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.

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					Treasury Stock		Retained	Accumulated	Shareholders		
	Voting		Non-Voting			Voting		Earnings	Other	Equity Attributable		
	Shares Issued	Amount	Shares Issued	Amount	Paid-In Capital	Shares	Amount	(Accumulated Deficit)	Comprehensive Loss	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 ociated with ercise of ck options					1,198					1,198		1,19
ock based mpensation					1,180					1,180		1,18
ting mmon stock ourchased						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.

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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 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.

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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	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

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			2011		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of Tax Amount
Amortization of prior service credits and net actuarial loss	$ 2,012	$ (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			2011		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of Tax Amount
Amortization of prior service credits and net actuarial loss	$ 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.

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		
			Hedge	**At**
Maturity	**Euro Amount**	**CAD Amount**	**Contract Rate**	**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)
Continuing operations		C AD 45,020	$ 44,159	$ 44,228

		To Sell		
			Hedge	**At**
Maturity	**Euro Amount**	**CAD Amount**	**Contract Rate**	**Market Rate**
2012		C AD 90,040	$ 89,758	$ 88,477
2012	7,594		9,209	9,625
2013	27,000		32,894	34,278
	34,594	90,040	131,861	132,380

Discontinued operations	(34,594)		(42,103)	(43,903)
Continuing operations		C AD 90,040	$ 89,758	$ 88,477

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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 June 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	$ 1,765
				1,765
Derivatives not designated as hedging instruments				
Foreign exchange contracts				
	Other current assets	$ 1,431	Other current liabilities	118
Total derivatives		1,431		1,883
Derivatives classified as held for sale				(1,802)
Derivatives, as reported		$ 1,431		$ 81

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

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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 and in accumulated other comprehensive loss for all derivatives for the three and six months ended June 30, 2012, respectively (in thousands):

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Loss Reclassified from Accumulated OCI into Income (Effective Portion)		Gain (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing	
		Location	Amount	Location	Amount
Three months ended June 30, 2012:					
Foreign exchange contracts	$ 1,392	Revenue	$ (1,879)	Revenue	$ (27)
				Interest income	$
Six months ended June 30, 2012:					
Foreign exchange contracts	$ (285)	Revenue	$ (5,156)	Revenue	$ 180
				Interest income	$

Cash Flow Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivatives	
	Location	Amount
Three months ended June 30, 2012:		
Foreign exchange contracts	Revenue	$ (251)
	Other income	1,350
Total gain		1,099
Loss included in discontinued operations		251
Gain as reported		$ 1,350
Six months ended June 30, 2012:		
Foreign exchange contracts	Revenue	$ (18)
	Other income	1,350
Total gain		1,332
Loss included in discontinued operations		18
Gain as reported		$ 1,350

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 six months ended June 30, 2011, respectively (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 (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing	
		Location	Amount	Location	Amount
Three months ended June 30, 2011					
Foreign exchange contracts	$ (3,968)	Revenue	$ (4,332)	Revenue	$ (61)
				Interest income	$
Six months ended June 30, 2011:					
Foreign exchange contracts	$ (15,541)	Revenue	$ (6,181)	Revenue	$ 1,074
				Interest income	$ (1)

Cash Flow Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivatives	
	Location	Amount
Three months ended June 30, 2011:		
Foreign exchange contracts	Revenue	$ 1,255
Six months ended June 30, 2011:		
Foreign exchange contracts	Revenue	$ (1,195)

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The fair value of derivatives as reported in our condensed consolidated balance sheet as of June 30, 2012 and the gain (loss) from cash flow derivatives not designated as hedging instruments as reported for the three and six months ended June 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.

We estimate that $2.3 million of SS/L s losses from derivative instruments included in accumulated other comprehensive loss as of June 30, 2012 will be reclassified into earnings within the next 12 months.

9. Property, Plant and Equipment

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

	June 30, 2012	December 31, 2011
Land and land improvements	$ 27,291	$ 27,036
Buildings	69,308	69,182
Leasehold improvements	18,603	16,696
Equipment	197,155	182,987
Furniture and fixtures	33,902	31,412
Construction in progress	29,173	25,828
	375,432	353,141
Accumulated depreciation and amortization	(164,361)	(149,419)
	211,071	203,722
Property, plant and equipment, net, classified as assets held for sale	(211,008)	
Property, plant and equipment, net, as reported	$ 63	$ 203,722

Depreciation and amortization consists of (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Total depreciation and amortization	$ 7,747	$ 7,125	$ 14,941	$ 14,028
Depreciation and amortization included in income from discontinued operations	(7,729)	(7,090)	(14,905)	(13,950)
Depreciation and amortization included in income from continuing operations	$ 18	$ 35	$ 36	$ 78

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Investments in Affiliates

Investments in affiliates consist of (in thousands):

	June 30, 2012	December 31, 2011
Telesat Holdings Inc.	$	$ 377,244
XTAR, LLC	65,982	68,991
	$ 65,982	$ 446,235

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Telesat Holdings Inc.	$ (8,855)	$ 26,059	$ (1,475)	$ 74,081
XTAR, LLC	(2,498)	(2,089)	(3,009)	(3,853)
Other		(30)		(42)
	$ (11,353)	$ 23,940	$ (4,484)	$ 70,186

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	$ 22,427	$ 33,594	$ 46,583	$ 75,845
Elimination of Loral s proportionate share of profits relating to affiliate transactions	(7,184)	127	(14,025)	(7,193)
Profits relating to affiliate transactions not eliminated	4,041	(71)	7,889	4,049

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 three and six months ended June 30, 2011.

Equity in net income of affiliates for the six months ended June 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 $^{1}/_{3}$% 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.

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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 ($46 million). The special cash distribution received from Telesat on March 28, 2012 has been reflected in our condensed consolidated balance sheet as of June 30, 2012 as a reduction to investment in affiliates. Because the special cash distribution exceeds our cumulative equity in net income of Telesat and our initial investment, our investment account in Telesat has been reduced to zero. As of June 30, 2012, we had approximately $41 million of equity in net losses of Telesat that was not recognized in our statement of operations because we have no guarantees or other funding obligations related to our ownership interests in Telesat.

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 6.0% 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.

The ability of Telesat to pay dividends and 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 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. For six months ended June 30, 2012 and 2011, Loral received payments from Telesat of $1.6 million for consulting fees and interest.

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)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Statement of Operations Data:				
Revenues	$ 199,852	$ 207,139	$ 395,875	412,861
Operating expenses	(52,207)	(47,041)	(135,947)	(93,816)
Depreciation, amortization and stock-based compensation	(61,009)	(62,768)	(121,497)	(124,959)
Loss on disposition of long lived asset	(18)	(5)	(76)	(764)
Operating income	86,618	97,325	138,355	193,322
Interest expense	(61,592)	(54,373)	(113,282)	(110,685)
Expense of refinancing	(57,541)		(79,403)	
Foreign exchange (losses) gains	(56,178)	15,238	6,312	98,568
Financial instruments gains (losses)	25,770	(11,171)	(655)	(40,894)
Other income	241	494	965	1,590
Income tax provision	(6,748)	(9,158)	(4,319)	(24,883)
Net (loss) income	(69,430)	38,355	(52,027)	117,018

	June 30, 2012	December 31, 2011
Balance Sheet Data:		
Current assets	$ 218,161	$ 351,802
Total assets	5,253,525	5,347,174
Current liabilities	248,740	289,351
Long-term debt, including current portion	3,307,511	2,817,857
Promissory note	140,393	
Total liabilities	4,712,677	4,045,619
Redeemable preferred stock		138,485
Shareholders equity	540,848	1,163,070

XTAR

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

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

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

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

lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. In March 2009, XTAR entered into an agreement with Hisdesat pursuant to which the past due balance on XTAR-LANT transponders of $32.3 million as of December 31, 2008, together with a deferral of $6.7 million in payments due in 2009, will be payable to Hisdesat over 12 years through annual payments of $5 million (the Catch Up Payments). XTAR has a right to prepay, at any time, all unpaid Catch Up Payments discounted at 9%. Cumulative amounts paid to Hisdesat for Catch Up Payments through June 30, 2012 were $16.7 million. XTAR has also agreed that XTAR s excess cash balance (as defined) will be applied towards making limited payments on future lease obligations, as well as payments of other amounts owed to Hisdesat, Telesat and Loral for services provided by them to XTAR (see Note 20). The ability of XTAR to pay dividends and management fees in cash to Loral is governed by XTAR s shareholder agreements.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Statement of Operations Data:				
Revenues	$ 6,821	$ 8,457	$ 14,672	$ 17,327
Operating expenses	(8,279)	(8,625)	(16,603)	(17,129)
Depreciation and amortization	(2,345)	(2,403)	(4,750)	(4,808)
Operating loss	(3,803)	(2,571)	(6,681)	(4,610)
Net loss	(4,572)	(3,723)	(8,243)	(6,860)

	June 30, 2012	December 31, 2011
Balance Sheet Data:		
Current assets	$ 7,276	$ 10,558
Total assets	80,000	88,033
Current liabilities	45,530	45,704
Total liabilities	54,824	54,614
Members equity	25,176	33,419

Other

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

11. Intangible Assets

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

	Weighted Average Remaining Amortization Period (Years)	June 30, 2012		December 31, 2011	
		Gross Amount	**Accumulated Amortization**	**Gross Amount**	**Accumulated Amortization**
Internally developed software and technology	1	$ 59,027	$ (58,409)	$ 59,027	$ (57,173)
Trade names	13	9,200	(3,105)	9,200	(2,875)
		68,227	(61,514)	68,227	(60,048)
Intangible assets, net, classified as assets held for sale		(68,227)	61,514		

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Total amortization expense for intangible assets, included in income from discontinued operations was $0.7 million and $0.7 million for the three months ended June 30, 2012 and 2011, respectively, and $1.5 million and $1.5 million for the six months ended June 30, 2012 and 2011, respectively. Annual amortization expense for intangible assets for the five years ending December 31, 2016 is estimated to be as follows (in thousands):

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

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

	June 30, 2012	December 31, 2011
Gross fair value adjustments	$ (36,896)	$ (36,896)
Accumulated amortization	21,230	20,255
	(15,666)	(16,641)
Fair value adjustments, net classified as (assets) liabilities held for sale	15,666	
Fair value adjustments, net, as reported	$	$ (16,641)

Net amortization of these fair value adjustments, included in income from discontinued operations, was a credit to expense of $0.4 million and $0.3 million for the three months ended June 30, 2012 and 2011, respectively, and $1.0 million and $0.4 million for the six months ended June 30, 2012 and 2011, respectively.

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

12. Debt

SS/L Credit Agreement

On December 20, 2010, SS/L entered into an amended and restated credit agreement (the SS/L Credit Agreement) with several banks and other financial institutions. The SS/L Credit Agreement provides for a $150 million senior secured revolving credit facility (the SS/L Revolving Facility). On December 8, 2011, the SS/L Credit Agreement was amended to increase the letter of credit sublimit from $50 million to $100 million. The SS/L Revolving Facility includes a $10 million swingline commitment. The SS/L Credit Agreement matures on January 24, 2014 (the Maturity Date). The prior $100 million credit agreement was entered into on October 16, 2008 and had a maturity date of October 16, 2011.

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

	June 30, 2012	December 31, 2011
Letters of credit outstanding	$ 4,388	$ 4,785
Borrowings	40,000	
Interest rate on revolver borrowings	3.99075%	

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest expense (including commitment and letter of credit fees)	$ 386	$ 325	$ 708	$ 646
Amortization of issuance costs	$ 182	$ 181	$ 363	$ 362

As of June 30, 2012, all borrowings were classified as liabilities held for sale.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

13. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Total current income tax provision	$ (1,582)	$ (6,942)	$ (2,179)	$ (5,353)
Total deferred income tax provision	(888)	(13,477)	(6,873)	(30,429)
Total income tax provision	(2,470)	(20,419)	(9,052)	(35,782)
Income tax provision included in income from discontinued operations	(8,233)	(10,965)	(11,593)	(23,831)
Income tax benefit (provision) on income from continuing operations	$ 5,763	$ (9,454)	$ 2,541	$ (11,951)

The deferred income tax provisions for the three and six months ended June 30, 2012 include an expense of $1.5 million to increase our valuation allowance against net deferred tax assets. Based on all available evidence, we determined that as of June 26, 2012, the date when the assets and liabilities of SS/L have been reclassified as assets held for sale and liabilities held for sale on our condensed consolidated balance sheet, it was more likely than not that we would not realize a future benefit from that portion of our deferred tax assets.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Current provision for UTPs	$ (1,375)	$ (5,123)	$ (1,913)	$ (2,479)
Deferred benefit for UTPs	260	3,578	438	4,267
Total income tax (provision) benefit for UTPs	(1,115)	(1,545)	(1,475)	1,788
(Provision) benefit for UTPs included in income from discontinued operations	(354)	(620)	(2,117)	893
(Provision) benefit for UTPs on income from continuing operations	$ (761)	$ (925)	$ 642	$ 895

As of June 30, 2012, we had unrecognized tax benefits relating to UTPs of $113 million. Pursuant to the Purchase Agreement for the sale of SS/L to MDA, we will, in general, indemnify SS/L for taxes related to periods prior to the closing of the transaction. The Company recognizes potential accrued interest and penalties related to UTPs in income tax expense on a quarterly basis. As of June 30, 2012, we have accrued approximately $31.8 million and $24.3 million for the payment of potential tax-related interest and penalties, respectively.

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2007. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net

operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward. While we intend to contest any future tax assessments for uncertain tax positions, no assurance can be provided that we would ultimately prevail. During the next twelve months, the statute of limitations for assessment of additional tax will expire with regard to UTPs related to Old Loral, as well as several of our federal and state income tax returns filed for 2007 and 2008, potentially resulting in a $60.9 million reduction to our unrecognized tax benefits. This reduction would provide an $88 million benefit to our income tax provision on income from continuing operations, including the reversal of applicable interest and penalties previously accrued.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Six Months Ended June 30,	
	2012	2011
Liabilities for UTPs:		
Opening balance January 1	$ 139,916	$ 122,857
Current provision (benefit) for:		
Unrecognized tax benefits	(115)	2,722
Potential additional interest	3,094	2,803
Potential additional penalties	6	1,153
Statute expirations	(1,072)	(942)
Tax settlements		(3,257)
Ending balance June 30	$ 141,829	$ 125,336

As of June 30, 2012, if none of our positions are overturned by the taxing authorities, the Company s future income tax provisions on income from continuing operations would be reduced by approximately $110 million. Other than as described above, there were no significant changes to our uncertain tax positions during the six months ended June 30, 2012 and 2011, and we do not anticipate any other significant changes to our unrecognized tax benefits during the next twelve months.

14. Equity

Special Dividend

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

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

Treasury Stock

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

15. Stock-Based Compensation

As of June 30, 2012, there were 1,292,831 shares of Loral common stock available for future grant under the Company s Amended and Restated 2005 Stock Incentive Plan. This number of common shares available would be reduced if Loral restricted stock units or SS/L phantom stock appreciation rights are settled in Loral common stock.

The fair value of the SS/L phantom stock appreciation rights (SS/L Phantom SARs) is included as a liability in our consolidated balance sheets. The payout liability is adjusted each reporting period to reflect the fair value of the underlying SS/L equity based on the actual performance of SS/L. As of June 30, 2012 and December 31, 2011, the amount of the liability in our consolidated balance sheet related to the SS/L Phantom SARs was $1.2 million and $4.6 million, respectively. As of June 30, 2012, $0.5 million of the liability was included in liabilities held for sale. During the six months ended June 30, 2012 and 2011, cash payments of $3.9 million and $4.3 million, respectively, were made related to SS/L Phantom SARs.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Stock-based compensation consists of (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Total stock-based compensation	$ 620	$ 613	$ 1,142	$ 2,136
Stock-based compensation included in income from discontinued operations	(216)	(199)	(153)	(845)
Stock-based compensation included in income from continuing operations	$ 404	$ 414	$ 989	$ 1,291

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

16. Pensions and Other Employee Benefit Plans

The following table provides the components of net periodic cost for our qualified and supplemental retirement plans (the Pension Benefits) and health care and life insurance benefits for retired employees and dependents (the Other Benefits) for the three and six months ended June 30, 2012 and 2011 (in thousands):

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

	Pension Benefits		Other Benefits	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Service cost	$ 7,279	$ 6,096	$ 304	$ 362
Interest cost	12,732	12,654	1,526	1,674
Expected return on plan assets	(12,486)	(11,626)		(8)
Amortization of net actuarial loss or (gain)	5,935	2,780	(188)	(394)

Amortization of prior service credits	(1,359)	(1,358)	(364)	(364)
Net periodic cost	12,101	8,546	1,278	1,270
Net periodic cost included in income from discontinued operations	(10,839)	(7,517)	(1,260)	(1,286)
Net periodic cost included in income from continuing operations	$ 1,262	$ 1,029	$ 18	$ (16)

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Commitments and Contingencies

Financial Matters

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

Balance of deferred amounts at January 1, 2012	$ 37,113
Warranty costs incurred including payments	(1,607)
Accruals relating to pre-existing contracts (including changes in estimates)	4,458
Balance of deferred amounts included in liabilities held for sale at June 30, 2012	39,964

Many of SS/L s satellite contracts permit SS/L s customers to pay a portion of the purchase price for the satellite over time subject to the continued performance of the satellite (orbital incentives), and certain of SS/L s satellite contracts require SS/L to provide vendor financing to its customers, or a combination of these contractual terms. Some of these arrangements are provided to customers that are start-up companies, companies in the early stages of building their businesses or highly leveraged companies, including some with near-term debt maturities. There can be no assurance that these companies or their businesses will be successful and, accordingly, that these customers will be able to fulfill their payment obligations under their contracts with SS/L. We believe that these provisions will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided. Moreover, SS/L s receipt of orbital incentive payments is subject to the continued performance of its satellites generally over the contractually stipulated life of the satellites. Because these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/L will be able to collect all or a portion of these receivables. Orbital receivables included as assets held for sale in our consolidated balance sheet as of June 30, 2012 were $365 million, net of fair value adjustments of $16 million. Approximately $227 million of the gross orbital receivables are related to satellites launched as of June 30, 2012, and $154 million are related to satellites under construction as of June 30, 2012.

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

Satellite Matters

Satellites are built with redundant or additional components to provide excess performance margins to permit their continued operation in case of component failure, an event that is not uncommon in complex satellites. From time to time, anomalies may occur that require investigations to determine the cause of the anomaly and what remediation measures are appropriate. For example, certain of SS/L s satellites have experienced some loss of power from their solar arrays. There can be no assurance that one or more of the affected satellites will not experience additional power loss or that additional satellites will not experience power loss. In the event of additional power loss on the affected satellites or new power loss on satellites heretofore not affected, the extent of the performance degradation, if any, will depend on numerous factors, including the amount of the additional power loss, the level of redundancy built into the affected satellite s design, when in the life of the affected satellite the loss occurred, how many transponders are then in service and how they are being used. It is also possible that one or more transponders on a satellite may need to be removed from service to accommodate the power loss and to preserve full performance capabilities on the remaining transponders. A complete or partial loss of a satellite s capacity could result in a loss of performance incentives. Based upon information currently available and existing power margins on affected satellites, SS/L believes that solar array anomalies will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided.

During the launch of the SS/L-built Intelsat 19 satellite on June 1, 2012, the satellite s south solar array was damaged, resulting in a reduction of power available to the satellite s transponders. SS/L has total orbital receivables related to this satellite of $18 million, which represents the maximum possible loss from this anomaly, excluding the cost of the failure investigation. The amount of any possible loss will depend on the amount of the reduction in power. The investigation to determine the cause of the damage is ongoing, and, as a result, the financial impact to SS/L cannot yet be estimated. If the satellite is determined to be the sole cause of the anomaly, the loss of orbital incentives is estimated to be approximately $8 million. If the launch vehicle is determined to be the cause, the full amount of orbital receivables would be expected to be recovered over the life of the satellite. No charge has been recorded pending completion of the investigation. If SS/L were required under U.S. GAAP to write down its orbital receivables as a result of the Intelsat 19 anomaly in the first year following the closing of the sale of SS/L to MDA Holdings, the purchase price received by Loral would be subject to a reduction equal to the amount of the write-down.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

Regulatory Matters

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Legal Proceedings

In February 2012, ViaSat, Inc. and ViaSat Communications, Inc. (formerly known as WildBlue Communications, Inc.) (collectively, ViaSat) commenced a lawsuit in the United States District Court for the Southern District of California against SS/L and Loral. The complaint alleged, among other things, that SS/L and Loral infringed certain ViaSat patents and that SS/L breached non-disclosure obligations in certain contracts with ViaSat in connection with the manufacture of satellites by SS/L for customers other than ViaSat. The complaint also sought to hold Loral liable for SS/L s alleged infringement and breach of contract. The complaint sought, among other things, damages (including treble damages with respect to the patent infringement claims) in amounts to be determined at trial and to enjoin SS/L and Loral from further infringement of the ViaSat patents and breach of contract.

In April 2012, SS/L and Loral filed a motion to dismiss all of ViaSat s patent infringement and breach of contract claims against Loral for failure to state a claim. In May 2012, the court issued an order granting the motion to dismiss as it pertains to the claims against Loral, but allowing ViaSat to amend its complaint to cure the pleading deficiencies if it could do so. The motion to dismiss also sought dismissal of ViaSat s breach of contract claims against SS/L for failure to state a claim. The court in its May 7, 2012 order denied this aspect of the motion.

In addition, in April 2012, SS/L filed a separate complaint in the United States District Court for the Southern District of California against ViaSat for patent infringement and declaratory judgment. The complaint alleged, among other things, that ViaSat infringed certain SS/L patents in connection with its manufacture and sale of certain satellite communication products and services and sought a declaratory judgment that SS/L had not infringed and is not infringing the ViaSat patents, that ViaSat s patents are invalid and that at least certain of ViaSat s patents are unenforceable due to inequitable conduct. SS/L s complaint sought, among other things, damages (including treble damages with respect to at least one of the patent infringement claims) in amounts to be determined at trial and to enjoin ViaSat from further infringement of the SS/L patents.

In May 2012, ViaSat amended its complaint, restating its claims against SS/L and purporting to strengthen its allegations against Loral to cure the deficiencies previously identified by the court in its May 2012 order. Specifically, the amended complaint alleges that Loral directly and indirectly infringed the patents-in-suit, that Loral directly breached non-disclosure obligations in a non-disclosure agreement between Loral and ViaSat and that Loral should be held liable for SS/L s alleged infringement and breach of contract based on alter ego liability. In June 2012, Loral again moved to dismiss ViaSat s allegations against Loral. In July 2012, the court granted Loral s motion to dismiss ViaSat s breach of contract and patent infringement causes of action based on alter ego liability and denied Loral s motion to dismiss ViaSat s direct and indirect patent infringement and breach of contract causes of action.

Also in June 2012, SS/L answered the ViaSat complaint and asserted counterclaims that mirrored the claims that SS/L had previously filed separately in April 2012. Thereafter, in June 2012, SS/L voluntarily dismissed, without prejudice, its April 2012 complaint, the effect of which was to consolidate within the original ViaSat action both ViaSat s claims against SS/L and SS/L s claims against ViaSat. In July 2012, ViaSat filed a motion to sever SS/L s counterclaims against ViaSat so that those claims would be litigated in a separate case or, in the alternative, that the court bifurcate such claims for trial. A hearing on this motion is scheduled for the end of August 2012.

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

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other and Routine Litigation

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

18. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
(Loss) income from continuing operations basic	$ (9,718)	$ 14,841	$ (10,608)	$ 58,031
Less: Adjustment for dilutive effect of Telesat stock options		(998)		(2,967)
(Loss) income from continuing operations diluted	$ (9,718)	$ 13,843	$ (10,608)	$ 55,064

Telesat stock options are excluded from the calculation of diluted loss per share for the three and six months ended June 30, 2012, as the effect would be antidilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Common and potential common shares outstanding for diluted earnings per share:				
Weighted average common shares outstanding	30,704	30,698	30,653	30,668
Stock options		217		346
Unvested restricted stock		2		3
Unvested restricted stock units		226		224
Common shares outstanding for diluted earnings per share	30,704	31,143	30,653	31,241

For the three and six months ended June 30, 2012, all stock options outstanding, unvested restricted stock and unvested restricted stock units are excluded from the calculation of diluted loss per share as the effect would have been antidilutive. The following summarizes stock options outstanding, unvested restricted stock and unvested restricted stock units excluded from the calculation of diluted loss per share:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Stock options outstanding	57	97
Unvested restricted stock	2	2
Unvested restricted stock units	232	223

19. Segments

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues				
Satellite manufacturing:				
External revenues	$ 271,871	$ 218,832	$ 534,367	$ 456,487
Intersegment revenues[1]	22,506	33,590	46,723	76,664
Satellite manufacturing revenues	294,377	252,422	581,090	533,151
Satellite services revenues[2]	199,852	207,139	395,875	412,861
Operating segment revenues before eliminations	494,229	459,561	976,965	946,012
Intercompany eliminations[3]				(830)
Affiliate eliminations[2]	(199,852)	(207,139)	(395,875)	(412,861)
Total revenues	294,377	252,422	581,090	532,321
Revenues included in income from discontinued operations	(294,377)	(252,422)	(581,090)	(532,321)
Revenues reported	$	$	$	$
Segment Adjusted EBITDA[4]				
Satellite manufacturing	$ 17,244	$ 28,097	$ 27,537	$ 68,613
Satellite services[2]	153,866	160,098	303,274	319,045
Corporate[5]	(3,965)	(3,396)	(8,303)	(8,195)
Adjusted EBITDA before eliminations	167,145	184,799	322,508	379,463
Intercompany eliminations[3]				(279)
Affiliate eliminations[2]	(153,866)	(160,098)	(303,274)	(319,045)
Adjusted EBITDA	13,279	24,701	19,234	60,139
Adjusted EBITDA from discontinued operations	(17,244)	(28,097)	(27,537)	(68,334)
Adjusted EBITDA from continuing operations	(3,965)	(3,396)	(8,303)	(8,195)
Reconciliation to Operating Income				
Depreciation, Amortization and Stock-Based Compensation[4]				
Satellite manufacturing	(8,479)	(7,853)	(16,415)	(15,544)
Satellite services[2]	(61,009)	(62,768)	(121,497)	(124,959)
Corporate	(299)	(277)	(572)	(572)

Segment depreciation before affiliate eliminations	(69,787)	(70,898)	(138,484)	(141,075)
Affiliate eliminations[2]	61,009	62,768	121,497	124,959
Depreciation, amortization and stock-based compensation	(8,778)	(8,130)	(16,987)	(16,116)
Depreciation, amortization and stock-based compensation from discontinued operations	8,479	7,853	16,415	15,544
Depreciation, amortization and stock-based compensation as reported	(299)	(278)	(572)	(572)
Gain on disposition of net assets[6]		5,118		5,118
Operating (loss) income as reported	(4,264)	1,444	(8,875)	(3,649)

	June 30, 2012	December 31, 2011
Total Assets[7]		
Satellite manufacturing	$	$ 929,408
Satellite services[2] [8]	5,253,525	5,724,418
Corporate	453,924	529,501
Total assets before affiliate eliminations	5,707,449	7,183,327
Affiliate eliminations[2]	(5,253,525)	(5,347,174)
Total assets excluding assets held for sale	453,924	1,836,153
Total assets classified as assets held for sale	1,005,309	
Total assets as reported	$ 1,459,233	$ 1,836,153

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Intersegment revenues include $22.5 million and $33.6 million for the three months ended June 30, 2012 and 2011, respectively, and $46.7 million and $75.8 million for the six months ended June 30, 2012 and 2011, respectively, of revenue from affiliates.

(2) Satellite services represents Telesat. Affiliate eliminations represent the elimination of amounts attributable to Telesat whose results are reported under the equity method of accounting in our condensed consolidated statements of operations (see Note 10).

(3) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA for a satellite under construction by SS/L for Loral.

(4) Compensation expense related to SS/L Phantom SARs and restricted stock units paid in cash or expected to be paid in cash is included in Adjusted EBITDA. Compensation expense related to SS/L Phantom SARs and restricted stock units paid in Loral common stock or expected to be paid in Loral common stock is included in depreciation, amortization and stock-based compensation.

(5) Includes corporate expenses incurred in support of our operations and includes our equity investments in XTAR and Globalstar service providers.

(6) Represents the gain included in continuing operations on the sale of Loral s portion of the payload on the ViaSat-1 satellite and related net assets to Telesat adjusted for elimination of Loral s 64% ownership interest in Telesat.

(7) Amounts are presented after the elimination of intercompany profit.

(8) Includes $2.4 billion of satellite services goodwill related to Telesat as of June 30, 2012 and December 31, 2011.

20. Related Party Transactions

Transactions with Affiliates

Telesat

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

In connection with the acquisition of our ownership interest in Telesat (which we refer to as the Telesat transaction), Loral and certain of its subsidiaries, our Canadian partner, Public Sector Pension Investment Board (PSP) and one of its subsidiaries, Telesat Holdco and certain of its subsidiaries, including Telesat, and MHR entered into a Shareholders Agreement (the Shareholders Agreement). The Shareholders Agreement provides for, among other things, the manner in which the affairs of Telesat Holdco and its subsidiaries will be conducted and the relationships among the parties thereto and future shareholders of Telesat Holdco. The Shareholders Agreement also contains an agreement by Loral not to engage in a competing satellite communications business and agreements by the parties to the Shareholders Agreement not to solicit employees of Telesat Holdco or any of its subsidiaries. Additionally, the Shareholders Agreement details the matters requiring the approval of the shareholders of Telesat Holdco (including veto rights for Loral over certain extraordinary actions) and provides for preemptive rights for certain shareholders upon the issuance of certain capital shares of Telesat Holdco. The Shareholders Agreement also restricts the ability of holders of certain shares of Telesat Holdco to transfer such shares unless certain conditions are met or approval of the transfer is granted by the directors of Telesat Holdco, provides for a right of first offer to certain Telesat Holdco shareholders if a holder of equity shares of Telesat Holdco wishes to sell any such shares to a third party and provides for, in certain circumstances, tag-along rights in favor of shareholders that are not affiliated

with Loral if Loral sells equity shares and drag-along rights in favor of Loral in case Loral or its affiliate enters into an agreement to sell all of its Telesat Holdco equity securities. In addition, the Shareholders Agreement provides for either PSP or Loral to cause Telesat Holdco to conduct an initial public offering of its equity shares if an initial public offering has not been completed by October 31, 2011, the fourth anniversary of the Telesat transaction. On July 25, 2012, PSP delivered a notice to Telesat Holdco and Loral exercising its right to require Telesat Holdco to conduct an initial public offering. Loral is evaluating the effect of the notice and its obligations and alternatives. There can be no assurance as to whether, when or on what terms an initial public offering of Telesat Holdco equity may occur.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Revenues (included in income from discontinued operations) from Telesat satellite construction contracts	$ 22,501	$ 33,587	$ 46,712	$ 75,825
Milestone payments received from Telesat	15,726	41,121	34,305	72,118

Amounts receivable by SS/L from Telesat related to satellite construction contracts as of June 30, 2012 and December 31, 2011 were $9.4 million and $4.6 million, respectively. Amounts receivable as of June 30, 2012 are included in assets held for sale.

On October 31, 2007, Loral and Telesat entered into a consulting services agreement (the Consulting Agreement). Pursuant to the terms of the Consulting Agreement, Loral provides to Telesat certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat as part of the Telesat transaction as well as with respect to certain aspects of the satellite communications business of Telesat. The Consulting Agreement has a term of seven years with an automatic renewal for an additional seven year term if certain conditions are met. In exchange for Loral s services under the Consulting Agreement, Telesat will pay Loral an annual fee of US $5.0 million, payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. If the terms of Telesat s bank or bridge facilities or certain other debt obligations prevent Telesat from paying such fees in cash, Telesat may issue junior subordinated promissory notes to Loral in the amount of such payment, with interest on such promissory notes payable at the rate of 7% per annum, compounded quarterly, from the date of issue of such promissory note to the date of payment thereof. Our selling, general and administrative expenses included income related to the Consulting Agreement of $1.25 million for each of the three month periods ended June 30, 2012 and 2011 and $2.5 million for each of the six month periods ended June 30, 2012 and 2011. We also had a long-term receivable related to the Consulting Agreement from Telesat of $22.3 and $20.7 million as of June 30, 2012 and December 31, 2011. We received payments of $1.6 million from Telesat for each of the six month periods ended June 30, 2012 and June 30, 2011 related to the Consulting Agreement.

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

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

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

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Loral received special cash distributions from Telesat of $376 million on March 28, 2012 and $46 million on July 5, 2012. The distributions were the result of a Telesat refinancing and recapitalization transaction (see Note 10).

ViaSat/Telesat

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

A Beam Sharing Agreement between us and ViaSat provided for, among other things, (i) the purchase by us of a portion of the ViaSat-1 satellite payload providing coverage into Canada (the Loral Payload) and (ii) payment by us of 15% of the actual costs of launch and associated services, launch insurance and telemetry, tracking and control services for the ViaSat-1 satellite. SS/L commenced construction of the Viasat-1 satellite in January 2008. SS/L recorded sales to ViaSat under this contract of $0.2 million and $0.7 million for the three months ended June 30, 2012 and 2011, respectively and $0.5 million and $5.4 million for the six months ended June 30, 2012 and 2011, respectively. SS/L s sales to ViaSat have been included in income from discontinued operations in our statements of operations for the three and six months ended June 30, 2012 and 2011.

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Costs of satellite manufacturing for sales to related parties included in income from discontinued operations were $10.2 million and $34.6 million for the three months ended June 30, 2012 and 2011, respectively, and $24.3 million and $68.5 million for the six months ended June 30, 2012 and 2011, respectively.

In connection with an agreement reached in 1999 and an overall settlement reached in February 2005 with ChinaSat relating to the delayed delivery of ChinaSat 8, SS/L has provided ChinaSat with usage rights to two Ku-band transponders on Telesat s Telstar 10 for the life of such transponders (subject to certain restoration rights) and to one Ku-band transponder on Telesat s Telstar 18 for the life of the Telstar 10 satellite plus two years, or the life of such transponder (subject to certain restoration rights), whichever is shorter. Pursuant to an amendment to the agreement executed in June 2009, in lieu of rights to one of the Ku-band transponders on Telstar 10, ChinaSat has rights to an equivalent amount of Ku-band capacity on Telstar 18 (the Alternative Capacity). The Alternative Capacity may be utilized by ChinaSat until April 30, 2019 subject to certain conditions. Under the agreement, SS/L makes monthly payments to Telesat for the transponders allocated to ChinaSat. Effective with the termination of Telesat s leasehold interest in Telstar 10 in July 2009, SS/L makes monthly payments with respect to capacity used by ChinaSat on Telstar 10 directly to APT, the owner of the satellite. As of June 30, 2012 and December 31, 2011, our consolidated balance sheets included liabilities of $2.5 million and $3.7 million for the future use of these transponders. The liability as of June 30, 2012 was included in liabilities held for sale. Interest expense on this liability included in income from discontinued operations was $0.1 million for each of the three month periods ended June 30, 2012 and 2011, and $0.3 million for each of the six month periods ended June 30, 2012 and 2011. For the six months ended June 30, 2012 SS/L made payments of $1.4 million to Telesat pursuant to the agreement.

XTAR

As described in Note 10 we own 56% of XTAR, a joint venture between Loral and Hisdesat and account for our investment in XTAR under the equity method of accounting. SS/L constructed XTAR s satellite, which was successfully launched in February 2005. XTAR and Loral have entered into a management agreement whereby Loral provides general and specific services of a technical, financial, and administrative nature to XTAR. For the services provided by Loral, XTAR is charged a quarterly management fee equal to 3.7% of XTAR s quarterly gross revenues. Amounts due to Loral primarily due to the management agreement as of June 30, 2012 and December 31, 2011 were $4.9 million and $4.2 million, respectively. Beginning in 2008, Loral and XTAR agreed to defer amounts owed to Loral under this agreement and XTAR has agreed that its excess cash balance (as defined) will be applied at least quarterly towards repayment of receivables owed to Loral, as well as to Hisdesat and Telesat. No cash was received under this agreement for the three and six months ended June 30, 2012 and 2011.

MHR Fund Management LLC

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

Various funds affiliated with MHR and Dr. Rachesky held, as of June 30, 2012 and December 31, 2011, approximately 38.4% and 38.6%, respectively, of the outstanding voting common stock and as of both June 30, 2012 and December 31, 2011 had a combined ownership of outstanding voting and non-voting common stock of Loral of 57.5% and 57.7%, respectively.

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

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

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Loral Space & Communications Inc., a Delaware corporation, together with its subsidiaries (Loral , the Company , we , our , and us) is a leadi satellite communications company engaged in satellite manufacturing with ownership interests in satellite-based communications services. The term Parent Company is a reference to Loral Space & Communications Inc., excluding its subsidiaries.

Disclosure Regarding Forward-Looking Statements

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

Overview

Businesses

Recent Develpments

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.

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

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

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

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

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

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

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

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

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

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

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

In connection with the closing of the Telesat Credit Agreement, Telesat s Board declared a special cash distribution to its shareholders, as a reduction of stated capital, in the amount of approximately CAD 656 million. Loral s share of this amount is approximately CAD 420 million. On March 28, 2012, Telesat paid its shareholders approximately CAD 586 million of the special distribution, which was funded by the proceeds from the Telesat Senior Credit Facilities and excess cash from operations. Of this amount, Loral received approximately CAD 375 million ($376 million). The approximately CAD 70 million distribution remaining was paid in July 2012, with Loral receiving approximately CAD 45 million ($46 million). In connection with the cash distribution made to Telesat s shareholders, Telesat s Board also authorized approximately CAD 49 million in special payments to executives and certain employees of Telesat. Approximately CAD 44 million of special payments and benefits was recorded as compensation expense at June 30, 2012. The majority of the remaining payments are expected to be made over the next three years, subject to the executives and employees continued employment with Telesat on the payment date and other conditions.

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

Telesat s operating results are subject to fluctuations as a result of exchange rate variations. Approximately 49% of Telesat s revenues received in Canada for the three and six months ended June 30, 2012, a substantial portion of its expenses and a substantial portion of its indebtedness and capital expenditures were denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at June 30, 2012 would have increased or decreased Telesat s net income for the six months ended June 30, 2012 by approximately $149 million.

General

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

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

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

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

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Consolidated Operating Results

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

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

Consolidated Operating Results

Three Months Ended June 30, 2012 Compared With Three Months Ended June 30, 2011

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

Selling, General and Administrative Expenses

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	% Increase/ (Decrease)
Selling, general and administrative expenses	$ 4.3	$ 3.7	16%

Selling, general and administrative expenses, which are comprised of Corporate office expenses, increased by $0.6 million for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011, primarily due to a $0.3 million increase in compensation expense and costs of $0.3 million in 2012 to transition SS/L to a stand-alone entity.

Gain on Disposition of Net Assets

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

Interest and Investment Income

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Interest and investment income	$ 0.4	$ 0.4

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

Other Expense

Other expense for the three months ended June 30, 2012 is comprised of expenses of $1.4 million related to the sale of SS/L, substantially offset by a $1.3 million gain related to a foreign exchange forward contract to hedge the foreign exchange risk associated with the payment of the second tranche of the special cash distribution from Telesat that was received in July 2012. Other expense for the three months ended June 30, 2011 consisted primarily of expenses related to the sale and potential spin-off of SS/L.

Income Tax Provision

Our income tax provision for the three months ended June 30 is summarized as follows: (i) for 2012, we recorded a tax benefit of $5.8 million (which included a deferred provision of $1.5 million to increase our valuation allowance (see below) and a provision of $0.8 million for uncertain tax positions (UTPs)) on a pre-tax loss of $4.1 million and (ii) for 2011, we recorded a tax provision of $9.5 million (which included a provision of $0.9 million for UTPs) on pre-tax income of $0.4 million.

Our income tax provision for each period is computed by applying an expected effective annual tax rate (39% for 2012 and negative 94% for 2011) against the cumulative pre-tax loss for the six months ended June 30, 2012 and 2011 (before adjusting for certain tax items that are discrete to each period) less the provision recorded in each of the respective prior quarters. In addition, taxes provided on the gain associated with the sale of Loral s portion of the ViaSat-1 payload and related net assets to Telesat were treated as discrete to the three months ended June 30, 2011 and not included in the expected effective annual tax rate.

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

For the three months ended June 30, 2012, we increased our deferred income tax provision by $1.5 million to establish an additional valuation allowance against our net deferred tax assets after having determined, based on all available evidence, that when the assets and liabilities of SS/L were reclassified on our condensed consolidated balance sheet as assets held for sale and liabilities held for sale it was more likely than not that we would not realize the benefit from that portion of our deferred tax assets in the future. After the sale of SS/L and collection on the promissory note from MDA, future profitability from operations is not expected to be sufficient to realize the benefit from our remaining net deferred tax assets, which will consist primarily of federal net operating loss (NOL) carryforwards. The NOLs are subject to an annual limitation of $32.6 million under section 382 of the Internal Revenue Code and expire in 2022 and 2024. To the extent required, the Company would generate sufficient taxable income from the appreciated value of its Telesat investment, which currently has a nominal tax basis, in order to prevent the NOLs from expiring and realize the benefit of all remaining deferred tax assets on our condensed consolidated balance sheet.

During 2012, we expect that the statute of limitations for assessment of additional tax will expire for various UTPs potentially resulting in a $60 million reduction to our unrecognized tax benefits. This reduction would provide an $87 million benefit to our income tax provision on income from continuing operations, including the reversal of applicable interest and penalties previously accrued.

Equity in Net (Loss) Income of Affiliates

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Telesat	$ (8.9)	$ 26.0
XTAR	(2.5)	(2.1)
	$ (11.4)	$ 23.9

In March 2012, Telesat completed a refinancing and recapitalization transaction which resulted in special cash distributions to Loral of CAD 375 million ($376 million) in the first quarter of 2012 and CAD 45 million ($46 million) in July 2012 (see Note 10 to the financial statements).

The special cash distribution received from Telesat on March 28, 2012 has been reflected in our condensed consolidated balance sheet as of June 30, 2012 as a reduction to investment in affiliates. Because the special cash distribution exceeds our cumulative equity in net income of Telesat and our initial investment, our investment account in Telesat has been reduced to zero. As of June 30, 2012, we had approximately $41 million of equity in net losses of Telesat that was not recognized in our statement of operations.

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

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

	Three Months Ended June 30,		Three Months Ended June 30,	
	2012	2011	2012	2011
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	201.9	200.4	199.9	207.1
Operating expenses	(52.9)	(45.5)	(52.2)	(47.0)
Depreciation, amortization and stock-based compensation	(61.6)	(60.8)	(61.0)	(62.8)
Loss on disposition of long lived assets		0.1		
Operating income	87.4	94.2	86.7	97.3
Interest expense	(62.1)	(52.6)	(61.6)	(54.4)
Expense of refinancing	(58.0)		(57.6)	
Foreign exchange (losses) gains	(56.3)	14.2	(56.2)	15.3
Gains (losses) on financial instruments	25.7	(10.6)	25.7	(11.2)
Other income	0.3	0.3	0.3	0.5
Income tax provision	(6.7)	(8.8)	(6.7)	(9.2)
Net (loss) income	(69.7)	36.7	(69.4)	38.3
Average exchange rate for translating Canadian dollars to U.S. dollars			1.0104	0.9676

Telesat revenue decreased by $7 million for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011 due primarily to a scheduled rate reduction on a long term broadcast services contract, a one-time termination payment received in 2011 from a consulting contract, one-time consulting contracts in 2011 and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues, partially offset by an increase in enterprise services revenues due to growth in international activities, inauguration of commercial services on ViaSat-1 in December 2011 and revenue earned on Telesat s Nimiq 6 satellite which commenced service in June 2012. Telesat revenue excluding foreign exchange impact would have decreased by approximately $3 million for the three months ended June 30, 2012 as compared with the three months ended June 30, 2011.

Telesat s operating income decreased by $11 million for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011 primarily due to the revenue decrease described above and the special payments to executives and certain employees of Telesat in connection with the cash distribution to shareholders in 2012, partially offset by the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses. Telesat s operating income excluding foreign exchange impact would have decreased by approximately $10 million for the three months ended June 30, 2012 as compared with the three months ended June 30, 2011.

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat s main currency exposures as of June 30, 2012 lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. Telesat estimates that, after considering the impact of hedges, a five percent change in the value of the Canadian dollar against the U.S. dollar at June 30, 2012 would have increased or decreased Telesat s net income for the three months ended June 30, 2012 by approximately $149 million.

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

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

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

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Income from Discontinued Operations, net of taxes

As a result of the agreement to sell SS/L we have reclassified SS/L s operations as discontinued operations in our condensed consolidated financial statements for the three months ended June 30, 2012 and 2011.

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

	Three Months Ended June 30,	
	2012	**2011**
Revenues	$ 294.4	$ 252.4
Operating income	8.8	22.0
Income before income taxes	13.2	25.8
Income tax provision	(8.3)	(11.0)
Net income	4.9	14.8

Despite an increase in revenue, SS/L operating income decreased $13 million for the three months ended June 30, 2012 compared with the three months ended June 30, 2011. The decrease was primarily due to a $5 million increase in new business acquisition expenses resulting from increased proposal activity and a $3 million decrease due to lower margins attributable to lower average size and profitability of satellites under construction during 2012 compared to 2011.

Six Months Ended June 30, 2012 Compared With Six Months Ended June 30, 2011

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

Selling, General and Administrative Expenses

	Six Months Ended June 30,		% Increase/ (Decrease)
	2012	**2011**	
Selling, general and administrative expenses	$ 8.9	$ 8.8	1%

Selling, general and administrative expenses, which consists of Corporate office expense, remained substantially the same for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

Gain on Disposition of Net Assets

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

Interest and Investment Income

	Six Months Ended June 30,	
	2012	**2011**
Interest and investment income	$ 0.9	$ 2.5

Interest and investment income for the six months ended June 30, 2012 consists primarily of interest income on long-term receivables due from Telesat for management fees. Interest and investment income for the six months ended June 30, 2011 includes interest income of $1.7 million on directors and officers liability insurance claims and $0.6 million on long-term receivables due from Telesat for consulting services.

Gain on Litigation

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

Other Expense

Other expense for the six months ended June 30, 2012 is comprised of $1.9 million of expenses related to the sale of SS/L, partially offset by a $1.3 million gain related to a foreign exchange forward contract to hedge the foreign exchange risk associated with the payment of the second tranche of the special cash distribution from Telesat that was received in July 2012. Other expense for the three months ended June 30, 2011 consisted primarily of expenses related to the sale and potential spin-off of SS/L.

Income Tax Provision

Our income tax provision for the six months ended June 30 is summarized as follows: (i) for 2012, we recorded a tax benefit of $2.5 million (which included a deferred provision of $1.5 million to increase our valuation allowance (see below) and a benefit of $0.6 million for UTPs) on a pre-tax loss of $8.7 million and (ii) for 2011, we recorded a tax provision of $12.0 million (which included a benefit of $0.9 million for UTPs) on a pre-tax loss of $0.2 million.

Our income tax provision for each period is computed by applying an expected effective annual tax rate (39% for 2012 and negative 94% for 2011) against the pre-tax loss for the six months ended June 30, 2012 and 2011 (before adjusting for certain tax items that are discrete to each period). In addition, taxes provided on the gain associated with the sale of Loral s portion of the ViaSat-1 payload and related net assets to Telesat and the gain on litigation were treated as discrete to the six months ended June 30, 2011 and not included in the expected effective annual tax rate.

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

For the six months ended June 2012, we increased our deferred income tax provision by $1.5 million to establish an additional valuation allowance against our net deferred tax assets after having determined, based on all available evidence, that when the assets and liabilities of SS/L were reclassified on our condensed consolidated balance sheet as assets held for sale and liabilities held for sale it was more likely than not that we would not realize the benefit from that portion of our deferred tax assets in the future. After the sale of SS/L and collection on the promissory note from MDA, future profitability from operations is not expected to be sufficient to realize the benefit from our remaining net deferred tax assets, which will consist primarily of federal net operating loss (NOL) carryforwards. The NOLs are subject to an annual limitation of $32.6 million under section 382 of the Internal Revenue Code and expire in 2022 and 2024. To the extent required, the Company would generate sufficient taxable income from the appreciated value of its Telesat investment, which currently has a nominal tax basis, in order to prevent the NOLs from expiring and realize the benefit of all remaining deferred tax assets on our condensed consolidated balance sheet.

During 2012, we expect that the statute of limitations for assessment of additional tax will expire for various UTPs potentially resulting in a $60 million reduction to our unrecognized tax benefits. This reduction would provide an $87 million benefit to our income tax provision on income from continuing operations, including the reversal of applicable interest and penalties previously accrued.

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Equity in Net (Loss) Income of Affiliates

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Telesat	$ (1.5)	$ 74.1
XTAR	(3.0)	(3.9)
	$ (4.5)	$ 70.2

In March 2012, Telesat completed a refinancing and recapitalization transaction which resulted in special cash distributions to Loral of CAD 375 million ($376 million) in the first quarter of 2012 and CAD 45 million ($46 million) in July 2012 (see Note 10 to the financial statements).

The special cash distribution received from Telesat on March 28, 2012 has been reflected in our condensed consolidated balance sheet as of June 30, 2012 as a reduction to investment in affiliates. Because the special cash distribution exceeds our cumulative equity in net income of Telesat and our initial investment, our investment account in Telesat has been reduced to zero. As of June 30, 2012, we had approximately $41 million of equity in net losses of Telesat that was not recognized in our statement of operations.

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

	Six Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	398.2	403.2	395.9	412.9
Operating expenses	(136.7)	(91.6)	(135.9)	(93.8)
Depreciation, amortization and stock-based compensation	(122.2)	(122.1)	(121.5)	(125.0)
Loss on disposition of long lived asset	(0.1)	(0.7)	(0.1)	(0.8)
Operating income	139.2	188.8	138.4	193.3
Interest expense	(113.9)	(108.1)	(113.3)	(110.7)
Expense of refinancing	(79.9)		(79.4)	
Foreign exchange gains	6.3	96.3	6.3	98.6
Losses on financial instruments	(0.7)	(39.9)	(0.7)	(40.9)
Other income	1.0	1.5	1.0	1.6
Income tax provision	(4.3)	(24.3)	(4.3)	(24.9)
Net (loss) income	(52.3)	114.3	(52.0)	117.0
Average exchange rate for translating Canadian dollars to U.S. dollars			1.0058	0.9766

	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
	(In Canadian dollars)		(In U.S. dollars)	
Balance Sheet Data:				
Current assets	221.8	359.3	218.2	351.8
Total assets	5,340.7	5,461.1	5,253.5	5,347.2
Current liabilities	252.8	295.6	248.7	289.4
Long-term debt, including current portion	3,362.4	2,877.9	3,307.5	2,817.9
Promissory note	142.7		140.4	

Total liabilities	4,790.9	4,131.8	4,712.7	4,045.6
Redeemable preferred stock		141.4		138.5
Shareholders equity	549.8	1,187.9	540.8	1,163.1
Period end exchange rate for translating Canadian dollars to U.S. dollars			1.0166	1.0213

Telesat s operating expense for the six months ended June 30, 2012 includes a $44 million amount payable to executives and certain employees of Telesat in connection with the special cash distribution paid to Telesat s shareholders.

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Telesat revenue decreased by $17 million for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011 due primarily to a scheduled rate reduction on a long term broadcast services contract, a one-time termination payment received in 2011 from a consulting contract, one-time consulting contracts in 2011 and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues, partially offset by an increase in enterprise services revenues due to growth in international activities, inauguration of commercial services on ViaSat-1 in December 2011 and revenue earned on Telesat s Nimiq 6 satellite which commenced service in June 2012. Telesat revenue excluding foreign exchange impact would have decreased by approximately $11 million for the six months ended June 30, 2012 as compared with the six months ended June 30, 2011.

Telesat s operating income decreased by $55 million for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011 primarily due to the revenue decrease described above and the special payments to executives and certain employees of Telesat in connection with the cash distribution to shareholders in 2012, partially offset by the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses. Telesat s operating income excluding foreign exchange impact would have decreased by approximately $55 million for the six months ended June 30, 2012 as compared with the six months ended June 30, 2011.

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

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

Income from Discontinued Operations, net of taxes

As a result of the agreement to sell SS/L we have reclassified SS/L s operations as discontinued operations in our condensed consolidated financial statements for the six months ended June 30, 2012 and 2011.

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

	Six Months Ended June 30,	
	2012	**2011**
Revenues	$ 581.1	$ 532.3
Operating income	11.1	54.6
Income before income taxes	25.0	63.2
Income tax provision	(11.6)	(23.8)
Net income	13.4	39.4

Despite an increase in revenue, SS/L operating income decreased $43 million for the six months ended June 30, 2012 compared with the six months ended June 30, 2011. The decrease was primarily due to a $12 million loss provision recorded on a contract awarded in the first quarter of 2012, an $11 million decrease due to lower margins attributable to lower average size and profitability of satellites under construction during 2012 compared to 2011, an $8 million decrease related to a technical issue which resulted in the delay and rescheduling of a satellite launch and a $10 million increase in new business acquisition expenses resulting from increased proposal activity.

Backlog

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

	June 30, 2012	**December 31, 2011**
Satellite Manufacturing	$ 1,688	$ 1,426
Satellite Services	5,313	5,333
Total backlog before eliminations	7,001	6,759

Satellite Manufacturing eliminations		
Satellite Services eliminations	(5,313)	(5,333)
Backlog	1,688	1,426
Backlog for discontinued operations	(1,688)	
Backlog for continuing operations	$	$ 1,426

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

Liquidity and Capital Resources

Loral

As described above, the Company s principal assets are 100% of the capital stock of SS/L and a 64% economic interest in Telesat. In addition, the Company has a 56% economic interest in XTAR. As a result of the sale of SS/L to MDA, SS/L s operations are reflected as discontinued operations in the Company s financial statements. The operations of Telesat and XTAR are not consolidated but are presented using the equity method of accounting.

The Parent Company has no debt. SS/L amended and restated its revolving credit facility (the SS/L Credit Agreement) on December 20, 2010, increasing the facility amount to $150 million, extending the maturity to January 24, 2014 and removing the Parent Company guarantee. At June 30, 2012, there were $40 million in outstanding borrowings and $4 million of letters of credit outstanding under the SS/L Credit Agreement. Telesat has third party debt with financial institutions. The Parent Company has not provided a guarantee for the debt of Telesat. XTAR has no external debt other than to its LLC member, Hisdesat, for restructured lease payments on the Spainsat satellite. XTAR makes payments of $5 million per year to pay down the outstanding restructured lease balance.

Cash is maintained at the Parent Company, SS/L, Telesat and XTAR to support the operating needs of each respective entity. The ability of SS/L to pay dividends and management fees in cash to the Parent Company is governed by the purchase agreement with MDA and applicable covenants relating to its revolving credit facility. The ability of Telesat to pay dividends and management fees in cash to the Parent Company is governed by applicable covenants relating to its debt and its shareholder agreement. The ability of XTAR to pay dividends and management fees in cash to the Parent Company is governed by its shareholder agreement.

Cash and Available Credit

At June 30, 2012, the Company, excluding SS/L, had $37 million of cash and cash equivalents, no restricted cash and no debt. As discussed above, the operations of SS/L are reflected as discontinued operations on our financial statements, and SS/L cash was included in assets held for sale on our condensed consolidated balance sheet. At June 30, 2012, SS/L had $17 million of cash and cash equivalents, $86 million of restricted cash and $40 million of debt. For the first six months of 2012, including both continuing and discontinued operations, $52 million was used in operating activities, $292 million was provided by investing activities and $382 million was used in financing activities. A detailed discussion of the cash changes by activity is set forth in the sections, Net Cash Used In Operating Activities , Net Cash Provided by Investing Activities, and Net Cash Used In Financing Activities. Changes in cash at the Parent Company (continuing operations) and SS/L (discontinued operations) during the first six months of 2012 are discussed below.

As of June 30, 2012, SS/L had borrowing availability of approximately $106 million under the SS/L Credit Agreement after giving effect to the $40 million of borrowings in June 2012 and approximately $4 million of outstanding letters of credit. SS/L anticipates that over the next several months until the closing of the sale to MDA, it will be in compliance with all the covenants of the SS/L Credit Agreement and it will have full availability of the facility. The SS/L Credit Agreement will be terminated prior to the closing of the sale of SS/L to MDA.

Cash Management

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

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

Liquidity

The $160 million decrease in cash and cash equivalents for the Company from December 31, 2011 to June 30, 2012 consisted of a $60 million decrease for the Parent Company and a $100 million decrease associated with SS/L. The $100 million decrease associated with SS/L includes the reclassification to assets held for sale of SS/L s cash and cash equivalent balance of $17 million at June 30, 2012 and an $83 million decrease during the six months ended June 30, 2012.

During the first six months of 2012, the Parent Company s cash and cash equivalents decreased approximately $60 million to $37 million. This decrease was mainly due to the payment of the $418 million special cash dividend to Loral shareholders, partially offset by the receipt of $376 million from Telesat for the first of two tranches of Telesat s special distribution. Other cash decreases included approximately $14 million used in operations, $12 of which funded operational costs of SS/L which will be reimbursed to the Parent Company by SS/L prior to the closing of the SS/L sale and payments of approximately $4 million to fund the withholding taxes on employee cashless stock option exercises, net of amounts received from the exercise of stock options.

At the Parent Company, cash flow is fairly predictable and we expect that our cash and cash equivalents as of June 30, 2012 will be sufficient to fund projected expenditures for the next 12 months. In July 2012, we received from Telesat the second tranche of the special cash distribution of $46 million. The Parent Company anticipates receiving approximately $800 million after taxes and transaction costs in 2012 upon closing the sale of SS/L to MDA. Cash generated or used by SS/L between March 31, 2012 and the closing of the sale will not affect Loral s post-closing cash balance. Management of the Company currently anticipates that it will recommend to the Board of Directors that the Board of Directors approve payment to stockholders of a dividend or other distribution of approximately $26 per share, representing the after-tax proceeds of the transaction after giving effect to appropriate reserves, exclusive of the $101 million bank guaranteed promissory note discussed below. There can be no assurance that any dividend or other distribution will be paid or, if paid, what the amount or timing will be. We also expect the sale of SS/L will enable the Parent Company to reduce the annual run rate of Corporate expenses, after a transition period, to approximately $7 million, excluding costs related to the SS/L transaction and net of consulting fees from Telesat of $5 million per year. The Parent Company will also receive approximately $34 million each March 31 for the next three years following the closing of the sale of SS/L as the bank guaranteed three year promissory note is paid by MDA. In addition to our cash on hand, we believe that, given the substantial value of our assets, primarily our 64% economic interest in Telesat, we have the ability, if appropriate, to access the financial markets for debt or equity at the Parent Company. Given the continuously changing financial environment, however, there can be no assurance that the Parent Company would be able to obtain such financing on acceptable terms.

During the first six months of 2012, SS/L s cash and cash equivalents decreased $83 million after borrowing $40 million under its revolving credit facility and funding $62 million of additional restricted cash. The remaining use of cash was the result of a $77 million increase in contract assets, a $12 million increase in inventories and $22 million spent on capital expenditures, partially offset by $28 million of EBITDA, an increase in the intercompany payable balance to the Parent Company of $12 million and changes in other operating accounts of $10 million.

SS/L s projected use of cash through the closing of its sale to MDA includes capital expenditures and continued growth in its orbital receivables balance. The uncertainty as to the timing and nature of new construction contract awards, milestone receipts and cash flow related to contract assets can change SS/L s cash requirements. SS/L believes that, absent unforeseen circumstances and given its cash on hand and revolving credit facility, it has sufficient cash and liquidity to fund its operations and fulfill its obligations through the closing of its sale to MDA.

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Risks to Cash Flow

During the launch of the SS/L-built Intelsat 19 satellite on June 1, 2012, the satellite s south solar array was damaged, resulting in a reduction of power available to the satellite s transponders. SS/L has total orbital receivables related to this satellite of $18 million, which represents the maximum possible loss from this anomaly, excluding the cost of the failure investigation. The amount of any possible loss will depend on the amount of the reduction in power. The investigation to determine the cause of the damage is ongoing, and, as a result, the financial impact to SS/L cannot yet be estimated. If the satellite is determined to be the sole cause of the anomaly, the loss of orbital incentives is estimated to be approximately $8 million. If the launch vehicle is determined to be the cause, the full amount of orbital receivables would be expected to be recovered over the life of the satellite. No charge has been recorded pending completion of the investigation. If SS/L were required under U.S. GAAP to write down its orbital receivables as a result of the Intelsat 19 anomaly in the first year following the closing of the sale of SS/L to MDA Holdings, the purchase price received by Loral would be subject to a reduction equal to the amount of the write-down.

ViaSat, Inc. and ViaSat Communications, Inc. (formerly known as WildBlue Communications, Inc.) have commenced a lawsuit in the United States District Court for the Southern District of California against SS/L and Loral alleging, among other things, that SS/L and Loral infringed certain ViaSat patents and breached non-disclosure obligations in certain contracts with ViaSat in connection with the manufacture of satellites by SS/L for customers other than ViaSat. SS/L has also asserted counterclaims against ViaSat alleging, among other things, that ViaSat infringed certain SS/L patents in connection with its manufacture and sale of certain satellite communication products and services.

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

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

Telesat

Cash and Available Credit

As of June 30, 2012, Telesat had CAD 129 million of cash and short-term investments as well as CAD 140 million of borrowing availability under its revolving facility. Telesat believes that cash and short-term investments as of June 30, 2012, cash flow from operating activities, including amounts from customer prepayments, and drawings on the available lines of credit under the Telesat Senior Credit Facilities will be adequate to meet its expected cash requirements for the next 12 months for activities in the normal course of business, including interest and required principal payments on debt.

For the remainder of 2012, Telesat expects its major cash requirements to include capital expenditures of approximately CAD 120 million, payment of CAD 128 million in principal and interest on long-term debt (including the currency basis swaps and interest rate swaps), the remaining CAD 70 million distribution to shareholders, special payments to executives and certain employees and payments on operating leases. Telesat expects to meet its cash needs for fiscal 2012 through a combination of operating cash and cash equivalents, restricted cash received from insurance proceeds, cash flow from operations, cash flow from customer prepayments or through borrowings on available lines of credit under the Telesat Credit Facility.

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Liquidity

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

The construction of Anik G1, as well as any other satellite replacement or expansion program, will require significant capital expenditures. Telesat may choose to invest in new satellites to further grow its business. Cash required for current and future satellite construction programs will be funded from some or all of the following: cash and short-term investments, cash flow from operating activities, cash flow from customer prepayments or through borrowings on available lines of credit under Telesat s revolving facility. In addition, Telesat may sell certain satellite assets, and in accordance with the terms and conditions of the Telesat Senior Credit Facilities, reinvest the proceeds in replacement satellites or pay down indebtedness under the Telesat Senior Credit Facilities. Subject to market conditions and subject to compliance with the terms and conditions of the Telesat Senior Credit Facilities and the financial leverage covenant tests therein, Telesat may also obtain additional secured or unsecured financing to fund current or future satellite construction or to distribute to its equity holders. Telesat s ability to access these sources of funding, however, is not guaranteed and, therefore, Telesat may not be able to fully fund additional replacement and new satellite construction programs.

Debt

Telesat s debt is as follows:

	Maturity	Currency	June 30, 2012	December 31, 2011
			(In CAD millions)	
Senior Credit Facilities:				
Revolving facility	March 28, 2012	CAD or USD equivalent		
Revolving facility	March 28, 2017	CAD or USD equivalent		
The Canadian term loan facility	March 28, 2012	CAD		80
Term Loan A	March 28, 2017	CAD	500	
Term Loan B Canadian facility	March 28, 2019	CAD	175	
Term Loan B U.S. Facility	March 28, 2019	USD	1,753	
The U.S. term loan facility	March 28, 2012	USD		1,721
The U.S. term loan II facility	October 31, 2014	USD		148
Senior notes	November 1, 2015	USD		707
Senior notes	May 15, 2017	USD	712	
Senior subordinated notes	November 1, 2017	USD	221	222
		CAD	3,361	2,878
Less: deferred financing costs, interest rate floors and prepayment options			(91)	(43)
			3,270	2,835
Current portion		CAD	(19)	(87)
Long term portion		CAD	3,251	2,748

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

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

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The Telesat Senior Credit Facilities are secured by substantially all of Telesat s assets. Each tranche of the Telesat Senior Credit Facilities is subject to mandatory principal repayment requirements. Borrowings under the Telesat Senior Credit Facilities bear interest at a base interest rate plus margins of 300 375 basis points. There are no required repayments on the Term Loan A facility for the year ended December 31, 2012. For the Term Loan B Canadian and Term Loan B U.S. facilities, required repayments in 2012 are $\frac{1}{4}$ of 1% of the initial aggregate principal amount which are approximately CAD 0.4 million and $4.0 million, respectively, per quarter beginning on the last day of the fiscal quarter ending September 30, 2012. Telesat is required to comply with certain covenants which are usual and customary for highly leveraged transactions, including financial reporting, maintenance of a senior secured leverage ratio, a requirement to maintain minimum levels of satellite insurance, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions and restrictions on transactions with affiliates.

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

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

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

Interest Expense

An estimate of the interest expense on the facilities is based upon assumptions of LIBOR and Bankers Acceptance rates and the applicable margin for the Telesat Senior Credit Facilities. Telesat s estimated interest expense for the year ended December 31, 2012 is approximately CAD 238 million.

Derivatives

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

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

Telesat has entered into a cross currency basis swap to hedge the foreign currency risk on a portion of its US dollar denominated debt. Telesat uses mostly natural hedges to manage the foreign exchange risk on operating cash flows. At June 30, 2012, Telesat had a cross currency basis swap of CAD 1,169.1 million which requires it to pay Canadian dollars to receive $1,006.6 million. The fair value of this derivative contract was a liability of CAD 170.8 million and CAD 160.4 million as of June 30, 2012 and December 31, 2011, respectively.

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

Interest

Telesat is exposed to interest rate risk on its cash and cash equivalents and its long term debt which is primarily variable rate financing. Changes in the interest rates could impact the amount of interest Telesat is required to pay. Telesat uses interest rate swaps to hedge the interest rate risk related to variable rate debt financing. At June 30, 2012, Telesat had a series of five interest rate swaps to fix interest on $1.5 billion of debt at a weighted average fixed rated of 2.63% and one interest rate swap to pay a fixed rate of 1.46% on $300 million of US dollar denominated debt. The fair value of these derivative contract liabilities was CAD 46 million and CAD 53 million as of June 30, 2012 and December 31, 2011, respectively. These contracts mature between October 31, 2014 and September 30, 2016.

Capital Expenditures

Telesat has entered into contracts with SS/L for the construction of Anik G1. These expenditures will be funded from some or all of the following: cash and short-term investments, restricted cash from insurance proceeds, cash flow from operations, proceeds from the sale of assets, cash flow from customer prepayments or through borrowings on available lines of credit under the Telesat Senior Credit Facilities.

Contractual Obligations

There have not been any significant changes to the contractual obligations as previously disclosed in our latest Annual Report on Form 10-K filed with the SEC.

Statement of Cash Flows

Net Cash Used in Operating Activities

Net cash used by operations was $52 million for the six months ended June 30, 2012.

Income from continuing operations adjusted for non-cash items used $9 million. Changes in operating assets and liabilities of continuing operations used $5 million.

Discontinued operations used $38 million, mainly due to an increase in program related assets (contracts-in-process and customer advances) of $77 million, partially offset by income adjusted for non-cash items of $40 million.

Net cash used in operations was $3 million for the six months ended June 30, 2011.

Income from continuing operations adjusted for non-cash items used $4 million. Other factors affecting cash from operating activities of continuing operations: Decreases in other current assets and other assets provided $10 million including $9 million of recoveries under directors and officers liability insurance, decreases in income taxes payable used $6 million and changes in other operating assets and liabilities used $8 million.

Discontinued operations provided cash of $5 million, mainly due to net income adjusted for non-cash items of $70 million, partially offset by an increase in program related assets and other net changes to working capital accounts of $65 million.

Net Cash Provided by Investing Activities

Net cash provided by investing activities for the six months ended June 30, 2012 was $292 million resulting from a special cash distribution by Telesat of $376 million, partially offset by $84 million of cash used by discontinued operations, primarily for capital expenditures of $22 million and a $62 million increase in restricted cash.

Net cash provided by investing activities for the six months ended June 30, 2011 was $32 million resulting from the sale of our interest in ViaSat-1 and related net assets for $61 million, partially offset by $29 million of cash used by discontinued operations primarily for capital expenditures of $18 million and an $11 million increase in restricted cash.

Net Cash Used in Financing Activities

Net cash used in financing activities for the six months ended June 30, 2012 was $382 million primarily due to payment of a special dividend of $418 million to common shareholders and funding by the Company of withholding taxes of $6 million on employee cashless stock option exercises. Discontinued operations provided $40 million of cash from borrowings under the SS/L revolving credit facility.

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

Affiliate Matters

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

Commitments and Contingencies

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

Other Matters

Recent Accounting Pronouncements

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

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

Loral

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

As of 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 millions):

	Foreign Currency	U.S.$
Future revenues Japanese yen	¥ 13.4	$ 0.2
Future expenditures Japanese yen	¥ 3,076.8	$ 38.5
Future revenues euros	17.3	$ 21.9
Future expenditures euros	1.7	$ 2.2

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Derivatives

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

In March 2012, Telesat declared a special cash distribution denominated in Canadian dollars 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 millions):

	To Buy			
Maturity	**Euro Amount**	**CAD Amount**	**Hedge Contract Rate**	**At Market Rate**
2012		C AD 45.0	$ 44.2	$ 44.2
2012	0.4		0.5	0.6
	0.4	45.0	44.7	44.8
Discontinued operations	(0.4)		(0.5)	(0.6)
Continuing operations		C AD 45.0	$ 44.2	$ 44.2

	To Sell			
Maturity	**Euro Amount**	**CAD Amount**	**Hedge Contract Rate**	**At Market Rate**
2012		C AD 90.0	$ 89.8	$ 88.5
2012	7.6		9.2	9.6
2013	27.0		32.9	34.3
	34.6	90.0	131.9	132.4
Discontinued operations	(34.6)		(42.1)	(43.9)
Continuing operations		C AD 90.0	$ 89.8	$ 88.5

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

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.

Telesat

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Approximately 49% of Telesat s revenues for the six months ended June 30, 2012, a substantial portion of its expenses and a substantial portion of its indebtedness and capital expenditures are denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at June 30, 2012 would have increased or decreased Telesat s net income for the six months ended June 30, 2012 by approximately $149 million.

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

Interest

Loral

The Company had $40 million of borrowings outstanding under the SS/L Credit Agreement at June 30, 2012. Borrowings under this facility are limited to Eurodollar Loans for periods ending in one, two, three or six months or daily loans for which the interest rate is adjusted daily based upon changes in the Prime Rate, Federal Funds Rate or one month Eurodollar Rate. Because of the nature of the borrowing under a revolving credit facility, the borrowing rate adjusts to changes in interest rates over time. For a $150 million credit facility, if it were fully borrowed, a one percent change in interest rates would affect the Company s interest expense by $1.5 million for the year. The Company had no other long-term debt or other exposure to changes in interest rates with respect thereto.

Telesat

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

Other

As of June 30, 2012, the Company held 984,173 shares of Globalstar Inc. common stock and $0.3 million of non-qualified pension plan assets that were mainly invested in equity and bond funds. During the first quarter of 2012, our excess cash was invested in money market securities; we did not hold any other marketable securities.

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

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

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

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PART II.

OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

Item 1A. ***Risk Factors***

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

Consummation of the sale of the SS/L pursuant to the Purchase Agreement is subject to conditions, such as governmental regulatory approval, that are outside of the control of the parties. There can be no assurance as to whether or when such conditions may be satisfied and a closing would occur. In the event that the Purchase Agreement is terminated without the closing of the sale of SS/L, there can be no assurance that Loral would be able to find an alternate buyer for SS/L on terms comparable to the terms of the Purchase Agreement or that the value or business of SS/L will not be adversely affected by such termination.

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

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

Item 2. ***Issuer Purchases of Equity Securities***

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

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

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

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Item 6. ***Exhibits***

The following exhibits are filed as part of this report:

Exhibit 10.1	Purchase Agreement, dated as of June 26, 2012, by and among Loral Space & Communications Inc., Space Systems/Loral, Inc., MacDonald, Dettwiler and Associates Ltd. and MDA Communications Holdings, Inc. (incorporated by reference from the Company s Current Report on Form 8-K filed on June 28, 2012.)
Exhibit 10.2	Form of Director 2012 Restricted Stock Unit Agreement*
Exhibit 31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
Exhibit 99.1	Indenture, dated May 14, 2012, with respect to Telesat Canada s 6.0% Senior Notes due 2017, among Telesat Canada, Telesat LLC, as co-issuer, the guarantors party thereto, and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 in the Form 6-K filed by Telesat Canada on May 14, 2012)
Exhibit 101	IN ACCORDANCE WITH THE TEMPORARY HARDSHIP EXEMPTION PROVIDED BY RULE 201 OF REGULATION S-T, THE DATE BY WHICH THE INTERACTIVE DATA FILE IS REQUIRED TO BE SUBMITTED HAS BEEN EXTENDED BY SIX BUSINESS DAYS.

* Management Compensation Plan

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SIGNATURES

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

Registrant

LORAL SPACE & COMMUNICATIONS INC.

/s/ Harvey B. Rein
Harvey B. Rein
Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

and Registrant s Authorized Officer

Date: August 9, 2012

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