

LORAL SPACE & COMMUNICATIONS INC.

Form 10-Q

November 14, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

Commission file number 1-14180

Loral Space & Communications Inc.

600 Third Avenue

New York, New York 10016

Telephone: (212) 697-1105

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Jurisdiction of incorporation: Delaware

IRS identification number: 87-0748324

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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

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

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LORAL SPACE & COMMUNICATIONS INC.

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

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

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

See notes to condensed consolidated financial statements.

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

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

Weighted average common shares outstanding:

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

See notes to condensed consolidated financial statements.

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(In thousands)

(Unaudited)

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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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. See Recent Developments below.

Recent Developments

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

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

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

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

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

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

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

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

Description of Business

SS/L designs and manufactures satellites, space systems and space system components for commercial and government customers whose applications include fixed satellite services (FSS), direct-to-home (DTH) broadcasting, mobile satellite services (MSS), broadband data distribution, wireless telephony, digital radio, digital mobile broadcasting, military communications, weather monitoring and air traffic management.

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

2. Basis of Presentation

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

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

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

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

Use of Estimates in Preparation of Financial Statements

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Concentration of Credit Risk

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

Fair Value Measurements

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

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

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

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

discounted cash flow models, and similar techniques.

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

5. Other Comprehensive Income

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

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

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

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

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

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

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

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

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

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

Long-Term Receivables

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

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

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

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

Financing Receivables

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

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

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

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

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

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

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

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

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

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

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

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

Inventories are comprised of the following (in thousands):

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

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

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

Foreign Currency

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

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

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

Derivatives and Hedging Transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Property, Plant and Equipment

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

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

Depreciation and amortization consists of (in thousands):

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

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

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

Investments in affiliates consist of (in thousands):

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

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

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

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

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

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

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

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

Telesat

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)