

LORAL SPACE & COMMUNICATIONS INC.  
Form 10-Q  
November 12, 2013

**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, 2013**

**Commission file number 1-14180**

**Loral Space & Communications Inc.**

**888 Seventh Avenue**

**New York, New York 10106**

**Telephone: (212) 697-1105**

**Jurisdiction of incorporation: Delaware**

**IRS identification number: 87-0748324**

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

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

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

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

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

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

As of October 31, 2013, 21,414,212 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, 2013**

	<b>Page No.</b>
<b>PART I — FINANCIAL INFORMATION</b>	
<b><u>Item 1: Financial Statements (Unaudited)</u></b>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2013 and September 30, 2012</u>	4
<u>Condensed Consolidated Statements of Equity for the nine months ended September 30, 2013 and the year ended December 31, 2012</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and September 30, 2012</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<b><u>Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	28
<b><u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u></b>	45
<b><u>Item 4: Disclosure Controls and Procedures</u></b>	46
<b>PART II — OTHER INFORMATION</b>	
<b><u>Item 1: Legal Proceedings</u></b>	47
<b><u>Item 1A: Risk Factors</u></b>	47
<b><u>Item 6: Exhibits</u></b>	47
<b><u>Signatures</u></b>	48

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, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,997	\$ 87,370
Notes receivable	67,333	34,917
Income taxes receivable	11,577	571
Deferred tax assets	12,377	4,165
Other current assets	767	2,084
Total current assets	116,051	129,107
Property and equipment, net	92	42
Long-term receivables	33,667	67,333
Income taxes receivable	8,321	—
Investments in affiliates	91,565	62,517
Long-term deferred tax assets	93,468	117,381
Other assets	2,612	2,612
Total assets	\$ 345,776	\$ 378,992
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accrued employment costs	\$ 2,200	\$ 4,922
Income taxes payable	—	34,505
Other current liabilities	26,446	32,089
Total current liabilities	28,646	71,516
Pension and other postretirement liabilities	24,103	25,174
Long-term liabilities	97,620	95,841
Total liabilities	150,369	192,531
Commitments and contingencies		

Equity:

Loral shareholders' equity:

Preferred stock, 0.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock:		
Voting common stock, 0.01 par value; 50,000,000 shares authorized, 21,568,706 and 21,416,834 issued	216	214
Non-voting common stock, 0.01 par value; 20,000,000 shares authorized 9,505,673 issued and outstanding	95	95
Paid-in capital	1,019,579	1,027,266
Treasury stock (at cost), 154,494 shares of voting common stock	(9,592 )	(9,592 )
Accumulated deficit	(779,886 )	(794,128 )
Accumulated other comprehensive loss	(35,005 )	(37,394 )
Total equity	195,407	186,461
Total liabilities and equity	\$ 345,776	\$ 378,992

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,	
	2013	2012	2013	2012
General and administrative expenses	\$ (3,452 )	\$ (10,316 )	\$ (10,559 )	\$ (19,191 )
Operating loss	(3,452 )	(10,316 )	(10,559 )	(19,191 )
Interest and investment income	307	423	939	1,313
Interest expense	(5 )	(30 )	(13 )	(87 )
Other expense	(215 )	(2,875 )	(586 )	(3,498 )
Loss from continuing operations before income taxes and equity in net income of affiliates	(3,365 )	(12,798 )	(10,219 )	(21,463 )
Income tax benefit	7,589	36,616	2,604	39,157
Income (loss) from continuing operations before equity in net income of affiliates	4,224	23,818	(7,615 )	17,694
Equity in net income of affiliates	33,358	41,586	26,209	37,102
Income from continuing operations	37,582	65,404	18,594	54,796
(Loss) income from discontinued operations, net of tax	(1,987 )	4,271	(4,352 )	17,716
Net income	35,595	69,675	14,242	72,512
Net loss attributable to noncontrolling interest	—	214	—	230
Net income attributable to Loral common shareholders	35,595	69,889	14,242	72,742
Other comprehensive income, net of tax	526	2,285	2,389	7,496
Comprehensive income attributable to Loral common shareholders	\$ 36,121	\$ 72,174	\$ 16,631	\$ 80,238
Net income per share attributable to Loral common shareholders:				
Basic				
Income from continuing operations	\$ 1.22	\$ 2.13	\$ 0.60	\$ 1.79
(Loss) income from discontinued operations, net of tax	(0.06 )	0.14	(0.14 )	0.58
Net income	\$ 1.16	\$ 2.27	\$ 0.46	\$ 2.37
Diluted				
Income from continuing operations	\$ 1.19	\$ 2.05	\$ 0.58	\$ 1.76
(Loss) income from discontinued operations, net of tax	(0.06 )	0.14	(0.14 )	0.58
Net income	\$ 1.13	\$ 2.19	\$ 0.44	\$ 2.34
Weighted average common shares outstanding:				
Basic	30,920	30,745	30,827	30,684
Diluted	31,004	30,997	30,997	30,980

See notes to condensed consolidated financial statements.

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

	Common Stock					Treasury Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Shareholders' Equity Attributable to Loral	Noncontrolling Interest	Total
	Voting Shares Issued	Amount	Non-Voting Shares Issued	Amount	Paid-In Capital	Shares	Amount					
Balance, January 1, 2012	21,230	\$212	9,506	\$95	\$1,014,724	136	\$(8,400)	\$94,303	\$(154,475)	\$946,459	\$1,126	\$
Net income (loss)								421,322			(231)	
Other comprehensive income									117,081			
Comprehensive income										538,403		
Elimination of noncontrolling interest resulting from the Sale												(895)
Common dividends declared (\$13.60 per share)								(417,606)		(417,606)		
Special distribution declared (\$29.00 per share)								(892,147)		(892,147)		
Exercise of stock options	169	2			1,633					1,635		
Shares surrendered to fund withholding taxes	18				(6,992)					(6,992)		
					16,919					16,919		



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

Tax benefit associated with stock-based compensation														
Stock-based compensation					1,151								1,151	
Cash settlement of restricted stock units					(169 )								(169 )	
Voting common stock repurchased						18	(1,192)						(1,192 )	
Balance, December 31, 2012	21,417	214	9,506	95	1,027,266	154	(9,592)	(794,128)	(37,394 )				186,461	—
Net income								14,242						
Other comprehensive income									2,389					
Comprehensive income													16,631	
Exercise of restricted stock units	175	2			(2 )								—	
Equitable adjustment to restricted stock units for dividends and distributions	120	1			(1 )								—	
Shares surrendered to fund withholding taxes	(143 )	(1 )			(8,896 )								(8,897 )	
Tax benefit associated with stock-based compensation					795								795	
Stock-based compensation					417								417	
Balance, September 30, 2013	21,569	\$216	9,506	\$95	\$1,019,579	154	\$(9,592)	\$(779,886)	\$(35,005 )				\$195,407	\$—

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,	
	2013	2012
Operating activities:		
Net income	\$ 14,242	\$ 72,512
Loss (income) from discontinued operations, net of tax	4,352	(17,716 )
Adjustments to reconcile net income to net cash used in operating activities:		
Non-cash operating items (Note 2)	(4,953 )	(22,309 )
Changes in operating assets and liabilities:		
Long-term receivables	—	(3,253 )
Other current assets and other assets	1,812	1,842
Accrued expenses and other current liabilities	(6,648 )	4,462
Income taxes receivable and payable	(18,711 )	(383 )
Pension and other postretirement liabilities	(1,695 )	(1,528 )
Long-term liabilities	(1,702 )	(54,186 )
Net cash used in operating activities – continuing operations	(13,303 )	(20,559 )
Net cash used in operating activities – discontinued operations	(43,060 )	(11,726 )
Net cash used in operating activities	(56,363 )	(32,285 )
Investing activities:		
Distributions received from affiliate	—	420,199
Proceeds from sale of investments, net	1,150	1,316
Capital expenditures	(58 )	—
Net cash provided by investing activities – continuing operations	1,092	421,515
Net cash used in investing activities – discontinued operations	—	(98,520 )
Net cash provided by investing activities	1,092	322,995
Financing activities:		
Cash dividend paid	—	(417,606 )
Voting common stock repurchased	—	(1,664 )
Proceeds from the exercise of stock options	—	1,635
Cash settlement of restricted stock units	—	(169 )
Funding of withholding taxes for stock-based compensation	(8,897 )	(6,301 )
Excess tax benefit associated with stock-based compensation	795	—
Net cash used in financing activities – continuing operations	(8,102 )	(424,105 )
Net cash provided by financing activities – discontinued operations	—	—
Net cash used in financing activities	(8,102 )	(424,105 )
Decrease in cash and cash equivalents	(63,373 )	(133,395 )
Cash and cash equivalents — beginning of period	87,370	197,114
Cash and cash equivalents — continuing and discontinued operations — end of period	23,997	63,719

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

Cash and cash equivalents — discontinued operations — end of period	—	(9,787 )
Cash and cash equivalents — end of period	\$23,997	\$53,932

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 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.

*Sale of SS/L*

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 as of June 26, 2012, as amended on October 30, 2012 and March 28, 2013, by and among Loral, SS/L, MDA and MDA Holdings, Loral received total cash payments of \$967.9 million plus, for the sale of certain real estate used in connection with SS/L’s business, a three-year promissory note in the principal amount of \$101 million (the “Land Note”). Transaction costs related to the Sale were \$35.2 million.

Subsequent to the closing of the Sale and pursuant to the Purchase Agreement, Loral, in December 2012, paid MDA \$6.5 million as a result of the resolution of a contingency (see Note 16). Also, in April 2013, pursuant to the Purchase Agreement, we completed the final allocation of qualified pension plan assets between Loral and SS/L (see Note 14).

The transaction was taxable, and, for tax purposes, treated as a sale of assets.

Under the terms of the Purchase Agreement, Loral is obligated to indemnify SS/L for certain litigation costs and litigation damages, subject to certain capped cost-sharing by SS/L, and has retained control of the defense of the lawsuit against SS/L and Loral by ViaSat, Inc. (“ViaSat”) as well as SS/L’s counterclaims against ViaSat in that lawsuit. Under the terms of the Purchase Agreement, following a change of control of Loral, the liability of Loral for certain litigation costs and litigation damages is subject to a dollar cap. In addition, Loral is obligated to indemnify SS/L from

liabilities with respect to certain pre-closing taxes.

The Land Note originally issued at closing provided for interest at the rate of 1% per annum with amortization in three equal annual installments on each March 31, commencing March 31, 2013. The Land Note was amended as described below and is backed by a letter of guarantee from Royal Bank of Canada.

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 \$892.1 million. The special distribution was 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 was made to outstanding stock-based awards to reflect the special distribution.

On March 28, 2013, Loral and MDA amended the Purchase Agreement to modify SS/L's capped cost sharing obligations related to Loral's indemnification of certain litigation costs and litigation damages and also amended the Land Note to defer to March 31, 2014 the due date of the principal payment from MDA to Loral of \$33.7 million due originally on March 31, 2013 with an increase in the interest rate applicable to this tranche of the Land Note from 1.0% to 1.5% effective as of April 1, 2013.

#### *Reclassification to Discontinued Operations*

For 2012, 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.

#### *Description of Business*

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 global satellite services 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.

Table of Contents

**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Loral holds a 62.8% economic interest and a 32.7% voting interest in Telesat Holdco (see Note 7). 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, 2013 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2012 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.

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.

Significant estimates include the fair value of stock-based compensation, the realization of deferred tax assets, uncertain tax positions, our pension liabilities and the fair value of indemnification liabilities.

***Concentration of Credit Risk***

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and receivables. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Our receivables are from large multinational corporations for which the creditworthiness is generally substantial. In addition, the Land Note is guaranteed by Royal Bank of Canada. As a result, management believes that its potential credit risks are minimal.

***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.



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

*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.

*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, 2013 and December 31, 2012 (in thousands):

	September 30, 2013			December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
Cash equivalents						
Money market funds	\$20,513	\$ —	\$—	\$86,820	\$ —	\$—
Note receivable						
Land Note	\$—	\$ —	\$101,000	\$—	\$ —	\$101,000
<b>Liabilities</b>						
<b>Indemnifications</b>						
Sale of SS/L	\$—	\$ —	\$16,000	\$—	\$ —	\$16,528
Globalstar do Brasil S.A.	\$—	\$ —	\$1,800	\$—	\$ —	\$1,510

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments. The carrying amount of the Land Note approximates fair value because the stated interest rate is consistent with current market rates. The fair value of indemnifications related to the sale of SS/L was estimated using Monte Carlo

simulation based on the potential probability weighted cash flows that would be a guarantor's responsibility in an arm's length transaction. The fair value of indemnifications related to Globalstar do Brasil S.A. was estimated using expected value analysis. 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, 2013.

*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 July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This new standard requires the netting of unrecognized tax benefits ("UTBs") against available deferred tax assets for losses and other carryforward benefits that would be available to offset the liability for uncertain tax positions rather than presenting the UTB on a gross basis. The guidance, effective for the Company on January 1, 2014, will have no impact on our consolidated financial statements as the Company has already adopted this methodology.

Table of Contents

**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830) - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. ASU No. 2013-05 clarifies that the cumulative translation adjustment should be released into net income only when a reporting entity ceases to have a controlling financial interest in a subsidiary or a business within a foreign entity. Further, for an equity method investment that is a foreign entity, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. The guidance, effective for the Company on January 1, 2014, is not expected to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405) – Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. ASU No. 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of: (a) The amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors, and (b) Any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance, effective for the Company on January 1, 2014, is not expected to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (ASC Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The guidance, effective for the Company on January 1, 2013, requires changes in presentation which have been included in our condensed consolidated financial statements.

***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,	
	2013	2012
Non-cash operating items:		
Equity in net income of affiliates	\$(26,209 )	\$(37,102 )
Deferred taxes	16,257	14,852
Depreciation and amortization	9	53
Stock-based compensation	417	804
Amortization of prior service credit and actuarial loss	4,573	508
Unrealized gain on nonqualified pension plan assets	—	(108 )
Gain on foreign currency transactions and contracts	—	(1,316 )
Net non-cash operating items-continuing operations	\$(4,953 )	\$(22,309 )
Non-cash operating items – discontinued operations	\$—	\$47,955
Non-cash investing activities:		
Capital expenditures incurred not yet paid-discontinued operations	\$—	\$3,696
Supplemental information:		
Interest paid – continuing operations	\$13	\$87
Interest paid – discontinued operations	\$—	\$1,517
Tax payments, net of refunds – continuing operations	\$136	\$86
Tax payments – discontinued operations	\$35,118	\$—

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

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

Loss from discontinued operations for the three and nine months ended September 30, 2013 primarily comprises changes in the fair value of our indemnification liabilities related to the Sale, net of a \$1.2 million and \$2.7 million income tax benefit, respectively. The following is a summary of SS/L's financial information included in income from discontinued operations for the three and nine months ended September 30, 2012 (in thousands):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Revenues	\$ 280,305	\$ 861,395
Operating income	4,665	15,788
Income before income taxes	9,127	34,165
Income tax provision	(4,856)	(16,449)
Income from discontinued operations, net of tax	\$ 4,271	\$ 17,716

**4. Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss, net of tax, are as follows (in thousands):

	Unrealized Gains (losses) on Derivatives Investments	Postretirement Benefits	Proportionate Share of Telesat Other Comprehensive Loss	Accumulated Other Comprehensive Loss
Balance at January 1, 2012	\$ (1,306 ) \$ 580	\$ (132,695 )	\$ (21,054 )	\$ (154,475 )

Other comprehensive (loss) income before reclassification	(415 )	(120 )	1,668	1,313	2,446
Amounts reclassified from accumulated other comprehensive income (loss)	1,721	(460 )	113,374	—	114,635
Net current-period other comprehensive income (loss)	1,306	(580 )	115,042	1,313	117,081
Balance at December 31, 2012	—	—	(17,653 )	(19,741 )	(37,394 )
Other comprehensive loss before reclassification	—	—	(319 )	(83 )	(402 )
Amounts reclassified from accumulated other comprehensive loss	—	—	2,791	(a) —	2,791
Net current-period other comprehensive income	—	—	2,472	(83 )	2,389
Balance at September 30, 2013	\$ —	\$ —	\$ (15,181 )	\$ (19,824 )	\$ (35,005 )

(a) Reclassification from postretirement benefits accumulated other comprehensive loss comprises \$4.6 million included in general and administrative expenses and \$1.8 million tax benefit thereon included in income tax benefit in our condensed consolidated statement of operations.

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

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

	Three Months Ended September 30, 2013		2012		Net-of-Tax Amount
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	
Postretirement Benefits:					
Net actuarial loss and prior service credits	\$(564 )	\$ 245	\$ (319 )	\$—	\$ —
Amortization of prior service credits and net actuarial loss	1,559	(631 )	928	2,012	(806 )
Postretirement benefits	995	(386 )	609	2,012	(806 )
Proportionate share of Telesat Holdco other comprehensive (loss) gain	(127 )	44	(83 )	736	(292 )
Derivatives:					
Unrealized loss on foreign currency hedges	—	—	—	(213 )	85
Less: reclassification adjustment for loss included in net income from discontinued operations	—	—	—	1,134	(453 )
Net unrealized gain on derivatives	—	—	—	921	(368 )
Unrealized gain on available-for-sale securities	—	—	—	138	(56 )
Other comprehensive income	\$868	\$ (342 )	\$ 526	\$3,807	\$ (1,522 )

	Nine Months Ended September 30, 2013		2012		Net-of-Tax Amount
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	
Postretirement Benefits:					
Net actuarial loss and prior service credits	\$(564 )	\$ 245	\$ (319 )	\$—	\$ —
Amortization of prior service credits and net actuarial loss	4,573	(1,782 )	2,791	6,036	(2,423 )
Postretirement benefits	4,009	(1,537 )	2,472	6,036	(2,423 )

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

Proportionate share of Telesat Holdco other comprehensive (loss) income	(127 )	44	(83 )	775	(310 )	465
Derivatives:						
Unrealized loss on foreign currency hedges	—	—	—	(498 )	200	(298 )
Less: reclassification adjustment for loss included in net income from discontinued operations	—	—	—	6,290	(2,526 )	3,764
Net unrealized gain on derivatives	—	—	—	5,792	(2,326 )	3,466
Unrealized loss on available-for-sale securities	—	—	—	(79 )	31	(48 )
Other comprehensive income	\$3,882	\$ (1,493 )	\$ 2,389	\$12,524	\$ (5,028 )	\$ 7,496



Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. Receivables**

Receivable balances related to the Land Note (see Note 1) and the Telesat consulting services fee (see Note 17) as of September 30, 2013 and December 31, 2012 are presented below (in thousands):

	September 30, 2013	December 31, 2012
Land Note receivable	\$ 101,000	\$ 101,000
Telesat notes receivable for consulting services	—	1,250
	101,000	102,250
Less: current portion	(67,333 )	(34,917 )
Long-term receivables	\$ 33,667	\$ 67,333

As a result of the amendment to the Purchase Agreement on March 28, 2013, principal payments under the Land Note are scheduled to be received as follows: \$67.3 million on March 31, 2014 and \$33.7 million on March 31, 2015. Interest on the Land Note ranges between one and one and one half percent per annum and is payable quarterly.

See Note 17 for the terms of the Telesat notes receivable for consulting services.

**6. Property and Equipment**

Property and equipment consists of (in thousands):

	September 30, 2013	December 31, 2012
Leasehold improvements	\$ 55	\$ 1,913
Equipment	516	555
Furniture and fixtures	74	73

	645		2,541
Accumulated depreciation and amortization	(553	)	(2,499
	\$ 92		\$ 42

## 7. Investments in Affiliates

Investments in affiliates consist of (in thousands):

	September 30, 2013	December 31, 2012
Telesat Holdings Inc.	\$ 34,116	\$ —
XTAR, LLC	57,449	62,517
	\$ 91,565	\$ 62,517

Our investment in Telesat Holdco was reduced to zero as of December 31, 2012, as discussed below.

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2013	2012	2013	2012
Telesat Holdings Inc.	\$ 34,242	\$ 43,654	\$ 34,242	\$ 42,179
XTAR, LLC	(1,569 )	(2,068 )	(5,068 )	(5,077 )
Other	685	—	(2,965 )	—
	\$ 33,358	\$ 41,586	\$ 26,209	\$ 37,102

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

The condensed consolidated statements of operations for the three and nine months ended September 30, 2012 reflect the effects of the following amounts related to SS/L's transactions with our affiliates (in thousands):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Revenues included in income from discontinued operations	\$ 9,363	\$ 55,946
Elimination of Loral's proportionate share of profits relating to affiliate transactions	(2,438)	(16,463)
Profits included in income from discontinued operations relating to affiliate transactions not eliminated	1,371	9,260

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***

As of December 31, 2012 and September 30, 2013, we held a 62.8% economic interest in Telesat. Our economic interest decreased from 64% to 62.8% in December 2012 when certain executives of Telesat exercised share appreciation rights related to a total of 5,311,568 stock options granted under Telesat's share based compensation plan and received 2,249,747 non-voting participating preferred shares.

We use the equity method of accounting for our majority economic interest in Telesat because we own 32.7% 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. We have also concluded that Telesat is not a variable interest entity for which we are the primary beneficiary. 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 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.

In connection with the closing of a new credit agreement (the “Telesat Credit Agreement”) in March 2012, the Board of Directors of Telesat approved special cash distributions to Telesat’s shareholders of CAD 656.5 million, including a distribution of CAD 420 million to Loral. The special distributions by Telesat to its shareholders were 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).

As of December 31, 2012, the special cash distributions received from Telesat exceeded our recorded cumulative equity in net income of Telesat and our initial investment by \$7.4 million. In following the equity method of accounting, our investment balance in Telesat was reduced to zero as of December 31, 2012. For the three and nine months ended September 30, 2013, we reduced our equity in net income of Telesat by the excess special cash distribution of \$7.4 million.

On April 2, 2013, Telesat re-priced and amended its existing credit agreement, dated March 28, 2012. The amendment converted CAD 34 million from Canadian to U.S. dollars and decreased the interest rates on Telesat’s Canadian and U.S. term loan B facilities by 0.50%. The amendment also decreased the interest rate floors on the debt to 1.00% and 0.75% for the Canadian term loan B facility and U.S. term loan B facility, respectively. The permitted leverage ratio to incur first lien debt is now 4.25:1.00 which represents a change from the prior 4.00:1.00 senior secured leverage ratio in the credit agreement.

On May 1, 2013, Telesat redeemed its 12.5% senior subordinated notes due November 1, 2017 at a price of 106.25% of the principal amount of the senior subordinated notes. Expense of refinancing for the nine months ended September 30, 2013 primarily represents the premium paid and the write-off of deferred financing costs related to this note redemption.

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

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 in Telesat's debt and shareholder agreements. Under Telesat's credit agreement and the indenture for Telesat's 6% senior notes, 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 6% senior note indenture and credit agreement, Telesat is generally permitted to pay consulting fees to Loral in cash. Our general and administrative expenses are net of income related to the Consulting Agreement of \$1.25 million for each of the three month periods ended September 30, 2013 and 2012 and \$3.8 million for each of the nine months period ended September 30, 2013 and 2012. For the nine months ended September 30, 2013 and 2012, Loral received payments in cash from Telesat of \$5.1 million and \$1.6 million, respectively, for consulting fees and interest. The payments received by Loral from Telesat for the nine months ended September 30, 2013 included redemption of \$1.3 million of notes receivable. These amounts were not allowed to be paid as of December 31, 2012 because Telesat did not meet the leverage ratio required for payment under the indenture for its 12.5% senior subordinated notes due November 1, 2017.

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 net 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 constructed for Telesat while we owned SS/L.

The following table presents summary financial data for Telesat in accordance with U.S. GAAP, as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Statement of Operations Data:				
Revenues	\$ 226,907	\$ 220,361	\$ 654,413	\$ 616,236
Operating expenses	(45,736 )	(50,372 )	(140,068 )	(186,319 )
Depreciation, amortization and stock-based compensation	(62,946 )	(65,291 )	(183,609 )	(186,788 )
Loss on disposition of long lived asset	(15 )	(53 )	(1,557 )	(129 )
Operating income	118,210	104,645	329,179	243,000
Interest expense	(49,831 )	(59,020 )	(160,603 )	(172,302 )

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

Expense of refinancing	—	(270 )	(19,763 )	(79,673 )
Foreign exchange gains (losses)	58,171	94,424	(110,558)	100,736
(Losses) gains on financial instruments	(25,471 )	(40,900 )	71,137	(41,555 )
Other income	420	179	11,055	1,144
Income tax provision	(18,485 )	(14,333 )	(45,478 )	(18,652 )
Net income	83,014	84,725	74,969	32,698

	September 30, 2013	December 31, 2012
Balance Sheet Data:		
Current assets	\$ 324,416	\$ 289,614
Total assets	5,060,765	5,342,313
Current liabilities	308,258	237,739
Long-term debt, including current portion	3,244,624	3,519,872
Total liabilities	4,436,822	4,770,966
Shareholders' equity	623,943	571,347

Table of Contents

**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

***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 72MHz 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, 2013, 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 \$25 million in 2013, 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 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, 2013 were \$22.9 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 17). The ability of XTAR to pay dividends and management fees in cash to Loral is governed by XTAR’s operating agreement.

The following table presents summary financial data for XTAR as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months		Nine Months	
	Ended September 30, 2013	2012	Ended September 30, 2013	2012
<b>Statement of Operations Data:</b>				
Revenues	\$ 8,406	\$ 7,613	\$ 24,856	\$ 22,285
Operating expenses	(8,188 )	(8,239 )	(25,050 )	(24,842 )
Depreciation and amortization	(2,310 )	(2,345 )	(6,930 )	(7,095 )
Operating loss	(2,092 )	(2,971 )	(7,124 )	(9,652 )
Net loss	(2,913 )	(3,804 )	(9,382 )	(12,047 )

	September 30, 2013	December 31, 2012
<b>Balance Sheet Data:</b>		
Current assets	\$ 5,317	\$ 7,838
Total assets	65,354	74,721
Current liabilities	20,797	18,894
Total liabilities	55,967	55,953
Members' equity	9,387	18,768

In the notes to condensed consolidated financial statements for periods prior to June 30, 2013, XTAR's liability to Hisdesat of \$27.4 million for Catch Up Payments as of December 31, 2012 was included in current liabilities. In the XTAR summary financial data above, the liability for Catch Up payments was reflected as a long-term liability because the amount is payable over 12 years. This change had no effect on the Loral condensed consolidated financial statements.



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

In connection with the sale in 2008 by Loral and certain of its subsidiaries and DASA Globalstar LLC to Globalstar Inc. of their respective interests in Globalstar do Brasil S.A. (“GdB”), the Globalstar Brazilian service provider, Loral agreed to indemnify Globalstar Inc. and GdB for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. As a result of an April 2013 adverse court decision in Brazil relating to a potential tax liability, an adverse outcome for which was previously believed to be remote, Loral recorded a loss contingency of \$4.8 million in the first quarter of 2013 for such liability and made a payment of \$3.7 million against that liability in the second quarter of 2013. During the third quarter of 2013, we reversed \$0.9 million of the remaining liability for this matter, primarily due to a favorable court decision.

During the second quarter of 2013 the Company received net cash proceeds of \$1.1 million related to the sale of its ownership interests in an affiliate with no carrying value. The gain on sale is included in equity in net income of affiliates.

As of September 30, 2013 and December 31, 2012, 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.

**8. Other Current Liabilities**

Other current liabilities consists of (in thousands):

	September 30, 2013	December 31, 2012
Pension and other postretirement liabilities	\$ 18,097	\$ 18,157
Indemnification liabilities (see Note 16)	4,315	5,835
Deferred tax liability	983	3,663

Other	3,051	4,434
	\$ 26,446	\$ 32,089

## 9. Income Taxes

The following summarizes our income tax benefit on income from continuing operations (in thousands):

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2013	2012	2013	2012
Total current income tax benefit	\$ 12,561	\$ 53,378	\$ 18,861	\$ 54,009
Total deferred income tax provision	(4,972 )	(16,762 )	(16,257 )	(14,852 )
Income tax benefit	\$ 7,589	\$ 36,616	\$ 2,604	\$ 39,157

Loral requested a tax refund in its income tax returns filed for 2012 and is projecting a tax loss for 2013 which will be available as a carryback benefit against taxes previously paid. As of September 30, 2013, income taxes receivable of \$19.9 million have been recorded on the condensed consolidated balance sheet for these benefits. 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.

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

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2013	2012	2013	2012
Current benefit for UTPs	\$ 1,751	\$ 53,083	\$ 1,080	\$ 53,713
Deferred provision for UTPs	(309 )	(6,122 )	(68 )	(6,110 )
Tax benefit for UTPs	\$ 1,442	\$ 46,961	\$ 1,012	\$ 47,603

As of September 30, 2013, we had UTBs relating to UTPs of \$80.9 million. Pursuant to the Purchase Agreement for the Sale, we are obligated to indemnify SS/L from liabilities with respect to certain 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, 2013, we have accrued approximately \$3.5 million and \$9.2 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 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 UTPs, no assurance can be provided that we would ultimately prevail. During the next 12 months, the statute of limitations for assessment of additional tax will expire with regard to UTPs related to our federal income tax return filed for 2010 and certain state income tax returns filed for 2007 through 2010 potentially resulting in a \$1.0 million reduction to our UTBs.

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,	
	2013	2012
Liabilities for UTPs:		

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

Opening balance — January 1	\$ 80,732	\$ 139,916
Current provision (benefit) for:		
Unrecognized tax benefits	(636 )	(587 )
Potential additional interest	1,164	4,632
Potential penalty adjustment	(249 )	(374 )
Statute expirations	(1,361 )	(54,690 )
Ending balance — September 30	\$ 79,650	\$ 88,897

As of September 30, 2013, if our positions are sustained by the taxing authorities, approximately \$36.9 million of the benefits will increase the Company's income tax benefit from continuing operations. Other than as described above, there were no significant changes to our UTPs during the nine months ended September 30, 2013 and 2012, and we do not anticipate any other significant changes to our UTBs during the next twelve months.

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****10. Long Term Liabilities**

Long term liabilities consists of (in thousands):

	September 30, 2013	December 31, 2012
Indemnification liabilities (see Note 16)	\$ 13,485	\$ 12,204
Liabilities for uncertain tax positions	79,650	80,732
Other	4,485	2,905
	\$ 97,620	\$ 95,841

**11. Equity**

In June 2013, the Company settled 175,000 restricted stock units (“RSUs”) granted in 2009, 2010 and 2011 to Michael B. Targoff, Vice Chairman of the Company and former Chief Executive Officer and President. In connection with this settlement, the Company issued 91,204 shares of its voting common stock, net of 83,796 shares to satisfy withholding taxes, to Mr. Targoff. The grant date fair value of these RSUs was previously recorded as stock-based compensation as the RSUs vested, and the stock issuance had no effect on our condensed consolidated financial statements.

*Special Dividend and Special Distribution*

On March 28, 2012, our Board of Directors declared a special dividend of \$13.60 per share for an aggregate dividend of \$417.6 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 RSUs increased by 6,875. This equitable adjustment had no effect on our condensed consolidated financial statements. Mr. Targoff, who elected to receive the dividend on his RSUs at the \$13.60 per share value, received 19,368 shares of Loral voting common stock, net of 18,774 shares to satisfy withholding taxes, in lieu of cash payments totaling \$2.4 million on his RSU settlement date in June 2013.

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 \$892.1 million. The special distribution was 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 was made to outstanding stock-based awards to reflect the special distribution. This equitable adjustment had no effect on our condensed consolidated financial statements. Mr. Targoff, who elected to receive the special distribution related to his RSUs at the \$29.00 per share value, received 41,300 shares of Loral voting common stock, net of 40,033 shares to satisfy withholding taxes, in lieu of cash payments totaling \$5.1 million on his RSU settlement date in June 2013.

*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. We intend to hold repurchased shares of our voting common stock in treasury. We account for the treasury shares using the cost method.

The following is a summary of common stock purchases under this repurchase program (total cost in thousands):

	Shares Repurchased	Total Cost	Average Cost
Year ended December 31, 2012	18,000	\$1,192	\$ 66.22
2011	136,494	8,400	61.54
Total program	154,494	\$9,592	\$ 62.04

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. Stock-Based Compensation**

As of September 30, 2013, there were 1,319,533 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 RSUs or SS/L phantom stock appreciation rights ("SS/L Phantom SARs") are settled in Loral common stock.

The fair value of SS/L Phantom SARs related to Loral employees is included as a liability in our consolidated balance sheets. The payout liability reflects the increase in SS/L's notional stock price over the base price multiplied by the number of SS/L Phantom SARs vested on the applicable vesting date, subject to adjustment. The notional stock price of SS/L was frozen as of December 31, 2011, in connection with the Sale. As of September 30, 2013 and December 31, 2012, the amount of the liability in our consolidated balance sheet related to the SS/L Phantom SARs was \$0.5 million and \$1.0 million, respectively. During the nine months ended September 30, 2013 and 2012, cash payments of \$0.5 million and \$2.0 million, respectively, for continuing operations were made related to SS/L Phantom SARs.

Total stock-based compensation included in income from continuing operations was nil and \$0.4 million for the three months ended September 30, 2013 and 2012, respectively, and \$0.5 million and \$1.3 million for the nine months ended September 30, 2013 and 2012, respectively.

**13. Earnings Per Share**

Telesat has awarded employee stock options, which, if exercised, would result in dilution of Loral's ownership interest in Telesat to approximately 62.0%. 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 Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income from continuing operations — basic	\$ 37,582	\$ 65,404	\$ 18,594	\$ 54,796
Less: Adjustment for dilutive effect of Telesat stock options	(675 )	(1,890 )	(544 )	(207 )

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

Income from continuing operations — diluted \$ 36,907 \$ 63,514 \$ 18,050 \$ 54,589

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 Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Common and potential common shares outstanding for diluted earnings per share:				
Weighted average common shares outstanding	30,920	30,745	30,827	30,684
Stock options	—	30	—	76
Unvested restricted stock units	84	220	170	218
Unvested restricted stock	—	2	—	2
Common shares outstanding for diluted earnings per share	31,004	30,997	30,997	30,980



Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. Pensions and Other Employee Benefit Plans**

The following table provides the components of net periodic cost included in income from continuing operations 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, 2013 and 2012 (in thousands):

	Pension Benefits		Other Benefits	
	Three Months		Three Months	
	Ended September 30,		Ended September 30,	
	2013	2012	2013	2012
Service cost	\$ 78	\$ 200	\$ (2 )	\$ 2
Interest cost	461	622	29	11
Expected return on plan assets	(415 )	(364 )	—	—
Amortization of net actuarial loss	1,509	173	31	2
Amortization of prior service credits	—	—	19	(6 )
Curtailment	—	—	78	—
Net periodic cost	\$ 1,633	\$ 631	\$ 155	\$ 9

	Pension Benefits		Other Benefits	
	Nine Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2013	2012	2013	2012
Service cost	\$ 234	\$ 600	\$ 2	\$ 6
Interest cost	1,382	1,866	49	33
Expected return on plan assets	(1,244 )	(1,092 )	—	—
Amortization of net actuarial loss	4,527	519	39	6
Amortization of prior service credits	—	—	7	(18 )
Curtailment	—	—	78	—
Net periodic cost	\$ 4,899	\$ 1,893	\$ 175	\$ 27

Expense for curtailment of other benefits was the result of the reduced number of employees at Loral's headquarters in connection with Loral's restructuring of its corporate functions (see Note 16).

*Sale of SS/L*

As required by the Purchase Agreement, prior to the closing of the Sale on November 2, 2012, new stand-alone SS/L pension plans were established. Pension obligations related to SS/L current and former employees and plan assets determined through an initial allocation methodology were transferred from the Loral pension plans to the newly formed plans. With the closing of the Sale, the newly formed SS/L plans were transferred to SS/L. Subsequent to the closing of the Sale, our actuary performed a review to determine the amount of qualified plan assets that proportionately relate to the benefit liabilities of the SS/L pension participants in accordance with the asset priorities of Section 4044 of ERISA. This review resulted in a true-up of the initial asset transfer between plans. As a result, Loral contributed \$10.7 million to its qualified pension plan, which transferred \$11.9 million to SS/L's plan. In return, MDA paid Loral \$11.9 million, pursuant to the Purchase Agreement. The net effect of this true-up, which took place in April 2013, was a \$1.2 million increase to Loral's cash balance and a \$1.2 million decrease to the assets of Loral's qualified pension plan.

Table of Contents

**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*Termination of Supplemental Executive Retirement Plan (“SERP”)*

In connection with the corporate office restructuring as a result of the Sale, on December 13, 2012, Loral’s Board of Directors approved termination of the SERP. The Company expects to make lump sum payments to the participants in the SERP between December 16, 2013 and December 31, 2013 in accordance with the requirements of Section 409A of the Internal Revenue Code and the regulations promulgated thereunder. Other current liabilities as of September 30, 2013 and December 31, 2012 included approximately \$18.0 million and \$18.1 million, respectively, for future SERP payments based on benefits earned, including recurring monthly payments to December 2013 and lump sum payouts in December 2013. The lump sum payouts have been calculated based on plan provisions.

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

*Financial Instruments*

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments. The carrying amount of the Land Note approximates fair value because the stated interest rate is consistent with current market rates.

*Foreign Currency*

We are subject to the risks associated with fluctuations in foreign currency exchange rates. To limit this foreign exchange rate exposure, we attempt to denominate all contracts in U.S. dollars. 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.

*Derivatives and Hedging Transactions*

There were no derivative instruments as of September 30, 2013 and December 31, 2012.

### *Foreign Exchange Contracts*

In March 2012, Telesat declared a special cash distribution denominated in Canadian dollars to be paid in two tranches (see Note 7). 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. Other expense for the three and nine months ended September 30, 2012 was net of a loss of \$0.1 million and a gain of \$1.3 million, respectively, related to this foreign exchange forward contract.

## **16. Commitments and Contingencies**

### *Financial Matters*

In the fourth quarter of 2012, we sold our former subsidiary, SS/L, to MDA pursuant to the Purchase Agreement. Under the terms of the Purchase Agreement, we are obligated to indemnify MDA from (1) liabilities with respect to certain pre-closing taxes; (2) certain litigation costs and litigation damages relating to the ViaSat lawsuit, subject to certain sharing formulas and caps; and (3) certain breaches of representations, warranties and covenants, subject to certain limitations on survival of claims, deductibles and caps. In March 2013, we and MDA agreed, among other things, to modify SS/L's capped cost-sharing obligations. To date, other than with respect to sharing of litigation costs (see *Legal Proceedings*, below), MDA has submitted one claim for indemnification which relates to pre-closing taxes. The amount of this claim has not yet been determined. We intend vigorously to contest the underlying tax assessment, but there can be no assurance that we will be successful. 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. Our condensed consolidated balance sheets include liabilities of \$16.0 million and \$16.5 million as of September 30, 2013 and December 31, 2012, respectively, representing the estimated fair value of all potential indemnification liabilities relating to the Sale.

In connection with the Sale, Loral has restructured its corporate functions and has reduced the number of employees at its headquarters. In 2012, Loral charged approximately \$11.8 million to general and administrative expenses, mainly for severance and related costs, and paid approximately \$8.0 million. During the three and nine months ended September 30, 2013, Loral paid restructuring costs of approximately \$0.3 million and \$3.2 million, respectively, and at September 30, 2013, the liability recorded in the condensed consolidated balance sheet for the restructuring was \$0.6 million which includes all expected future payments under the restructuring plan relating to the Sale.

Table of Contents

**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

In connection with the sale in 2008 by Loral and certain of its subsidiaries and DASA Globalstar LLC to Globalstar Inc. of their respective interests in GdB, the Globalstar Brazilian service provider, Loral agreed to indemnify Globalstar Inc. and GdB for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. As a result of an April 2013 adverse court decision in Brazil relating to a potential tax liability, an adverse outcome for which was previously believed to be remote, Loral recorded a loss contingency of \$4.8 million in the first quarter of 2013 for such liability and made a payment of \$3.7 million against that liability in the second quarter of 2013. During the third quarter of 2013, we reversed \$0.9 million of the remaining liability for this matter, primarily due to a favorable court decision.

See Note 17 — 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***

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 \$18.0 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 resulted in a \$6.5 million payment in December 2012 by Loral to MDA pursuant to the Purchase Agreement relating to the Sale. Any additional reduction in orbital receivables for this satellite prior to November 2, 2013 would result in additional payment by Loral to MDA pursuant to the Purchase Agreement. We have not received notice of any such reduction.

***Legal Proceedings***

*ViaSat*

ViaSat has 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 and Loral directly and indirectly infringed, that SS/L and Loral induced infringement, and that SS/L contributed to the infringement of, certain ViaSat patents in connection with the manufacture of satellites by SS/L for customers other than ViaSat. The amended complaint also alleges 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, breach of contract and correction of the inventorship of one of ViaSat's patents and its assignment to SS/L, 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, that ViaSat misappropriated certain of SS/L's proprietary information and that SS/L employees conceived or contributed to the conception of one of ViaSat's patents. 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, to enjoin ViaSat from further infringement of the SS/L patents and further misappropriation of SS/L's proprietary information and to correct the inventorship of one of ViaSat's patents and have it assigned to SS/L.

In August 2013, SS/L and Loral filed motions for summary judgment seeking orders that certain claims in one of ViaSat's patents are invalid for being indefinite, to determine which of a number of different non-disclosure agreements applied to ViaSat's breach of contract claims during relevant time periods and to establish the priority date for one of ViaSat's patents. In September and October 2013, the court denied these motions finding that disputed issues of material fact were involved and, therefore, summary judgment was not appropriate.

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.

Table of Contents

**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

In September 2013, ViaSat filed a new complaint against SS/L in the United States District Court for the Southern District of California alleging, among other things, that SS/L directly infringed, and induced and encouraged infringement of, certain newly issued ViaSat patents not asserted in the original lawsuit in connection with the manufacture of satellites by SS/L for customers other than ViaSat. ViaSat's new complaint seeks, among other things, damages (including treble damages) in amounts to be determined at trial and to enjoin SS/L from further infringement of the ViaSat patents. The complaint did not name Loral as a defendant. MDA has asserted that Loral is obligated to defend and indemnify SS/L with respect to the newly-brought litigation under the Purchase Agreement on the same terms and conditions as Loral's defense and indemnification of SS/L in the existing pending litigation. Loral has rejected MDA's assertion that it is obligated to defend and indemnify SS/L on the basis that the new lawsuit does not fall within its defense and indemnification obligations under the Purchase Agreement. SS/L is defending the new lawsuit. The parties have agreed, however, to defer determination of whether Loral is obligated to defend and indemnify SS/L for the new lawsuit until the earlier of judgment or settlement of either of the ViaSat actions and October 25, 2016. There can be no assurance that a dispute will not arise as to whether Loral is obligated to defend and indemnify SS/L for the new ViaSat lawsuit or if such a dispute were to arise that Loral would prevail.

*Other Litigation*

Other than the litigation with ViaSat discussed above, we are not currently subject to any other legal proceedings that, if decided adversely, could have a material adverse effect on our financial position or results of operations. In the future, however, we may become subject to other legal proceedings and claims, either asserted or unasserted, that may arise in the ordinary course of business.

**17. Related Party Transactions**

***MHR Fund Management LLC***

Mark H. Rachesky, managing principal of MHR Fund Management LLC ("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, 2013 and December 31, 2012, approximately 38.0% and 38.3%, respectively, of the outstanding voting common stock and as of September 30, 2013 and December 31, 2012 had a combined ownership of outstanding voting and non-voting common stock of Loral of 57.1% and 57.4%, respectively.

### *Transactions with Affiliates*

#### *Telesat*

As described in Note 7, we own 62.8% 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 initiate the process of conducting an initial public offering of the equity shares of Telesat Holdco. 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, except in certain limited circumstances, either (i) ownership or control, directly or indirectly, by Dr. Rachesky of Loral's voting stock falls below certain levels other than in connection with an acquisition by a Strategic Competitor (as defined in the Shareholders Agreement) 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, serves on the board of directors of Telesat Holdco and certain of its subsidiaries, including Telesat.

Information related to satellite construction contracts between SS/L and Telesat for the period when we owned SS/L is as follows (in thousands):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Revenues (included in income from discontinued operations) from Telesat satellite construction contracts	\$ 9,383	\$ 56,095
Milestone payments received from Telesat	17,626	51,931

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 pays 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 general and administrative expenses are net of income related to the Consulting Agreement of \$1.25 million for each of the three month periods ended September 30, 2013 and 2012 and \$3.8 million for each of the nine month periods ended September 30, 2013 and 2012. For the nine months ended September 30, 2013 and 2012, Loral received payments in cash from Telesat of \$5.1 million and \$1.6 million, respectively for consulting fees and interest. We had notes receivable from Telesat of nil and \$1.3 million as of September 30, 2013 and December 31, 2012, respectively, related to the Consulting Agreement.

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, 2013 and December 31, 2012, 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 sheets as of September 30, 2013 and December 31, 2012. There can be no assurance, however, that these tax matters will be ultimately settled for the net amount recorded.

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 certain executives of Telesat (each, a “Participant” and collectively, the “Participants”). Each of the Participants was, at the time, an executive of Telesat.

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 7).

*ViaSat/Telesat*

In connection with an agreement entered into between SS/L and 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 \$0.4 million for the nine months ended September 30, 2012. SS/L’s sales to ViaSat have been included in income from discontinued operations in our statements of operations for the nine months ended September 30, 2012.

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 connection with the assignment, Loral is entitled to receive one-half of any net revenue earned by Telesat in connection with the leasing of certain supplemental capacity on the payload to its customers during the first four years after the commencement of service using the supplemental capacity. For the three and nine months ended September 30, 2013, we earned approximately \$0.3 million and \$1.0 million, respectively, under this arrangement. We had a receivable from Telesat of \$0.3 million and \$1.0 million as of September 30, 2013 and December 31, 2012, respectively, related to this arrangement. 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.

#### *Other*

Costs of satellite manufacturing for sales to related parties included in income from discontinued operations were \$5.5 million and \$29.9 million for the three and nine months ended September 30, 2012, 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. Interest expense on this liability included in income from discontinued operations was \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2012, respectively. For the nine months ended September 30, 2012, SS/L made payments of \$2.0 million to Telesat pursuant to the agreement. The liability for the future use of these transponders was retained by SS/L in connection with the Sale.

Table of Contents

**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

As described in Note 7, 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, 2013 and December 31, 2012 were \$6.3 million and \$5.5 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, 2013 and 2012.

***Consulting Agreement***

On December 14, 2012, Loral entered into a consulting agreement with Michael B. Targoff, Vice Chairman of the Company and former Chief Executive Officer and President. Pursuant to this agreement, Mr. Targoff is engaged as a part-time consultant to the Board to assist the Board with respect to the oversight of strategic matters relating to Telesat and Xtar and the ViaSat lawsuit. Under the agreement, Mr. Targoff receives consulting fees of \$120,000 per month before deduction of certain expenses of \$17,000 per month for which he reimburses the Company. For the three and nine months ended September 30, 2013, Mr. Targoff earned \$360,000 (before his expense reimbursement to Loral of \$51,000) and \$1,080,000 (before his expense reimbursement to Loral of \$153,000), 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**

<b>Topic</b>	<b>Location</b>
Overview	Page 30
Consolidated Operating Results	Page 32
Liquidity and Capital Resources:	
Loral	Page 39
Telesat	Page 41
Contractual Obligations	Page 43
Statement of Cash Flows	Page 43
Affiliate Matters	Page 44
Commitments and Contingencies	Page 44
Other Matters	Page 45

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.

Table of Contents

**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**

***Business***

*Sale of SS/L*

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 as of June 26, 2012, as amended on October 30, 2012 and March 28, 2013, by and among Loral, SS/L, MDA and MDA Holdings, Loral received total cash payments of \$967.9 million plus, for the sale of certain real estate used in connection with SS/L’s business, a three-year promissory note in the principal amount of \$101 million (the “Land Note”). Transaction costs related to the Sale were \$35.2 million.

Subsequent to the closing of the Sale and pursuant to the Purchase Agreement, Loral, in December 2012, paid MDA \$6.5 million as a result of the resolution of a contingency (see Note 16 to the financial statements). Also, in April 2013, pursuant to the Purchase Agreement, we completed the final allocation of qualified pension plan assets between Loral and SS/L (see Note 14 to the financial statements).

The transaction was taxable, and, for tax purposes, treated as a sale of assets.

Under the terms of the Purchase Agreement, Loral is obligated to indemnify SS/L for certain litigation costs and litigation damages, subject to certain capped cost-sharing by SS/L, and has retained control of the defense of the lawsuit against SS/L and Loral by ViaSat, Inc. (“ViaSat”) as well as SS/L’s counterclaims against ViaSat in that lawsuit. Under the terms of the Purchase Agreement, following a change of control of Loral, the liability of Loral for certain litigation costs and litigation damages is subject to a dollar cap. In addition, Loral is obligated to indemnify SS/L from liabilities with respect to certain pre-closing taxes.

The Land Note originally issued at closing provided for interest at the rate of 1% per annum with amortization in three equal annual installments on each March 31, commencing March 31, 2013. The Land Note was amended as described below and is backed by a letter of guarantee from Royal Bank of Canada.



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 \$892.1 million. The special distribution was 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 was made to outstanding stock-based awards to reflect the special distribution.

On March 28, 2013, Loral and MDA amended the Purchase Agreement to modify SS/L's capped cost sharing obligations related to Loral's indemnification of certain litigation costs and litigation damages and also amended the Land Note to defer to March 31, 2014 the due date of the principal payment from MDA to Loral of \$33.7 million due originally on March 31, 2013 with an increase in the interest rate applicable to this tranche of the Land Note from 1.0% to 1.5% effective as of April 1, 2013.

### *Description of Business*

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 satellite operator, with offices and facilities around the world. Telesat provides its satellite and communication services from a fleet of satellites that occupy Canadian and other orbital locations.

Loral holds a 62.8% economic interest and a 32.7% voting interest in Telesat, the world's fourth largest satellite operator with approximately \$4.8 billion of backlog as of September 30, 2013.

Telesat provides satellite services to customers from its fleet of 14 satellites. In addition, Telesat owns the Canadian payload on the ViaSat-1 satellite.

During the third quarter, Telesat announced the procurement of a powerful, multi-mission satellite that will replace and expand on Telstar 12 at 15 degrees west. This new satellite, called Telstar 12 VANTAGE, will utilize high throughput capabilities that offer performance which Telesat believes will meet the growing needs of broadcast, corporate, government and enterprise users, including demand for aero and maritime services.

Table of Contents

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.

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 satellite fleet offers a strong combination of existing revenue backlog, and a strong foundation upon which it will seek to continue to grow its revenue and cash flows. The growth is expected to come from the sale of available capacity on its existing in-orbit satellites, including its Anik G1 satellite, which began commercial service on May 8, 2013, and its Telstar 12 VANTAGE satellite, which is expected to be launched in late 2015.

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 the relatively fixed cost nature of the business, combined with contracted revenue growth and other growth opportunities, will produce growth in operating income and cash flow.

For the remainder of 2013, Telesat will remain focused on: increasing utilization of its existing satellites, the construction of Telstar 12 VANTAGE, identifying and pursuing opportunities to expand its satellite fleet and maintaining cost and operating discipline.

Telesat's operating results are subject to fluctuations as a result of exchange rate variations. Approximately 45% of Telesat's revenues for the nine months ended September 30, 2013, and a substantial portion of its expenses, 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. As of September 30, 2013, Telesat's U.S. dollar

denominated debt totaled \$2.6 billion. As of September 30, 2013, a five percent change in the Canadian dollar against the U.S. dollar would have changed Telesat's net income by approximately \$137 million. This analysis assumes all other variables, in particular interest rates, remain constant.

*General*

Since the Sale, Loral's principal asset continues to be its majority ownership interest in Telesat. With the goal of maximizing shareholder value, we have previously explored and expect to continue to explore potential strategic transactions involving the possible disposition of Loral's interest in Telesat. The exact structure of any such transaction has not yet been determined and may include a disposition of Loral itself. Any disposition will need to comply with the rights and obligations of the parties to the Telesat Shareholders Agreement. There can be no assurance as to whether, when or on what terms a strategic transaction involving Telesat or Loral may occur, or that any particular economic, tax, structural or other objectives or benefits with respect to any transaction involving Telesat or Loral's interest therein will be achieved.

Loral may, from time to time, explore and evaluate other 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. In order to pursue certain of 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 transactions that require additional funds on favorable terms, if at all.

Table of Contents

In connection with the Sale, Loral has restructured its corporate functions and has reduced the number of employees at its headquarters. During 2012, Loral charged approximately \$11.8 million to general and administrative expenses, mainly for severance and related costs, and paid approximately \$8.0 million. During the three and nine months ended September 30, 2013 Loral paid approximately \$0.3 million and \$3.2 million, respectively, in restructuring costs and at September 30, 2013, the liability recorded in the condensed consolidated balance sheet for the restructuring was \$0.6 million which includes all expected future payments under the restructuring plan relating to the Sale.

In connection with the corporate office restructuring as a result of the Sale, on December 13, 2012, Loral's Board of Directors approved termination of Loral's supplemental retirement plan (the "SERP"). The Company expects to make lump sum payments to the participants in the SERP between December 16, 2013 and December 31, 2013 in accordance with the requirements of Section 409A of the Internal Revenue Code and the regulations promulgated thereunder. Our unfunded benefit obligations include approximately \$18 million for future SERP payments based on benefits earned as of September 30, 2013.

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, 2013.

*Consolidated Operating Results*

**Three Months Ended September 30, 2013 Compared With Three Months Ended September 30, 2012**

The following compares our consolidated results for the three months ended September 30, 2013 and 2012 as presented in our financial statements (in millions):

*General and Administrative Expenses*

	Three Months Ended September 30,	
	2013	2012
General and administrative expenses	\$ 3.5	\$ 10.3

General and administrative expenses decreased by \$6.8 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012, primarily due to severance expense of \$5.8 million in 2012, a reduction in compensation of \$1.6 million in 2013 resulting from the restructuring of our corporate functions as a result of the Sale and \$0.3 million of income earned in 2013 from supplemental capacity on the Viasat-1 satellite, partially offset by a \$0.9 million increase in pension expense due to accelerated amortization as a result of the termination of our supplemental retirement plan.

Table of Contents***Interest and Investment Income***

	Three Months Ended September 30,	
	2013	2012
Interest and investment income	\$ 0.3	\$ 0.4

Interest and investment income, which consists primarily of interest on our cash balance and notes receivable, decreased by \$0.1 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 primarily due to the reduction in the balance of notes receivable from Telesat in 2013, partially offset by the increase due to the interest on the Land Note in 2013.

***Other Expense***

Other expense of \$0.2 million for the three months ended September 30, 2013 is primarily comprised of expenses related to the evaluation of strategic initiatives. Other expense of \$2.9 million for the three months ended September 30, 2012 was primarily comprised of expenses related to the Sale.

***Income Tax Benefit***

For the three months ended September 30, our income tax benefit is summarized as follows: (i) for 2013, we recorded a current tax benefit of \$12.6 million (which included a benefit of \$1.8 million to reduce our liability for uncertain tax positions (“UTPs”)) and a deferred tax provision of \$5.0 million, resulting in a net benefit of \$7.6 million on a pre-tax loss of \$3.4 million and (ii) for 2012, we recorded a current tax benefit of \$53.4 million primarily to reduce our liability for UTPs (which included the expiration of the statute of limitations for the assessment of additional tax with regard to certain UTPs from Old Loral) and a deferred tax provision of \$16.8 million (which included a provision of \$6.1 million for UTPs), resulting in a net benefit of \$36.6 million on a pre-tax loss of \$12.8 million.

The income tax benefit included our tax expense on equity in net income of affiliates, although equity in net income of affiliates is shown below the line for income tax benefit on the condensed consolidated statements of operations. Our income tax benefit for each period is computed by applying an expected effective annual tax rate (negative 64% for 2013 and positive 10% for 2012) against the pre-tax loss for the nine months ended September 30, 2013 and 2012 (before adjusting for certain tax items that are discrete to each period) less the provision recorded for the six months ended June 30, 2013 and 2012. 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 (see

Note 7 to the financial statements).

For the three months ended September 30, 2012, we recorded a net deferred 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 was more likely than not that we would 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, we would generate sufficient taxable income from the appreciated value of our Telesat investment, which currently has a nominal tax basis, in order to prevent the federal net operating losses from expiring and realize the benefit of all the remaining deferred tax assets.

Loral requested income tax refunds in its federal and state returns filed for 2012 (primarily related to the enhanced extraterritorial income exclusion provided by former section 114 of the Internal Revenue Code) and is projecting a tax loss for 2013 which will be available as a carryback benefit against taxes previously paid. As of September 30, 2013, income taxes receivable of \$19.9 million have been recorded on the condensed consolidated balance sheet for these benefits. We subsequently received \$10.2 million in October 2013 and expect to receive the balance of the income taxes receivable in 2014.

Table of Contents*Equity in Net Income of Affiliates*

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

	Three Months Ended September 30,	
	2013	2012
Telesat	\$ 34.2	\$ 43.7
XTAR, LLC	(1.6 )	(2.1 )
Other	0.7	—
	\$ 33.3	\$ 41.6

As of September 30, 2013 and December 31, 2012, we held a 62.8% economic interest in Telesat. Our economic interest decreased from 64% to 62.8% in December 2012 when certain executives of Telesat exercised share appreciation rights related to a total of 5,311,568 stock options granted under Telesat's share based compensation plan and received 2,249,747 non-voting participating preferred shares.

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 or losses 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 constructed for Telesat while we owned SS/L.

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, 2013 and 2012 follows (in millions):

	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
	(In Canadian dollars)	(In U.S. dollars)	(In Canadian dollars)	(In U.S. dollars)
Statement of Operations Data:				
Revenues	237.0	219.5	226.9	220.3
Operating expenses	(47.8 )	(50.1 )	(45.7 )	(50.4 )
Depreciation, amortization and stock-based compensation	(65.7 )	(65.0 )	(63.0 )	(65.3 )
Operating income	123.5	104.4	118.2	104.6
Interest expense	(52.0 )	(58.8 )	(49.8 )	(59.0 )
Foreign exchange gains	60.7	94.6	58.2	94.4



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

Losses on financial instruments	(26.6 )	(40.9 )	(25.5 )	(40.8 )
Other income (expense)	0.4	0.1	0.4	(0.2 )
Income tax provision	(19.3 )	(14.3 )	(18.5 )	(14.3 )
Net income	86.7	85.1	83.0	84.7
Average exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.0443	0.9957		

Telesat's revenue increased by \$7 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 due primarily to revenue from providing short-term services to another satellite service provider using the Nimiq 1 satellite and revenue on the Anik G1 satellite which entered commercial service in May 2013, partially offset by a decrease in revenue with respect to the Nimiq 1 satellite, which was returned by Telesat's customer in the fourth quarter of 2012 and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues. Telesat's revenue excluding foreign exchange impact would have increased \$13 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012.

Table of Contents

Telesat’s operating expense for the three months ended September 30, 2012 included a \$4 million expense related to special payments to executives and certain employees of Telesat in connection with the cash distribution made to Telesat’s shareholders.

Telesat’s operating income increased by \$14 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 primarily due to the revenue increase described above, expense incurred in 2012 related to special payments to executives and certain employees of Telesat in connection with the cash distribution made to Telesat’s shareholders and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses, partially offset by an increase in stock-based compensation expense related to additional stock options granted during the second quarter of 2013. Telesat’s operating income excluding foreign exchange impact would have increased \$16 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012.

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, 2013, using the 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.

**Nine Months Ended September 30, 2013 Compared With Nine Months Ended September 30, 2012**

The following compares our consolidated results for the nine months ended September 30, 2013 and 2012 as presented in our financial statements (in millions):

***General and Administrative Expenses***

	Nine Months Ended September 30,	
	2013	2012
General and administrative expenses	\$ 10.6	\$ 19.2

General and administrative expenses decreased by \$8.6 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, primarily due to severance expense of \$5.8 million in 2012, a reduction in compensation of \$4.8 million in 2013 resulting from the restructuring of our corporate functions as a result of the Sale and \$1.0 million of income earned from supplemental capacity on the ViaSat-1 satellite, partially offset by a \$3.0 million increase in pension expense due to accelerated amortization as a result of the termination of our supplemental retirement plan.

### ***Interest and Investment Income***

	Nine Months Ended September 30,	
	2013	2012
Interest and investment income	\$ 0.9	\$ 1.3

Interest and investment income, which consists primarily of interest on our cash balance and notes receivable, decreased by \$0.4 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 primarily due to the reduction in the balance of notes receivable from Telesat in 2013, partially offset by the increase due to the interest on the Land Note in 2013.

### ***Other Expense***

Other expense of \$0.6 million for the nine months ended September 30, 2013 is primarily comprised of expenses related to the evaluation of strategic initiatives. Other expense of \$3.5 million for the nine months ended September 30, 2012 was 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.

Table of Contents

***Income Tax Benefit***

For the nine months ended September 30, our income tax benefit is summarized as follows: (i) for 2013, we recorded a current tax benefit of \$18.9 million (which included a benefit of \$1.1 million to reduce our liability for UTPs) and a deferred tax provision of \$16.3 million, resulting in a net benefit of \$2.6 million on a pre-tax loss of \$10.2 million and (ii) for 2012, we recorded a current tax benefit of \$54.0 million primarily to reduce our liability for UTPs (which included the expiration of the statute of limitations for the assessment of additional tax with regard to certain UTPs from Old Loral) and a deferred tax provision of \$14.8 million, resulting in a net benefit of \$39.2 million on a pre-tax loss of \$21.5 million.

Our income tax benefit for each period is computed by applying an expected effective annual tax rate (projected provision for the full year as a percentage of our projected pre-tax loss for the full year) (negative 64% for 2013 and positive 10% for 2012) against the pre-tax loss for the nine months ended September 30, 2013 and 2012 (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, 2013, taxes provided on other equity in net loss of affiliates of \$3.0 million and for the nine months ended September 30, 2012, taxes provided on the special cash distribution received from Telesat (see Note 7 to the financial statements).

The income tax benefit included our tax expense on equity in net income of affiliates, although equity in net income of affiliates is shown below the line for income tax benefit on the condensed consolidated statements of operations. When comparing 2013 to 2012, the impact of taxes provided on our equity in net income of Telesat for the full year 2013 relative to our projected pre-tax loss from continuing operations for 2013 (without discrete items) caused the significant increase to our expected effective annual tax rate.

For the nine months ended September 30, 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 was more likely than not that we would 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, we would generate sufficient taxable income from the appreciated value of our Telesat investment, which currently has a nominal tax basis, in order to prevent the federal net operating losses from expiring and realize the benefit of all the remaining deferred tax assets.

Loral requested income tax refunds in its federal and state returns filed for 2012 (primarily related to the enhanced extraterritorial income exclusion provided by former section 114 of the Internal Revenue Code) and is projecting a tax loss for 2013 which will be available as a carryback benefit against taxes previously paid. As of September 30, 2013, income taxes receivable of \$19.9 million have been recorded on the condensed consolidated balance sheet for these benefits. We subsequently received \$10.2 million in October 2013 and expect to receive the balance of the income

taxes receivable in 2014.

*Equity in Net Income of Affiliates*

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

	Nine Months Ended September 30,	
	2013	2012
Telesat	\$ 34.2	\$ 42.2
XTAR, LLC	(5.0 )	(5.1 )
Other	(3.0 )	—
	\$ 26.2	\$ 37.1

As of September 30, 2013 and December 31, 2012, we held a 62.8% economic interest in Telesat. Our economic interest decreased from 64% to 62.8% in December 2012 when certain executives of Telesat exercised share appreciation rights related to a total of 5,311,568 stock options granted under Telesat's share based compensation plan and received 2,249,747 non-voting participating preferred shares.

Table of Contents

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 7 to the financial statements). As of December 31, 2012, the special cash distributions received from Telesat exceeded our recorded cumulative equity in net income of Telesat and our initial investment by approximately \$7 million. In following the equity method of accounting, our investment balance in Telesat was reduced to zero as of December 31, 2012. For the nine months ended September 30, 2013, we reduced our equity in net income of Telesat by the excess special cash distribution of \$7 million.

The following is a reconciliation of the changes in our investment in Telesat for the nine months ended September 30, 2013 (in millions):

	Nine Months Ended September 30, 2013	
Ending balance, December 31, 2012	\$	—
Equity in net income of Telesat		43.6
Proportionate share of Telesat other comprehensive loss		(0.1 )
Eliminations of affiliate transactions and related amortization		(2.0 )
Excess of cash distribution over carrying value of investment at December 31, 2012		(7.4 )
Ending balance, September 30, 2013	\$	34.1

Summary financial information for Telesat in accordance with U.S. GAAP and in Canadian dollars (“CAD”) and U.S. dollars (“\$”) for the nine months ended September 30, 2013 and 2012 follows (in millions):

	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	669.7	617.7	654.4	616.2
Operating expenses	(143.3 )	(186.8 )	(140.1 )	(186.3 )
Depreciation, amortization and stock-based compensation	(187.9 )	(187.2 )	(183.6 )	(186.8 )
Loss on disposition of long lived asset	(1.6 )	(0.1 )	(1.5 )	(0.1 )
Operating income	336.9	243.6	329.2	243.0
Interest expense	(164.4 )	(172.7 )	(160.6 )	(172.3 )
Expense of refinancing	(20.2 )	(79.9 )	(19.8 )	(79.7 )
Foreign exchange (losses) gains	(113.1 )	100.9	(110.5 )	100.7
Gains (losses) on financial instruments	72.8	(41.6 )	71.1	(41.5 )
Other income	11.3	1.1	11.1	1.1
Income tax provision	(46.6 )	(18.6 )	(45.5 )	(18.6 )
Net income	76.7	32.8	75.0	32.7
	1.0233	1.0024		

Average exchange rate for translating Canadian dollars to U.S. dollars  
(1 U.S. dollar equals)

37

Table of Contents

	September 30, 2013 (In Canadian dollars)	December 31, 2012	September 30, 2013 (In U.S. dollars)	December 31, 2012
Balance Sheet Data:				
Current assets	334.4	287.3	324.4	289.6
Total assets	5,217.2	5,300.1	5,060.8	5,342.3
Current liabilities	317.8	235.8	308.3	237.7
Long-term debt, including current portion	3,344.9	3,492.1	3,244.6	3,519.9
Total liabilities	4,574.0	4,733.3	4,436.9	4,771.0
Shareholders' equity	643.2	566.8	623.9	571.3
Period end exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.0309	0.9921		

Telesat's revenue increased by \$38 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 due primarily to revenue on the Nimiq 6 and Anik G1 satellites which entered commercial service in June 2012 and May 2013, respectively, a termination fee on Nimiq 2 when the satellite was returned by Telesat's customer, revenue from providing short-term services to another satellite service provider and increased enterprise services revenues from higher equipment sales and growth in international activities. These increases were partially offset by decreases in revenue with respect to the Nimiq 1 satellite, the Nimiq 2 satellite, which continued to suffer solar array circuit failures and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues. Telesat's revenue excluding foreign exchange impact would have increased \$46 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012.

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

Telesat's operating income increased by \$86 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 primarily due to the revenue increase described above, the expense related to the special payments to executives and certain employees of Telesat in connection with the cash distribution to shareholders in 2012, non-recurring cost associated with a payment made to independent directors in 2012, lower in-orbit insurance in 2013 and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses, partially offset by an increase in stock-based compensation and higher costs related to equipment sales in 2013. Telesat's operating income excluding foreign exchange impact would have increased \$88 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012.

Expense of refinancing for the nine months ended September 30, 2013 primarily represents the premium paid and the write-off of deferred financing costs related to the redemption of Telesat's 12.5% senior subordinated notes. Expense



of refinancing for the nine months ended September 30, 2012 results from Telesat entering into a new credit agreement in March 2012 and the refinancing of Telesat's 6% senior notes in May 2012. Deferred financing costs on the previous credit facilities and deferred financing costs and redemption premiums on the previous senior notes were charged to expense as a result of these refinancings.

The equity losses in 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, 2013, using the 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.

For the nine months ended September 30, 2013, we recorded a loss contingency of \$4.1 million for an indemnification of pre-closing liabilities related to our sale of Globalstar do Brasil S.A. ("GdB") in 2008. We also recorded a gain of \$1.1 million related to the sale of our ownership interests in an affiliate with no carrying value.

Table of Contents

***Backlog***

Telesat's backlog as of September 30, 2013 and December 31, 2012 was \$4.8 billion and \$5.2 billion, respectively.

The decrease in Telesat's backlog as of September 30, 2013 compared with December 31, 2012 was the result of exchange rate changes and the realization of a portion of previous backlog as revenues, partially offset by additional bookings.

**Liquidity and Capital Resources**

***Loral***

As of September 30, 2013, Loral's principal asset is a 62.8% economic interest in Telesat. In addition, we have a 56% economic interest in XTAR and a note receivable of \$101 million related to the Sale. The operations of Telesat and XTAR are not consolidated but are presented using the equity method of accounting.

Loral has no debt. Telesat has third party debt with financial institutions. 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. The Company has not provided a guarantee for the debt of Telesat or XTAR.

Cash is maintained at Loral, 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 Loral 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 Loral is governed by its operating agreement.

***Cash and Available Credit***

At September 30, 2013, Loral had \$24 million of cash and cash equivalents, the Land Note of \$101 million and no debt. The Company's cash and cash equivalents decreased by \$63 million from December 31, 2012. The cash decrease

during the first nine months of 2013 consisted primarily of a payment of \$35 million for income taxes on the gain related to the Sale, \$9 million of withholding taxes paid related to stock-based compensation, \$6 million of legal expenses, \$5 million of corporate expenses, a \$4 million indemnification payment to GdB, and \$3 million of severance payments. A discussion of cash changes by activity is set forth in the sections, “Net Cash Used In Operating Activities,” “Net Cash Provided By Investing Activities,” and “Net Cash Used In Financing Activities.”

The Company did not have a credit facility as of September 30, 2013.

### *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 cash in several liquid Prime AAA money market funds. The dispersion across funds reduces the exposure of a default at one fund.

Table of Contents

*Liquidity*

On March 28, 2013, Loral entered into Amendment No. 2 to the Purchase Agreement in connection with the sale of SS/L. Under the terms of the Purchase Agreement, Loral is obligated to indemnify SS/L for certain litigation costs and litigation damages relating to the ViaSat lawsuit subject to certain capped cost-sharing by SS/L. Pursuant to Amendment No. 2, the parties agreed to modify SS/L's capped cost-sharing obligations and also to defer to March 31, 2014 the due date of the principal payment from MDA to Loral of \$33.7 million due originally on March 31, 2013 under the \$101 million Land Note. Notwithstanding this amendment, we believe that our cash and cash equivalents will be sufficient to fund projected expenditures for the next 12 months.

We expect that our major cash outlays for the next 12 months will be payments under our supplemental retirement plan of \$18 million including the final lump sum distribution resulting from termination of the plan. Other cash outlays will include ViaSat litigation costs, employee benefit programs and general corporate expenses. The Sale has enabled us to reduce the annual run rate of general corporate expenses to approximately \$6 million, net of consulting fees from Telesat of \$5 million per year. We are also considering an additional contribution to our qualified pension plan to reduce the unfunded obligation. Offsetting these expenditures will be the income sharing arrangement for certain Canadian transponders on the ViaSat-1 satellite, reimbursement of certain ViaSat litigation costs from SS/L under the terms of the Purchase Agreement, as amended, receipt of \$67.3 million from MDA in March 2014 under the Land Note and receipt of tax refunds.

*Risks to Cash Flow*

In the fourth quarter of 2012, we sold our former subsidiary, SS/L, to MDA pursuant to the Purchase Agreement. Under the terms of the Purchase Agreement, we are obligated to indemnify MDA from (1) liabilities with respect to certain pre-closing taxes; (2) certain litigation costs and litigation damages relating to the ViaSat lawsuit, subject to certain sharing formulas and caps; and (3) certain breaches of representations, warranties and covenants, subject to certain limitations on survival of claims, deductibles and caps. In March 2013, we and MDA agreed, among other things, to modify SS/L's capped cost-sharing obligations. To date, other than with respect to sharing of litigation costs (see below), MDA has submitted one claim for indemnification which relates to pre-closing taxes. The amount of this claim has not yet been determined. We intend vigorously to contest the underlying tax assessment, but there can be no assurance that we will be successful. 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. Our condensed consolidated balance sheets include liabilities of \$16.0 million and \$16.5 million as of September 30, 2013 and December 31, 2012, respectively, representing the estimated fair value of all potential indemnification liabilities relating to the Sale.

ViaSat has 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 and Loral directly and indirectly infringed, that SS/L and Loral induced infringement, and that SS/L contributed to the infringement of, certain ViaSat patents in connection

with the manufacture of satellites by SS/L for customers other than ViaSat. The amended complaint also alleges 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, breach of contract and correction of the inventorship of one of ViaSat's patents and its assignment to SS/L, 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, that ViaSat misappropriated certain of SS/L's proprietary information and that SS/L employees conceived or contributed to the conception of one of ViaSat's patents. 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, to enjoin ViaSat from further infringement of the SS/L patents and further misappropriation of SS/L's proprietary information and to correct the inventorship of one of ViaSat's patents and have it assigned to SS/L.

In August 2013, SS/L and Loral filed motions for summary judgment seeking orders that certain claims in one of ViaSat's patents are invalid for being indefinite, to determine which of a number of different non-disclosure agreements applied to ViaSat's breach of contract claims during relevant time periods and to establish the priority date for one of ViaSat's patents. In September and October 2013, the court denied these motions finding that disputed issues of material fact were involved and, therefore, summary judgment was not appropriate.

Table of Contents

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.

In September 2013, ViaSat filed a new complaint against SS/L in the United States District Court for the Southern District of California alleging, among other things, that SS/L directly infringed, and induced and encouraged infringement of, certain newly issued ViaSat patents not asserted in the original lawsuit in connection with the manufacture of satellites by SS/L for customers other than ViaSat. ViaSat's new complaint seeks, among other things, damages (including treble damages) in amounts to be determined at trial and to enjoin SS/L from further infringement of the ViaSat patents. The complaint did not name Loral as a defendant. MDA has asserted that Loral is obligated to defend and indemnify SS/L with respect to the newly-brought litigation under the Purchase Agreement on the same terms and conditions as Loral's defense and indemnification of SS/L in the existing pending litigation. Loral has rejected MDA's assertion that it is obligated to defend and indemnify SS/L on the basis that the new lawsuit does not fall within its defense and indemnification obligations under the Purchase Agreement. SS/L is defending the new lawsuit. The parties have agreed, however, to defer determination of whether Loral is obligated to defend and indemnify SS/L for the new lawsuit until the earlier of judgment or settlement of either of the ViaSat actions and October 25, 2016. There can be no assurance that a dispute will not arise as to whether Loral is obligated to defend and indemnify SS/L for the new ViaSat lawsuit or if such a dispute were to arise that Loral would prevail.

*Telesat*

*Cash and Available Credit*

As of September 30, 2013, Telesat had CAD 235 million of cash and short-term investments as well as approximately CAD 140 million of borrowing availability under its revolving facility. Telesat believes that cash and short-term investments as of September 30, 2013, cash flow from operating activities and drawings on the available lines of credit under the Telesat senior secured credit facilities will be adequate to meet its expected cash requirements for at least the next 12 months for activities in the normal course of business, including interest and required principal payments on debt.

*Cash Flows from Operating Activities*

Cash generated from operating activities for the nine months ended September 30, 2013, was CAD 381 million, a CAD 100 million increase over the same period in the prior year. The increase was primarily due to an increase in revenue earned from Telesat's Nimiq 6 and Anik G1 satellites, higher equipment sales, growth in Telesat's international enterprise activities, special payments made in the prior year to executives and certain employees of Telesat in connection with the cash distribution made to Telesat's shareholders, improved working capital and lower interest expense. These increases were partially offset by lower customer prepayments on future satellite services.

*Cash Flows used in Investing Activities*

Cash used in investing activities for the nine months ended September 30, 2013 was CAD 48 million. This consisted of CAD 42 million cash outflows related to its satellite programs for the completion and launch of Anik G1 in April 2013 and for the on-going construction of Telstar 12 VANTAGE as well as CAD 6 million for other property and equipment.

*Cash Flows used in Financing Activities*

Cash used in financing activities for the nine months ended September 30, 2013, was CAD 278 million. This was primarily the result of the redemption of Telesat's 12.5% senior subordinated notes and the associated premiums paid for early redemption. Other financing activities included mandatory repayments made on its term loan A and term loan B credit facilities, debt issue costs relating to the re-pricing and amendment of its credit agreement on April 2, 2013, and satellite performance incentive payments.

Table of Contents*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 operating activities, 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.

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 current and 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 secured credit facilities, reinvest the proceeds in replacement satellites or pay down indebtedness under the Telesat senior secured credit facilities. Subject to market conditions and subject to compliance with the terms and conditions of the Telesat senior secured credit facilities and the financial leverage covenant tests therein, Telesat may also have the ability to obtain additional secured or unsecured financing to fund current or future satellite construction. 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 as of September 30, 2013 and December 31, 2012 was as follows:

	Maturity	Currency	September 30, 2013	December 31, 2012
(In CAD millions)				
Senior Credit Facilities:				
Revolving credit facility	March 28,2017	CAD or USD equivalent	—	—
Term Loan A	March 28,2017	CAD	481	500
Term Loan B - U.S. facility	March 28,2019	USD	1,791	1,703
Term Loan B - Canadian facility	March 28,2019	CAD	139	174
6.0% Senior notes	May 15, 2017	USD	928	893



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

12.5% Senior subordinated notes	November 1, 2017	USD	—	215
			3,339	3,485
Less: Deferred financing costs, interest rate floors and prepayment options			(72 )	(78 )
			3,267	3,407
Current portion			(51 )	(32 )
Long term portion			3,216	3,375

The obligations under the credit agreement and the guarantees of those obligations are secured, subject to certain exceptions, by first priority liens and security interest in the assets of Telesat and the guarantors. The credit agreement contains covenants that restrict the ability of Telesat and certain of its subsidiaries to take specified actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends, entering into sales-leaseback transactions, creating subsidiaries, repaying subordinated debt or amending organizational documents. The credit agreement requires Telesat to comply with a maximum senior secured leverage ratio. The credit agreement also contains customary affirmative covenants and events of default.

Each of the Telesat senior secured credit facilities is subject to mandatory principal repayment requirements. The maturity date for each of the Telesat senior secured credit facilities described above will be accelerated if Telesat's existing 6.0% senior notes due in 2017 or certain refinancing thereof are not repurchased, redeemed, refinanced or deferred before the date that is 91 days prior to the maturity date of such notes.

## Table of Contents

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.

On April 2, 2013, Telesat amended its senior secured credit facilities which converted CAD 34 million from Canadian to U.S. dollars and decreased the interest rate on the Canadian term loan B facility and the U.S. term loan B facility by 0.50%. The amendment also decreased the interest rate floors on the debt to 0.75% and 1.00% for the U.S. term loan B facility and Canadian term loan B facility, respectively. The permitted leverage ratio to incur the first lien debt is now 4.25:1.00 which represents a change from the prior 4.00:1.00 senior secured leverage ratio test in the credit agreement.

On May 1, 2013, Telesat redeemed all outstanding 12.5% senior subordinated notes at a price equal to 106.25% of the principal amount from cash on-hand.

As of September 30, 2013, Telesat was in compliance with the financial covenants of its senior secured credit facilities and the indenture governing its 6.0% senior notes.

### *Debt Service Cost*

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 secured credit facilities and the senior notes. Telesat's estimated interest expense for the year ended December 31, 2013 is approximately CAD 206 million.

### *Derivatives*

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

In order to hedge its currency risk, Telesat has cross-currency basis swaps to synthetically convert \$1.0 billion of the U.S. term loan facility debt into CAD 1.2 billion of debt. Any non-cash loss will remain unrealized until this contract

is settled. The contract matures on October 31, 2014.

At September 30, 2013, Telesat had a series of five interest rate swaps to fix interest on CAD 1.5 billion of Canadian dollar denominated debt at a weighted average fixed rate of 2.63% (excluding applicable margins) and one interest rate swap to pay a fixed rate of 1.46% (excluding applicable margins) on CAD 300 million of U.S. dollar denominated debt. These contracts mature between October 31, 2014 and September 30, 2016.

Telesat also has embedded derivatives. These embedded derivatives are related to a prepayment option included in its senior notes as well as interest rate floors included in its Canadian and U.S. term loan B facilities. The prepayment option on the senior notes will expire on its maturity date of May 15, 2017. The interest rate floors on the Canadian and U.S. term loan B facilities will expire on their respective maturity dates.

### ***Contractual Obligations***

There have not been any significant changes to Loral's 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 Operating Activities***

Net cash used in operations was \$56 million for the nine months ended September 30, 2013.

Net cash used in operating activities by continuing operations was \$13 million for the nine months ended September 30, 2013, consisting primarily of an increase in income taxes receivable of \$19 million and a \$7 million decrease in accrued expenses and other current liabilities of which \$4 million relates to payment of the GdB indemnification liability, partially offset by \$14 million from income from continuing operations adjusted for non-cash operating items.

Table of Contents

Net cash used in operating activities by discontinued operations was \$43 million for the nine months ended September 30, 2013, consisting primarily of income tax payments of \$35 million relating to the gain on the Sale and payment of \$7 million of indemnification liabilities related to the Sale.

Net cash used by 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.

Net cash used in operating activities by discontinued operations was \$12 million for the nine months ended September 30, 2012.

***Net Cash Provided by Investing Activities***

Net cash provided by investing activities from continuing operations for the nine months ended September 30, 2013 was \$1 million relating to the proceeds from the sale of our ownership interests in an affiliate.

Net cash provided by investing activities for the nine months ended September 30, 2012 was \$323 million.

Net cash provided by investing activities from continuing operations for the nine months ended September 30, 2012 included \$420 million relating to special cash distributions by Telesat.

Net cash used in investing activities by discontinued operations was \$99 million for the three months ended September 30, 2012.

***Net Cash Used in Financing Activities***

Net cash used in financing activities for the nine months ended September 30, 2013 was \$8 million which includes funding of \$9 million of withholding taxes relating to stock-based compensation, partially offset by \$1 million of excess tax benefits associated with stock-based compensation.

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 of withholding taxes of \$6 million 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 7 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 Part II, Item 1A — Risk Factors and also in Note 16 to the financial statements.

Table of Contents

**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***

*Loral*

*Foreign Currency*

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.

*Interest*

During the second quarter of 2013, cash was invested in money market securities; we did not hold any other marketable securities.

*Derivatives*

Although Loral has no derivative instruments at September 30, 2013, we have used derivative instruments in the past. If derivative instruments are used in the future, the Company would be exposed to the risk that counterparties to

derivative contracts would 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.

### ***Telesat***

#### ***Foreign Exchange Risk***

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 is also exposed to foreign currency risk on anticipated transactions, such as the costs of satellite construction, launch and acquisition.

Telesat's main currency exposures as of September 30, 2013 lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables, deferred satellite performance incentive payments and debt financing.

Approximately 45% of Telesat's revenue and a substantial portion of its expenses, indebtedness and capital expenditures are denominated in U.S. dollars for the nine months ended September 30, 2013. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. As of September 30, 2013, Telesat's U.S. dollar denominated debt totaled \$2.6 billion. As a result, the volatility of U.S. currency may expose Telesat to foreign exchange risks.

As of September 30, 2013, a five percent change in the Canadian dollar against the U.S. dollar would have changed Telesat's net income by approximately \$137 million. This analysis assumes that all other variables, in particular, interest rates, remain constant.

#### ***Interest Rate Risk***

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 that Telesat is required to pay.

Table of Contents

***Derivative Financial Instruments***

Telesat uses derivative instruments to manage its exposure to foreign currency and interest rate risk. Telesat's policy is that it does not use derivative instruments for speculative purposes.

Telesat uses, as required, the following instruments:

- forward currency contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites and interest payments;

- cross-currency basis swaps to hedge the foreign currency risk on a portion of its U.S. dollar denominated debt; and

- interest rate swaps to hedge the interest rate risk related to debt financing which is primarily variable rate financing.

Telesat's derivative financial instruments also include embedded derivatives that are related to a prepayment option included in its senior notes, as well as interest rate floors included in its Canadian and U.S. term loan B facilities.

**Item 4. *Disclosure Controls and Procedures***

(a) *Disclosure Controls and Procedures.* Our president 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, 2013, 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 16 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, 2012 in "Item 1A. Risk Factors." There are no material changes to those risk factors except as set forth in Note 16 (Commitments and Contingencies) of the financial statements contained in this report, and the reader is specifically directed to that section.

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 6. *Exhibits***

The following exhibits are filed as part of this report:

Exhibit 31.1 Certification of President 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 President 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 ~~Interactive Data Files~~

~~(101.INS) XBRL Instance Document~~

~~(101.SCH) XBRL Taxonomy Extension Schema Document~~

~~(101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document~~

~~(101.DEF) XBRL Taxonomy Extension Definition Linkbase Document~~

~~(101.LAB) XBRL Taxonomy Extension Label Linkbase Document~~

~~(101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document~~

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/ John Capogrossi

John Capogrossi

*Vice President, Chief Financial Officer, Treasurer and Controller  
(Principal Financial Officer)*

*and Registrant's Authorized Officer*

Date: November 12, 2013

Table of Contents

**EXHIBIT INDEX**

- Exhibit 31.1 — Certification of President 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 President 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 —Interactive Data Files  
(101.INS) XBRL Instance Document  
(101.SCH) XBRL Taxonomy Extension Schema Document  
(101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document  
(101.DEF) XBRL Taxonomy Extension Definition Linkbase Document  
(101.LAB) XBRL Taxonomy Extension Label Linkbase Document  
(101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document