

LORAL SPACE & COMMUNICATIONS INC.

Form 10-Q

November 14, 2012

[Table of Contents](#)

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, 2012

Commission file number 1-14180

Loral Space & Communications Inc.

600 Third Avenue

New York, New York 10016

Telephone: (212) 697-1105

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Jurisdiction of incorporation: Delaware

IRS identification number: 87-0748324

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Indicate by a check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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

As of October 31, 2012, 21,247,588 shares of the registrant's voting common stock and 9,505,673 shares of the registrant's non-voting common stock were outstanding.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended September 30, 2012

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1: Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2012 and September 30, 2011</u>	4
<u>Condensed Consolidated Statements of Equity for the nine months ended September 30, 2012 and the year ended December 31, 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and September 30, 2011</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	55
<u>Item 4: Disclosure Controls and Procedures</u>	57
<u>PART II OTHER INFORMATION</u>	
<u>Item 1: Legal Proceedings</u>	58
<u>Item 1A: Risk Factors</u>	58
<u>Item 2: Issuer Purchases of Equity Securities</u>	58
<u>Item 6: Exhibits</u>	59
<u>Signatures</u>	60

Table of Contents**PART 1.****FINANCIAL INFORMATION****Item 1. Financial Statements****LORAL SPACE & COMMUNICATIONS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)****(Unaudited)**

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,932	\$ 197,114
Notes receivable	23,953	
Contracts-in-process		159,261
Inventories		77,301
Deferred tax assets	152,488	67,070
Other current assets	4,177	15,038
Assets held for sale	959,536	
Total current assets	1,194,086	515,784
Property, plant and equipment, net	46	203,722
Restricted cash		23,800
Long-term receivables		362,688
Investments in affiliates	63,913	446,235
Intangible assets, net		8,179
Long-term deferred tax assets	144,215	263,363
Other assets	2,613	12,382
Total assets	\$ 1,404,873	\$ 1,836,153
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$	\$ 90,323
Accrued employment costs	9,489	59,897
Customer advances and billings in excess of costs and profits		227,485
Other current liabilities	10,582	25,265
Liabilities held for sale	651,960	
Total current liabilities	672,031	402,970
Pension and other postretirement liabilities	34,826	311,273
Long-term liabilities	93,191	174,325
Total liabilities	800,048	888,568
Commitments and contingencies		
Equity:		
Loral shareholders' equity:		

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding		
Common Stock:		
Voting common stock, \$.01 par value; 50,000,000 shares authorized, 21,402,082 and 21,229,573 issued	214	212
Non-voting common stock, \$.01 par value; 20,000,000 shares authorized, 9,505,673 issued and outstanding	95	95
Paid-in capital	1,010,752	1,014,724
Treasury stock (at cost), 154,494 and 136,494 shares of voting common stock	(9,592)	(8,400)
(Accumulated deficit) retained earnings	(250,561)	94,303
Accumulated other comprehensive loss	(146,979)	(154,475)
Total shareholders' equity attributable to Loral	603,929	946,459
Noncontrolling interest	896	1,126
Total equity	604,825	947,585
Total liabilities and equity	\$ 1,404,873	\$ 1,836,153

See notes to condensed consolidated financial statements.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(In thousands, except per share amounts)****(Unaudited)**

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Selling, general and administrative expenses	\$ 10,316	\$ 4,076	\$ 19,191	\$ 12,843
Gain on disposition of net assets				5,118
Operating loss	(10,316)	(4,076)	(19,191)	(7,725)
Interest and investment income	423	232	1,313	2,693
Interest expense	(30)	(24)	(87)	(83)
Gain on litigation, net				4,535
Other expense	(2,875)	(997)	(3,498)	(4,489)
Loss from continuing operations before income taxes and equity in net income (loss) of affiliates	(12,798)	(4,865)	(21,463)	(5,069)
Income tax benefit (provision)	36,616	(15,428)	39,157	(27,379)
Income (loss) from continuing operations before equity in net income (loss) of affiliates	23,818	(20,293)	17,694	(32,448)
Equity in net income (loss) of affiliates	41,586	(77,262)	37,102	(7,076)
Income (loss) from continuing operations	65,404	(97,555)	54,796	(39,524)
Income from discontinued operations, net of tax	4,271	20,257	17,716	59,647
Net income (loss)	69,675	(77,298)	72,512	20,123
Net loss (income) attributable to noncontrolling interest	214	(70)	230	(339)
Net income (loss) attributable to Loral common shareholders	69,889	(77,368)	72,742	19,784
Other comprehensive income (loss), net of tax	2,285	4,294	7,496	(816)
Comprehensive income (loss) attributable to Loral common shareholders	\$ 72,174	\$ (73,074)	\$ 80,238	\$ 18,968
Net income (loss) per share attributable to Loral common shareholders:				
Basic				
Income (loss) from continuing operations	\$ 2.13	\$ (3.18)	\$ 1.79	\$ (1.29)
Income from discontinued operations, net of tax	0.14	0.66	0.58	1.93
Net income (loss)	\$ 2.27	\$ (2.52)	\$ 2.37	\$ 0.64
Diluted				
Income (loss) from continuing operations	\$ 2.05	\$ (3.18)	\$ 1.76	\$ (1.29)
Income from discontinued operations, net of tax	0.14	0.66	0.58	1.93
Net income (loss)	\$ 2.19	\$ (2.52)	\$ 2.34	\$ 0.64

Weighted average common shares outstanding:

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Basic	30,745	30,706	30,684	30,680
Diluted	30,997	30,706	30,980	30,680

See notes to condensed consolidated financial statements.

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

	Common Stock		Non-Voting		Paid-In Capital	Treasury Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Shareholders Equity		Noncontrolling Interest	Total Equity
	Voting Shares Issued	Amount	Shares Issued	Amount		Voting Shares	Amount			Loral			
Balance, January 1, 2011	20,925	\$ 209	9,506	\$ 95	\$ 1,028,263			\$ (32,374)	\$ (95,873)	\$ 900,320	\$ 629	\$ 900,949	
Net income								126,677			\$ 497		
Other comprehensive loss									(58,602)				
Comprehensive income										68,075		68,572	
Exercise of stock options	305	3			1,055					1,058		1,058	
Shares surrendered to fund withholding taxes					(16,972)					(16,972)		(16,972)	
Tax benefit associated with exercise of stock options					1,198					1,198		1,198	
Stock based compensation					1,180					1,180		1,180	
Voting common stock repurchased						136	\$ (8,400)			(8,400)		(8,400)	
Balance, December 31, 2011	21,230	\$ 212	9,506	\$ 95	\$ 1,014,724	136	\$ (8,400)	\$ 94,303	\$ (154,475)	\$ 946,459	\$ 1,126	\$ 947,585	
Net income (loss)								72,742			(230)		
Other comprehensive income									7,496				
Comprehensive income										80,238		80,008	
Common dividends declared (\$13.60 per share)								(417,606)		(417,606)		(417,606)	
Exercise of stock options	154	2			1,633					1,635		1,635	
Shares surrendered to fund withholding taxes	18				(6,301)					(6,301)		(6,301)	
Stock based compensation					865					865		865	
Cash settlement of restricted stock units					(169)					(169)		(169)	
Voting common stock repurchased						18	(1,192)			(1,192)		(1,192)	
Balance, September 30, 2012	21,402	\$ 214	9,506	\$ 95	\$ 1,010,752	154	\$ (9,592)	\$ (250,561)	\$ (146,979)	\$ 603,929	\$ 896	\$ 604,825	

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2012	2011
Operating activities:		
Net income	\$ 72,512	\$ 20,123
Income from discontinued operations, net of tax	(17,716)	(59,647)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Non-cash operating items (Note 4)	(22,309)	29,647
Changes in operating assets and liabilities:		
Long-term receivables	(3,253)	(1,557)
Other current assets and other assets	1,842	10,968
Accounts payable		41
Accrued expenses and other current liabilities	4,462	(1,606)
Income taxes payable	(383)	(7,047)
Pension and other postretirement liabilities	(1,528)	(1,077)
Long-term liabilities	(54,186)	(1,464)
Net cash used in operating activities – continuing operations	(20,559)	(11,619)
Net cash (used in) provided by operating activities – discontinued operations	(11,726)	78,436
Net cash (used in) provided by operating activities	(32,285)	66,817
Investing activities:		
Distributions received from affiliate	420,199	
Proceeds from sale of investments, net	1,316	
Capital expenditures		(347)
Proceeds from sale of net assets		61,482
Decrease in restricted cash		625
Net cash provided by investing activities – continuing operations	421,515	61,760
Net cash used in investing activities – discontinued operations	(98,520)	(39,745)
Net cash provided by investing activities	322,995	22,015
Financing activities:		
Cash dividend paid	(417,606)	
Voting common stock repurchased	(1,664)	
Proceeds from the exercise of stock options	1,635	447
Cash settlement of restricted stock units	(169)	
Funding of withholding taxes on employee cashless stock option exercises	(6,301)	(16,905)
Excess tax benefit associated with exercise of stock options		1,095
Net cash used in financing activities – continuing operations	(424,105)	(15,363)
Net cash provided by financing activities – discontinued operations		

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Net cash used in financing activities		(424,105)	(15,363)
(Decrease) increase in cash and cash equivalents		(133,395)	73,469
Cash and cash equivalents	beginning of period	197,114	165,801
Cash and cash equivalents	continuing and discontinued operations	end of period	
		63,719	239,270
Cash and cash equivalents	discontinued operations	end of period	
		(9,787)	
Cash and cash equivalents	end of period	\$ 53,932	\$ 239,270

See notes to condensed consolidated financial statements.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Principal Business

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

Recent Developments

On November 2, 2012, Loral completed the sale (the Sale) of its wholly-owned subsidiary, SS/L, to MDA Communications Holdings, Inc. (MDA Holdings), a subsidiary of MacDonald, Dettwiler and Associates Ltd. (MDA). Pursuant to the purchase agreement (the Purchase Agreement), dated June 26, 2012, between Loral, SS/L, MDA and MDA Holdings, as amended on October 30, 2012, in a series of transactions described below, Loral received total cash payments of \$967.9 million plus a three-year promissory note in the principal amount of \$101 million for the purchase of certain real estate used in connection with SS/L s business.

Prior to the Sale, SS/L (i) was converted into a limited liability company, (ii) transferred the real estate owned by it to a newly formed limited liability company (Land LLC), (iii) distributed the equity interests in Land LLC to the Company, and (iv) issued to Loral promissory notes in an aggregate amount equal to \$193.9 million (the Closing Notes). The Closing Notes were issued to satisfy SS/L s obligations under the Purchase Agreement to repay intercompany balances due Loral and to pay Loral a cash dividend, which included per diem amounts provided for in the Purchase Agreement. Immediately following the Sale, SS/L repaid the Closing Notes for an aggregate cash amount equal to \$193.9 million.

At closing of the Sale, Loral received (i) \$774 million from MDA Holdings for the purchase of the equity interests in SS/L and (ii) a promissory note, dated November 2, 2012, issued by MDA for \$101 million (the Land Note) for the purchase of the equity interests in Land LLC.

The Land Note bears interest at the rate of 1% per annum and amortizes in three equal annual installments on each March 31, commencing March 31, 2013. The Land Note is backed by a letter of guarantee from Royal Bank of Canada.

Subsequent to the closing of the Sale and pursuant to the Purchase Agreement, Loral will pay MDA \$6.5 million as a result of the resolution of a contingency (see Note 17).

The transaction is taxable, and, for tax purposes, will be treated as a sale of assets.

Under the terms of the Purchase Agreement, Loral will indemnify SS/L for all Covered Litigation Costs and any Covered Litigation Damages (as such terms are defined in the Purchase Agreement), subject to certain capped cost-sharing by SS/L, and will retain control of the defense of the lawsuit against SS/L and Loral by ViaSat, Inc. as well as SS/L s counterclaims against ViaSat, Inc. in that lawsuit. Under the terms of the Purchase Agreement, following a change of control of Loral, the liability of Loral for Covered Litigation Costs and Covered Litigation Damages is subject to a dollar cap.

On November 7, 2012, in connection with the receipt of the proceeds from the Sale, our Board of Directors declared a special distribution of \$29.00 per share for an aggregate distribution of \$899.3 million. The distribution will be paid on December 4, 2012 to holders of record of Loral voting and non-voting common stock as of November 19, 2012. In accordance with Loral s stock incentive plan, an equitable adjustment will be made to outstanding stock-based awards to reflect the special distribution.

Description of Business

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.

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

The operations of SS/L, previously reported as the satellite manufacturing operating segment, have been reclassified as discontinued operations in our statements of operations and cash flows. The assets and liabilities of SS/L have been reflected as assets held for sale and liabilities held for sale, respectively, on our condensed consolidated balance sheet as of September 30, 2012.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat Holdco (see Note 10). We use the equity method of accounting for our ownership interest in Telesat Holdco.

Loral, a Delaware corporation, was formed on June 24, 2005, to succeed to the business conducted by its predecessor registrant, Loral Space & Communications Ltd. (Old Loral), which emerged from chapter 11 of the federal bankruptcy laws on November 21, 2005 (the Effective Date) pursuant to the terms of the fourth amended joint plan of reorganization, as modified (the Plan of Reorganization).

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2011 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the SEC.

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

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

Use of Estimates in Preparation of Financial Statements

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

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Most of our satellite manufacturing revenue, included in discontinued operations for the three and nine months ended September 30, 2012 and 2011, is associated with long-term contracts which require significant estimates. These estimates include forecasts of costs and schedules, estimating contract revenue related to contract performance (including performance incentives) and the potential for component obsolescence in connection with long-term procurements. Changes in estimates are typically the result of schedule changes that affect performance incentives and penalties, changes in contract scope, changes in new business forecasts that can affect the level of overhead allocated to a given contract and changes in estimates on contracts as a result of the complex nature of the satellites we manufacture. Changes in estimates are determined using the cumulative catch-up method, which recognizes the cumulative effect of changes in estimates on current and prior periods in the current period based on a contract's completion percentage. Provisions for losses on contracts are recorded when estimates determine that a loss will be incurred on a contract at completion. Under firm fixed-price contracts, work performed and products shipped are paid for at a fixed price without adjustment for actual costs incurred in connection with the contract; accordingly, favorable changes in estimates in a period will result in additional profit, and unfavorable changes in estimates will result in a reduction of profit or the recording of a loss that will be borne solely by us. For the three months ended September 30, 2012 and 2011, cumulative catch up adjustments related to prior period activity as a result of changes in contract estimates (decreased) increased income from discontinued operations before income taxes by (\$4 million) and \$7 million, respectively, and diluted earnings per share by (\$0.07) and \$0.14, respectively. For the nine months ended September 30, 2012 and 2011, cumulative catch up adjustments related to prior period activity as a result of changes in contract estimates increased income from discontinued operations before income taxes by \$1 million and \$33 million, respectively, and diluted earnings per share by \$0.01 and \$0.63, respectively.

Significant estimates also include the allowances for doubtful accounts and long-term receivables, estimated useful lives of our plant and equipment and finite lived intangible assets, the fair value of stock based compensation, the realization of deferred tax assets, uncertain tax positions, the fair value of and gains or losses on derivative instruments and our pension liabilities.

Concentration of Credit Risk

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

Fair Value Measurements

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

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

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

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

discounted cash flow models, and similar techniques.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)***Assets and Liabilities Measured at Fair Value on a Recurring Basis*

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

	Level 1	Level 2	Level 3
Assets:			
Cash equivalents			
Money market funds	\$ 61,496	\$	\$
Available-for-sale securities			
Communications industry	\$ 453	\$	\$
Non-qualified pension plan assets	\$ 114	\$	\$
Liabilities:			
Derivatives			
Foreign exchange contracts	\$	\$ 2,043	\$

Included in the above table are cash equivalents (money market funds) of \$7.7 million included in assets held for sale and derivatives (foreign exchange contracts) of \$2.0 million that are included in liabilities held for sale as of September 30, 2012. The Company does not have any non-financial assets or non-financial liabilities that are recognized or disclosed at fair value on a recurring basis as of September 30, 2012.

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

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

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220) Presentation of Comprehensive Income*. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity and requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The guidance, effective for the Company on January 1, 2012, requires changes in presentation which have been included in our consolidated financial statements.

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

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. Discontinued Operations**

As a result of the sale of SS/L (see Note 1), we have reclassified SS/L s operations as discontinued operations in our condensed consolidated financial statements for the three and nine months ended September 30, 2012 and 2011.

The following is a summary of SS/L s assets and liabilities held for sale as of September 30, 2012 (in thousands):

	September 30, 2012
<u>Assets</u>	
Current assets	\$ 330,342
Property, plant and equipment, net	213,140
Long-term receivables	348,276
Other assets	67,778
 Total assets held for sale	 \$ 959,536
	September 30, 2012
<u>Liabilities</u>	
Current liabilities	\$ 368,274
Pension and other postretirement liabilities	254,854
Long-term liabilities	28,832
 Total liabilities held for sale	 \$ 651,960

The following is a summary of SS/L s operating results which are included in income from discontinued operations (in thousands):

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 280,305	\$ 268,845	\$ 861,395	\$ 801,166
Operating income	4,665	18,447	15,788	73,032
Income before income taxes	9,127	22,054	34,165	85,275
Income tax provision	(4,856)	(1,797)	(16,449)	(25,628)
Net income	4,271	20,257	17,716	59,647

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. Additional Cash Flow Information**

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

	Nine Months Ended September 30,	
	2012	2011
Non-cash operating items:		
Equity in net (income) loss of affiliates	\$ (37,102)	\$ 7,076
Deferred taxes	14,852	26,688
Depreciation and amortization	53	97
Stock based compensation	804	777
Amortization of prior service credits and net actuarial gain	508	122
Gain on disposition of net assets		(5,118)
Unrealized gain on non-qualified pension plan assets	(108)	(66)
(Gain) loss on foreign currency transactions and contracts	(1,316)	71
Net non-cash operating items continuing operations	\$ (22,309)	\$ 29,647
Non-cash operating items discontinued operations	\$ 47,955	\$ 34,543
Non-cash investing activities:		
Capital expenditures incurred not yet paid discontinued operations	\$ 3,696	\$ 5,315
Supplemental information:		
Interest paid continuing operations	\$ 87	\$ 106
Interest paid discontinued operations	\$ 1,517	\$ 1,402
Tax payments net of refunds	\$ 86	\$ 5,921

5. Other Comprehensive Income

The components of other comprehensive income and related tax effects are as follows (in thousands):

	Three Months Ended September 30,					
	2012		2011			
	Before-Tax Amount	Tax (Expense) Benefit	Net-of Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of Tax Amount
Amortization of prior service credits and net actuarial loss	\$ 2,012	\$ (806)	\$ 1,206	\$ 332	\$ (123)	\$ 209

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Proportionate share of Telesat Holdco other comprehensive income (loss)	736	(292)	444	(4,260)	1,790	(2,470)
Derivatives:						
Unrealized (loss) gain on foreign currency hedges	(213)	85	(128)	4,988	(2,002)	2,986
Less: reclassification adjustment for loss included in net income	1,134	(453)	681	6,785	(2,731)	4,054
Net unrealized gain (loss) on derivatives	921	(368)	553	11,773	(4,733)	7,040
Unrealized gain (loss) on available-for-sale securities	138	(56)	82	(808)	323	(485)
Other comprehensive income	\$ 3,807	\$ (1,522)	\$ 2,285	\$ 7,037	\$ (2,743)	\$ 4,294

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	Nine Months Ended September 30,					
	Before-Tax Amount	2012 Tax (Expense) Benefit	Net-of Tax Amount	Before-Tax Amount	2011 Tax (Expense) Benefit	Net-of Tax Amount
Amortization of prior service credits and net actuarial loss	\$ 6,036	\$ (2,423)	\$ 3,613	\$ 996	\$ (401)	\$ 595
Proportionate share of Telesat Holdco other comprehensive income (loss)	775	(310)	465	(3,748)	1,508	(2,240)
Derivatives:						
Unrealized loss on foreign currency hedges	(498)	200	(298)	(10,553)	4,246	(6,307)
Less: reclassification adjustment for loss included in net income	6,290	(2,526)	3,764	12,966	(5,216)	7,750
Net unrealized gain (loss) on derivatives	5,792	(2,326)	3,466	2,413	(970)	1,443
Unrealized loss on available-for-sale securities	(79)	31	(48)	(1,024)	410	(614)
Other comprehensive income (loss)	\$ 12,524	\$ (5,028)	\$ 7,496	\$ (1,363)	\$ 547	\$ (816)

6. Contracts-in-Process and Long-Term Receivables*Contracts-in-Process*

Contracts-in-Process are comprised of the following (in thousands):

	September 30, 2012	December 31, 2011
Contracts-in-Process:		
Amounts billed	\$ 100,867	\$ 107,920
Unbilled receivables	89,719	51,341
	190,586	159,261
Billed and unbilled receivables classified as assets held for sale	(190,586)	
Contracts-in-process, as reported	\$	\$ 159,261

As of September 30, 2012 and December 31, 2011, billed receivables were reduced by an allowance for doubtful accounts of \$0.2 million. The allowance as of September 30, 2012 was included in assets held for sale.

Unbilled amounts include recoverable costs and accrued profit on progress completed, which have not been billed. Such amounts are billed in accordance with the contract terms, typically upon shipment of the product, achievement of contractual milestones, or completion of the contract and, at such time, are reclassified to billed receivables.

Long-Term Receivables

Billed receivables relating to long-term contracts are expected to be collected within one year. As of December 31, 2011, we classified deferred billings and the orbital receivable component of unbilled receivables expected to be collected beyond one year as long-term. Fresh-start fair value adjustments relating to long-term receivables are amortized using the effective interest method over the life of the related orbital stream (see Note 11).

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Receivable balances related to satellite orbital incentive payments, deferred billings and the long-term portion of the Telesat consulting services fee (see Note 20) as of September 30, 2012 and December 31, 2011 are presented below (in thousands):

	September 30, 2012	December 31, 2011
Orbital receivables	\$ 364,114	\$ 354,852
Deferred receivables		1,973
Telesat consulting services receivable		20,700
	364,114	377,525
Less: current portion included in contracts-in-process	(15,838)	(14,837)
Long-term receivables	348,276	362,688
Long-term receivables classified as assets held for sale	(348,276)	
Long-term receivables, as reported	\$	\$ 362,688

Notes receivable of \$23.953 million as of September 30, 2012, representing fees from Telesat for consulting services, were reclassified from long term to current during the third quarter of 2012. The notes receivable were paid in full by Telesat in October 2012.

Financing Receivables

The following summarizes the age of financing receivables that have a contractual maturity of over one year as of September 30, 2012 (in thousands):

	Total	Unlaunched	Launched	Financing Receivables Subject To Aging	Current	90 Days or Less	More Than 90 Days
Satellite Manufacturing:							
Orbital Receivables							
Long term orbitals	\$ 348,276	\$ 99,894	\$ 248,382	\$ 248,382	\$ 248,382	\$	\$
Short term unbilled	12,592		12,592	12,592	12,592		
Short term billed	3,246		3,246	3,246	3,246		
	364,114	99,894	264,220	264,220	264,220		
Deferred Receivables							
Consulting Services:							
Receivables from Telesat	23,953			23,953	23,953		
	388,067	99,894	264,220	288,173	288,173		
Contracts-in-Process:							

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Unbilled receivables	77,127	77,127				
Total financing receivables	465,194	177,021	264,220	288,173	288,173	
Financing receivables classified as assets held for sale	(441,241)	(177,021)	(264,220)	(264,220)	(264,220)	
Financing receivables, as reported	\$ 23,953	\$	\$	\$ 23,953	\$ 23,953	\$

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following summarizes the age of financing receivables that have a contractual maturity of over one year as of December 31, 2011 (in thousands):

	Total	Unlaunched	Launched	Financing Receivables Subject To Aging	Current	90 Days or Less	More Than 90 Days
Satellite Manufacturing:							
Orbital Receivables							
Long term orbitals	\$ 340,015	\$ 141,518	\$ 198,497	\$ 198,497	\$ 198,497	\$	\$
Short term unbilled	11,370		11,370	11,370	11,370		
Short term billed	3,467		3,467	3,467	1,084		2,383
	354,852	141,518	213,334	213,334	210,951		2,383
Deferred Receivables	1,973			1,973	1,973		
Consulting Services:							
Telesat receivables	20,700			20,700	20,700		
	377,525	141,518	213,334	236,007	233,624		2,383
Contracts-in-Process:							
Unbilled receivables	39,971	39,971					
Total financing receivables	\$ 417,496	\$ 181,489	\$ 213,334	\$ 236,007	\$ 233,624	\$	\$ 2,383

Billed receivables of \$97.6 million and \$104.5 million as of September 30, 2012 and December 31, 2011, respectively (not including billed orbital receivables of \$3.2 million and \$3.5 million as of September 30, 2012 and December 31, 2011, respectively) have been excluded from the tables above as they have contractual maturities of less than one year.

Long term unbilled receivables include satellite orbital incentives related to satellites under construction of \$99.9 million and \$141.5 million as of September 30, 2012 and December 31, 2011, respectively. These receivables are not included in financing receivables subject to aging in the table above since the timing of their collection is not determinable until the applicable satellite is launched. Contracts-in-process include \$77.1 million and \$40.0 million as of September 30, 2012 and December 31, 2011, respectively, of unbilled receivables that represent accumulated incurred costs and earned profits net of losses on contracts in process that have been recorded as sales but have not yet been billed to customers. These receivables are not included in financing receivables subject to aging in the table above since the timing of their collection is not determinable until the contractual obligation to bill the customer is fulfilled. All unbilled receivables as of September 30, 2012 are included in assets held for sale in our condensed consolidated balance sheet.

We assign internal credit ratings for all our customers with financing receivables. The credit worthiness of each customer is based upon public information and/or information obtained directly from our customers. We utilize credit ratings where available from the major credit rating agencies in our analysis. We have therefore assigned our rating categories to be comparable to those used by the major credit rating agencies. Credit risk profile by internally assigned ratings, consisted of the following (in thousands):

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

	September 30, 2012	December 31, 2011
<u>Rating Categories</u>		
A/BBB	\$ 75,592	\$ 41,607
BB/B	276,904	246,373
B/CCC	106,376	94,156
Customers in bankruptcy		39,307
Other	6,322	(3,947)
Total financing receivables	\$ 465,194	417,496

As of September 30, 2012, all financing receivables, except for \$24.0 million included in rating category BB/B consisting of the receivable from Telesat for consulting services, were included in assets held for sale.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****7. Inventories**

Inventories are comprised of the following (in thousands):

	September 30, 2012	December 31, 2011
Inventories-gross	\$ 120,966	\$ 110,087
Impaired inventory	(32,154)	(31,360)
	88,812	78,727
Inventories included in other assets	(3,764)	(1,426)
	85,048	77,301
Inventories classified as assets held for sale	(85,048)	
Inventories, as reported	\$	\$ 77,301

8. Financial Instruments, Derivative Instruments and Hedging*Financial Instruments*

The carrying amount of cash equivalents and restricted cash approximates fair value because of the short maturity of those instruments. The fair value of short term investments, investments in available-for-sale securities and supplemental retirement plan assets is based on market quotations. The fair value of derivatives is based on the income approach using observable Level II market expectations at the measurement date and standard valuation techniques to discount future amounts to a single present value.

Foreign Currency

In the normal course of business, we are subject to the risks associated with fluctuations in foreign currency exchange rates. To limit this foreign exchange rate exposure, the Company seeks to denominate its contracts in U.S. dollars. If we are unable to enter into a contract in U.S. dollars, we review our foreign exchange exposure and, where appropriate, derivatives are used to minimize the risk of foreign exchange rate fluctuations to operating results and cash flows. We do not use derivative instruments for trading or speculative purposes.

As of September 30, 2012, SS/L had the following amounts denominated in Japanese yen and euros (which have been translated into U.S. dollars based on the September 30, 2012 exchange rates) that were unhedged (in thousands):

	Foreign Currency	U.S.\$
Future revenues Japanese yen	¥ 67,023	\$ 860
Future expenditures Japanese yen	¥ 2,887,087	\$ 37,040
Future revenues euros	17,113	\$ 22,007
Future expenditures euros	1,717	\$ 2,208

Derivatives and Hedging Transactions

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

All derivative instruments are recorded at fair value as either assets or liabilities in our condensed consolidated balance sheets. Each derivative instrument is generally designated and accounted for as either a hedge of a recognized asset or a liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). Certain of these derivatives are not designated as hedging instruments and are used as economic hedges to manage certain risks in our business.

As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. The Company does not hold collateral or other security from its counterparties supporting its derivative instruments. In addition, there are no netting arrangements in place with the counterparties. To mitigate the counterparty credit risk, the Company has a policy of entering into contracts only with carefully selected major financial institutions based upon their credit ratings and other factors.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

There were no derivative instruments in an asset position as of September 30, 2012. Therefore, there was no exposure to loss at such date as a result of the potential failure of the counterparties to perform as contracted.

SS/L enters into long-term construction contracts with customers and vendors, some of which are denominated in foreign currencies. Hedges of expected foreign currency denominated contract revenues and related purchases are designated as cash flow hedges and evaluated for effectiveness at least quarterly. Effectiveness is tested using regression analysis. The effective portion of the gain or loss on a cash flow hedge is recorded as a component of other comprehensive income (OCI) and reclassified to income in the same period or periods in which the hedged transaction affects income. The ineffective portion of a cash flow hedge gain or loss is included in income.

In June 2010, SS/L was awarded a satellite contract denominated in euros and entered into a series of foreign exchange forward contracts with maturities through 2013, to hedge associated foreign currency exchange risk because our costs are denominated principally in U.S. dollars. These foreign exchange forward contracts have been designated as cash flow hedges of future euro denominated receivables.

In March 2012, Telesat declared a special cash distribution denominated in Canadian dollars to be paid in two tranches (see Note 10). Loral entered into a foreign exchange forward contract to hedge foreign exchange risk associated with the payment of the second tranche in July 2012. This foreign exchange forward contract was not designated as a hedging instrument.

The maturity of foreign currency exchange contracts held as of September 30, 2012 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows (in thousands):

	Euro Amount	To Buy Hedge Contract Rate	At Market Rate
Maturity			
2012	431	\$ 553	\$ 552
	431	553	552
Discontinued operations	(431)	(553)	(552)
Continuing operations		\$	\$
	Euro Amount	To Sell Hedge Contract Rate	At Market Rate
Maturity			
2012	4,219	\$ 5,239	\$ 5,425
2013	27,000	32,894	34,751
	31,219	38,133	40,176
Discontinued operations	(31,219)	(38,133)	(40,176)
Continuing operations		\$	\$

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)***Balance Sheet Classification*

The following summarizes the fair values and location in our condensed consolidated balance sheet of all derivatives held by the Company as of September 30, 2012 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts			Other current liabilities	\$ 1,992
				1,992
Derivatives not designated as hedging instruments				
Foreign exchange contracts	Other current assets	\$ 1	Other current liabilities	51
Total derivatives		1		2,043
Derivatives classified as held for sale		(1)		(2,043)
Derivatives, as reported		\$		\$

The following summarizes the fair values and location in our consolidated balance sheet of all derivatives held by the Company as of December 31, 2011 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts			Other current liabilities	\$ 2,381
			Other liabilities	2,185
				4,566
Derivatives not designated as hedging instruments				
Foreign exchange contracts	Other current assets	\$ 1	Other liabilities	56
Total derivatives		\$ 1		\$ 4,622

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)***Cash Flow Hedge Gains (Losses) Recognition*

The following summarizes the gains (losses) recognized in the consolidated statements of operations as income from discontinued operations and in accumulated other comprehensive loss for all derivatives in cash flow hedging relationships for the three and nine months ended September 30, 2012 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Loss Recognized in OCI on Derivatives (Effective Portion)	Loss Reclassified from Accumulated OCI into Income (Effective Portion)		Gain on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing	
		Location	Amount	Location	Amount
Three months ended September 30, 2012:					
Foreign exchange contracts	\$ (213)	Revenue	\$ (1,134)	Revenue	\$ 28
				Interest income	\$
Nine months ended September 30, 2012:					
Foreign exchange contracts	\$ (498)	Revenue	\$ (6,290)	Revenue	\$ 208
				Interest income	\$

The following summarizes the gains (losses) recognized in the consolidated statements of operations for all cash flow derivatives not designated as hedging instruments for the three and nine months ended September 30, 2012 (in thousands):

Cash Flow Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivatives	
	Location	Amount
Three months ended September 30, 2012:		
Foreign exchange contracts	Revenue	\$ (15)
	Other income	(141)
Total gain		(156)
Loss included in discontinued operations		15
Gain as reported		\$ (141)
Nine months ended September 30, 2012:		
Foreign exchange contracts	Revenue	\$ (3)
	Other income	1,316
Total gain		1,313
Loss included in discontinued operations		3
Gain as reported		\$ 1,316

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

The following summarizes the gains (losses) recognized in the consolidated statements of operations as income from discontinued operations and in accumulated other comprehensive loss for all derivatives for the three and nine months ended September 30, 2011 (in thousands):

Derivatives in Cash Flow	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Loss Reclassified from Accumulated OCI into Income (Effective Portion)		Loss on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing	
		Location	Amount	Location	Amount
Three months ended September 30, 2011					
Foreign exchange contracts	\$ 4,988	Revenue	\$ (6,785)	Revenue	\$ (1,140)
				Interest income	\$ 0
Nine months ended September 30, 2011					
Foreign exchange contracts	\$ (10,553)	Revenue	\$ (12,966)	Revenue	\$ (66)
				Interest income	\$ (1)

Cash Flow Derivatives Not Designated as Hedging Instruments	Loss Recognized in Income on Derivatives	
	Location	Amount
Three months ended September 30, 2011		
Foreign exchange contracts	Revenue	\$ 2,592
Nine months ended September 30, 2011		
Foreign exchange contracts	Revenue	\$ 1,397

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The gain (loss) from cash flow derivatives not designated as hedging instruments as reported for the three and nine months ended September 30, 2012 represent hedges of the second tranche of the special cash distribution declared by Telesat in March 2012 and received by Loral in July 2012.

9. Property, Plant and Equipment

Property, plant and equipment consists of (in thousands):

	September 30, 2012	December 31, 2011
Land and land improvements	\$ 27,292	\$ 27,036
Buildings	69,308	69,182
Leasehold improvements	19,095	16,696
Equipment	196,580	182,987
Furniture and fixtures	34,616	31,412
Construction in progress	35,370	25,828
	382,261	353,141
Accumulated depreciation and amortization	(169,075)	(149,419)
	213,186	203,722
Property, plant and equipment, net, classified as assets held for sale	(213,140)	
Property, plant and equipment, net, as reported	\$ 46	\$ 203,722

Depreciation and amortization consists of (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total depreciation and amortization	\$ 7,919	\$ 7,729	\$ 22,860	\$ 21,757
Depreciation and amortization included in income from discontinued operations	(7,902)	(7,710)	(22,807)	(21,660)
Depreciation and amortization included in income from continuing operations	\$ 17	\$ 19	\$ 53	\$ 97

Property, plant and equipment, net, as reported as of September 30, 2012 and depreciation and amortization expense included in income from continuing operations for the three and nine months ended September 30, 2012 and 2011, represent amounts related to Loral's corporate office.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****10. Investments in Affiliates**

Investments in affiliates consist of (in thousands):

	September 30, 2012	December 31, 2011
Telesat Holdings Inc.	\$	\$ 377,244
XTAR, LLC	63,913	68,991
	\$ 63,913	\$ 446,235

Our investment in Telesat Holdco has been reduced to zero as of September 30, 2012, as discussed below.

Equity in net income (loss) of affiliates consists of (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Telesat Holdings Inc.	\$ 43,654	\$ (75,044)	\$ 42,179	\$ (963)
XTAR, LLC	(2,068)	(2,195)	(5,077)	(6,048)
Other		(23)		(65)
	\$ 41,586	\$ (77,262)	\$ 37,102	\$ (7,076)

Income from discontinued operations in our condensed consolidated statements of operations reflects the effects of the following amounts related to SS/L s transactions with our affiliates (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 9,363	\$ 32,770	\$ 55,946	\$ 108,615
Elimination of Loral s proportionate share of profits relating to affiliate transactions	(2,438)	(4,136)	(16,463)	(11,329)
Profits relating to affiliate transactions not eliminated	1,371	2,328	9,260	6,377

The above amounts related to transactions with affiliates exclude the effect of Loral s sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related net assets. As a result of this sale to Telesat, Loral received a \$13 million sale premium and reversed \$5 million of cumulative intercompany profit eliminations that were recorded when the satellite was being built for Loral. This combined benefit was reduced by the \$11 million elimination of the portion of the benefit applicable to Loral s 64% interest in Telesat, which has been reflected as a reduction of our investment in Telesat, and the remaining \$7 million has been reflected as a gain on our consolidated statement of operations including \$1.8 million in income from discontinued operations for the nine months ended September 30, 2011.

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Equity in net income of affiliates for the nine months ended September 30, 2012 included \$4.6 million of profits previously eliminated on satellite sales from SS/L to affiliates that should have been recognized in prior periods as the satellites were depreciated. The Company has not revised previously reported amounts based on its belief that the effect of such adjustments is not material to the financial statements taken as a whole.

Telesat

We use the equity method of accounting for our majority economic interest in Telesat because we own 33 $\frac{1}{3}$ % of the voting stock and do not exercise control by other means to satisfy the U.S. GAAP requirement for treatment as a consolidated subsidiary. Loral's equity in net income or loss of Telesat is based on our proportionate share of Telesat's results in accordance with U.S. GAAP and in U.S. dollars. Our proportionate share of Telesat's net income or loss is based on our 64% economic interest as our holdings consist of common stock and non-voting participating preferred shares that have all the rights of common stock with respect to dividends, return of capital and surplus distributions but have no voting rights.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On March 28, 2012, Telesat entered into a new credit agreement (the Telesat Credit Agreement) with a syndicate of banks which provided for the extension of credit under the senior credit facilities in the principal amount of up to approximately \$2.55 billion, increasing Telesat's debt by \$490 million from the previous credit facilities. Simultaneously with entering into the Telesat Credit Agreement, Telesat terminated and paid all outstanding amounts under its previous credit facilities and recorded an expense of refinancing of \$22 million related to deferred financing costs on the previous credit facilities.

In connection with the closing of the Telesat Credit Agreement, the Board of Directors of Telesat approved a special cash distribution to Telesat's shareholders of CAD 656.5 million, including a distribution of CAD 420 million to Loral. The special distribution by Telesat to its shareholders was authorized to be paid in two tranches; the first tranche was paid by Telesat on March 28, 2012, with Loral receiving CAD 375 million (\$376 million), and the second tranche was paid by Telesat on July 5, 2012, with Loral receiving CAD 45 million (\$44 million). The special cash distribution exceeds our cumulative equity in net income of Telesat and our investment. In following the equity method of accounting, our investment balance in Telesat has been reduced to zero, and, as of September 30, 2012, cumulative special cash distributions of approximately \$31 million were recorded as equity in net income of Telesat. In accordance with the equity method of accounting, we will not record equity in net income of Telesat until our share of Telesat's future net income exceeds \$31 million.

Also in March 2012, Telesat completed the refinancing of all of its issued and outstanding senior preferred shares, which were replaced with a promissory note of CAD 146 million, which was equal to the outstanding liquidation value and accrued dividends on the senior preferred shares. The promissory note requires payment of at least 50% of the principal amount on March 28, 2014, with the balance, if any, to be repaid no later than March 28, 2016. Telesat will pay interest on the promissory note in the amount of 9.75% for the first two years and adjusting thereafter to reflect the then-current market rate (but no less than 11% per annum). In connection with the cash distribution to Telesat's shareholders, on March 28, 2012 the Board of Directors of Telesat authorized cash payments of CAD 48.6 million to executives and certain employees of Telesat.

On May 14, 2012, Telesat issued, through a private placement, \$700 million of 6% senior notes which mature on May 15, 2017. The 6% senior notes are subordinated to Telesat's existing and future secured indebtedness, including obligations under its senior credit facilities, and are governed under the 6% senior notes indenture. The net proceeds of the offering, along with available cash on hand, were used to fund redemption or repurchase of all of Telesat's 11% senior notes due November 1, 2015 issued under an indenture dated as of June 30, 2008 and to pay certain financing costs and redemption premiums.

On October 29, 2012, Telesat issued, through a private placement, an additional \$200 million of 6% senior notes due 2017. Telesat has used the net proceeds from the debt offering to fund the repayment of certain indebtedness owed to its principal shareholders, including accrued and unpaid interest thereon and for general corporate purposes.

The ability of Telesat to pay dividends or certain other restricted payments as well as consulting fees in cash to Loral is governed by applicable covenants relating to Telesat's debt and shareholder agreements. Under Telesat's 12.5% note indenture, which is generally the most restrictive agreement, dividends or certain other restricted payments may be paid only if there is a sufficient capacity under a restricted payment basket, which is based on a formula of cumulative consolidated EBITDA less 1.4 times cumulative consolidated interest expense. Under the terms of its 12.5% note indenture, Telesat is permitted to pay consulting fees to Loral only when Telesat's ratio of consolidated total debt to consolidated EBITDA is less than 5.0 to 1.0. When the ratio is not less than 5.0 to 1.0, the consulting fee is paid through the issuance of promissory notes to Loral with an interest rate of 7% and a maturity date of October 31, 2018. Any prepayment of these promissory notes is subject to the restricted payments basket noted above. For the nine months ended September 30, 2012 and 2011, Loral received payments in cash from Telesat of \$1.6 million and \$3.2 million, respectively, for consulting fees and payments in promissory notes of \$3.3 million and \$1.6 million, respectively, for consulting fees and interest. On October 31, 2012, Telesat paid Loral \$24.1 million to pay off the outstanding note with interest due. This payment was made under the restricted payment basket referred to above.

The contribution of Loral Skynet, a wholly owned subsidiary of Loral prior to its contribution, to Telesat in 2007 was recorded by Loral at the historical book value of our retained interest combined with the gain recognized on the contribution. However, the contribution was recorded by Telesat at fair value. Accordingly, the amortization of Telesat fair value adjustments applicable to the Loral Skynet assets and liabilities is proportionately eliminated in determining our share of the income or losses of Telesat. Our equity in the net income or loss of Telesat also reflects the elimination of our profit, to the extent of our economic interest, on satellites we are constructing for Telesat.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following table presents summary financial data for Telesat in accordance with U.S. GAAP as of September 30, 2012 and December 31, 2011 and for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months		Nine Months	
	Ended September 30, 2012	2011	Ended September 30, 2012	2011
Statement of Operations Data:				
Revenues	\$ 220,361	\$ 204,403	\$ 616,236	\$ 617,264
Operating expenses	(50,372)	(47,174)	(186,319)	(140,990)
Depreciation, amortization and stock-based compensation	(65,291)	(63,131)	(186,788)	(188,090)
Loss on disposition of long lived asset	(53)	(99)	(129)	(863)
Operating income	104,645	93,999	243,000	287,321
Interest expense	(59,020)	(56,339)	(172,302)	(167,024)
Expense of refinancing	(270)		(79,673)	
Foreign exchange gains (losses)	94,424	(267,443)	100,736	(168,875)
(Losses) gains on financial instruments	(40,900)	125,605	(41,555)	84,711
Other income	179	258	1,144	1,848
Income tax provision	(14,333)	(5,952)	(18,652)	(30,835)
Net income (loss)	84,725	(109,872)	32,698	7,146

	September 30, 2012	December 31, 2011
Balance Sheet Data:		
Current assets	\$ 237,948	\$ 351,802
Total assets	5,387,975	5,347,174
Current liabilities	270,900	289,351
Long-term debt, including current portion	3,324,726	2,817,857
Promissory note	145,156	
Total liabilities	4,811,425	4,045,619
Redeemable preferred stock		138,485
Shareholders equity	576,550	1,163,070

XTAR

We own 56% of XTAR, a joint venture between us and Hisdesat Servicios Estrategicos, S.A. (Hisdesat) of Spain. We account for our ownership interest in XTAR under the equity method of accounting because we do not control certain of its significant operating decisions.

XTAR owns and operates an X-band satellite, XTAR-EUR, located at 29° E.L., which is designed to provide X-band communications services exclusively to United States, Spanish and allied government users throughout the satellite's coverage area, including Europe, the Middle East and Asia. XTAR also leases 7.2 72 MHz X-band transponders on the Spainsat satellite located at 30° W.L., owned by Hisdesat. These transponders, designated as XTAR-LANT, provide capacity to XTAR for additional X-band services and greater coverage and flexibility.

We regularly evaluate our investment in XTAR to determine whether there has been a decline in fair value that is other than temporary. We have performed an impairment test for our investment in XTAR as of September 30, 2012, using XTAR's most recent forecast, and concluded that our investment in XTAR was not impaired. Any declines in XTAR's projected revenues may result in a future impairment charge.

XTAR's lease obligation to Hisdesat for the XTAR-LANT transponders requires payments by XTAR of \$24 million in 2012, with increases thereafter to a maximum of \$28 million per year through the end of the useful life of the satellite which is estimated to be in 2022. Under this

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. In March 2009, XTAR entered into an agreement with Hisdesat pursuant to which the past due balance on XTAR-LANT transponders of \$32.3 million as of December 31, 2008, together with a deferral of \$6.7 million in payments due in 2009, will be payable to Hisdesat over 12 years through annual payments of \$5 million (the Catch Up Payments). XTAR has a right to prepay, at any time, all unpaid Catch Up Payments discounted at 9%. Cumulative amounts paid to Hisdesat for Catch Up Payments through September 30, 2012 were \$17.9 million. XTAR has also agreed that XTAR's excess cash balance (as defined) will be applied towards making limited payments on future lease obligations, as well as payments of other amounts owed to Hisdesat, Telesat and Loral for services provided by them to XTAR (see Note 20). The ability of XTAR to pay dividends and management fees in cash to Loral is governed by XTAR's shareholder agreements.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following table presents summary financial data for XTAR as of September 30, 2012 and December 31, 2011 and for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Statement of Operations Data:				
Revenues	\$ 7,613	\$ 8,553	\$ 22,285	\$ 25,880
Operating expenses	(8,239)	(8,925)	(24,842)	(26,054)
Depreciation and amortization	(2,345)	(2,405)	(7,095)	(7,213)
Operating loss	(2,971)	(2,777)	(9,652)	(7,387)
Net loss	(3,804)	(3,903)	(12,047)	(10,763)

	September 30, 2012	December 31, 2011
Balance Sheet Data:		
Current assets	\$ 5,978	\$ 10,558
Total assets	76,358	88,033
Current liabilities	45,500	45,704
Total liabilities	54,986	54,614
Members equity	21,372	33,419

Other

As of September 30, 2012 and December 31, 2011, the Company held various indirect ownership interests in two foreign companies that currently serve as exclusive service providers for Globalstar service in Mexico and Russia. The Company accounts for these ownership interests using the equity method of accounting. Loral has written-off its investments in these companies, and, because we have no future funding requirements relating to these investments, there is no requirement for us to provide for our allocated share of these companies' net losses.

11. Intangible Assets

Intangible Assets were established in connection with our adoption of fresh-start accounting and consist of (in thousands):

	Weighted Average				
	Remaining Amortization Period (Years)	September 30, 2012		December 31, 2011	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Internally developed software and technology		\$ 59,027	\$ (59,027)	\$ 59,027	\$ (57,173)
Trade names	13	9,200	(3,220)	9,200	(2,875)
		68,227	(62,247)	68,227	(60,048)
Intangible assets, net, classified as assets held for sale		(68,227)	62,247		

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Intangible assets, net, as reported	\$	\$	68,227	\$ (60,048)
-------------------------------------	----	----	--------	-------------

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Total amortization expense for intangible assets, included in income from discontinued operations was \$0.7 million and \$0.7 million for the three months ended September 30, 2012 and 2011, respectively, and \$2.2 million and \$2.2 million for the nine months ended September 30, 2012 and 2011, respectively. Annual amortization expense for intangible assets for the five years ending December 31, 2016 is estimated to be as follows (in thousands):

2012	\$ 2,314
2013	460
2014	460
2015	460
2016	460

The following summarizes fair value adjustments made in connection with our adoption of fresh start accounting related to contracts-in-process, long-term receivables, customer advances and billings in excess of costs and profits and long-term liabilities (in thousands):

	September 30, 2012	December 31, 2011
Gross fair value adjustments	\$ (36,896)	\$ (36,896)
Accumulated amortization	21,619	20,255
	(15,277)	(16,641)
Fair value adjustments, net classified as (assets) liabilities held for sale	15,277	
Fair value adjustments, net, as reported	\$	\$ (16,641)

Net amortization of these fair value adjustments, included in income from discontinued operations, was a credit to expense of \$0.4 million and \$0.3 million for the three months ended September 30, 2012 and 2011, respectively, and \$1.4 million and \$0.7 million for the nine months ended September 30, 2012 and 2011, respectively.

All amortization expense related to intangible assets has been classified as income from discontinued operations for the three and nine months ended September 30, 2012 and 2011.

12. Debt*SS/L Credit Agreement*

On December 20, 2010, SS/L entered into an amended and restated credit agreement (the *SS/L Credit Agreement*) with several banks and other financial institutions. The *SS/L Credit Agreement* provides for a \$150 million senior secured revolving credit facility (the *SS/L Revolving Facility*). On December 8, 2011, the *SS/L Credit Agreement* was amended to increase the letter of credit sublimit from \$50 million to \$100 million. The *SS/L Revolving Facility* includes a \$10 million swingline commitment. The prior \$100 million credit agreement was entered into on October 16, 2008 and had a maturity date of October 16, 2011.

The following summarizes information related to the *SS/L Credit Agreement* and prior credit agreement (in thousands):

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

	September 30, 2012	December 31, 2011
Letters of credit outstanding	\$ 4,206	\$ 4,785
Borrowings		
Interest rate on revolver borrowings	%	

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest expense (including commitment and letter of credit fees)	\$ 455	\$ 328	\$ 1,163	\$ 974
Amortization of issuance costs	\$ 181	\$ 182	\$ 544	\$ 544

As of September 30, 2012, all borrowings were classified as liabilities held for sale. In connection with the closing of the Sale on November 2, 2012, SS/L terminated the SS/L Credit Agreement.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Interest expense and amortization of issuance costs were included in income from discontinued operations for the three and nine months ended September 30, 2012 and 2011.

13. Income Taxes

The following summarizes our income tax benefit (provision) (in thousands):

	Three Months		Nine Months	
	Ended September 30, 2012	2011	Ended September 30, 2012	2011
Total current income tax benefit (provision)	\$ 53,587	\$ (12,055)	\$ 51,408	\$ (17,408)
Total deferred income tax provision	(21,827)	(5,170)	(28,700)	(35,599)
Total income tax benefit (provision)	31,760	(17,225)	22,708	(53,007)
Income tax provision included in income from discontinued operations	(4,856)	(1,797)	(16,449)	(25,628)
Income tax benefit (provision) on income from continuing operations	\$ 36,616	\$ (15,428)	\$ 39,157	\$ (27,379)

The deferred income tax provisions for the three and nine months ended September 30, 2012 include a benefit of \$2.6 million and \$1.1 million, respectively, to reduce our valuation allowance against net deferred tax assets after having determined, based on all available evidence, that with the Sale it is more likely than not that we will realize a future benefit from that portion of our deferred tax assets.

The following summarizes amounts for uncertain tax positions (UTPs) included in our income tax benefit (provision) (in thousands):

	Three Months		Nine Months	
	Ended September 30, 2012	2011	Ended September 30, 2012	2011
Current benefit (provision) for UTPs	\$ 52,934	\$ (12,004)	\$ 51,021	\$ (14,483)
Deferred (provision) benefit for UTPs	(7,084)	12,236	(6,646)	16,503
Total income tax benefit for UTPs	45,850	232	44,375	2,020
(Provision) benefit for UTPs included in income from discontinued operations	(1,111)	1,266	(3,228)	2,159
Benefit (provision) for UTPs on income from continuing operations	\$ 46,961	\$ (1,034)	\$ 47,603	\$ (139)

As of September 30, 2012, we had unrecognized tax benefits relating to UTPs of \$81 million. Pursuant to the Purchase Agreement for the Sale, we will, in general, indemnify SS/L for taxes related to periods prior to the closing of the transaction. The Company recognizes potential accrued interest and penalties related to UTPs in income tax expense on a quarterly basis. As of September 30, 2012, we have accrued approximately \$17.4 million and \$13.3 million for the payment of potential 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 2007. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward. While we intend to contest any future tax assessments for uncertain tax positions, no assurance can be provided that we would ultimately prevail. During the three months ended September 30, 2012, the statute of limitations for assessment of additional tax expired with regard to certain UTPs related to Old Loral which resulted in a \$26.5 million reduction to our unrecognized tax benefits and a \$47 million benefit to our income tax provision on income from continuing operations, which included the reversal of applicable interest and penalties previously accrued. During the next twelve months, the statute of limitations for assessment of additional tax will expire with regard to UTPs related to several of our federal and state income tax returns filed for 2007, 2008 and 2009 potentially resulting in a \$34.4 million reduction to our unrecognized tax benefits. This reduction would provide a \$41 million benefit to our income tax provision on income from continuing operations.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following summarizes the changes to our liabilities for UTPs included in long-term liabilities in the condensed consolidated balance sheets (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Liabilities for UTPs:		
Opening balance January 1	\$ 139,916	\$ 122,857
Current (benefit) provision for:		
Unrecognized tax benefits	(587)	12,821
Potential additional interest	4,632	4,431
Potential penalty adjustment	(374)	1,872
Statute expirations	(54,690)	(1,382)
Tax settlements		(3,259)
Ending balance September 30	\$ 88,897	\$ 137,340

As of September 30, 2012, if none of our positions are overturned by the taxing authorities, the Company's future income tax provisions on income from continuing operations would be reduced by approximately \$64 million. We anticipate that, after completing our analysis of the Sale, our unrecognized tax benefits would increase by approximately \$10 million. Other than as described above, there were no significant changes to our uncertain tax positions during the nine months ended September 30, 2012 and 2011, and we do not anticipate any other significant changes to our unrecognized tax benefits during the next twelve months.

14. Equity*Special Dividend*

On March 28, 2012, our Board of Directors declared a special dividend of \$13.60 per share for an aggregate dividend of \$418 million. The dividend was paid on April 20, 2012 to holders of record of Loral voting and non-voting common stock as of April 10, 2012.

In accordance with Loral's stock incentive plan, an equitable adjustment was made to outstanding stock-based awards to reflect the special dividend. As a result, options outstanding increased by 19,058 and restricted stock units (RSUs) increased by 6,875. Certain RSU holders, who elected to receive the dividend in cash, will receive additional payments totaling \$2.5 million on their RSU settlement dates.

On November 7, 2012, our Board of Directors declared a special distribution of \$29.00 per share (see Note 1). In accordance with Loral's stock incentive plan, an equitable adjustment will be made to outstanding stock-based awards to reflect the special distribution.

Treasury Stock

In November 2011, our Board of Directors authorized the purchase of up to 800,000 shares of our voting common stock. These purchases may be made from time to time in the open market or private transactions, as conditions may warrant. Under the repurchase program, as of December 31, 2011, we had purchased 136,494 shares of our voting common stock at a total cost of \$8.4 million (an average cost of \$61.54 per share), of which \$0.5 million was settled in January 2012. For the period commencing January 1, 2012 and ending September 30, 2012, 18,000 shares were purchased for \$1.2 million (an average cost of \$66.22 per share), and, as of September 30, 2012, 154,494 shares were held at a total cost of \$9.6 million (an average cost of \$62.09 per share). We intend to hold repurchased shares of our voting common stock in treasury. We account for the treasury shares using the cost method.

15. Stock-Based Compensation

As of September 30, 2012, there were 1,308,232 shares of Loral common stock available for future grant under the Company's Amended and Restated 2005 Stock Incentive Plan. This number of common shares available would be reduced if Loral restricted stock units or SS/L phantom stock appreciation rights are settled in Loral common stock.

The fair value of the SS/L phantom stock appreciation rights (SS/L Phantom SARs) is included as a liability in our consolidated balance sheets. The payout liability is adjusted each reporting period to reflect the fair value of the underlying SS/L equity based on the actual performance of SS/L. As of September 30, 2012 and December 31, 2011, the amount of the liability in our consolidated balance sheet related to the SS/L Phantom SARs was \$1.3 million and \$4.6 million, respectively. As of September 30, 2012, \$0.5 million of the liability was included in liabilities held for sale. During the nine months ended September 30, 2012 and 2011, cash payments of \$3.9 million and \$4.3 million, respectively, were made related to SS/L Phantom SARs.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Stock-based compensation consists of (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total stock-based compensation	\$ 393	\$ 1,039	\$ 1,536	\$ 3,175
Stock-based compensation included in income from discontinued operations	(41)	(368)	(194)	(1,213)
Stock-based compensation included in income from continuing operations	\$ 352	\$ 671	\$ 1,342	\$ 1,962

Stock-based compensation included in income from continuing operations relates to Loral directors and Corporate employees. There were 11,057 units of stock-based awards granted during the nine months ended September 30, 2012.

16. Pensions and Other Employee Benefit Plans

The following table provides the components of net periodic 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) for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Pension Benefits		Other Benefits	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2012	2011	2012	2011
Service cost	\$ 3,640	\$ 3,048	\$ 152	\$ 181
Interest cost	6,366	6,327	763	837
Expected return on plan assets	(6,243)	(5,813)		(4)
Amortization of net actuarial loss or (gain)	2,967	1,390	(94)	(197)
Amortization of prior service credits	(679)	(679)	(182)	(182)
Net periodic cost	6,051	4,273	639	635
Net periodic cost included in income from discontinued operations	(5,420)	(3,759)	(630)	(643)
Net periodic cost included in income from continuing operations	\$ 631	\$ 514	\$ 9	\$ (8)

	Pension Benefits		Other Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Service cost	\$ 10,919	\$ 9,144	\$ 456	\$ 543
Interest cost	19,098	18,981	2,289	2,511
Expected return on plan assets	(18,729)	(17,439)		(12)

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Amortization of net actuarial loss or (gain)	8,902	4,170	(282)	(591)
Amortization of prior service credits	(2,038)	(2,037)	(546)	(546)
Net periodic cost	18,152	12,819	1,917	1,905
Net periodic cost included in income from discontinued operations	(16,259)	(11,276)	(1,890)	(1,929)
Net periodic cost included in income from continuing operations	\$ 1,893	\$ 1,543	\$ 27	\$ (24)

Net periodic cost included in income from continuing operations for the three and nine months ended September 30, 2012 and 2011 represents the cost of pension and other benefits for the active and retired employees of Loral's Corporate headquarters and Loral's Skynet subsidiary which was contributed to Telesat in 2007 (see Note 10).

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. Commitments and Contingencies***Financial Matters*

SS/L has deferred revenue and accrued liabilities (classified as liabilities held for sale as of September 30, 2012) for warranty payback obligations relating to performance incentives for satellites sold to customers, which could be affected by future performance of the satellites. These reserves for expected costs for warranty reimbursement and support are based on historical failure rates. However, in the event of a catastrophic failure of a satellite, which cannot be predicted, these reserves likely will not be sufficient. SS/L periodically reviews and adjusts the deferred revenue and accrued liabilities for warranty reserves based on the actual performance of each satellite and remaining warranty period. A reconciliation of such deferred amounts included in liabilities held for sale for the nine months ended September 30, 2012, is as follows (in thousands):

Balance of deferred amounts at January 1, 2012	\$ 37,113
Warranty costs incurred including payments	(2,212)
Accruals relating to pre-existing contracts (including changes in estimates)	8,020
 Balance of deferred amounts included in liabilities held for sale at September 30, 2012	 \$ 42,921

In connection with the Sale, Loral has developed a plan for restructuring its corporate functions. Through mid-2013, Loral will reduce the number of employees at its headquarters. In the third quarter of 2012, Loral charged approximately \$5.8 million to selling, general and administrative expenses, mainly for severance and related costs, and expects to make cash payments related to the restructuring primarily during 2012 and 2013. Loral paid restructuring costs of approximately \$0.2 million for the three months ended September 30, 2012. At September 30, 2012, the liability recorded in the condensed consolidated balance sheet for the restructuring was \$5.6 million.

Many of SS/L's satellite contracts permit SS/L's customers to pay a portion of the purchase price for the satellite over time subject to the continued performance of the satellite (orbital incentives), and certain of SS/L's satellite contracts require SS/L to provide vendor financing to its customers, or a combination of these contractual terms. Some of these arrangements are provided to customers that are start-up companies, companies in the early stages of building their businesses or highly leveraged companies, including some with near-term debt maturities. There can be no assurance that these companies or their businesses will be successful and, accordingly, that these customers will be able to fulfill their payment obligations under their contracts with SS/L. SS/L believes that these provisions will not have a material adverse effect on its consolidated financial position or its results of operations, although no assurance can be provided. Moreover, SS/L's receipt of orbital incentive payments is subject to the continued performance of its satellites generally over the contractually stipulated life of the satellites. Because these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/L will be able to collect all or a portion of these receivables. Orbital receivables included as assets held for sale in our consolidated balance sheet as of September 30, 2012 were \$364 million, net of fair value adjustments of \$15 million. Approximately \$279 million of the gross orbital receivables are related to satellites launched as of September 30, 2012, and \$100 million are related to satellites under construction as of September 30, 2012.

See Note 20 Related Party Transactions *Transactions with Affiliates Telesat* for commitments and contingencies relating to our agreement to indemnify Telesat for certain liabilities and our arrangements with ViaSat, Inc. and Telesat.

Satellite Matters

Satellites are built with redundant or additional components to provide excess performance margins to permit their continued operation in case of component failure, an event that is not uncommon in complex satellites. From time to time, anomalies may occur that require investigations to determine the cause of the anomaly and what remediation measures are appropriate. For example, certain of SS/L's satellites have experienced some loss of power from their solar arrays. There can be no assurance that one or more of the affected satellites will not experience additional

power loss or that additional satellites will not experience power loss. In the event of additional power loss on the affected satellites or new power loss on satellites heretofore not affected, the extent of the performance degradation, if any, will depend on numerous factors, including the amount of the additional power loss, the level of redundancy built into the affected satellite's design, when in the life of the affected satellite the loss occurred, how many transponders are then in service and how they are being used. It is also possible that one or more transponders on a satellite may need to be removed from service to accommodate the power loss and to preserve full performance capabilities on the remaining transponders. A complete or partial loss of a satellite's capacity could result in a loss of performance incentives. Based upon information currently available and existing power margins on affected satellites, SS/L believes that solar array anomalies will not have a material adverse effect on its consolidated financial position or its results of operations, although no assurance can be provided.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

During the launch of an SS/L-built satellite on June 1, 2012, the satellite's south solar array was damaged, resulting in a reduction of power available to the satellite's transponders. SS/L had total orbital receivables related to this satellite of \$18 million, which represents the maximum possible loss from this anomaly, excluding the cost of the failure investigation. During the third quarter of 2012 SS/L recorded a charge of \$6.5 million to reduce orbital receivables based on the estimated loss of power on the satellite. The write down of SS/L's orbital receivables as a result of the anomaly also will result in a \$6.5 million payment to MDA pursuant to the Purchase Agreement relating to the Sale.

Non-performance can increase costs and subject SS/L to damage claims from customers and termination of the contract for SS/L's default. SS/L's contracts contain detailed and complex technical specifications to which the satellite must be built. It is very common that satellites built by SS/L do not conform in every single respect to, and contain a small number of minor deviations from, the technical specifications. Customers typically accept the satellite with such minor deviations. In the case of more significant deviations, however, SS/L may incur increased costs to bring the satellite within or close to the contractual specifications or a customer may exercise its contractual right to terminate the contract for default. In some cases, such as when the actual weight of the satellite exceeds the specified weight, SS/L may incur a predetermined penalty with respect to the deviation. A failure by SS/L to deliver a satellite to its customer by the specified delivery date, which may result from factors beyond SS/L's control, such as delayed performance or non-performance by its subcontractors or failure to obtain necessary governmental licenses for delivery, would also be harmful to SS/L unless mitigated by applicable contract terms, such as excusable delay. As a general matter, SS/L's failure to deliver beyond any contractually provided grace period would result in the incurrence of liquidated damages by SS/L, which may be substantial, and if SS/L is still unable to deliver the satellite upon the end of the liquidated damages period, the customer will generally have the right to terminate the contract for default. If a contract is terminated for default, SS/L would be liable for a refund of customer payments made to date, and could also have additional liability for excess re-procurement costs and other damages incurred by its customer, although SS/L would own the satellite under construction and attempt to recoup any losses through resale to another customer. A contract termination for default could have a material adverse effect on SS/L.

SS/L is building a satellite known as CMBStar under a contract with EchoStar Corporation (EchoStar). Satellite construction is substantially complete. EchoStar and SS/L have agreed to suspend final construction of the satellite pending, among other things, further analysis relating to efforts to meet the satellite performance criteria and/or confirmation that alternative performance criteria would be acceptable. In May 2010, SS/L provided EchoStar, at its request, with a proposal to complete construction and prepare the satellite for launch under the current specifications. In August 2010, SS/L provided EchoStar, at its request, additional proposal information. There can be no assurance that a dispute will not arise as to whether the satellite meets its technical performance specifications or if such a dispute did arise that SS/L would prevail. SS/L believes that if a loss is incurred with respect to this program, such loss would not be material.

SS/L relies, in part, on patents, trade secrets and know-how to develop and maintain its competitive position. There can be no assurance that infringement of existing third party patents has not occurred or will not occur. In the event of infringement, SS/L could be required to pay royalties to obtain a license from the patent holder, refund money to customers for components that are not useable or redesign its products to avoid infringement, all of which would increase its costs. SS/L could also be subject to injunctions prohibiting it from using components or methods. SS/L may also be required under the terms of its customer contracts to indemnify its customers for damages relating to infringement. For example, ViaSat, Inc. and ViaSat Communications, Inc. (formerly known as WildBlue Communications, Inc.) have commenced a lawsuit in the United States District Court for the Southern District of California against SS/L and Loral alleging, among other things, that SS/L and Loral infringed certain ViaSat patents and breached non-disclosure obligations in certain contracts with ViaSat in connection with the manufacture of satellites by SS/L for customers other than ViaSat. See *Legal Proceedings* below for details of this lawsuit.

See Note 20 Related Party Transactions *Transactions with Affiliates Telesat* for commitments and contingencies relating to SS/L's obligation to make payments to Telesat for transponders on Telstar 18.

Regulatory Matters

SS/L is required to obtain licenses and enter into technical assistance agreements, presently under the jurisdiction of the State Department, in connection with the export of satellites and related equipment, and with the disclosure of technical data or provision of defense services to foreign persons. Due to the relationship between launch technology and missile technology, the U.S. government has limited, and is likely in the future to limit, launches from China and other foreign countries. Delays in obtaining the necessary licenses and technical assistance agreements have in the past resulted in, and may in the future result in, the delay of SS/L's performance on its contracts, which could result in the cancellation of contracts by its customers, the incurrence of penalties or the loss of incentive payments under these contracts.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****Legal Proceedings**

ViaSat, Inc. and ViaSat Communications, Inc. (formerly known as WildBlue Communications, Inc.) (collectively, ViaSat) have sued SS/L and Loral in the United States District Court for the Southern District of California. ViaSat's amended complaint alleges, among other things, that SS/L directly, and Loral directly and indirectly, infringed certain ViaSat patents in connection with the manufacture of satellites by SS/L for customers other than ViaSat and that each of SS/L and Loral breached non-disclosure obligations in certain contracts with ViaSat. ViaSat's amended complaint seeks, among other things, damages (including treble damages with respect to the patent infringement claims) in amounts to be determined at trial and to enjoin SS/L and Loral from further infringement of the ViaSat patents and breach of contract.

SS/L and Loral have answered ViaSat's complaint and asserted defenses to ViaSat's claims and counterclaims seeking a declaratory judgment that neither SS/L nor Loral has infringed and that they are not infringing the ViaSat patents, that ViaSat's patents are invalid and that at least certain of ViaSat's patents are unenforceable due to inequitable conduct. SS/L has also asserted counterclaims against ViaSat for patent infringement, alleging, among other things, that ViaSat infringed certain SS/L patents in connection with its manufacture and sale of certain satellite communication products and services. SS/L's counterclaims seek, among other things, damages (including treble damages with respect to at least one of the patent infringement claims) in amounts to be determined at trial and to enjoin ViaSat from further infringement of the SS/L patents. ViaSat's July 2012 motion to sever SS/L's counterclaims against ViaSat so that those claims would be litigated in a separate case or, in the alternative, that the court bifurcate such claims for trial, was denied by the court in August 2012. On November 13, 2012, ViaSat filed a motion for summary judgment seeking an order declaring that the claims in two of SS/L's patents are invalid.

We believe that each of SS/L and Loral has, and we intend vigorously to pursue, meritorious defenses and counterclaims to ViaSat's claims. There can be no assurance, however, that SS/L's and Loral's defenses and counterclaims will be successful with respect to all or some of ViaSat's claims or that SS/L will prevail with respect to its assertion that ViaSat has infringed SS/L patents. We believe that SS/L's and Loral's conduct was consistent with, and in due regard for, any applicable and valid intellectual property rights of ViaSat. Although no assurance can be provided, we do not believe that this matter will have a material adverse effect on our financial position or results of operations.

Under the terms of the Purchase Agreement, Loral will indemnify SS/L for all Covered Litigation Costs and Covered Litigation Damages (as such terms are defined in the Purchase Agreement), subject to certain capped cost-sharing by SS/L, and will retain control of the defense of the lawsuit by ViaSat against SS/L and Loral as well as SS/L's counterclaims against ViaSat in the lawsuit. Under the terms of the Purchase Agreement, following a change of control of Loral, the liability of Loral for Covered Litigation Costs and Covered Litigation Damages is subject to a dollar cap.

Other and Routine Litigation

We are subject to various other legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of these legal proceedings and claims cannot be predicted with certainty, we do not believe that any of these other existing legal matters will have a material adverse effect on our consolidated financial position or our results of operations.

18. Earnings Per Share

Telesat has awarded employee stock options, which, if all exercised, could result in dilution of Loral's ownership interest in Telesat to approximately 61.6%. The following table presents the dilutive impact of Telesat stock options on Loral's reported income from continuing operations for the purpose of computing diluted earnings per share (in thousands).

	Three Months		Nine Months	
	Ended September 30, 2012	2011	Ended September 30, 2012	2011
Income (loss) from continuing operations - basic	\$ 65,404	\$ (97,555)	\$ 54,796	\$ (39,524)

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Less: Adjustment for dilutive effect of Telesat stock options	(1,890)	(207)
---	---------	-------

Income (loss) from continuing operations diluted	\$ 63,514	\$ (97,555)	\$ 54,589	\$ (39,524)
--	-----------	-------------	-----------	-------------

Telesat stock options are excluded from the calculation of diluted loss per share for the three and nine months ended September 30, 2011, as the effect would be antidilutive.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Basic income per share is computed based upon the weighted average number of shares of voting and non-voting common stock outstanding. The following is the computation of common shares outstanding for diluted earnings per share (in thousands):

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Common and potential common shares outstanding for diluted earnings per share:				
Weighted average common shares outstanding	30,745	30,706	30,684	30,680
Stock options	30		76	
Unvested restricted stock	2		2	
Unvested restricted stock units	220		218	
Common shares outstanding for diluted earnings per share	30,997	30,706	30,980	30,680

For the three and nine months ended September 30, 2011, all stock options outstanding, unvested restricted stock and unvested restricted stock units are excluded from the calculation of diluted loss per share as the effect would have been antidilutive. The following summarizes stock options outstanding, unvested restricted stock and unvested restricted stock units excluded from the calculation of diluted loss per share:

	Three Months		Nine Months
	Ended		Ended September 30,
	September 30,		2011
	2011		2011
Stock options outstanding	169		287
Unvested restricted stock	2		3
Unvested restricted stock units	227		225

19. Segments

Prior to the agreement to sell SS/L, Loral had two operating segments: satellite manufacturing and satellite services. Our segment reporting data includes unconsolidated affiliates that meet the reportable segment criteria. The satellite services segment includes 100% of the results reported by Telesat for the three and nine months ended September 30, 2012 and 2011. Although we analyze Telesat's revenue and expenses under the satellite services segment, we eliminate its results in our consolidated financial statements, where we report our 64% share of Telesat's results as equity in net income of affiliates. Our ownership in XTAR, for which we use the equity method of accounting, is included in Corporate.

The common definition of EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization. In evaluating financial performance, we use revenues and operating income before depreciation, amortization and stock-based compensation (excluding stock-based compensation from SS/L Phantom SARs expected to be settled in cash), gain on disposition of net assets and expense related to amounts payable to executives and certain employees of Telesat in connection with the special cash distribution paid to Telesat's shareholders (Adjusted EBITDA) as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before: gain on disposition of net assets; gains or losses on litigation not related to our operations; expense related to amounts payable to executives and certain employees of Telesat in connection with the special cash distribution paid to Telesat's shareholders; other expense; and equity in net income of affiliates.

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Adjusted EBITDA allows us and investors to compare our operating results with those of competitors exclusive of depreciation and amortization, interest and investment income, interest expense, gain on disposition of net assets, gains or losses on litigation not related to our operations, expense related to amounts payable to executives and certain employees of Telesat in connection with the special cash distribution paid to Telesat's shareholders, other expense and equity in net income of affiliates. Financial results of competitors in our industry have significant variations that can result from timing of capital expenditures, the amount of intangible assets recorded, the differences in assets lives, the timing and amount of investments, the effects of other expenses, which are typically for non-recurring transactions not related to the on-going business, and effects of investments not directly managed. The use of Adjusted EBITDA allows us and investors to compare operating results exclusive of these items. Competitors in our industry have significantly different capital structures. The use of Adjusted EBITDA maintains comparability of performance by excluding interest expense.

We believe the use of Adjusted EBITDA along with U.S. GAAP financial measures enhances the understanding of our operating results and is useful to us and investors in comparing performance with competitors, estimating enterprise value and making investment decisions. Adjusted EBITDA as used here may not be comparable to similarly titled measures reported by competitors. We also use Adjusted EBITDA to evaluate operating performance of our segments, to allocate resources and capital to such segments, to measure performance for incentive compensation programs and to evaluate future growth opportunities. Adjusted EBITDA should be used in conjunction with U.S. GAAP financial measures and is not presented as an alternative to cash flow from operations as a measure of our liquidity or as an alternative to net income as an indicator of our operating performance.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Intersegment revenues primarily consist of satellites under construction by satellite manufacturing for satellite services and the leasing of transponder capacity by satellite manufacturing from satellite services. Summarized financial information concerning the reportable segments is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Satellite manufacturing:				
External revenues	\$ 270,920	\$ 236,084	\$ 805,287	\$ 692,571
Intersegment revenues ⁽¹⁾	9,385	32,761	56,108	109,425
Satellite manufacturing revenues	280,305	268,845	861,395	801,996
Satellite services revenues ⁽²⁾	220,361	204,403	616,236	617,264
Operating segment revenues before eliminations	500,666	473,248	1,477,631	1,419,260
Intercompany eliminations ⁽³⁾				(830)
Affiliate eliminations ⁽²⁾	(220,361)	(204,403)	(616,236)	(617,264)
Total revenues	280,305	268,845	861,395	801,166
Revenues included in income from discontinued operations	(280,305)	(268,845)	(861,395)	(801,166)
Revenues reported	\$	\$	\$	\$
Segment Adjusted EBITDA⁽⁴⁾				
Satellite manufacturing	\$ 13,317	\$ 26,920	\$ 40,855	\$ 95,533
Satellite services ⁽²⁾	169,989	157,229	473,263	476,274
Corporate ⁽⁵⁾	(10,030)	(3,774)	(18,334)	(11,969)
Adjusted EBITDA before eliminations	173,276	180,375	495,784	559,838
Intercompany eliminations ⁽³⁾				(279)
Affiliate eliminations ⁽²⁾	(169,989)	(157,229)	(473,263)	(476,274)
Adjusted EBITDA	3,287	23,146	22,521	83,285
Adjusted EBITDA from discontinued operations	(13,317)	(26,920)	(40,855)	(95,254)
Adjusted EBITDA from continuing operations	(10,030)	(3,774)	(18,334)	(11,969)
Reconciliation to Operating Income				
Depreciation, Amortization and Stock-Based Compensation ⁽⁴⁾				
Satellite manufacturing	(8,652)	(8,473)	(25,067)	(24,017)
Satellite services ⁽²⁾	(65,291)	(63,131)	(186,788)	(188,090)
Corporate	(286)	(302)	(857)	(874)

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Segment depreciation before affiliate eliminations	(74,229)	(71,906)	(212,712)	(212,981)
Affiliate eliminations ⁽²⁾	65,291	63,131	186,788	188,090
Depreciation, amortization and stock-based compensation	(8,938)	(8,775)	(25,924)	(24,891)
Depreciation, amortization and stock-based compensation from discontinued operations	8,652	8,473	25,067	24,017
Depreciation, amortization and stock-based compensation as reported	(286)	(302)	(857)	(874)
Gain on disposition of net assets ⁽⁶⁾				5,118
Operating loss as reported	\$ (10,316)	\$ (4,076)	\$ (19,191)	\$ (7,725)

	September 30, 2012	December 31, 2011
Total Assets⁽⁷⁾		
Satellite manufacturing	\$	\$ 929,408
Satellite services ^{(2) (8)}	5,387,975	5,724,418
Corporate	445,337	529,501
Total assets before affiliate eliminations	5,833,312	7,183,327
Affiliate eliminations ⁽²⁾	(5,387,975)	(5,347,174)
Total assets excluding assets held for sale	445,337	1,836,153
Total assets classified as assets held for sale	959,536	
Total assets as reported	\$ 1,404,873	\$ 1,836,153

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

- (1) Intersegment revenues include \$9.4 million and \$32.8 million for the three months ended September 30, 2012 and 2011, respectively, and \$56.1 million and \$108.6 million for the nine months ended September 30, 2012 and 2011, respectively, of revenue from affiliates.
- (2) Satellite services represents Telesat. Affiliate eliminations represent the elimination of amounts attributable to Telesat whose results are reported under the equity method of accounting in our condensed consolidated statements of operations (see Note 10).
- (3) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA for a satellite under construction by SS/L for Loral.
- (4) Compensation expense related to SS/L Phantom SARs and restricted stock units paid in cash or expected to be paid in cash is included in Adjusted EBITDA. Compensation expense related to SS/L Phantom SARs and restricted stock units paid in Loral common stock or expected to be paid in Loral common stock is included in depreciation, amortization and stock-based compensation.
- (5) Includes corporate expenses incurred in support of our operations and includes our equity investments in XTAR and Globalstar service providers.
- (6) Represents the gain included in continuing operations on the sale of Loral's portion of the payload on the ViaSat-1 satellite and related net assets to Telesat adjusted for elimination of Loral's 64% ownership interest in Telesat.
- (7) Amounts are presented after the elimination of intercompany profit.
- (8) Includes \$2.4 billion of satellite services goodwill related to Telesat as of September 30, 2012 and December 31, 2011.

20. Related Party Transactions

Transactions with Affiliates

Telesat

As described in Note 10, we own 64% of Telesat and account for our ownership interest under the equity method of accounting.

In connection with the acquisition of our ownership interest in Telesat (which we refer to as the Telesat transaction), Loral and certain of its subsidiaries, our Canadian partner, Public Sector Pension Investment Board (PSP) and one of its subsidiaries, Telesat Holdco and certain of its subsidiaries, including Telesat, and MHR entered into a Shareholders Agreement (the Shareholders Agreement). The Shareholders Agreement provides for, among other things, the manner in which the affairs of Telesat Holdco and its subsidiaries will be conducted and the relationships among the parties thereto and future shareholders of Telesat Holdco. The Shareholders Agreement also contains an agreement by Loral not to engage in a competing satellite communications business and agreements by the parties to the Shareholders Agreement not to solicit employees of Telesat Holdco or any of its subsidiaries. Additionally, the Shareholders Agreement details the matters requiring the approval of the shareholders of Telesat Holdco (including veto rights for Loral over certain extraordinary actions) and provides for preemptive rights for certain shareholders upon the issuance of certain capital shares of Telesat Holdco. The Shareholders Agreement also restricts the ability of holders of certain shares of Telesat Holdco to transfer such shares unless certain conditions are met or approval of the transfer is granted by the directors of Telesat Holdco, provides for a right of first offer to certain Telesat Holdco shareholders if a holder of equity shares of Telesat Holdco wishes to sell any such shares to a third party and provides for, in certain circumstances, tag-along rights in favor of shareholders that are not affiliated with Loral if Loral sells equity shares and drag-along rights in favor of Loral in case Loral or its affiliate enters into an agreement to sell all of its Telesat Holdco equity securities. In addition, the Shareholders Agreement provides for either PSP or Loral to cause Telesat Holdco to conduct an initial public offering of its equity shares if an initial public offering has not been completed by October 31, 2011, the fourth anniversary of the Telesat transaction. On July 25, 2012, PSP delivered a notice to Telesat Holdco and Loral exercising its right to require Telesat Holdco to conduct an initial public offering. Loral is continuing to evaluate the effect of the notice and its obligations and alternatives. There can be no assurance as to whether, when or on what terms an initial public offering of Telesat Holdco equity may occur.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Under the Shareholders Agreement, in the event that, either (i) ownership or control, directly or indirectly, by Dr. Rachesky, President of MHR, of Loral's voting stock falls below certain levels or (ii) there is a change in the composition of a majority of the members of the Loral Board of Directors over a consecutive two-year period, Loral will lose its veto rights relating to certain extraordinary actions by Telesat Holdco and its subsidiaries. In addition, after either of these events, PSP will have certain rights to enable it to exit from its investment in Telesat Holdco, including a right to cause Telesat Holdco to conduct an initial public offering in which PSP's shares would be the first shares offered or, if no such offering has occurred within one year due to a lack of cooperation from Loral or Telesat Holdco, to cause the sale of Telesat Holdco and to drag along the other shareholders in such sale, subject to Loral's right to call PSP's shares at fair market value.

The Shareholders Agreement provides for a board of directors of each of Telesat Holdco and certain of its subsidiaries, including Telesat, consisting of 10 directors, three nominated by Loral, three nominated by PSP and four independent directors to be selected by a nominating committee comprised of one PSP nominee, one nominee of Loral and one of the independent directors then in office. Each party to the Shareholders Agreement is obligated to vote all of its Telesat Holdco shares for the election of the directors nominated by the nominating committee. Pursuant to action by the board of directors taken on October 31, 2007, Dr. Rachesky, who is non-executive Chairman of the Board of Directors of Loral, was appointed non-executive Chairman of the Board of Directors of Telesat Holdco and certain of its subsidiaries, including Telesat. In addition, Michael B. Targoff, Loral's Vice Chairman, Chief Executive Officer and President serves on the board of directors of Telesat Holdco and certain of its subsidiaries, including Telesat.

As of September 30, 2012, SS/L had a contract with Telesat for the construction of the Anik G1 satellite. Information related to satellite construction contracts with Telesat is as follows (in thousands):

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Revenues (included in income from discontinued operations) from Telesat satellite construction contracts	\$ 9,383	\$ 32,754	\$ 56,095	\$ 108,579
Milestone payments received from Telesat	17,626	24,271	51,931	96,389

Amounts receivable by SS/L from Telesat related to satellite construction contracts as of September 30, 2012 and December 31, 2011 were \$2.2 million and \$4.6 million, respectively. Amounts receivable as of September 30, 2012 are included in assets held for sale.

On October 31, 2007, Loral and Telesat entered into a consulting services agreement (the Consulting Agreement). Pursuant to the terms of the Consulting Agreement, Loral provides to Telesat certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat as part of the Telesat transaction as well as with respect to certain aspects of the satellite communications business of Telesat. The Consulting Agreement has a term of seven years with an automatic renewal for an additional seven year term if certain conditions are met. In exchange for Loral's services under the Consulting Agreement, Telesat will pay Loral an annual fee of \$5.0 million, payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. If the terms of Telesat's bank or bridge facilities or certain other debt obligations prevent Telesat from paying such fees in cash, Telesat may issue junior subordinated promissory notes to Loral in the amount of such payment, with interest on such promissory notes payable at the rate of 7% per annum, compounded quarterly, from the date of issue of such promissory note to the date of payment thereof. Our selling, general and administrative expenses included income related to the Consulting Agreement of \$1.25 million for each of the three month periods ended September 30, 2012 and 2011 and \$3.75 million for each of the nine month periods ended September 30, 2012 and 2011. We also had a note receivable related to the Consulting Agreement from Telesat of \$24.0 and \$20.7 million as of September 30, 2012 and December 31, 2011, respectively. We received payments of \$1.6 million and \$3.2 million from Telesat for the nine months ended September 30, 2012 and 2011, respectively, related to the Consulting Agreement. The note receivable was paid in full by Telesat in October 2012.

In connection with the Telesat transaction, Loral has retained the benefit of tax recoveries related to the transferred assets and has indemnified Telesat for certain liabilities including Loral Skynet's tax liabilities arising prior to January 1, 2007. As of September 30, 2012 and December 31, 2011, we had recognized a net receivable from Telesat of \$0.5 million, representing our estimate of the probable outcome of these tax matters, which is included as other assets of \$2.6 million and long-term liabilities of \$2.1 million in the consolidated balance sheet. There can be no

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

assurance, however, that these tax matters will be ultimately settled for the net amount recorded.

In June 2011, Loral, along with Telesat Holdco, Telesat, PSP and 4440480 Canada Inc., an indirect wholly-owned subsidiary of Loral (the Special Purchaser), entered into Grant Agreements (the Grant Agreements) with Daniel Goldberg, Michael C. Schwartz and Michel G. Cayouette (each, a Participant and collectively, the Participants). Each of the Participants is an executive of Telesat, which is owned by the Company together with its Canadian partner, PSP, through their ownership of Telesat Holdco. The Grant Agreements document grants previously approved and made in September 2008. Mr. Goldberg's agreement is effective as of May 20, 2011, and the agreements for each of Messrs. Schwartz and Cayouette are effective as of May 31, 2011.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Grant Agreements confirm grants of Telesat Holdco stock options (including tandem SAR rights) to the Participants and provide for certain rights, obligations and restrictions related to such stock options, which include, among other things: (w) the right of each Participant to require the Special Purchaser to purchase a portion of the shares in Telesat Holdco owned by him in the event of exercise after termination of employment to cover taxes that are greater than the minimum withholding amount; (x) the possible obligation of the Special Purchaser to purchase the shares in the place of Telesat Holdco should Telesat Holdco be prohibited by applicable law or under the terms of any credit agreement applicable to Telesat Holdco from purchasing such shares, or otherwise default on such purchase obligation, pursuant to the terms of the Grant Agreements; (y) the obligation of the Special Purchaser to purchase shares upon exercise by Telesat Holdco of its call right under Telesat Holdco's Management Stock Incentive Plan in the event of a Participant's termination of employment; and (z) the right of each Participant to require Telesat Holdco to cause the Special Purchaser or Loral to purchase a portion of the shares in Telesat Holdco owned by him, or that are issuable to him under Telesat Holdco's Management Stock Incentive Plan at the relevant time, in the event that more than 90% of Loral's common stock is acquired by an unaffiliated third party that does not also purchase all of PSP's and its affiliates' interest in Telesat Holdco.

The Grant Agreements further provide that, in the event the Special Purchaser is required to purchase shares, such shares, together with the obligation to pay for such shares, shall be transferred to a subsidiary of the Special Purchaser, which subsidiary shall be wound up into Telesat Holdco, with Telesat Holdco agreeing to the acquisition of such subsidiary by Telesat Holdco from the Special Purchaser for nominal consideration and with the purchase price for the shares being paid by Telesat Holdco within ten (10) business days after completion of the winding-up of such subsidiary into Telesat Holdco.

Loral received special cash distributions from Telesat of \$376 million on March 28, 2012 and \$44 million on July 5, 2012. The distributions were the result of a Telesat refinancing and recapitalization transaction (see Note 10).

ViaSat/Telesat

In connection with an agreement entered into between SS/L and ViaSat, Inc. (ViaSat) for the construction by SS/L for ViaSat of a high capacity broadband satellite called ViaSat-1, on January 11, 2008, we entered into certain agreements, described below, pursuant to which, we invested in the Canadian coverage portion of the ViaSat-1 satellite. Until his resignation in February 2012, Michael B. Targoff served, and another Loral director currently serves, as a member of the ViaSat Board of Directors.

A Beam Sharing Agreement between us and ViaSat provided for, among other things, (i) the purchase by us of a portion of the ViaSat-1 satellite payload providing coverage into Canada (the Loral Payload) and (ii) payment by us of 15% of the actual costs of launch and associated services, launch insurance and telemetry, tracking and control services for the ViaSat-1 satellite. SS/L commenced construction of the ViaSat-1 satellite in January 2008. SS/L recorded sales to ViaSat under this contract of \$(0.1) million and \$2.4 million for the three months ended September 30, 2012 and 2011, respectively and \$0.4 million and \$7.8 million for the nine months ended September 30, 2012 and 2011, respectively. SS/L's sales to ViaSat have been included in income from discontinued operations in our statements of operations for the three and nine months ended September 30, 2012 and 2011.

On April 11, 2011, Loral assigned to Telesat and Telesat assumed from Loral all of Loral's rights and obligations with respect to the Loral Payload and all related agreements. In consideration for the assignment, Loral received \$13 million from Telesat and was reimbursed by Telesat for approximately \$48.2 million of net costs incurred through closing of the sale, including costs for the satellite, launch and insurance, and costs of the gateways and related equipment. Also, in connection with the assignment, Telesat agreed that if it obtains certain supplemental capacity on the payload, Loral will be entitled to receive one-half of any net revenue actually earned by Telesat in connection with the leasing of such supplemental capacity to its customers during the first four years after the commencement of service using the supplemental capacity. In connection with the sale, Loral also assigned to Telesat and Telesat assumed Loral's 15-year contract with Xplornet Communications Inc. (Xplornet) (formerly known as Barrett Xplore Inc.) for delivery of high throughput satellite Ka-band capacity and gateway services for broadband services in Canada. Our condensed consolidated statements of operations for the nine months ended September 30, 2011 included a \$6.9 million gain on this transaction, including the portion classified as discontinued operations of \$1.8 million, representing the \$13 million in proceeds in excess of costs adjusted for cumulative intercompany profit eliminations and our retained ownership interest in Telesat. During 2010, a subsidiary of Loral entered into contracts with ViaSat for procurement of equipment and services and with Telesat for consulting, management, engineering and integration services related to the gateways that enable commercial services using the Loral Payload. Prior to April 11, 2011, we had made cumulative payments of \$3.9 million to ViaSat and \$1.4 million to Telesat under these agreements.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Costs of satellite manufacturing for sales to related parties included in income from discontinued operations were \$5.5 million and \$29.6 million for the three months ended September 30, 2012 and 2011, respectively, and \$29.9 million and \$98.1 million for the nine months ended September 30, 2012 and 2011, respectively.

In connection with an agreement reached in 1999 and an overall settlement reached in February 2005 with ChinaSat relating to the delayed delivery of ChinaSat 8, SS/L has provided ChinaSat with usage rights to two Ku-band transponders on Telesat's Telstar 10 for the life of such transponders (subject to certain restoration rights) and to one Ku-band transponder on Telesat's Telstar 18 for the life of the Telstar 10 satellite plus two years, or the life of such transponder (subject to certain restoration rights), whichever is shorter. Pursuant to an amendment to the agreement executed in June 2009, in lieu of rights to one of the Ku-band transponders on Telstar 10, ChinaSat has rights to an equivalent amount of Ku-band capacity on Telstar 18 (the Alternative Capacity). The Alternative Capacity may be utilized by ChinaSat until April 30, 2019 subject to certain conditions. Under the agreement, SS/L makes monthly payments to Telesat for the transponders allocated to ChinaSat. Effective with the termination of Telesat's leasehold interest in Telstar 10 in July 2009, SS/L makes monthly payments with respect to capacity used by ChinaSat on Telstar 10 directly to APT, the owner of the satellite. As of September 30, 2012 and December 31, 2011, our consolidated balance sheets included liabilities of \$1.9 million and \$3.7 million for the future use of these transponders. The liability as of September 30, 2012 was included in liabilities held for sale. Interest expense on this liability included in income from discontinued operations was \$0.1 million for each of the three month periods ended September 30, 2012 and 2011, \$0.2 and \$0.4 million for the nine month periods ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 SS/L made payments of \$2.0 million to Telesat pursuant to the agreement.

XTAR

As described in Note 10 we own 56% of XTAR, a joint venture between Loral and Hisdesat and account for our investment in XTAR under the equity method of accounting. SS/L constructed XTAR's satellite, which was successfully launched in February 2005. XTAR and Loral have entered into a management agreement whereby Loral provides general and specific services of a technical, financial, and administrative nature to XTAR. For the services provided by Loral, XTAR is charged a quarterly management fee equal to 3.7% of XTAR's quarterly gross revenues. Amounts due to Loral primarily due to the management agreement as of September 30, 2012 and December 31, 2011 were \$5.1 million and \$4.2 million, respectively. Beginning in 2008, Loral and XTAR agreed to defer amounts owed to Loral under this agreement and XTAR has agreed that its excess cash balance (as defined) will be applied at least quarterly towards repayment of receivables owed to Loral, as well as to Hisdesat and Telesat. No cash was received under this agreement for the three and nine months ended September 30, 2012 and 2011.

MHR Fund Management LLC

Mark H. Rachesky, managing principal of MHR, and Hal Goldstein, a former managing principal of MHR, are members of Loral's board of directors. Sai S. Devabhaktuni, former managing principal of MHR, was a member of the Loral Board until his resignation in January 2012.

Various funds affiliated with MHR and Dr. Rachesky held, as of September 30, 2012 and December 31, 2011, approximately 38.3% and 38.6%, respectively, of the outstanding voting common stock and as of September 30, 2012 and December 31, 2011 had a combined ownership of outstanding voting and non-voting common stock of Loral of 57.4% and 57.7%, respectively.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements (the financial statements) included in Item 1 and our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission.

INDEX

Topic	Location
<u>Overview</u>	Page 39
<u>Consolidated Operating Results</u>	Page 42
<u>Liquidity and Capital Resources:</u>	
<u>Loral</u>	Page 49
<u>Telesat</u>	Page 51
<u>Contractual Obligations</u>	Page 54
<u>Statement of Cash Flows</u>	Page 54
<u>Affiliate Matters</u>	Page 55
<u>Commitments and Contingencies</u>	Page 55
<u>Other Matters</u>	Page 55

Loral Space & Communications Inc., a Delaware corporation, together with its subsidiaries (Loral, the Company, we, our, and us) is a leading satellite communications company engaged, through our ownership interests in affiliates, in satellite-based communications services. Prior to completion of the sale of our wholly-owned subsidiary, Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc.) (SS/L), we were also engaged in the satellite manufacturing business. See Overview Businesses Recent Developments below. The term Parent Company is a reference to Loral Space & Communications Inc., excluding its subsidiaries.

Disclosure Regarding Forward-Looking Statements

Except for the historical information contained in the following discussion and analysis, the matters discussed below are not historical facts, but are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition, we or our representatives have made and may continue to make forward-looking statements, orally or in writing, in other contexts. These forward-looking statements can be identified by the use of words such as believes, expects, plans, may, will, would, could, should, anticipates, estimates, project, intend, or outlook or other variations of these words. These statements, including without limitation, those relating to Telesat, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or quantify. Actual events or results may differ materially as a result of a wide variety of factors and conditions, many of which are beyond our control. For a detailed discussion of these and other factors and conditions, please refer to the Commitments and Contingencies section below and to our other periodic reports filed with the Securities and Exchange Commission (SEC). We operate in an industry sector in which the value of securities may be volatile and may be influenced by economic and other factors beyond our control. We undertake no obligation to update any forward-looking statements.

Table of Contents

Overview

Businesses

Recent Developments

On November 2, 2012, Loral completed the sale (the *Sale*) of its wholly-owned subsidiary, SS/L, to MDA Communications Holdings, Inc. (*MDA Holdings*), a subsidiary of MacDonald, Dettwiler and Associates Ltd. (*MDA*). Pursuant to the purchase agreement (the *Purchase Agreement*), dated June 26, 2012, between Loral, SS/L, MDA and MDA Holdings, as amended on October 30, 2012, in a series of transactions described below, Loral received total cash payments of \$967.9 million plus a three-year promissory note in the principal amount of \$101 million for the purchase of certain real estate used in connection with SS/L's business.

Prior to the Sale, SS/L (i) was converted into a limited liability company, (ii) transferred the real estate owned by it to a newly formed limited liability company (*Land LLC*), (iii) distributed the equity interests in Land LLC to the Company, and (iv) issued to Loral promissory notes in an aggregate amount equal to \$193.9 million (the *Closing Notes*). The Closing Notes were issued to satisfy SS/L's obligations under the Purchase Agreement to repay intercompany balances due Loral and to pay Loral a cash dividend, which included per diem amounts provided for in the Purchase Agreement. Immediately following the Sale, SS/L repaid the Closing Notes for an aggregate cash amount equal to \$193.9 million.

At closing of the Sale, Loral received (i) \$774 million from MDA Holdings for the purchase of the equity interests in SS/L and (ii) a promissory note, dated November 2, 2012, issued by MDA for \$101 million (the *Land Note*) for the purchase of the equity interests in Land LLC.

The Land Note bears interest at the rate of 1% per annum and amortizes in three equal annual installments on each March 31, commencing March 31, 2013. The Land Note is backed by a letter of guarantee from Royal Bank of Canada.

Subsequent to the closing of the Sale and pursuant to the Purchase Agreement, Loral will pay MDA \$6.5 million as a result of the resolution of a contingency.

The transaction is taxable, and, for tax purposes, will be treated as a sale of assets.

Under the terms of the Purchase Agreement, Loral will indemnify SS/L for all Covered Litigation Costs and any Covered Litigation Damages (as such terms are defined in the Purchase Agreement), subject to certain capped cost-sharing by SS/L, and will retain control of the defense of the lawsuit against SS/L and Loral by ViaSat, Inc. as well as SS/L's counterclaims against ViaSat, Inc. in that lawsuit. Under the terms of the Purchase Agreement, following a change of control of Loral, the liability of Loral for Covered Litigation Costs and Covered Litigation Damages is subject to a dollar cap.

On November 7, 2012, in connection with the receipt of the proceeds from the Sale, our Board of Directors declared a special distribution of \$29.00 per share for an aggregate distribution of \$899.3 million. The distribution will be paid on December 4, 2012 to holders of record of Loral voting and non-voting common stock as of November 19, 2012. In accordance with Loral's stock incentive plan, an equitable adjustment will be made to outstanding stock-based awards to reflect the special distribution.

Description of Business

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.

The operations of SS/L, previously reported as the satellite manufacturing operating segment, have been reclassified as discontinued operations in our statements of operations and cash flows. The assets and liabilities of SS/L have been reflected as assets held for sale and liabilities held for sale, respectively, on our condensed consolidated balance sheet as of September 30, 2012.

Subsequent to the Sale, Loral has one operating segment consisting of satellite based communications services. Loral participates in satellite services operations through its ownership interest in Telesat Holdings Inc. (*Telesat Holdco*) which owns Telesat Canada (*Telesat*), a leading global fixed satellite services operator, with offices around the world. Telesat provides its satellite and communication services from a fleet of satellites that occupy Canadian and other orbital locations.

Table of Contents

Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat, the world's fourth largest satellite operator with approximately \$5.3 billion of backlog as of September 30, 2012.

The satellite services business is capital intensive and the build-out of a satellite fleet requires substantial time and investment. Once the investment in a satellite is made, the incremental costs to maintain and operate the satellite are relatively low over the life of the satellite with the exception of in-orbit insurance. Telesat has been able to generate a large contracted revenue backlog by entering into long-term contracts with some of its customers for all or substantially all of a satellite's life. Historically, this has resulted in revenue from the satellite services business being fairly predictable.

At September 30, 2012, Telesat provided satellite services to customers from its fleet of 13 in-orbit satellites. In addition, Telesat owns the Canadian Ka-band payload on the ViaSat-1 satellite which was launched in October 2011. Telesat successfully launched the Nimiq 6 satellite and placed it into commercial service during June 2012. Telesat currently has one satellite awaiting launch, Anik G1, which Telesat anticipates will be launched in early 2013.

Telesat's commitment to providing strong customer service and its focus on innovation and technical expertise has allowed it to successfully build its business to date. Building on its existing contractual revenue backlog, Telesat's focus is on taking disciplined steps to grow its core business and sell newly launched and existing in-orbit satellite services, and, in a disciplined manner, use the cash flow generated by existing business, contracted expansion satellites and cost savings to strengthen the business.

Telesat believes its satellites produce a substantial combination of ongoing revenue from backlog, continuing revenue growth and an effective foundation upon which it will seek to continue to grow its revenue and cash flows. The growth is expected to come from the Canadian payload on the ViaSat-1 satellite, its newly launched Nimiq 6 satellite, its Anik G1 satellite awaiting launch, and the sale of available capacity on its existing in-orbit satellites.

Telesat believes that it is well-positioned to serve its customers and the markets in which it participates. Telesat actively pursues opportunities to develop new satellites, particularly in conjunction with current or prospective customers, who will commit to long term service agreements prior to the time the satellite construction contract is signed. Although Telesat regularly pursues opportunities to develop new satellites, it does not procure additional or replacement satellites until it believes there is a demonstrated need and a sound business plan for such satellite capacity.

Telesat anticipates that it can increase revenue without a proportional increase in operating expenses, allowing for operating margin expansion. The relatively fixed cost nature of the business, combined with contracted revenue growth and other growth opportunities, is expected to produce growth in income and operating cash flow.

For the remainder of 2012, Telesat will remain focused on: increasing utilization on its existing satellites, continuing the preparation for the launch and deployment of the Anik G-1 satellite, securing additional customer requirements to support the procurement of additional satellites and maintaining cost and operating discipline.

On March 28, 2012, Telesat entered into a new credit agreement (the "Telesat Credit Agreement") with a syndicate of banks which provided for the extension of credit under the following senior credit facilities in the principal amount of up to approximately \$2.55 billion (together, the "Telesat Senior Credit Facilities"): (i) a revolving credit facility in the amount of up to CAD/\$140 million, available in either Canadian or U.S. dollars, maturing on March 28, 2017; (ii) a Term Loan A facility denominated in Canadian dollars, in the amount of CAD 500 million, maturing on March 28, 2017; (iii) a Term Loan B facility denominated in Canadian dollars, in the amount of CAD 175 million, maturing on March 28, 2019; and (iv) a Term Loan B facility denominated in U.S. dollars, in the amount of \$1.725 billion, maturing on March 28, 2019. Simultaneously with entering into the Telesat Credit Agreement, Telesat terminated and paid all outstanding amounts under its previous credit facilities.

On March 28, 2012, Telesat redeemed all of its outstanding senior preferred shares, previously held by an affiliate of the Public Sector Pension Investment Board ("PSP Investments"), for approximately CAD 146 million in cash, which was equal to the outstanding liquidation value and accrued dividends on the senior preferred shares. Following the redemption of the senior preferred shares, an affiliate of PSP Investments provided a loan in the amount of approximately CAD 146 million to Telesat, in the form of a subordinated promissory note.

Table of Contents

In connection with the closing of the Telesat Credit Agreement, Telesat's Board declared a special cash distribution to its shareholders, as a reduction of stated capital, in the amount of approximately CAD 656 million. Loral's share of this amount was approximately CAD 420 million. On March 28, 2012, Telesat paid its shareholders approximately CAD 586 million of the special distribution, which was funded by the proceeds from the Telesat Senior Credit Facilities and excess cash from operations. Of this amount, Loral received approximately CAD 375 million (\$376 million). The approximately CAD 70 million distribution remaining was paid in July 2012, with Loral receiving approximately CAD 45 million (\$44 million). In connection with the cash distribution made to Telesat's shareholders, Telesat's Board also authorized approximately CAD 49 million in special payments to executives and certain employees of Telesat. Approximately CAD 48 million of special payments and benefits was recorded as compensation expense at September 30, 2012. The majority of the remaining payments are expected to be made over the next three years, subject to the executives' and employees' continued employment with Telesat on the payment date and other conditions.

On May 14, 2012, Telesat issued, through a private placement, \$700 million of 6% senior notes which mature on May 15, 2017. The 6% senior notes are subordinated to Telesat's existing and future secured indebtedness, including obligations under the Telesat Senior Credit Facilities, and are governed under the 6% senior notes indenture. The net proceeds of the offering, along with available cash on hand, were used to fund redemption or repurchase of all of Telesat's 11% Senior Notes due November 1, 2015 issued under an indenture dated as of June 30, 2008 and to pay certain financing costs and redemption premiums.

On October 29, 2012, Telesat issued, through a private placement, an additional \$200 million of 6% senior notes due 2017. Telesat has used the net proceeds from the debt offering to fund the repayment of certain indebtedness owed to its principal shareholders, including accrued and unpaid interest thereon and for general corporate purposes.

Telesat's operating results are subject to fluctuations as a result of exchange rate variations. Approximately 48% of Telesat's revenues received in Canada for the three and nine months ended September 30, 2012, a substantial portion of its expenses and a substantial portion of its indebtedness and capital expenditures were denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at September 30, 2012 would have increased or decreased Telesat's net income for the nine months ended September 30, 2012 by approximately \$144 million.

General

On March 28, 2012, as a direct result of the special cash distribution by Telesat to its shareholders discussed above, the Loral Board of Directors declared a special dividend of \$13.60 per share for an aggregate dividend of \$418 million. The dividend was paid on April 20, 2012 to holders of record of Loral voting and non-voting common stock as of April 10, 2012. The dividend paid to Loral's shareholders approximated the full amount of both dividend tranches received by Loral from Telesat. As the dividend was paid prior to receipt of the second tranche from Telesat, Loral used its available cash balance to fund the difference between the Loral dividend paid and the proceeds received from Telesat.

Subsequent to the Sale, Loral's remaining assets, primarily its ownership interests in Telesat, will continue to have substantial value. Loral may, from time to time, explore and evaluate possible strategic transactions and alliances which may include joint ventures and strategic relationships as well as business combinations or the acquisition or disposition of assets. Should Loral determine to pursue these opportunities, additional funds are likely to be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for these transactions on favorable terms, if at all.

In connection with the Sale, Loral has developed a plan for restructuring its corporate functions. Through mid-2013, Loral will reduce the number of employees at its headquarters. In the third quarter of 2012, Loral charged approximately \$5.8 million to selling, general and administrative expenses, mainly for severance and related costs, and expects to make cash payments related to the restructuring primarily during 2012 and 2013. Loral paid restructuring costs of approximately \$0.2 million for the three months ended September 30, 2012. At September 30, 2012, the liability recorded in the condensed consolidated balance sheet for the restructuring was \$5.6 million.

In 2008, Loral agreed to purchase the Canadian coverage portion of the ViaSat-1 satellite, which was successfully launched in October 2011. The ViaSat-1 satellite is a high capacity Ka-band spot beam satellite for broadband services that was launched into the 115° West longitude orbital location. Loral also entered into an agreement with Xplornet, Canada's largest rural broadband provider, to deliver high throughput satellite Ka-band capacity for broadband services in Canada. Under the agreement, Xplornet agreed to contract with Loral for the Canadian capacity on the ViaSat-1 satellite and associated gateway services for the expected life of the satellite, and Loral agreed to construct and operate four gateways in Canada. Approximately \$50 million had been invested by Loral through April 11, 2011. A portion of these costs was funded by prepayments in 2010 from Xplornet of CAD 2.5 million as required under the agreement. On April 11, 2011, Loral assigned its investment in the Canadian broadband business, including the Canadian coverage portion of the ViaSat-1 satellite, to Telesat for \$13 million plus reimbursement of approximately \$48 million, representing Loral's net costs incurred through the closing date (see Note 20 to the financial statements). In addition, in connection with the assignment, Telesat agreed that if it obtains certain supplemental capacity on the payload, Loral will be entitled to receive, for four years, one-half of any net revenue actually earned by Telesat on such supplemental capacity.

Table of Contents

In connection with the acquisition of our ownership interest in Telesat in 2007, Loral has agreed that, subject to certain exceptions described in Telesat's shareholders agreement, for so long as Loral has an interest in Telesat, it will not compete in the business of leasing, selling or otherwise furnishing fixed satellite service, broadcast satellite service or audio and video broadcast direct to home service using transponder capacity in the C-band, Ku-band and Ka-band (including in each case extended band) frequencies and the business of providing end-to-end data solutions on networks comprised of earth terminals, space segment, and, where appropriate, networking hubs.

Consolidated Operating Results

See *Critical Accounting Matters* in our latest Annual Report on Form 10-K filed with the SEC and Note 2 to the financial statements.

Changes in Critical Accounting Policies There have been no changes in our critical accounting policies during the nine months ended September 30, 2012.

*Consolidated Operating Results***Three Months Ended September 30, 2012 Compared With Three Months Ended September 30, 2011**

The following compares our consolidated results for the three months ended September 30, 2012 and 2011 as presented in our financial statements (in millions):

Selling, General and Administrative Expenses

	Three Months		
	Ended September 30,		
	2012	2011	% Increase/ (Decrease)
Selling, general and administrative expenses	\$ 10.3	\$ 4.1	151%

Selling, general and administrative expenses, which are comprised of Corporate office expenses, increased by \$6.2 million for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, primarily due to severance expense of \$5.8 million in 2012 for the corporate restructuring as a result of the Sale.

Interest and Investment Income

	Three Months	
	Ended	
	September 30,	
	2012	2011
Interest and investment income	\$ 0.4	\$ 0.2

Interest and investment income for the three months ended September 30, 2012 and 2011 consists primarily of interest income on long-term receivables due from Telesat for consulting services.

Other Expense

Other expense for the three months ended September 30, 2012 is primarily comprised of \$2.2 million related to the Sale. Other expense for the three months ended September 30, 2011 consisted primarily of expenses related to the Sale and potential spin-off of SS/L.

Table of Contents***Income Tax Provision***

Our income tax provision for the three months ended September 30 is summarized as follows: (i) for 2012, we recorded a tax benefit of \$36.6 million (which included a deferred benefit of \$2.6 million to reduce our valuation allowance (see below) and a benefit of \$47.0 million for UTPs) on a pre-tax loss of \$12.8 million and (ii) for 2011, we recorded a tax provision of \$15.4 million (which included a provision of \$1.0 million for UTPs) on a pre-tax loss of \$4.9 million. The tax benefit for UTPs for the three months ended September 30, 2012 included a benefit of \$47 million related to the expiration of the statute of limitations for the assessment of additional tax with regard to certain UTPs from Old Loral including the reversal of applicable interest and penalties previously accrued.

Our income tax provision for each period is computed by applying an expected effective annual tax rate (10% for 2012 and a negative rate in excess of 100% for 2011) against the cumulative pre-tax loss for the nine months ended September 30, 2012 and 2011 (before adjusting for certain tax items that are discrete to each period) less the cumulative provision recorded in each of the respective prior quarters. Taxes provided on the special cash distribution received from Telesat were treated as discrete to the three months ended September 30, 2012 and not included in the expected effective annual tax rate. In addition, the income tax provision included our tax expense on equity in net income (loss) of affiliates, which is included on the condensed consolidated statements of operations below the line for income tax benefit (provision).

For the three months ended September 2012, we recorded a net deferred income tax benefit of \$2.6 million to reduce our valuation allowance against net deferred tax assets after having determined, based on all available evidence, that with the Sale it is more likely than not that we will realize a future benefit from that portion of our deferred tax assets. Subsequent to the Sale, to the extent that Loral's profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, the Company would generate sufficient taxable income from the appreciated value of its Telesat investment, which currently has a nominal tax basis, in order to prevent its federal net operating losses from expiring and realize the benefit of all remaining deferred tax assets.

During the last quarter of 2012, we expect that the statute of limitations for assessment of additional tax will expire for various UTPs potentially resulting in a \$34 million reduction to our unrecognized tax benefits. This reduction would provide a \$41 million benefit to our income tax provision on income from continuing operations, including the reversal of applicable interest and penalties previously accrued.

Equity in Net Income (Loss) of Affiliates

Equity in net income (loss) of affiliates consists of (in millions):

	Three Months Ended September 30,	
	2012	2011
Telesat	\$ 43.7	\$ (75.1)
XTAR	(2.1)	(2.2)
	\$ 41.6	\$ (77.3)

In March 2012, Telesat completed a refinancing and recapitalization transaction which resulted in special cash distributions to Loral of CAD 375 million (\$376 million) in the first quarter of 2012 and CAD 45 million (\$44 million) in July 2012 (see Note 10 to the financial statements).

The special cash distributions exceed our cumulative equity in net income of Telesat and our investment. In following the equity method of accounting, our investment balance in Telesat has been reduced to zero, and, as of September 30, 2012, cumulative special cash distributions of approximately \$31 million were recorded as equity in net income of Telesat. In accordance with the equity method of accounting, we will not record equity in net income of Telesat until our share of Telesat's future net income exceeds \$31 million.

Table of Contents

Loral's equity in net income of Telesat is based on our proportionate share of Telesat's results in accordance with U.S. GAAP and in U.S. dollars. The amortization of Telesat fair value adjustments applicable to the Loral Skynet assets and liabilities acquired by Telesat in 2007 is proportionately eliminated in determining our share of the net income of Telesat. Our equity in net income of Telesat also reflects the elimination of our profit, to the extent of our beneficial interest, on satellites we are constructing for Telesat.

Summary financial information for Telesat in accordance with U.S. GAAP and in Canadian dollars (CAD) and U.S. dollars (\$) for the three months ended September 30, 2012 and 2011 follows (in millions):

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	(In Canadian dollars)	(In U.S. dollars)	(In Canadian dollars)	(In U.S. dollars)
Statement of Operations Data:				
Revenues	219.5	200.4	220.3	204.4
Operating expenses	(50.1)	(46.3)	(50.4)	(47.2)
Depreciation, amortization and stock-based compensation	(65.0)	(61.8)	(65.3)	(63.1)
Loss on disposition of long lived assets		(0.1)		(0.1)
Operating income	104.4	92.2	104.6	94.0
Interest expense	(58.8)	(55.2)	(59.0)	(56.3)
Foreign exchange gains (losses)	94.6	(261.4)	94.4	(267.5)
(Losses) gains on financial instruments	(40.9)	122.7	(40.8)	125.6
Other income (expense)	0.1	0.3	(0.2)	0.2
Income tax provision	(14.3)	(5.9)	(14.3)	(5.9)
Net income (loss)	85.1	(107.3)	84.7	(109.9)
Average exchange rate for translating Canadian dollars to U.S. dollars			.9957	.9803

Telesat revenue increased by \$16 million for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 due primarily to revenue on the Nimiq 6 satellite which entered into commercial service in June 2012, increased enterprise services revenues due to growth in international activities and inauguration of commercial services on ViaSat-1 in December 2011, partially offset by a scheduled rate reduction on a long term broadcast services contract and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues. Telesat revenue excluding foreign exchange impact would have increased by approximately \$18 million for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011.

Telesat's operating income increased by \$11 million for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 primarily due to the revenue increase described above partially offset by the special payments to executives and certain employees of Telesat in connection with the cash distribution to shareholders in 2012 and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses. Foreign exchange rate changes had no net impact on the change in operating income for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011.

Telesat's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat's main currency exposures as of September 30, 2012 lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. Telesat estimates that, after considering the impact of hedges, a five percent change in the value of the Canadian dollar against the U.S. dollar at September 30, 2012 would have increased or decreased Telesat's net income for the three months ended September 30, 2012 by approximately \$144 million.

The equity losses in XTAR, LLC (XTAR), our 56% owned joint venture, represent our share of XTAR losses incurred in connection with its operations.

We regularly evaluate our investment in XTAR to determine whether there has been a decline in fair value that is other than temporary. We have performed an impairment test for our investment in XTAR as of September 30, 2012, using the most recent forecast, and concluded that our investment in XTAR was not impaired. Any further declines in XTAR's projected revenues may result in a future impairment charge.

Table of Contents***Income from Discontinued Operations, net of taxes***

In connection with the Sale we have reclassified SS/L's operations as discontinued operations in our condensed consolidated financial statements for the three months ended September 30, 2012 and 2011.

The following is a summary of SS/L's operating results which are included in income from discontinued operations (in thousands):

	Three Months Ended September 30,	
	2012	2011
Revenues	\$ 280.3	\$ 268.8
Operating income	4.7	18.4
Income before income taxes	9.1	22.1
Income tax provision	(4.8)	(1.8)
Net income	4.3	20.3

Despite an increase in revenue, SS/L operating income decreased \$14 million for the three months ended September 30, 2012 compared with the three months ended September 30, 2011. The decrease was primarily due to unanticipated events including \$3 million of penalties and increased manufacturing costs on a single program and \$8 million for solar array anomaly investigation and rework, including a charge to reduce orbital receivables. Other changes in operating income included a \$1 million decrease for legal fees related to patent infringement litigation, a \$17 million decrease from lower margins attributable to lower average size and profitability of satellites under construction during 2012 compared to 2011 and a \$15 million increase from volume-related improvement in fringe and overhead rates.

Nine Months Ended September 30, 2012 Compared With Nine Months Ended September 30, 2011

The following compares our consolidated results for the nine months ended September 30, 2012 and 2011 as presented in our financial statements (in millions):

Selling, General and Administrative Expenses

	Nine Months Ended September 30,		
	2012	2011	% Increase/ (Decrease)
Selling, general and administrative expenses	\$ 19.2	\$ 12.8	50%

Selling, general and administrative expenses, which consists of Corporate office expense, increased \$6 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. The increase was primarily due to severance expense of \$5.8 million in 2012 for the corporate restructuring as a result of the Sale.

Gain on Disposition of Net Assets

Gain on disposition of net assets for the nine months ended September 30, 2011 represents the gain associated with the sale of Lorals portion of the ViaSat-1 payload and related net assets to Telesat, net of the elimination of Lorals 64% ownership interest in Telesat.

Interest and Investment Income

Nine Months Ended September 30,	
2012	2011

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Interest and investment income	\$ 1.3	\$ 2.7
--------------------------------	--------	--------

Interest and investment income for the nine months ended September 30, 2012 consists primarily of interest income on long-term receivables due from Telesat for management fees. Interest and investment income for the nine months ended September 30, 2011 includes interest income of \$1.7 million on directors and officers liability insurance claims and \$1.0 million on long-term receivables due from Telesat for consulting services.

Table of Contents

Gain on Litigation

Gain on litigation for the nine months ended September 30, 2011 represents the recovery under our directors and officers liability insurance coverage of plaintiffs' legal fees related to shareholder litigation based on a court decision in February 2011.

Other Expense

Other expense for the nine months ended September 30, 2012 is primarily comprised of \$4.1 million of expenses related to the Sale, partially offset by a \$1.3 million gain related to a foreign exchange forward contract to hedge the foreign exchange risk associated with the payment of the second tranche of the special cash distribution from Telesat that was received in July 2012. Other expense for the three months ended September 30, 2011 consisted primarily of expenses related to the sale and potential spin-off of SS/L.

Income Tax Provision

Our income tax provision for the nine months ended September 30 is summarized as follows: (i) for 2012, we recorded a current tax benefit of \$54.1 million (which included a benefit of \$53.7 million to reduce our liability for UTPs, primarily related to the expiration of the statute of limitations for the assessment of additional tax with regard to certain UTPs from Old Loral) and a deferred provision of \$14.9 million (which included a provision of \$6.1 million for UTPs), resulting in a total benefit of \$39.2 million on a pre-tax loss of \$21.5 million and (ii) for 2011, we recorded a current tax provision of \$0.7 million (which included a provision of \$0.8 million for UTPs) and a deferred provision of \$26.7 million (which included a benefit of \$0.7 million for UTPs), resulting in a total provision of \$27.4 million on a pre-tax loss of \$5.1 million.

Our income tax provision for each period is computed by applying an expected effective annual tax rate (10% for 2012 and a negative rate in excess of 100% for 2011) against the pre-tax loss for the nine months ended September 30, 2012 and 2011 (before adjusting for certain tax items that are discrete to each period). The following items were not included in the expected effective annual tax rate but rather treated as discrete to each respective period: for the nine months ended September 30, 2012, taxes provided on the special cash distribution received from Telesat; and for the nine months ended September 30, 2011, taxes provided on the gain associated with the sale of Loral's portion of the ViaSat-1 payload and related net assets to Telesat and the gain on litigation.

The income tax provision included our tax expense on equity in net income (loss) of affiliates, which is included on the condensed consolidated statements of operations below the line for income tax benefit (provision). When comparing 2012 to 2011, the impact of taxes provided on our projected equity in net income of Telesat for the full year 2011 relative to our projected pre-tax loss from continuing operations for 2011 (without the gain from discrete items) caused the significant increase to our expected effective annual tax rate.

For the nine months ended September 2012, we recorded a net deferred income tax benefit of \$1.1 million to reduce our valuation allowance against net deferred tax assets after having determined, based on all available evidence, that with the Sale it is more likely than not that we will realize a future benefit from that portion of our deferred tax assets. Subsequent to the Sale, to the extent that Loral's profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, the Company would generate sufficient taxable income from the appreciated value of its Telesat investment, which currently has a nominal tax basis, in order to prevent its federal net operating losses from expiring and realize the benefit of all remaining deferred tax assets.

During the last quarter of 2012, we expect that the statute of limitations for assessment of additional tax will expire for various UTPs potentially resulting in a \$34 million reduction to our unrecognized tax benefits. This reduction would provide a \$41 million benefit to our income tax provision on income from continuing operations, including the reversal of applicable interest and penalties previously accrued.

Table of Contents**Equity in Net Income (Loss) of Affiliates**

Equity in net income (loss) of affiliates consists of (in millions):

	Nine Months Ended September 30,	
	2012	2011
Telesat	\$ 42.2	\$ (1.0)
XTAR	(5.1)	(6.0)
Other		(0.1)
	\$ 37.1	\$ (7.1)

In March 2012, Telesat completed a refinancing and recapitalization transaction which resulted in special cash distributions to Loral of CAD 375 million (\$376 million) in the first quarter of 2012 and CAD 45 million (\$44 million) in July 2012 (see Note 10 to the financial statements). Because the total special cash distribution exceeds our cumulative equity in net income of Telesat and our initial investment, we suspended use of the equity method of accounting and our investment balance in Telesat has been reduced to zero. As of September 30, 2012, special cash distributions of approximately \$31 million were recorded as equity in net income of Telesat. We will resume using the equity method of accounting after this excess cash distribution of \$31 million is recovered through future equity in net income of Telesat.

Summary financial information for Telesat in accordance with U.S. GAAP is as follows (in millions):

	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	617.7	603.6	616.2	617.3
Operating expenses	(186.8)	(137.9)	(186.3)	(141.0)
Depreciation, amortization and stock-based compensation	(187.2)	(183.9)	(186.8)	(188.1)
Loss on disposition of long lived asset	(0.1)	(0.8)	(0.1)	(0.9)
Operating income	243.6	281.0	243.0	287.3
Interest expense	(172.7)	(163.3)	(172.3)	(167.0)
Expense of refinancing	(79.9)		(79.7)	
Foreign exchange gains (losses)	100.9	(165.1)	100.7	(168.9)
(Losses) gains on financial instruments	(41.6)	82.8	(41.5)	84.7
Other income	1.1	1.8	1.1	1.8
Income tax provision	(18.6)	(30.2)	(18.6)	(30.8)
Net income	32.8	7.0	32.7	7.1
Average exchange rate for translating Canadian dollars to U.S. dollars			1.0024	.9779

	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
	(In Canadian dollars)		(In U.S. dollars)	
Balance Sheet Data:				
Current assets	234.0	359.3	237.9	351.8
Total assets	5,302.0	5,461.1	5,389.8	5,347.2
Current liabilities	266.5	295.6	270.9	289.4
Long-term debt, including current portion	3,270.5	2,877.9	3,324.7	2,817.9
Promissory note	142.8		145.2	
Total liabilities	4,733.5	4,131.8	4,811.9	4,045.6

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

Redeemable preferred stock		141.4		138.5
Shareholders' equity	568.5	1,187.9	577.9	1,163.1
Period end exchange rate for translating Canadian dollars to U.S. dollars			.9837	1.0213

Telesat's operating expense for the nine months ended September 30, 2012 includes a \$48 million amount payable to executives and certain employees of Telesat in connection with the special cash distribution paid to Telesat's shareholders.

Table of Contents

Telesat revenue decreased by \$1 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 due primarily to a scheduled rate reduction on a long term broadcast services contract, a one-time termination payment received in 2011 from a consulting contract, one-time consulting contracts in 2011 and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues, partially offset by an increase in enterprise services revenues due to growth in international activities, inauguration of commercial services on ViaSat-1 in December 2011 and revenue earned on Telesat's Nimiq 6 satellite which commenced service in June 2012. Telesat revenue excluding foreign exchange impact would have decreased by approximately \$13 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011.

Telesat's operating income decreased by \$44 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 primarily due to the special payments to executives and certain employees of Telesat in connection with the cash distribution to shareholders in 2012 and the revenue decrease described above, partially offset by the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses. Telesat's operating income excluding foreign exchange impact would have decreased by approximately \$45 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011.

Expense of refinancing for the nine months ended September 30, 2012 represents deferred financing costs on the previous credit facilities and deferred financing costs and redemption premiums on the previous senior notes which were charged to expense as a result of the refinancings.

The equity losses in XTAR, LLC (XTAR), our 56% owned joint venture, represent our share of XTAR losses incurred in connection with its operations.

Income from Discontinued Operations, net of taxes

In connection with the Sale, we have reclassified SS/L's operations as discontinued operations in our condensed consolidated financial statements for the nine months ended September 30, 2012 and 2011.

The following is a summary of SS/L's operating results which are included in income from discontinued operations (in thousands):

	Nine Months	
	Ended September 30,	
	2012	2011
Revenues	\$ 861.4	\$ 801.2
Operating income	15.8	73.0
Income before income taxes	34.2	85.3
Income tax provision	(16.5)	(25.7)
Net income	17.7	59.6

Despite an increase in revenue, SS/L operating income decreased \$57 million for the nine months ended September 30, 2012 compared with the nine months ended September 30, 2011. The decrease was primarily due to unanticipated events including \$18 million of penalties and increased manufacturing costs on a single program and \$22 million for solar array anomaly investigation, rework, and penalties, including a charge to reduce orbital receivables. Other changes in operating income included a \$9 million decrease related to a loss provision for a program booked in the first quarter of 2012, a \$3 million decrease for legal fees related to patent infringement litigation, a \$15 million decrease from lower margins attributable to lower average size and profitability of satellites under construction during 2012 compared to 2011 and a \$10 million increase from volume-related improvement in fringe and overhead rates.

Table of Contents**Backlog**

Backlog as of September 30, 2012 and December 31, 2011 was as follows (in millions):

	September 30, 2012	December 31, 2011
Satellite Manufacturing	\$ 1,630	\$ 1,426
Satellite Services	5,323	5,333
Total backlog before eliminations	6,953	6,759
Satellite Manufacturing eliminations		
Satellite Services eliminations	(5,323)	(5,333)
Backlog	1,630	1,426
Backlog for discontinued operations	(1,630)	
Backlog for continuing operations	\$	\$ 1,426

The increase in Satellite Manufacturing backlog as of September 30, 2012 compared with December 31, 2011 was the result of four satellite awards for the nine months ended September 30, 2012, partially offset by revenues recognized during the period. The decrease in Satellite Services backlog as of September 30, 2012 compared with December 31, 2011 was the result of the realization of a portion of previous backlog as revenues, partially offset by additional bookings and exchange rate changes.

Liquidity and Capital Resources**Loral**

As described above, the Company's principal asset is a 64% economic interest in Telesat and, prior to the Sale, also included 100% of the capital stock of SS/L. In addition, the Company has a 56% economic interest in XTAR. In connection with the Sale, SS/L's operations are reflected as discontinued operations in the Company's financial statements. The operations of Telesat and XTAR are not consolidated but are presented using the equity method of accounting.

The Parent Company has no debt. At September 30, 2012, there were no outstanding borrowings and \$4 million of letters of credit outstanding under the SS/L Credit Agreement. Telesat has third party debt with financial institutions. The Parent Company has not provided a guarantee for the debt of Telesat. XTAR has no external debt other than to its LLC member, Hisdesat, for restructured lease payments on the Spainsat satellite. XTAR makes payments of \$5 million per year to pay down the outstanding restructured lease balance.

Cash is maintained at the Parent Company, SS/L, Telesat and XTAR to support the operating needs of each respective entity. The ability of Telesat to pay dividends or certain other restricted payments as well as consulting fees in cash to the Parent Company is governed by applicable covenants relating to its debt and its shareholder agreement. The ability of XTAR to pay dividends and management fees in cash to the Parent Company is governed by its shareholder agreement.

Cash and Available Credit

At September 30, 2012, the Company, excluding SS/L, had \$54 million of cash and cash equivalents, no restricted cash and no debt. As discussed above, the operations of SS/L are reflected as discontinued operations on our financial statements, and SS/L cash was included in assets held for sale on our condensed consolidated balance sheet. At September 30, 2012, SS/L had \$10 million of cash and cash equivalents, and \$86 million of restricted cash and no debt. For the first nine months of 2012, including both continuing and discontinued operations, \$32 million was used in operating activities, \$323 million was provided by investing activities and \$424 million was used in financing activities. A detailed discussion of the cash changes by activity is set forth in the section, "Statement of Cash Flows", below.

As of September 30, 2012, SS/L had borrowing availability of approximately \$146 million under the SS/L Credit Agreement after giving effect to approximately \$4 million of outstanding letters of credit. SS/L was in compliance with all of the covenants of the SS/L Credit Agreement until

it was terminated on November 2, 2012 in connection with the Sale.

Table of Contents

Cash Management

We have a cash management investment program that seeks a competitive return while maintaining a conservative risk profile. Our cash management investment policy establishes what we believe to be conservative guidelines relating to the investment of surplus cash. The policy allows us to invest in commercial paper, money market funds and other similar short term investments but does not permit us to engage in speculative or leveraged transactions, nor does it permit us to hold or issue financial instruments for trading purposes. The cash management investment policy was designed to preserve capital and safeguard principal, to meet all of our liquidity requirements and to provide a competitive rate of return for similar risk categories of investment. The policy addresses dealer qualifications, lists approved securities, establishes minimum acceptable credit ratings, sets concentration limits, defines a maturity structure, requires all firms to safe keep securities on our behalf, requires certain mandatory reporting activity and discusses review of the portfolio. We operate the cash management investment program under the guidelines of our investment policy and continuously monitor the investments to avoid risks.

We currently invest our cash in several liquid Prime AAA money market funds. The dispersion across funds reduces the exposure of a default at one fund.

Liquidity

The \$133 million decrease in cash and cash equivalents for the Company from December 31, 2011 to September 30, 2012 consisted of a \$23 million decrease for the Parent Company and a \$110 million decrease associated with SS/L.

The decrease in Parent Company cash was mainly due to funding \$21 million of operating costs. The Parent Company received \$420 million in distributions from Telesat after converting the Canadian dollars it received and paid \$418 million in dividends to its shareholders. Other cash decreases included approximately \$2 million used for the repurchase of common stock and \$5 million to fund the withholding taxes on employee cashless stock option exercises, net of amounts received from the exercise of stock options.

At the Parent Company, cash flow is fairly predictable and we expect that our cash and cash equivalents as of September 30, 2012 will be sufficient to fund projected expenditures for the next 12 months. On October 31, 2012, the Parent Company received \$24 million from Telesat to repay the outstanding note with interest that was related to the management fee. On November 2, 2012, the Parent Company closed the Sale. The Parent Company received total cash payments of \$968 million, consisting of \$774 million from MDA Holdings for the purchase of the equity interests in SS/L and \$193.9 million from SS/L to repay intercompany balances due Loral and to pay Loral a cash dividend, which included per diem amounts provided for in the Purchase Agreement. In addition, the Parent Company received a three-year promissory note in the principal amount of \$101 million for the purchase of certain real estate used in connection with SS/L's business. As a result of a \$6.5 million write-down of SS/L orbital receivables related to a solar array anomaly, Loral will pay MDA \$6.5 million pursuant to the Purchase Agreement. The sale transaction is taxable, and, for tax purposes, will be treated as a sale of assets.

On November 7, 2012, in connection with the receipt of the proceeds from the Sale, our Board of Directors declared a special distribution of \$29.00 per share for an aggregate distribution of \$899 million. The distribution will be paid on December 4, 2012 to holders of record of Loral voting and non-voting common stock as of November 19, 2012. In accordance with Loral's stock incentive plan, an equitable adjustment will be made to outstanding stock-based awards to reflect the special distribution.

We expect the Sale will enable the Parent Company to reduce the annual run rate of corporate expenses, after a transition period, to approximately \$7 million, excluding costs related to the SS/L transaction and net of consulting fees from Telesat of \$5 million per year. The Parent Company will also receive approximately \$33.67 million from MDA each March 31 for the next three years under the promissory note mentioned above. In addition to our cash on hand, we believe that, given the substantial value of our assets, primarily our 64% economic interest in Telesat and our lack of any debt, the Parent Company has the ability, if appropriate, to access the financial markets for cash requirements. Given the continuously changing financial environment, however, there can be no assurance that the Parent Company would be able to obtain such financing on acceptable terms.

During the first nine months of 2012, SS/L's cash and cash equivalents decreased \$110 million, after funding \$62 million of additional restricted cash.

Table of Contents

Risks to Cash Flow

ViaSat, Inc. and ViaSat Communications, Inc. (formerly known as WildBlue Communications, Inc.) (collectively, "ViaSat") have sued SS/L and Loral in the United States District Court for the Southern District of California. ViaSat's amended complaint alleges, among other things, that SS/L directly, and Loral directly and indirectly, infringed certain ViaSat patents in connection with the manufacture of satellites by SS/L for customers other than ViaSat and that each of SS/L and Loral breached non-disclosure obligations in certain contracts with ViaSat. ViaSat's amended complaint seeks, among other things, damages (including treble damages with respect to the patent infringement claims) in amounts to be determined at trial and to enjoin SS/L and Loral from further infringement of the ViaSat patents and breach of contract.

SS/L and Loral have answered ViaSat's complaint and asserted defenses to ViaSat's claims and counterclaims seeking a declaratory judgment that neither SS/L nor Loral has infringed and that they are not infringing the ViaSat patents, that ViaSat's patents are invalid and that at least certain of ViaSat's patents are unenforceable due to inequitable conduct. SS/L has also asserted counterclaims against ViaSat for patent infringement, alleging, among other things, that ViaSat infringed certain SS/L patents in connection with its manufacture and sale of certain satellite communication products and services. SS/L's counterclaims seek, among other things, damages (including treble damages with respect to at least one of the patent infringement claims) in amounts to be determined at trial and to enjoin ViaSat from further infringement of the SS/L patents.

We believe that each of SS/L and Loral has, and we intend vigorously to pursue, meritorious defenses and counterclaims to ViaSat's claims. There can be no assurance, however, that SS/L's and Loral's defenses and counterclaims will be successful with respect to all or some of ViaSat's claims or that SS/L will prevail with respect to its assertion that ViaSat has infringed SS/L patents. We believe that SS/L's and Loral's conduct was consistent with, and in due regard for, any applicable and valid intellectual property rights of ViaSat. Although no assurance can be provided, we do not believe that this matter will have a material adverse effect on our financial position or results of operations.

Under the terms of the Purchase Agreement, Loral will indemnify SS/L for all Covered Litigation Costs and Covered Litigation Damages (as such terms are defined in the Purchase Agreement), subject to certain capped cost-sharing by SS/L, and will retain control of the defense of the lawsuit by ViaSat against SS/L and Loral as well as SS/L's counterclaims against ViaSat in the lawsuit. Under the terms of the Purchase Agreement, following a change of control of Loral, the liability of Loral for Covered Litigation Costs and Covered Litigation Damages is subject to a dollar cap.

Telesat

Cash and Available Credit

As of September 30, 2012, Telesat had CAD 143 million of cash and short-term investments as well as CAD 140 million of borrowing availability under its revolving facility. Telesat believes that cash and short-term investments as of September 30, 2012, cash flow from operating activities, including amounts from customer prepayments, and drawings on the available lines of credit under the Telesat Senior Credit Facilities will be adequate to meet its expected cash requirements for the next 12 months for activities in the normal course of business, including interest and required principal payments on debt.

For the remainder of 2012, Telesat expects its major cash requirements to include capital expenditures of approximately CAD 30 million, payment of CAD 77 million in principal and interest on long-term debt (including the currency basis swaps and interest rate swaps), approximately CAD 10 million of special payments to executives and certain employees and payments on operating leases. Telesat expects to meet its cash needs for fiscal 2012 through a combination of operating cash and cash equivalents, restricted cash received from insurance proceeds, cash flow from operations, cash flow from customer prepayments or through borrowings on available lines of credit under the Telesat Credit Facility.

Liquidity

A large portion of Telesat's annual cash receipts are reasonably predictable because they are primarily derived from an existing backlog of long-term customer contracts and high contract renewal rates. Telesat believes its cash flow from operations, in addition to cash on hand and available credit facilities, will be sufficient to provide for its capital requirements and to fund its interest and debt payment obligations for the next 12 months.

Table of Contents

The construction of any satellite replacement or expansion program will require significant capital expenditures. Telesat may choose to invest in new satellites to further grow its business. Cash required for future satellite construction programs will be funded from some or all of the following: cash and short-term investments, cash flow from operating activities, cash flow from customer prepayments or through borrowings on available lines of credit under Telesat's revolving facility. In addition, Telesat may sell certain satellite assets, and in accordance with the terms and conditions of the Telesat Senior Credit Facilities, reinvest the proceeds in replacement satellites or pay down indebtedness under the Telesat Senior Credit Facilities. Subject to market conditions and subject to compliance with the terms and conditions of the Telesat Senior Credit Facilities and the financial leverage covenant tests therein, Telesat may also obtain additional secured or unsecured financing to fund current or future satellite construction or to distribute to its equity holders. Telesat's ability to access these sources of funding, however, is not guaranteed and, therefore, Telesat may not be able to fully fund additional replacement and new satellite construction programs.

Debt

Telesat's debt is as follows:

	Maturity	Currency	September 30, December 31, 2012 2011 (In CAD millions)	
Senior Credit Facilities:				
Revolving facility	March 28, 2012	CAD or USD equivalent		
Revolving facility	March 28, 2017	CAD or USD equivalent		
The Canadian term loan facility	March 28, 2012	CAD		80
Term Loan A	March 28, 2017	CAD	500	
Term Loan B Canadian facility	March 28, 2019	CAD	174	
Term Loan B U.S. Facility	March 28, 2019	USD	1,693	
The U.S. term loan facility	March 28, 2012	USD		1,721
The U.S. term loan II facility	October 31, 2014	USD		148
Senior notes	November 1, 2015	USD		707
Senior notes	May 15, 2017	USD	688	
Senior subordinated notes	November 1, 2017	USD	214	222
		CAD	3,269	2,878
Less: deferred financing costs, interest rate floors and prepayment options			(88)	(43)
			3,181	2,835
Current portion		CAD	(24)	(87)
Long term portion		CAD	3,157	2,748

The outstanding debt balances above, with the exception of the revolving facility, are presented net of related debt issuance costs and embedded derivatives such as interest rate floors and prepayment options. The debt issuance costs in the amount of CAD 1.5 million related to the revolving facility are included in other assets and are amortized to interest expense on a straight-line basis. All other debt issuance costs and embedded derivatives are amortized to interest expense using the effective interest method. Telesat incurred CAD 39.1 million of debt issuance costs in connection with the new Telesat Senior Credit Facilities. Telesat also incurred approximately CAD 10.0 million of debt issuance costs in connection with the new senior notes.

Each of the Telesat Senior Credit Facilities is subject to mandatory principal repayment requirements. The maturity date for each of the Telesat Senior Credit Facilities described above will be accelerated if Telesat's existing 6% senior notes due in 2017 and 12.5% senior subordinated notes due in 2017 or certain refinancings thereof are not repurchased, redeemed, refinanced or deferred before the date that is 91 days prior to the maturity date of such notes.

The Telesat Senior Credit Facilities are secured by substantially all of Telesat's assets. Each tranche of the Telesat Senior Credit Facilities is subject to mandatory principal repayment requirements. Borrowings under the Telesat Senior Credit Facilities bear interest at a base interest rate plus margins of 300-375 basis points. There are no required repayments on the Term Loan A facility for the year ended December 31, 2012. For

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

the Term Loan B Canadian and Term Loan B U.S. facilities, required repayments in 2012 at $\frac{1}{4}$ of 1% of the initial aggregate principal amount which are approximately CAD 0.4 million and \$4.0 million, respectively, per quarter beginning on the last day of the fiscal quarter ending September 30, 2012. Telesat is required to comply with certain covenants which are usual and customary for highly leveraged transactions, including financial reporting, maintenance of a senior secured leverage ratio, a requirement to maintain minimum levels of satellite insurance, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions and restrictions on transactions with affiliates.

Table of Contents

The senior notes bear interest at an annual rate of 6.0% and are due May 15, 2017. The senior notes include covenants or terms that restrict Telesat's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel Telesat's satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the senior notes prior to May 15, 2014, in each case subject to exceptions provided in the senior notes indenture.

The senior subordinated notes bear interest at a rate of 12.5% and are due November 1, 2017. The senior subordinated notes include covenants or terms that restrict Telesat's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel Telesat's satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the senior subordinated notes prior to May 1, 2013, in each case subject to exceptions provided in the senior subordinated notes indenture.

A Subordinated Promissory Note (the "PSP Note"), in the amount of CAD 146 million, was issued on March 28, 2012 to an affiliate of PSP Investments. The PSP Note requires payment of at least 50% of the principal amount on March 28, 2014, with the balance, if any, to be repaid no later than March 28, 2016. Telesat will pay interest on the PSP Note at a rate of 9.75% for the first two years and adjusting thereafter to reflect the then-current market rate (but no less than 11% per annum).

On October 29, 2012, Telesat issued, through a private placement, an additional \$200 million of 6% senior notes due 2017. Telesat has used the net proceeds from the debt offering to fund the repayment of certain indebtedness owed to its principal shareholders, including accrued and unpaid interest thereon and for general corporate purposes.

Interest Expense

An estimate of the interest expense on the facilities is based upon assumptions of LIBOR and Bankers Acceptance rates and the applicable margin for the Telesat Senior Credit Facilities. Telesat's estimated interest expense for the year ended December 31, 2012 is approximately CAD 237 million.

Derivatives

Telesat has used interest rate and currency derivatives to hedge its exposure to changes in interest rates and changes in foreign exchange rates.

Telesat uses forward contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites and interest payments. At September 30, 2012, Telesat did not have any outstanding foreign exchange contracts.

Telesat has entered into a cross currency basis swap to hedge the foreign currency risk on a portion of its US dollar denominated debt. Telesat uses mostly natural hedges to manage the foreign exchange risk on operating cash flows. At September 30, 2012, Telesat had a cross currency basis swap of CAD 1,166 million which requires it to pay Canadian dollars to receive \$1,004 million. The fair value of this derivative contract was a liability of CAD 201.9 million and CAD 160.4 million as of September 30, 2012 and December 31, 2011, respectively.

This non-cash loss will remain unrealized until the contract is settled. This contract matures on October 31, 2014.

Interest

Telesat is exposed to interest rate risk on its cash and cash equivalents and its long term debt which is primarily variable rate financing. Changes in the interest rates could impact the amount of interest Telesat is required to pay. Telesat uses interest rate swaps to hedge the interest rate risk related to variable rate debt financing. At September 30, 2012, Telesat had a series of five interest rate swaps to fix interest on \$1.5 billion of debt at a weighted average fixed rate of 2.63% and one interest rate swap to pay a fixed rate of 1.46% on \$300 million of US dollar denominated debt. The fair value of these derivative contract liabilities was CAD 42.5 million and CAD 53 million as of September 30, 2012 and December 31, 2011, respectively. These contracts mature between October 31, 2014 and September 30, 2016.

Table of Contents

Contractual Obligations

As of September 30, 2012, there were no significant changes to the contractual obligations as previously disclosed in our latest Annual Report on Form 10-K filed with the SEC.

Statement of Cash Flows

Net Cash (Used in) Provided by Operating Activities

Net cash used in operations was \$32 million for the nine months ended September 30, 2012.

Net cash used in operating activities by continuing operations was \$21 million, consisting primarily of income from continuing operations adjusted for non-cash operating items and the decrease in our liability for UTPs.

Discontinued operations used \$12 million, mainly due to an increase in program related assets (contracts-in-process and customer advances) and inventory of \$77 million, partially offset by income adjusted for non-cash items of \$66 million.

Net cash provided by operations was \$67 million for the nine months ended September 30, 2011.

Income from continuing operations adjusted for non-cash items used \$10 million. Other factors affecting cash from operating activities of continuing operations: Decreases in other current assets and other assets provided \$11 million including \$9 million of recoveries under directors and officers liability insurance, decreases in income taxes payable used \$7 million and changes in other operating assets and liabilities used \$6 million.

Discontinued operations provided cash of \$78 million, mainly due to net income adjusted for non-cash items of \$94 million, partially offset by an increase in program related assets and other net changes to working capital accounts of \$16 million.

Net Cash Provided by Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2012 was \$323 million resulting from special cash distributions by Telesat of \$420 million, partially offset by \$99 million of cash used by discontinued operations, primarily for capital expenditures of \$37 million and a \$62 million increase in restricted cash.

Net cash provided by investing activities for the nine months ended September 30, 2011 was \$22 million resulting from the sale of our interest in ViaSat-1 and related net assets for \$61 million, partially offset by \$40 million of cash used by discontinued operations primarily for capital expenditures of \$28 million and an \$11 million increase in restricted cash.

Table of Contents

Net Cash Used in Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2012 was \$424 million primarily due to payment of a special dividend of \$418 million to common shareholders and funding by the Company of withholding taxes of \$6 million on employee cashless stock option exercises.

Net cash used in financing activities for the nine months ended September 30, 2011 was \$15 million mainly relating to funding by the Company of withholding taxes on employee cashless stock option exercises.

Affiliate Matters

Loral has made certain investments in joint ventures in the satellite services business that are accounted for under the equity method of accounting. See Note 10 to the financial statements for further information on affiliate matters.

Commitments and Contingencies

Our business and operations are subject to a number of significant risks, the most significant of which are summarized in Item 1A Risk Factors and also in Note 17 to the financial statements.

Other Matters

Recent Accounting Pronouncements

There are no accounting pronouncements that have been issued but not yet adopted that we believe will have a significant impact on our financial statements.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Foreign Currency

Loral

In the normal course of business, we are subject to the risks associated with fluctuations in foreign currency exchange rates. To limit this foreign exchange rate exposure, the Company seeks to denominate its contracts in U.S. dollars. If we are unable to enter into a contract in U.S. dollars, we review our foreign exchange exposure and, where appropriate derivatives are used to minimize the risk of foreign exchange rate fluctuations to operating results and cash flows. We do not use derivative instruments for trading or speculative purposes.

As of September 30, 2012, SS/L had the following amounts denominated in Japanese yen and euros (which have been translated into U.S. dollars based on the September 30, 2012 exchange rates) that were unhedged (in millions):

		Foreign Currency	U.S.\$
Future revenues	Japanese yen	¥ 67.0	\$ 0.9
Future expenditures	Japanese yen	¥ 2,887.1	\$ 37.0
Future revenues	euros	17.1	\$ 22.0
Future expenditures	euros	1.7	\$ 2.2

Table of Contents*Derivatives*

In June 2010, SS/L was awarded a satellite contract denominated in euros and entered into a series of foreign exchange forward contracts with maturities through 2013, respectively, to hedge associated foreign currency exchange risk because our costs are denominated principally in U.S. dollars. These foreign exchange forward contracts have been designated as cash flow hedges of future euro denominated receivables.

In March 2012, Telesat declared a special cash distribution denominated in Canadian dollars that was paid in two tranches (see Note 10). Loral entered into a foreign exchange forward contract to hedge foreign exchange risk associated with the payment of the second tranche. This foreign exchange forward contract has not been designated as a hedging instrument.

The maturity of foreign currency exchange contracts held as of September 30, 2012 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows (in millions):

Maturity	Euro Amount	To Buy Hedge	At
		Contract Rate	Market Rate
2012	0.4	\$ 0.6	\$ 0.6
	0.4	0.6	0.6
Discontinued operations	(0.4)	(0.6)	(0.6)
Continuing operations		\$	\$

Maturity	Euro Amount	To Sell Hedge	At
		Contract Rate	Market Rate
2012	4.2	\$ 5.2	\$ 5.4
2013	27.0	32.9	34.8
	31.2	38.1	40.2
Discontinued operations	(31.2)	(38.1)	(40.2)
Continuing operations		\$	\$

As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Company has a policy of entering into contracts only with carefully selected major financial institutions based upon their credit ratings and other factors.

There were no derivative instruments in an asset position as of September 30, 2012. Therefore, there was no exposure to loss at such date as a result of the potential failure of the counterparties to perform as contracted.

Telesat

Telesat's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Approximately 48% of Telesat's revenues for the nine months ended September 30, 2012, a substantial portion of its

Edgar Filing: LORAL SPACE & COMMUNICATIONS INC. - Form 10-Q

expenses and a substantial portion of its indebtedness and capital expenditures are denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at September 30, 2012 would have increased or decreased Telesat's net income for the nine months ended September 30, 2012 by approximately \$144 million.

See *Management's Discussion and Analysis of Financial Condition and Results of Operations* - Liquidity and Capital Resources - *Telesat Derivatives* for a discussion of derivatives at Telesat.

Table of Contents

Interest

Loral

The Company had no borrowings outstanding under the SS/L Credit Agreement at September 30, 2012. Borrowings under this facility are limited to Eurodollar Loans for periods ending in one, two, three or nine months or daily loans for which the interest rate is adjusted daily based upon changes in the Prime Rate, Federal Funds Rate or one month Eurodollar Rate. Because of the nature of the borrowing under a revolving credit facility, the borrowing rate adjusts to changes in interest rates over time. For a \$150 million credit facility, if it were fully borrowed, a one percent change in interest rates would affect the Company's interest expense by \$1.5 million for the year. The Company had no other long-term debt or other exposure to changes in interest rates with respect thereto.

Telesat

Telesat is exposed to interest rate risk on its cash and cash equivalents and the portion of its long term debt which is variable rate financing and unhedged. Changes in the interest rates could impact the amount of interest Telesat is required to pay.

Other

As of September 30, 2012, the Company held 984,173 shares of Globalstar Inc. common stock and \$0.1 million of non-qualified pension plan assets that were mainly invested in equity and bond funds. During the first three quarters of 2012, our excess cash was invested in money market securities; we did not hold any other marketable securities.

Item 4. Disclosure Controls and Procedures

(a) *Disclosure Controls and Procedures.* Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended (the Exchange Act)) as of September 30, 2012, have concluded that our disclosure controls and procedures were effective and designed to ensure that information relating to Loral and its consolidated subsidiaries required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission rules and forms.

(b) *Internal control over financial reporting.* There were no changes in our internal control over financial reporting (as defined in the Securities and Exchange Act of 1934 Rules 13a-15(f) and 15-d-15(f)) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II.****OTHER INFORMATION****Item 1. Legal Proceedings**

We discuss certain legal proceedings pending against the Company in the notes to the financial statements and refer the reader to that discussion for important information concerning those legal proceedings, including the basis for such actions and relief sought. See Note 17 to the financial statements of this Quarterly Report on Form 10-Q for this discussion.

Item 1A. Risk Factors

Our business and operations are subject to a significant number of risks. The most significant of these risks are summarized in, and the reader's attention is directed to, the section of our Annual Report on Form 10-K for the year ended December 31, 2011 in Item 1A. Risk Factors. There are no material changes to those risk factors except as set forth in Note 17 (Commitments and Contingencies) of the financial statements contained in this report, and the reader is specifically directed to that section. Additional risk factors are set forth below.

Loral believes that, after giving effect to the Sale, its ownership interest in Telesat represents substantially all of the value of the Company. If a Telesat initial public offering were to occur, the trading value of Telesat stock could adversely affect the liquidity in and price of Loral common stock because the Telesat common stock would represent a direct interest in Telesat whereas the value of the common shares of Loral would also include other assets and liabilities, many of which are hard to value.

The risks described in our Annual Report on Form 10-K, as updated by this report, are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Issuer Purchases of Equity Securities

The following table provides information about share repurchases made by Loral of its voting common stock that are registered pursuant to Section 12 of the Exchange Act during 2012. Repurchases are made from time to time at management's discretion in accordance with applicable federal securities laws. All share repurchases of Loral's voting common stock have been recorded as treasury shares.

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs ⁽¹⁾
June 28-30, 2012	18,000	66.22	18,000	645,506

- (1) On November 14, 2011, Loral's Board of Directors approved a share purchase program that authorizes Loral to purchase up to 800,000 shares of its outstanding voting common stock.

Table of Contents

Item 6. Exhibits

The following exhibits are filed as part of this report:

- Exhibit 10.1 Amendment No. 1 to the Purchase Agreement, dated as of October 30, 2012, by and among Loral Space & Communications Inc., Space Systems/Loral, Inc., MacDonald, Dettwiler and Associates Ltd. and MDA Communications Holdings, Inc. (Incorporated by reference from the Company's Current Report on Form 8-K filed on November 5, 2012)
- Exhibit 10.2 Promissory Note, dated as of November 2, 2012, by and between MacDonald, Dettwiler and Associates Ltd., as maker, and Loral Space & Communications Inc., as payee (Incorporated by reference from the Company's Current Report on Form 8-K filed on November 5, 2012)
- Exhibit 31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 101 The following financial information for the Registrant, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statements of Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

Registrant

LORAL SPACE & COMMUNICATIONS INC.

/s/ HARVEY B. REIN

Harvey B. Rein

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

and Registrant's Authorized Officer

Date: November 14, 2012

Table of Contents

EXHIBIT INDEX

Exhibit 10.1	Amendment No. 1 to the Purchase Agreement, dated as of October 30, 2012, by and among Loral Space & Communications Inc., Space Systems/Loral, Inc., MacDonald, Dettwiler and Associates Ltd. and MDA Communications Holdings, Inc. (Incorporated by reference from the Company's Current Report on Form 8-K filed on November 5, 2012)
Exhibit 10.2	Promissory Note, dated as of November 2, 2012, by and between MacDonald, Dettwiler and Associates Ltd., as maker, and Loral Space & Communications Inc., as payee (Incorporated by reference from the Company's Current Report on Form 8-K filed on November 5, 2012)
Exhibit 31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101	The following financial information for the Registrant, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statements of Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.