LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
August 09, 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 June 30, 2012

Commission file number 1-14180

Loral Space & Communications Inc.

600 Third Avenue

New York, New York 10016

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 x 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 x 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 x	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 x 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 x

As of July 31, 2012, 21,238,403 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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For the quarterly period ended June 30, 2012

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PART 1.

FINANCIAL INFORMATION

Item 1. ***Financial Statements***

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,465	$ 197,114
Contracts-in-process		159,261
Inventories		77,301
Deferred tax assets	158,047	67,070
Other current assets	5,438	15,038
Assets held for sale	1,005,309	
Total current assets	1,206,259	515,784
Property, plant and equipment, net	63	203,722
Restricted cash		23,800
Long-term receivables	22,311	362,688
Investments in affiliates	65,982	446,235
Intangible assets, net		8,179
Long-term deferred tax assets	162,006	263,363
Other assets	2,612	12,382
Total assets	$ 1,459,233	$ 1,836,153
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$	$ 90,323
Accrued employment costs	3,819	59,897
Customer advances and billings in excess of costs and profits		227,485
Other current liabilities	10,418	25,265
Liabilities held for sale	729,965	
Total current liabilities	744,202	402,970
Pension and other postretirement liabilities	35,732	311,273
Long-term liabilities	146,193	174,325
Total liabilities	926,127	888,568
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, $.01 par value; 50,000,000 shares authorized, 21,390,297 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	1,010,993	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	(320,450)	94,303
Accumulated other comprehensive loss	(149,264)	(154,475)
Total shareholders equity attributable to Loral	531,996	946,459
Noncontrolling interest	1,110	1,126
Total equity	533,106	947,585
Total liabilities and equity	$ 1,459,233	$ 1,836,153

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Selling, general and administrative expenses	4,264	3,674	8,875	8,767
Gain on disposition of net assets		5,118		5,118
Operating (loss) income	(4,264)	1,444	(8,875)	(3,649)
Interest and investment income	398	395	890	2,461
Interest expense	(29)	(31)	(57)	(59)
Gain on litigation, net		65		4,535
Other expense	(233)	(1,518)	(623)	(3,492)
(Loss) income from continuing operations before income taxes and equity in net (loss) income of affiliates	(4,128)	355	(8,665)	(204)
Income tax benefit (provision)	5,763	(9,454)	2,541	(11,951)
Income (loss) from continuing operations before equity in net (loss) income of affiliates	1,635	(9,099)	(6,124)	(12,155)
Equity in net (loss) income of affiliates	(11,353)	23,940	(4,484)	70,186
(Loss) income from continuing operations	(9,718)	14,841	(10,608)	58,031
Income from discontinued operations, net of tax	4,937	14,785	13,445	39,390
Net (loss) income	(4,781)	29,626	2,837	97,421
Net loss (income) attributable to noncontrolling interest	3	(293)	16	(269)
Net (loss) income attributable to Loral common shareholders	(4,778)	29,333	2,853	97,152
Other comprehensive income (loss), net of tax	2,414	1,994	5,211	(5,110)
Comprehensive (loss) income attributable to Loral common shareholders	$ (2,364)	$ 31,327	$ 8,064	$ 92,042
Net (loss) income per share attributable to Loral common shareholders:				
Basic				
(Loss) income from continuing operations	$ (0.32)	$ 0.48	$ (0.35)	$ 1.89
Income from discontinued operations, net of tax	0.16	0.48	0.44	1.28
Net (loss) income	$ (0.16)	$ 0.96	$ 0.09	$ 3.17
Diluted				
(Loss) income from continuing operations	$ (0.32)	$ 0.44	$ (0.35)	$ 1.76
Income from discontinued operations, net of tax	0.16	0.47	0.44	1.25
Net (loss) income	$ (0.16)	$ 0.91	$ 0.09	$ 3.01

Weighted average common shares outstanding:				
Basic	30,704	30,698	30,653	30,668
Diluted	30,704	31,143	30,653	31,241

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

(Unaudited)

	Common Stock Voting Shares Issued	Common Stock Voting Amount	Common Stock Non-Voting Shares Issued	Common Stock Non-Voting Amount	Paid-In Capital	Treasury Stock Voting Shares	Treasury Stock Voting Amount	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Shareholders Equity Attributable to Loral	Noncontrolling Interest	Total Equity
lance, uary 1, 2011	20,925	$ 209	9,506	$ 95	$ 1,028,263			$ (32,374)	$ (95,873)	$ 900,320	$ 629	$ 900,94
t income								126,677			$ 497	
her mprehensive s									(58,602)			
mprehensive come										68,075		68,57
ercise of ck options	305	3			1,055					1,058		1,05
ares rendered to nd thholding es					(16,972)					(16,972)		(16,97
x benefit sociated with ercise of ck options					1,198					1,198		1,19
ock based mpensation					1,180					1,180		1,18
ting mmon stock purchased						136	$ (8,400)			(8,400)		(8,40
lance, cember 31, 11	21,230	$ 212	9,506	$ 95	$ 1,014,724	136	$ (8,400)	$ 94,303	$ (154,475)	$ 946,459	$ 1,126	$ 947,58
t income ss)								2,853			(16)	
her mprehensive come									5,211			
mprehensive come										8,064		8,04
mmon vidends clared 3.60 per are)								(417,606)		(417,606)		(417,60
ercise of ck options	142	2			1,633					1,635		1,63
ares rendered to nd	18				(5,796)					(5,796)		(5,79

thholding es												
x benefit sociated with ercise of ck options					22					22		2
ock based mpensation					579					579		57
sh settlement restricted ck units					(169)					(169)		(16
ting mmon stock purchased						18	(1,192)			(1,192)		(1,19
lance, ne 30, 2012	21,390	$ 214	9,506	$ 95	$ 1,010,993	154	$ (9,592)	$ (320,450)	$ (149,264)	$ 531,996	$ 1,110	$ 533,10

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2012	2011
Operating activities:		
Net income	$ 2,837	$ 97,421
Income from discontinued operations, net of tax	(13,445)	(39,390)
Adjustments to reconcile net income to net cash used in operating activities:		
Non-cash operating items (Note 4)	2,047	(61,879)
Changes in operating assets and liabilities:		
Long-term receivables	(1,610)	(1,553)
Other current assets and other assets	1,218	10,175
Accounts payable		(12)
Accrued expenses and other current liabilities	(2,645)	(2,817)
Income taxes payable	(109)	(6,423)
Pension and other postretirement liabilities	(623)	(326)
Long-term liabilities	(1,354)	(3,121)
Net cash used in operating activities continuing operations	(13,684)	(7,925)
Net cash (used in) provided by operating activities discontinued operations	(38,353)	5,394
Net cash used in operating activities	(52,037)	(2,531)
Investing activities:		
Distribution received from affiliate	375,809	
Capital expenditures		(347)
Proceeds from sale of net assets		61,482
Decrease in restricted cash		625
Net cash provided by investing activities continuing operations	375,809	61,760
Net cash used in investing activities discontinued operations	(84,022)	(29,264)
Net cash provided by investing activities	291,787	32,496
Financing activities:		
Cash dividend paid	(417,606)	
Voting common stock repurchased	(472)	
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	(5,796)	(16,765)
Excess tax benefit associated with exercise of stock options	22	1,361
Net cash used in financing activities continuing operations	(422,386)	(14,957)
Net cash provided by financing activities discontinued operations	40,000	
Net cash used in financing activities	(382,386)	(14,957)

(Decrease) increase in cash and cash equivalents	(142,636)	15,008
Cash and cash equivalents beginning of period	197,114	165,801
Cash and cash equivalents continuing and discontinued operations end of period	54,478	180,809
Cash and cash equivalents discontinued operations end of period	(17,013)	
Cash and cash equivalents end of period	$ 37,465	$ 180,809

See notes to condensed consolidated financial statements.

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 communicatio company engaged in satellite manufacturing and, through our ownership interests in affiliates, satellite-based communications services.

Recent Developments

On June 26, 2012, Loral and Space Systems/Loral, Inc., a Delaware corporation and a wholly-owned subsidiary of Loral (SS/L), entered into a purchase agreement (the Purchase Agreement) with MacDonald, Dettwiler and Associates Ltd., a Canadian corporation (MDA), and MDA Communications Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of MDA (Purchaser or MDA Holdings), pursuant to which the Company has agreed to sell one hundred percent of the outstanding equity interests in SS/L to Purchaser for $774 million (subject to certain purchase price adjustments set forth in the Purchase Agreement) and certain related real estate to MDA for a $101 million promissory note.

Prior to consummating the sale, SS/L will (i) be converted into a limited liability company, (ii) transfer the real estate owned by it to a newly formed limited liability company (the Land LLC), (iii) distribute the equity interests in the Land LLC to Loral, and (iv) pay a dividend and repay intercompany balances to Loral in an amount equal to approximately $111.9 million plus $192,500 per day from March 31, 2012 to the closing of the transaction, plus amounts accrued from March 31, 2012 to the closing of the transaction under the existing management and shared services agreements between Loral and SS/L.

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

The $101 million promissory note to be received from MDA will bear interest at the rate of 1% per annum and will amortize in three equal annual installments commencing March 31, 2013. The note will be secured by a letter of guarantee from Royal Bank of Canada.

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 Damages is subject to a dollar cap.

The closing of the transactions contemplated by the Purchase Agreement is subject to certain closing conditions, including: (i) that from the date of the Purchase Agreement to the closing date of the transactions contemplated thereby a Material Adverse Effect (as defined in the Purchase Agreement) shall not have occurred, (ii) that any required waiting periods (including any extension thereof) applicable to the consummation of the transactions contemplated by the Purchase Agreement under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, shall have terminated or expired, (iii) obtaining the approval of the Committee on Foreign Investment in the United States (CFIUS), and (iv) other customary closing conditions. If the sale of SS/L is not consummated by November 23, 2012, either Loral or MDA may terminate the Purchase Agreement provided that each party s right to terminate the Purchase Agreement shall not be available if such party s action or failure to act has caused the failure of the closing to take place by November 23, 2012 and such action or failure constitutes a breach of the Purchase Agreement.

Description of Business

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

The operations of SS/L, previously reported as the satellite manufacturing operating segment, have been reclassified as discontinued operations in our statements of operations and cash flows. The assets and liabilities of SS/L have been reflected as assets held for sale and liabilities held for sale, respectively, on our condensed consolidated balance sheet as of June 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 will have, as a result of the pending transaction with MDA and MDA Holdings, one operating segment consisting of satellite based communications services. Loral participates in satellite services operations principally 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 six months ended June 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 six months ended June 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 June 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 $8 million, respectively, and diluted earnings per share by $0.01 and $0.15, respectively. For the six months ended June 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 $4 million and $25 million, respectively, and diluted earnings per share by $0.09 and $0.49, 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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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Level 1	Level 2	Level 3
Assets:			
Cash equivalents			
Money market funds	$ 50,561	$	$
Available-for-sale securities			
Communications industry	$ 315	$	$
Derivatives			
Foreign exchange contracts	$	$ 1,431	$
Non-qualified pension plan assets	$ 257	$	$
Liabilities:			
Derivatives			
Foreign exchange contracts	$	$ 1,913	$

Included in the above table are cash equivalents (money market funds) of $14.1 million included in assets held for sale and derivatives (foreign exchange contracts) of $1.8 million that are included in liabilities held for sale as of June 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 June 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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Discontinued Operations

As a result of the agreement to sell 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 six months ended June 30, 2012 and 2011.

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

	June 30, 2012
Assets	
Current assets	$ 340,010
Property, plant and equipment, net	211,008
Long-term receivables	352,235
Other assets	102,056
Total assets held for sale	$ 1,005,309

	June 30, 2012
Liabilities	
Current liabilities	$ 435,716
Pension and other postretirement liabilities	268,020
Long-term liabilities	26,229
Total liabilities held for sale	$ 729,965

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	$ 294,377	$ 252,422	$ 581,090	$ 532,321
Operating income	8,765	22,040	11,123	54,585
Income before income taxes	13,170	25,750	25,038	63,221
Income tax provision	(8,233)	(10,965)	(11,593)	(23,831)
Net income	4,937	14,785	13,445	39,390

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):

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Non-cash operating items:		
Equity in net loss (income) of affiliates	$ 4,484	$ (70,186)
Deferred taxes	(1,910)	12,899
Depreciation and amortization	36	78
Stock based compensation	536	494
Amortization of prior service credits and net actuarial gain	338	81
Gain on disposition of net assets		(5,118)
Unrealized gain on non-qualified pension plan assets	(87)	(198)
(Gain) loss on foreign currency transactions and contracts	(1,350)	71
Net non-cash operating items continuing operations	$ 2,047	$ (61,879)
Non-cash operating items discontinued operations	$ 26,438	$ 30,309
Non-cash investing activities:		
Capital expenditures incurred not yet paid discontinued operations	$ 7,881	$ 2,239
Non-cash financing activities:		
Repurchase of voting common stock not yet paid continuing operations	$ 1,192	$
Supplemental information:		
Interest paid continuing operations	$ 57	$ 82
Interest paid discontinued operations	$ 914	$ 958
Tax payments net of refunds	$ 85	$ 5,213

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other Comprehensive Income

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

	Three Months Ended June 30, 2012 Before-Tax Amount	2012 Tax (Expense) Benefit	2012 Net-of Tax Amount	2011 Before-Tax Amount	2011 Tax (Expense) Benefit	2011 Net-of Tax Amount
Amortization of prior service credits and net actuarial loss	$ 2,012	$ (809)	$ 1,203	$ 332	$ (144)	$ 188
Proportionate share of Telesat Holdco other comprehensive (loss) income	(869)	347	(522)	2,842	(1,219)	1,623
Derivatives:						
Unrealized gain (loss) on foreign currency hedges	1,392	(560)	832	(3,968)	1,581	(2,387)
Less: reclassification adjustment for loss included in net income	1,879	(754)	1,125	4,332	(1,740)	2,592
Net unrealized gain on derivatives	3,271	(1,314)	1,957	364	(159)	205
Unrealized loss on available-for-sale securities	(374)	150	(224)	(39)	17	(22)
Other comprehensive income	$ 4,040	$ (1,626)	$ 2,414	$ 3,499	$ (1,505)	$ 1,994

	Six Months Ended June 30, 2012 Before-Tax Amount	2012 Tax (Expense) Benefit	2012 Net-of Tax Amount	2011 Before-Tax Amount	2011 Tax (Expense) Benefit	2011 Net-of Tax Amount
Amortization of prior service credits and net actuarial loss	$ 4,024	$ (1,617)	$ 2,407	$ 664	$ (278)	$ 386
Proportionate share of Telesat Holdco other comprehensive income	39	(18)	21	512	(282)	230
Derivatives:						
Unrealized loss on foreign currency hedges	(285)	115	(170)	(15,541)	6,248	(9,293)
Less: reclassification adjustment for loss included in net income	5,156	(2,073)	3,083	6,181	(2,485)	3,696
Net unrealized gain (loss) on derivatives	4,871	(1,958)	2,913	(9,360)	3,763	(5,597)
Unrealized loss on available-for-sale securities	(217)	87	(130)	(216)	87	(129)
Other comprehensive income (loss)	$ 8,717	$ (3,506)	$ 5,211	$ (8,400)	$ 3,290	$ (5,110)

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

Contracts-in-Process

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

	June 30, 2012	December 31, 2011
Contracts-in-Process:		
Amounts billed	$ 172,054	$ 107,920
Unbilled receivables	51,520	51,341
	223,574	159,261
Billed and unbilled receivables classified as assets held for sale	(223,574)	
Contracts-in-process, as reported	$	$ 159,261

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of June 30, 2012 and December 31, 2011, billed receivables were reduced by an allowance for doubtful accounts of $0.2 million. The allowance as of June 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).

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

	June 30, 2012	December 31, 2011
Orbital receivables	$ 364,669	$ 354,852
Deferred receivables	4,690	1,973
Telesat consulting services receivable	22,311	20,700
	391,670	377,525
Less: current portion included in contracts-in-process	(17,124)	(14,837)
Long-term receivables	374,546	362,688
Long-term receivables classified as assets held for sale	(352,235)	
Long-term receivables, as reported	$ 22,311	$ 362,688

Long-term receivables as reported of $22.3 million as of June 30, 2012 represents fees from Telesat for consulting services.

Financing Receivables

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

	Total	Unlaunched	Launched	Financing Receivables Subject To Aging	Current	90 Days or Less	More Than 90 Days
Satellite Manufacturing:							

Orbital Receivables							
Long term orbitals	$ 347,545	$ 153,603	$ 193,942	$ 193,942	$ 193,942	$	$
Short term unbilled	12,477		12,477	12,477	12,477		
Short term billed	4,647		4,647	4,647	4,647		
	364,669	153,603	211,066	211,066	211,066		
Deferred Receivables	4,690			4,690	4,690		
Consulting Services:							
Receivables from Telesat	22,311			22,311	22,311		
	391,670	153,603	211,066	238,067	238,067		
Contracts-in-Process:							
Unbilled receivables	39,043	39,043					
Total financing receivables	430,713	192,646	211,066	238,067	238,067		
Financing receivables classified as assets held for sale	(408,402)	(192,646)	(211,066)	(215,756)	(215,756)		
Financing receivables, as reported	$ 22,311	$	$	$ 22,311	$ 22,311	$	$

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Billed receivables of $167.4 million and $104.5 million as of June 30, 2012 and December 31, 2011, respectively (not including billed orbital receivables of $4.6 million and $3.5 million as of June 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 $153.6 million and $141.5 million as of June 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 $39.0 million and $40.0 million as of June 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 June 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):

Rating Categories

	June 30, 2012	December 31, 2011
A/BBB	$ 41,766	$ 41,607
BB/B	285,163	246,373
B/CCC	105,161	94,156
Customers in bankruptcy		39,307
Other	(1,377)	(3,947)
Total financing receivables	$ 430,713	417,496

As of June 30, 2012, all financing receivables, except for $22.3 million included in rating category BB/B consisting of the receivable from Telesat for consulting services, were included in assets held for sale.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories

Inventories are comprised of the following (in thousands):

	June 30, 2012	December 31, 2011
Inventories-gross	$ 121,870	$ 110,087
Impaired inventory	(31,634)	(31,360)
	90,236	78,727
Inventories included in other assets	(1,426)	(1,426)
	88,810	77,301
Inventories classified as assets held for sale	(88,810)	
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 June 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 June 30, 2012 exchange rates) that were unhedged (in thousands):

		Foreign Currency	U.S.$
Future revenues	Japanese yen	¥ 13,386	$ 168
Future expenditures	Japanese yen	¥ 3,076,810	$ 38,535
Future revenues	euros	17,283	$ 21,898
Future expenditures	euros	1,717	$ 2,175

Derivatives and Hedging Transactions

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.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The aggregate fair value of derivative instruments in an asset position was $1.4 million as of June 30, 2012. This amount represents the maximum exposure to loss at the reporting date as a result of the potential failure of the counterparties to perform as contracted. These derivative instruments were settled in July 2012.

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. This foreign exchange forward contract has not been designated as a hedging instrument.

The maturity of foreign currency exchange contracts held as of June 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):

	To Buy			
Maturity	Euro Amount	CAD Amount	Hedge Contract Rate	At Market Rate
2012		C AD 45,020	$ 44,159	$ 44,228
2012	431		544	542
	431	45,020	44,703	44,770
Discontinued operations	(431)		(544)	(542)