Plan and Planned Satellites" in the Form 10-K for a detailed description of the Company's satellite network and its satellite deployment plan.

In September 2001, the Company announced that the PAS-7 Indian Ocean Region satellite had experienced a reduction of approximately 25 percent of its power capacity as a result of a technical difficulty with one of the spacecraft's solar arrays. However, the Company's customers have been unaffected by this difficulty and the Company expects that the satellite will continue to serve its existing customers.

PAS-7 is an FS 1300 model satellite built by Space Systems/Loral that carries 14 C-band and 30 Ku-band transponders serving Europe, the Middle East, Africa, and Asia from 68.5 degrees east longitude. In accordance with the insurance policy maintained on this satellite, the Company filed a proof of loss with the insurers in relation to this anomaly on October 17,

2001. This insurance policy is in the approximate amount of $250 million and includes a provision for the Company to share future revenues on the satellite with the insurers if the proof of loss is accepted. The Company is closely monitoring the satellite to ensure that it continues to meet the needs of the customers that it serves. The Company is also working with the satellite manufacturer to determine the long-term implications to the satellite. The Company does not expect a material impact on 2001 revenues as a result of the difficulty on the PAS-7 satellite.

In August 2001, the Company announced that it had formed a new joint-venture with Japan's JSAT Corporation ("JSAT") to expand digital services in North America. Through this strategic relationship, called "Horizons," PanAmSat and JSAT will jointly own, develop and market Ku-band video, data and Internet satellite services at 127 degrees west longitude and will share revenues on a 50/50 basis for the Ku-band services. Together PanAmSat and JSAT will invest more than $100 million to develop the Ku-band payload for the new Boeing Satellite Systems, Inc. model 601 HP satellite that is scheduled for launch in late 2002 to 127 degrees west longitude. PanAmSat will separately own, develop and market the C-band capacity on this new satellite as part of the Company's Galaxy cable neighborhood. The C-band payload will replace the Galaxy IX satellite in PanAmSat's domestic U.S. fleet. Galaxy IX will then migrate to a new orbital location where it will continue to provide C-band services as part of PanAmSat's Galaxy fleet.

In July 2001, the Company announced that the Galaxy IIIC satellite is scheduled to be launched in the first quarter of 2002. As a result, Galaxy IIIC is expected to commence service in the second quarter of 2002, two quarters later than previously anticipated. The schedule was revised due to manufacturing delays required to remedy certain issues discovered during factory testing by the manufacturer, Boeing Satellite Systems, Inc. Galaxy IIIC is intended to serve as the replacement for Galaxy IIIR at 95 degrees west longitude. Upon the deployment of Galaxy IIIC, Galaxy IIIR will be moved for service at a new orbital location to be determined.

Also, in July 2001, the Company commenced service on its PAS-10 satellite that was launched in May 2001. PanAmSat's total fleet of satellites in orbit now stands at 21. PAS-10 succeeded PAS-4 at 68.5 degrees east longitude in the Company's Indian Ocean Region cable neighborhood and it will enable the delivery of new digital and IP-based services across Africa, Asia, Europe and the Indian subcontinent. Upon the deployment of PAS-10, PAS-4 was moved to 72 degrees east longitude for service.

The Company expects to launch four satellites by early 2003. Galaxy IIIC is scheduled to be launched in the first quarter of 2002. Galaxy VIIIi-R is scheduled

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to be launched in the third quarter of 2002 to 95 degrees west longitude. The PanAmSat and JSAT joint-venture expects to launch a satellite to 127 degrees west longitude in late 2002. The Company also expects to launch Galaxy XII in late 2002 or early 2003 to 74 degrees west longitude.

Eight of the Company's satellites are either fully self-insured or insured with significant exclusions as of September 30, 2001. The net book value of these self-insured satellites and the significant exclusions as of

September 30, 2001 aggregated $671 million.

(4) Severance Costs

On July 12, 2001, the Company announced its plans to reduce future operating expenses Company-wide as a result of revised revenue expectations. In conjunction with this expense reduction plan, the Company began restructuring its NET-36 organization and began integrating the NET-36 product (now called Web Cast Services) with the Company's other value added service offerings.

The Company incurred severance costs of approximately $3.8 million during the quarter ended September 30, 2001 to implement this operating expense reduction and NET-36 restructuring plan. These severance costs were primarily related to employee compensation and employee benefits, outplacement services and legal and consulting expenses associated with this reduction in workforce of 123 employees.

The Company also incurred additional severance costs of approximately $3.1 million during the quarter ended September 30, 2001 related to the resignation in August 2001 of the Company's former Chief Executive Officer. These severance costs were primarily related to employee compensation and employee benefits.

Total severance costs for the quarter ended September 30, 2001 were $6.9 million. The remaining accrual related to these severance costs at September 30, 2001 was approximately $5.3 million.

(5) The Hughes Term Loan

The Company has an outstanding term loan in the amount of $1.725 billion (the "Term Loan") from Hughes Electronics Corporation, an affiliate of the Company ("Hughes "). The Term Loan matures in June 2003 and bears interest at a rate equal to that of the Company's revolving credit facility. The Term Loan is subordinate to the $750 million of notes, the revolving credit facility and the commercial paper program. Hughes has the right to request that the Company use its best efforts to replace the Term Loan with another credit facility on terms that may then be available to the Company. On October 15, 2001, in accordance with the Loan Agreement dated May 15, 1997 between Hughes and the Company, as amended, Hughes requested that the Company use its best efforts to replace the Term Loan

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in order to repay the principal amount outstanding under the Term Loan plus any accrued and unpaid interest. The Term Loan has been in place since the merger between Hughes and PanAmSat in 1997. The Company intends to refinance the Term Loan with long-term borrowings, however, no time frame has been set for these transactions and there is no assurance that they will occur. Additionally, the refinancing of the Term Loan, if successful, could result in increased costs to the Company, including higher annual interest expense.

(6) Interest Expense-Net

Interest expense for the three months ended September 30, 2001 and 2000 is recorded net of capitalized interest of $4.0 million and $11.5 million,

respectively and interest income of $3.6 million and $2.3 million, respectively. Interest expense for the nine months ended September 30, 2001 and 2000 is recorded net of capitalized interest of $19.4 million and $45.1 million, respectively, and interest income of $12.0 million and $4.9 million, respectively.

(7) Revenue By Service Type

PanAmSat operates its business as a single operating segment. PanAmSat primarily provides video and data network services to major broadcasting, DTH providers and telecommunications companies worldwide. For the three months ended September 30, 2001 and 2000, PanAmSat's revenues were $253.0 million and $199.3 million, respectively, and for the nine months ended September 30, 2001 and 2000, PanAmSat's revenues were $666.4 million and $820.7 million, respectively. These revenues were derived from the following service areas:

	Percentage of Revenues 3 months ended		Percentage of Revenues 9 months ended	
	9/30/01	9/30/00	9/30/01	9/30/00
Services:				
Video Services	72%	69%	69%	70%
Network Services	22%	24%	24%	25%
Other Services	6%	7%	7%	5%
Total:	100%	100%	100%	100%

(8) Evaluation of Long-lived Assets

The Company periodically evaluates potential impairment loss relating to long-lived assets, including goodwill, when a change in circumstances occurs, by assessing whether the unamortized carrying amount can be recovered over the remaining life through undiscounted future expected cash flows generated by the underlying assets (excluding interest payments).

The Company evaluates potential impairment loss relating to enterprise level goodwill by assessing whether the unamortized carrying amount can be recovered over the remaining life through undiscounted future expected cash flows generated by the underlying asset (excluding interest charges). If the undiscounted future cash flows were less than the unamortized carrying value of the asset, an impairment charge would be recorded. The impairment charge would be measured as the amount by which the carrying amount of the asset exceeds the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved.

The Company evaluates long-lived assets, such as satellites and other property and equipment for impairment in a similar manner. If the undiscounted future cash flows were less than the carrying value of the asset, an impairment charge would be recorded. The impairment charge would be measured as the excess of the carrying value of the asset over the

present value of estimated expected future cash flows using a discount rate commensurate with the risks involved.

PANAMSAT CORPORATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's selected operating data shown below is not necessarily indicative of future results.

SELECTED OPERATING DATA

	Three Months Ended September 30, (unaudited; in thousands)	
	2001	2000
Operating leases, satellite services and other	$ 202,006	$ 190,796
Outright sales and sales-type leases	50,943	8,531
Total revenues	252,949	199,327
Cost of outright sales and sales-type leases	12,766	-
Depreciation and amortization	104,123	83,534
Direct operating costs	33,408	40,231
Selling, general and administrative expenses	33,627	23,606
Severance costs	6,892	-
Income from operations	62,133	51,956
Interest expense, net	27,616	35,132
Income taxes	15,014	7,571
Net income per common share-basic and diluted	$ 0.13	$ 0.06

PANAMSAT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenues - Revenues were $253.0 million for the three months ended

September 30, 2001, compared to revenues of $199.3 million for the same period in 2000. This increase was primarily due to $45.5 million of new sales-type lease revenue recorded in the third quarter of 2001 for which there was no comparable revenue in the third quarter of 2000. Total sales and sales-type lease revenues were $50.9 million for the quarter ended September 30, 2001, compared to $8.5 million for the same period in 2000. Included within total sales and sales-type lease revenues for the quarter ended September 30, 2001 and 2000 was interest income related to sales-type leases of $5.5 million and $6.5 million, respectively. Operating lease revenues, which were 80 percent of total revenues for the third quarter of 2001, increased by 6 percent to $202.0 million from $190.8 million for the same period in 2000. This increase was primarily due to new direct-to-home video services and growth in Internet-related services. Revenues for the nine months ended September 30, 2001 were $666.4 million compared to revenues of $820.7 million for the nine months ended September 30, 2000. The primary reason for this decrease was $219.2 million of new outright sales and sales-type lease revenue in 2000 compared to $45.5 million of new sales-type lease revenue in 2001. Included within total sales and sales-type lease revenues for the nine months ended September 30, 2001 and 2000 was interest income related to sales-type leases of $16.5 million and $18.0 million, respectively. Operating lease revenues were $604.4 million or 91 percent of total revenues for the nine months ended September 30, 2001 compared to $583.5 million or 71 percent of total revenues for the same period in 2000. Revenues, excluding new sales and sales-type leases, increased by $19.4 million or 3 percent to $620.9 million for the nine months ended September 30, 2001 from $601.5 million for the nine months ended September 30, 2000. This increase was primarily due to increased operating lease revenues from new direct-to-home video services and growth in Internet related services. Outright sales and sales-type leases represent substantial long-term commitments for services. The net present value of the payments due to the Company over the life of these agreements are recorded as revenues in the period that such services begin. Therefore, revenues from these transactions are subject to greater variation from period to period than are operating lease revenues.

The Company provides video services which are primarily full-time, part-time and occasional satellite services for the transmission of news, sports, entertainment and educational programming worldwide. The Company also provides network services which support satellite-based networks that relay voice, video and data communications within individual countries, throughout regions and on a global basis. Operating lease revenues from video services increased 2 percent to $132.3 million for the three months ended September 30, 2001 compared to $129.5 million for the three months ended September 30, 2000. The increase in operating lease revenue for the three months ended September 30, 2001 is due primarily to new direct-to-home services that commenced late in the third quarter of 2000 and other video services. Operating lease revenues from

network services increased 17 percent to $55.6 million for the third quarter of 2001, as compared to $47.6 million during the same period in 2000, primarily due to growth in data and Internet-related services. For the nine months ended September 30, 2001, operating lease revenues from video services were $399.7 million, an increase of 2 percent over $392.4 million for the same period in 2000. The increase in operating lease revenues from video services for the nine months ended September 30, 2001 is primarily due to new direct-to-home services that commenced late in the third quarter of 2000. Operating lease revenues from network services for the nine months ended September 30, 2001 were $162.1 million, an increase of 7 percent from $150.8 million during the same period in

2000. The increase in network services revenues for the nine months ended September 30, 2001 is primarily due to growth in Internet-related service agreements.

Cost of Outright Sales and Sales-Type Leases - Cost of outright sales and sales-type leases were $12.8 million for the three months ended September 30, 2001 due to the commencement of a new sales-type lease agreement during the third quarter of 2001. There were no comparable costs for the three months ended September 30, 2000 since there were no new sales-type leases recorded in that period. For the nine months ended September 30, 2001, costs of outright sales and sales-type leases were $12.8 million compared to $85.8 million for the same period in 2000 primarily due to the greater number of outright sales and sales-type lease agreements recorded in 2000 than in 2001.

Depreciation and Amortization - Depreciation and amortization increased $20.6 million, or 25 percent, to $104.1 million for the three months ended September 30, 2001 from $83.5 million for the same period in 2000. Depreciation and amortization for the nine months ended September 30, 2001 increased $65.9 million, or 28 percent, to $304.7 million from $238.8 million for the same period in 2000. The increase in depreciation and amortization for the three and nine month periods ended September 30, 2001 is due primarily to depreciation expense associated with the addition of four new satellites placed in service during 2000 and two new satellites placed in service during 2001. Also, the reduction in the remaining useful life of the Galaxy VIIIi satellite resulted in approximately $15.0 million of additional quarterly depreciation contributing to higher depreciation for both the three and nine months ended September 30, 2001.

Direct Operating Costs - Direct operating costs decreased $6.8 million or 17 percent, to $33.4 million for the three months ended September 30, 2001 from $40.2 million for the same period in 2000. This decrease is due primarily to reduced engineering and third party expenses associated with the NET-36 initiative and other reduced expenses including travel and consulting costs. Direct operating costs increased $5.4 million or 5 percent to $114.4 million for the nine months ended September 30, 2001 from $109.0 million for the same period in 2000. The increase in direct operating costs for the nine month period is primarily related to additional headcount to support the Company's services, customer service transition costs, increased repairs and maintenance expenses, and the development of the NET-36 initiative.

Selling, General and Administrative Expenses - Selling, general and administrative costs increased $10.0 million, or 42 percent, to $33.6 million for the three

months ended September 30, 2001 from $23.6 million for the same period in 2000. Selling, general and administrative costs increased $23.6 million, or 35 percent to $91.6 million for the nine months ended September 30, 2001 from $68.0 million for the same period in 2000. The three month and nine month increases in selling, general and administrative costs are primarily related to increased bad debt expense, the development of the NET-36 initiative and additional headcount to support the Company's services.

Severance Costs - Severance costs were $6.9 million for the three and nine months ended September 30, 2001. Of this $6.9 million, approximately $3.8 million relates to severance costs associated with the Company's expense reduction and NET-36 restructuring plan that was announced on July 12, 2001 and approximately $3.1 million relates to costs associated with the resignation in

August 2001 of the former Chief Executive Officer of PanAmSat. There were no comparable costs for the three and nine month periods ended September 30, 2000.

Income from Operations - Income from operations was $62.1 million for the three months ended September 30, 2001 an increase of $10.1 million or 20 percent, from $52.0 million for the same period in 2000. The increase in income from operations for the three month period ended September 30, 2001 is due primarily to the gross profit associated with the new sales-type lease agreement that was executed in the third quarter of 2001 for which there were no comparable transactions in 2000 and the increase in operating lease revenue from 2000 to 2001. Income from operations was $136.0 million for the nine months ended September 30, 2001, a decrease of $183.0 million or 57 percent, from $319.0 million for the same period in 2000. The decrease in income from operations for the nine month period ended September 30, 2001 is due primarily to the gross profit associated with the $219.2 million of new outright sales and sales-type lease agreements that were executed during the nine months ended September 30, 2000 compared to $45.5 million related to a new sales-type lease agreement executed during the same period in 2001. Also contributing to this decrease in income from operations, were higher direct operating and selling, general and administrative costs and depreciation expenses in the nine months ended September 30, 2001 as compared to the same period in 2000.

Interest Expense, Net - Interest expense, net was $27.6 million for the three months ended September 30, 2001, a decrease of $7.5 million or 21 percent from $35.1 million for the same period in 2000. Interest expense, net was $87.5 million for the nine months ended September 30, 2001, a decrease of $4.2 million or 5 percent from $91.7 million for the same period in 2000. The decrease in interest expense, net for the three and nine months ended September 30, 2001 was due primarily to decreased interest expense as a result of lower interest rates related to the Company's variable rate borrowings, which was partially offset by a reduction in capitalized interest due to fewer satellites under construction during the three and nine months ended September 30, 2001 as compared to the three and nine months ended September 30, 2000.

Income Taxes - Income taxes were $15.0 million for the three months ended September 30, 2001, an increase of $7.4 million or 98 percent, from $7.6 million for the three months ended September 30, 2000. The increase in income taxes is primarily a

result of increased income from operations as noted above which resulted in an increase in taxable income of $17.7 million for the three months ended September 30, 2001. Income taxes were $21.1 million for the nine months ended September 30, 2001, a decrease of $81.2 million or 79 percent, from $102.3 million for the nine months ended September 30, 2000. The decrease in income taxes for the nine month period ended September 30, 2001 is due to the decreased income from operations as noted above, which resulted in a decrease in taxable income of $178.8 million for the nine months ended September 30, 2001, as well as a decrease in the Company's effective tax rate to 43.5 percent as a result of the greater beneficial effects of the Foreign Sales Corporation ("FSC") replacement legislation known as the Exclusion for Extraterritorial Income.

Satellite Developments - Reference is made to "Item 1. - Business - Strategy - Expanding the Network and - The Satellite Network" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Satellite Deployment Plan and Planned Satellites " in the Form 10-K

for a detailed description of the Company's satellite network and its satellite deployment plan.

In September 2001, the Company announced that the PAS-7 Indian Ocean Region satellite had experienced a reduction of approximately 25 percent of its power capacity as a result of a technical difficulty with one of the spacecraft's solar arrays. However, the Company's customers have been unaffected by this difficulty and the Company expects that the satellite will continue to serve its existing customers. PAS-7 is an FS 1300 model satellite built by Space Systems/Loral that carries 14 C-band and 30 Ku-band transponders serving Europe, the Middle East, Africa, and Asia from 68.5 degrees east longitude. In accordance with the insurance policy maintained on this satellite, the Company filed a proof of loss with the insurers in relation to this anomaly on October 17, 2001. This insurance policy is in the approximate amount of $250 million and includes a provision for the Company to share future revenues on the satellite with the insurers if the proof of loss is accepted. The Company is closely monitoring the satellite to ensure that it continues to meet the needs of the customers that it serves. The Company is also working with the satellite manufacturer to determine the long-term implications to the satellite. The Company does not expect a material impact on 2001 revenues as a result of the difficulty on the PAS-7 satellite.

In August 2001, the Company announced that it had formed a new joint-venture with Japan's JSAT Corporation ("JSAT") to expand digital services in North America. Through this strategic relationship, called "Horizons," PanAmSat and JSAT will jointly own, develop and market Ku-band video, data and Internet satellite services at 127 degrees west longitude and will share revenues on a 50/50 basis for the Ku-band services. Together PanAmSat and JSAT will invest more than $100 million to develop the Ku-band payload for the new Boeing Satellite Systems, Inc. model 601 HP satellite that is scheduled for launch in late 2002 to 127 degrees west longitude. PanAmSat will separately own, develop and market the C-band capacity on this new satellite as part of the Company's Galaxy cable neighborhood. The C-band payload will replace the Galaxy IX satellite in PanAmSat's domestic U.S. fleet. Galaxy IX will then migrate to a new orbital location where it will continue to provide C-band services as part of PanAmSat's Galaxy fleet.

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In July 2001, the Company announced that the Galaxy IIIC satellite is scheduled to be launched in the first quarter of 2002. As a result, Galaxy IIIC is expected to commence service in the second quarter of 2002, two quarters later than previously anticipated. The schedule has been revised due to manufacturing delays required to remedy certain issues discovered during factory testing by the manufacturer, Boeing Satellite Systems, Inc. Galaxy IIIC is intended to serve as the replacement for Galaxy IIIR at 95 degrees west longitude. Upon the deployment of Galaxy IIIC, Galaxy IIIR will be moved for service at a new orbital location to be determined.

Also in July 2001, the Company commenced service on its PAS-10 satellite that was launched in May 2001. PanAmSat's total fleet of satellites now stands at 21. PAS-10 succeeded PAS-4 at 68.5 degrees east longitude in the Company's Indian Ocean Region cable neighborhood and it will enable the delivery of new digital and IP-based services across Africa, Asia, Europe and the Indian subcontinent. Upon the deployment of PAS-10, PAS-4 was moved to 72 degrees east longitude for service.

The Company expects to launch four satellites by early 2003. Galaxy IIIC is scheduled to be launched in the first quarter of 2002. Galaxy VIIIi-R is scheduled to be launched in the third quarter of 2002 to 95 degrees west longitude. The PanAmSat and JSAT joint-venture expects to launch a satellite to 127 degrees west longitude in late 2002. The Company expects to launch Galaxy XII in late 2002 or early 2003 at 74 degrees west longitude.

Eight of the Company's satellites are either fully self-insured or insured with significant exclusions as of September 30, 2001. The net book value of these self-insured satellites and the significant exclusions as of September 30, 2001 aggregated $671 million.

Financial Condition

The Company has an outstanding term loan in the amount of $1.725 billion (the "Term Loan") from Hughes Electronics Corporation, an affiliate of the Company ("Hughes"). The Term Loan matures in June 2003 and bears interest at a rate equal to that of the Company's revolving credit facility discussed below. The Term Loan is subordinate to the $750 million of notes, the revolving credit facility and the commercial paper program discussed below. Hughes has the right to request that the Company use its best efforts to replace the Term Loan with another credit facility on terms that may then be available to the Company. On October 15, 2001, in accordance with the Loan Agreement dated May 15, 1997 between Hughes and the Company, as amended, Hughes requested that the Company use its best efforts to replace the Term Loan in order to repay the principal amount outstanding under the Term Loan plus any accrued and unpaid interest. The Term Loan has been in place since the merger between Hughes and PanAmSat in 1997. The Company intends to refinance the Term Loan with long-term

borrowings, however, no time frame has been set for these transactions and there is no assurance that they will occur. Additionally, the refinancing of the Term Loan, if successful, could result in increased costs to the Company, including higher annual interest expense.

The Company issued five, seven, ten and thirty-year fixed rate notes totaling $750 million in January 1998. The outstanding principal balances and interest rates for these notes as of September 30, 2001 were $200 million at 6.0%, $275 million at 6.125%, $150 million at 6.375% and $125 million at $6.875%, respectively. Principal on the notes is payable at maturity, while interest is payable semi-annually. At September 30, 2001, $750 million was outstanding in relation to these notes.

In July 1999, in connection with the early buy-out of satellite sale-leasebacks, the Company assumed $124.1 million of variable rate notes, of which $46.5 million was outstanding at September 30, 2001. The weighted average interest rate on the notes was 4.92% at September 30, 2001. These notes mature in January 2002.

The Company maintains a $500 million multi-year revolving credit facility that provides for short-term and long-term borrowings and a $500 million commercial paper program. Borrowings under the credit facility bear interest at a rate equal to LIBOR plus a spread based on PanAmSat's credit rating. The multi-year revolving credit facility provides for a commitment through December 24, 2002. Borrowings under the credit facility and commercial paper program are

limited to $500 million in the aggregate. No amounts were outstanding under either the multi-year revolving credit facility or the commercial paper program at September 30, 2001.

The significant cash outlays for the Company will continue to be primarily capital expenditures related to the construction and launch of satellites and debt service costs. The Company has satellites under various stages of development, for which the Company has budgeted capital expenditures. PanAmSat currently expects to spend approximately $320 million to $350 million on capital expenditures during 2001, which will primarily be comprised of costs to construct, insure and launch satellites.

Assuming satellites under development are successfully launched and services on the satellites commence on the schedule currently contemplated , PanAmSat believes that amounts available under its revolving credit facility, vendor financing, future cash flows from operations and cash on hand will be sufficient to fund its operations and its remaining costs for the construction and launch of satellites currently under development. There can be no assurance, however, that PanAmSat's assumptions with respect to costs for future construction and launch of its satellites will be correct, or that amounts available under its revolving credit facility, vendor financing, future cash flow from operations and cash on hand will be sufficient to cover any shortfalls in funding for (i) launches caused by launch failures, (ii) cost overruns, (iii) delays, (iv) capacity shortages, or (v) other unanticipated expenses. As a result of the request by Hughes that the Company use its best efforts to replace the Hughes Term Loan, the Company is required

to use its best efforts to obtain refinancing. The ability of PanAmSat to obtain refinancing is subject to the terms of PanAmSat's outstanding indebtedness as well as the ability of the Company to obtain such refinancing on terms considered reasonable by the Company.

In addition, if the Company were to consummate any strategic transactions or undertake any other projects requiring significant capital expenditures, the Company may be required to seek additional financing. If circumstances were to require PanAmSat to incur such additional indebtedness, the ability of PanAmSat to incur any such additional indebtedness would also be subject to the terms of PanAmSat's outstanding indebtedness. The failure to obtain such financing or the failure to obtain such financing on terms considered reasonable by the Company could have a material adverse effect on PanAmSat's operations and its ability to accomplish its business plan.

Net cash provided by operating activities increased to $361.1 million for the nine months ended September 30, 2001, from $323.8 million for the nine months ended September 30, 2000. The increase in 2001 was primarily attributable to: (1) higher profit earned on $20.9 million of additional operating lease revenues recorded in 2001 as compared to 2000; (2) the decrease in cash used within prepaid expenses and other of $33.0 million primarily resulting from a decrease in prepaid in-orbit insurance related to fewer satellites placed in-service in 2001 as compared to 2000; and (3) an increase in cash provided within accounts payable and accrued expenses of $15.3 million primarily resulting from the timing of payments to vendors. These increases in cash provided by operating activities were partially offset by an increase in cash used within operating leases and other receivables of $29.7 million as a result of the effects on cash flows of the changes in accounts receivable.

Net cash used in investing activities was $109.2 million for the nine months ended September 30, 2001, compared to net cash used in investing activities of $281.4 million for the nine months ended September 30, 2000. The decrease in net cash used in investing activities in 2001 was primarily due to the receipt of $96.2 million of additional proceeds from insurance claims during the nine months ended September 30, 2001 as compared to the nine months ended September 30, 2000 and a reduction in capital expenditures for satellite systems under development in 2001 of $83.3 million as compared to 2000.

Net cash used in financing activities decreased to $22.1 million for the nine months ended September 30, 2001, from $51.1 million for the nine months ended September 30, 2000. The decrease in net cash used in financing activities in 2001 was primarily attributable to lower scheduled repayments of long term debt during 2001, partially offset by a reduction in stock issued in connection with employee benefit plans in 2001 as compared to 2000.

Market Risk

The Company manages its exposure to market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. The objective of the Company's policies is to mitigate potential income statement, cash flow and fair value exposures resulting from possible future adverse fluctuations in interest rates. The Company evaluates its exposure to market risk by assessing the anticipated near-term and long-term fluctuations in interest rates on a daily basis. This evaluation includes the review of leading market indicators, discussions with financial analysts and investment bankers regarding current and future economic conditions and the review of market projections as to expected future interest rates. The Company utilizes this information to determine its own investment strategies as well as to determine if the use of derivative financial instruments is appropriate to mitigate any potential future interest rate exposure that the Company may face. The Company's policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. The Company does not use financial instruments for trading purposes and is not a party to any leveraged derivatives.

The Company determines the impact of changes in interest rates on the fair value of its financial instruments based on a hypothetical 10% adverse change in interest rates from the rates in effect as of the end of the year for these financial instruments. The Company uses separate methodologies to determine the impact of these hypothetical changes on its sales-type leases, fixed rate public debt and variable rate debt as follows:

- For the Company's sales-type leases, a discount rate based on a 30-year bond is applied to future cash flows from sales-type leases to arrive at a base rate present value for sales-type leases. This discount rate is then adjusted for a negative 10% change and then applied to the same cash flows from sales-type leases to arrive at a present value based on the negative change. The base rate present value and the present value based on the negative change are then compared to arrive at the potential negative fair value change as a result of the hypothetical change in interest rates.

- For the Company's fixed rate public debt, the current market rate of each public debt instrument is applied to each principal amount to arrive at a current yield to maturity for each public debt instrument as of the end of the year. The current market rate is then reduced by a factor of 10% and this revised market rate is applied to the principal amount of each public debt instrument to arrive at a yield to maturity based on the adverse interest rate change. The two yields to maturity are then compared to arrive at the potential negative fair value change as a result of the hypothetical change in interest rates.

- For the Company's variable rate debt, the effect in annual cash flows and net income is calculated as a result of the potential effect of a hypothetical 10% adverse fluctuation in interest rates. The current LIBOR rate plus applicable margin as of the end of the year is applied to the applicable principal outstanding at the end of the year to determine an annual interest expense based on year-end

rates and principal balances. This calculation is then performed after increasing the LIBOR rate plus applicable margin by a factor of 10%. The difference between the two annual interest expenses calculated represents the reduction in annual cash flows as a result of the potential effect of a hypothetical 10% adverse fluctuation in interest rates. This amount is then tax effected based on the Company's effective tax rate to yield the reduction in net income as a result of the potential effect of a hypothetical 10% adverse fluctuation in interest rates.

The only potential limitations of the respective models are in the assumptions utilized in the models such as the hypothetical adverse fluctuation rate and the discount rate. The Company believes that these models and the assumptions utilized are reasonable and sufficient to yield proper market risk disclosure.

The Company has not experienced any material changes in interest rate exposures during the nine months ended September 30, 2001. Based upon economic conditions and leading market indicators at September 30, 2001, the Company does not foresee a significant adverse change in interest rates in the near future. As a result, the Company's strategies and procedures to manage exposure to interest rates have not changed in comparison to the prior year.

The potential fair value change resulting from a hypothetical 10% adverse fluctuation in interest rates related to PanAmSat's outstanding fixed-rate debt and fixed rate net investments in sales-type lease receivable balances would be approximately $33.8 million and $7.3 million, respectively, as of September 30, 2001. The potential effect of a hypothetical 10% adverse fluctuation in interest rates for one year on PanAmSat's floating rate debt outstanding at September 30, 2001 would be a reduction in cash flows of approximately $6.3 million and a reduction in net income of approximately $3.5 million.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk.

PANAMSAT CORPORATION

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.71 Employment Agreement between PanAmSat Corporation and Joseph R. Wright, Jr., dated as of August 20, 2001. *

(b) Reports on Form 8-K.

Registrant filed a Current Report on Form 8-K, dated August 14, 2001, in respect of the Company's announcement that it had elected Joseph R. Wright, Jr. as its President and Chief Executive Officer.

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*Exhibit indicated is an executive contract.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PanAmSat Corporation

Date: October 26, 2001

/s/ Michael J. Inglese

Michael J. Inglese
Senior Vice President and
Chief Financial Officer
and a Duly Authorized
Officer of the Company