

LORAL SPACE & COMMUNICATIONS INC.  
Form 10-Q  
November 14, 2017

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended September 30, 2017**

**Commission file number 1-14180**

**Loral Space & Communications Inc.**

**600 Fifth Avenue**

**New York, New York 10020**

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

**Jurisdiction of incorporation: Delaware**

**IRS identification number: 87-0748324**

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2017, 21,427,078 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 September 30, 2017**

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

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 259,263	\$ 37,458
Other current assets	3,685	3,483
Total current assets	262,948	40,941
Investments in affiliates	24,117	107,950
Deferred tax assets	101,567	115,285
Other assets	365	55
Total assets	\$ 388,997	\$ 264,231
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accrued employment costs	\$ 2,026	\$ 2,356
Income taxes payable	43,110	—
Other current liabilities	2,298	3,772
Total current liabilities	47,434	6,128
Pension and other postretirement liabilities	16,857	18,433
Long-term liabilities	71,050	69,259
Total liabilities	135,341	93,820
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, 0.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock:	216	216

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Voting common stock, 0.01 par value; 50,000,000 shares authorized, 21,581,572 issued		
Non-voting common stock, 0.01 par value; 20,000,000 shares authorized 9,505,673 issued and outstanding	95	95
Paid-in capital	1,019,988	1,019,988
Treasury stock (at cost), 154,494 shares of voting common stock	(9,592 )	(9,592 )
Accumulated deficit	(728,000 )	(826,460 )
Accumulated other comprehensive loss	(29,051 )	(13,836 )
Total shareholders' equity	253,656	170,411
Total liabilities and shareholders' equity	\$ 388,997	\$ 264,231

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
General and administrative expenses	\$(2,015 )	\$(1,709 )	\$(6,000 )	\$(4,900 )
Operating loss	(2,015 )	(1,709 )	(6,000 )	(4,900 )
Interest and investment income	728	44	1,754	140
Interest expense	(11 )	(6 )	(22 )	(15 )
Other expense	(985 )	(187 )	(2,858 )	(1,306 )
Loss from continuing operations before income taxes and equity in net income of affiliates	(2,283 )	(1,858 )	(7,126 )	(6,081 )
Income tax provision	(16,552 )	(8,911 )	(82,236 )	(31,066 )
Loss from continuing operations before equity in net income of affiliates	(18,835 )	(10,769 )	(89,362 )	(37,147 )
Equity in net income of affiliates	43,372	6,948	183,086	96,799
Income (loss) from continuing operations	24,537	(3,821 )	93,724	59,652
Loss from discontinued operations, net of tax	—	(71 )	(5 )	(306 )
Net income (loss)	24,537	(3,892 )	93,719	59,346
Other comprehensive (loss) income, net of tax	(12,356 )	1,713	(15,215 )	11,289
Comprehensive income (loss)	\$12,181	\$(2,179 )	\$78,504	\$70,635
Net income (loss) per share:				
Basic				
Income (loss) from continuing operations	\$0.79	\$(0.12 )	\$3.03	\$1.93
Loss from discontinued operations, net of tax	—	—	—	(0.01 )
Net income (loss)	\$0.79	\$(0.12 )	\$3.03	\$1.92
Diluted				
Income (loss) from continuing operations	\$0.77	\$(0.12 )	\$2.98	\$1.85
Loss from discontinued operations, net of tax	—	—	—	(0.01 )
Net income (loss)	\$0.77	\$(0.12 )	\$2.98	\$1.84
Weighted average common shares outstanding:				
Basic	30,933	30,933	30,933	30,933

Diluted	31,008	30,933	31,008	31,008
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See notes to condensed consolidated financial statements

## LORAL SPACE &amp; COMMUNICATIONS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock				Paid-In Capital	Treasury Stock		Accumulated		Shareholders' Equity
	Voting Shares Issued	Amount	Non-Voting Shares Issued	Amount		Voting Shares	Amount	Accumulated Deficit	Other Comprehensive Loss	
Balance, January 1, 2016	21,582	\$ 216	9,506	\$ 95	\$ 1,020,129	154	\$(9,592)	\$(873,660)	\$(28,698)	\$ 108,490
Net income								47,200		
Other comprehensive income									14,862	
Comprehensive income										62,062
Adjustment to tax benefit associated with stock-based compensation					(141)					(141)
Balance, December 31, 2016	21,582	216	9,506	95	1,019,988	154	(9,592)	(826,460)	(13,836)	170,411
Net income								93,719		
Other comprehensive loss									(15,215)	
Comprehensive income										78,504
Cumulative effect adjustment attributable to previously unrecognized excess tax benefits on								4,741		4,741



stock-based  
compensation  
Balance,

September 30, 2017	21,582	\$ 216	9,506	\$ 95	\$ 1,019,988	154	\$(9,592)	\$(728,000 )	\$(29,051 )	\$ 253,656
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See notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income	\$93,719	\$59,346
Loss from discontinued operations, net of tax	5	306
Adjustments to reconcile net income to net cash used in operating activities:		
Non-cash operating items (Note 2)	(155,628)	(67,057)
Changes in operating assets and liabilities:		
Other current assets and other assets	(565 )	(107 )
Accrued expenses and other current liabilities	759	(578 )
Income taxes receivable and payable	43,473	88
Pension and other postretirement liabilities	(1,576 )	(1,384 )
Long-term liabilities	2,035	1,665
Net cash used in operating activities – continuing operations	(17,778 )	(7,721 )
Net cash used in operating activities – discontinued operations	(2,809 )	(8,428 )
Net cash used in operating activities	(20,587 )	(16,149)
Investing activities:		
Capital expenditures	(39 )	(3 )
Distribution received from affiliate	242,735	—
Net cash provided by (used in) investing activities – continuing operations	242,696	(3 )
Net cash provided by investing activities – discontinued operations	—	—
Net cash provided by (used in) investing activities	242,696	(3 )
Cash, cash equivalents and restricted cash — period increase (decrease)	222,109	(16,152)
Cash, cash equivalents and restricted cash — beginning of period	37,458	58,853
Cash, cash equivalents and restricted cash — end of period	\$259,567	\$42,701

See notes to condensed consolidated financial statements

**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Organization and Principal Business**

Loral Space & Communications Inc., together with its subsidiaries (“Loral,” the “Company,” “we,” “our” and “us”) is a leading satellite communications company engaged, through our ownership interests in affiliates, in satellite-based communications services.

*Description of Business*

Loral has one operating segment consisting of satellite-based communications services. Loral participates in satellite services operations through its ownership interest in Telesat Canada (“Telesat”), a leading global satellite services provider. Prior to and as of December 31, 2016, Telesat Canada was a subsidiary of, and Loral held its ownership interest in Telesat Canada through, Telesat Holdings Inc. Effective January 1, 2017, Telesat Holdings Inc. completed a corporate reorganization of companies under common control, pursuant to which Telesat Holdings Inc. amalgamated with Telesat Interco Inc., a wholly owned subsidiary of Telesat Holdings Inc., and immediately thereafter the newly amalgamated company amalgamated with Telesat Canada. The continuing entity, existing under the laws of Canada, is named Telesat Canada. Telesat has accounted for the reorganization as a continuation of Telesat Holdings Inc.

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. Telesat is also developing a global constellation of low earth orbit (“LEO”) satellites. LEO satellites operate in a circular orbit around the earth with an altitude typically between 500 and 870 miles. Unlike geosynchronous satellites that operate in a fixed orbital location above the equator, LEO satellites travel around the earth at high velocities requiring antennas on the ground to track their movement. LEO satellite systems have the potential to offer a number of advantages over geosynchronous orbit satellites to meet growing requirements for broadband services, both consumer and commercial, by providing increased data speeds and capacity, global coverage, and latency on par with, or potentially better than, terrestrial services.

Loral holds a 62.7% economic interest and a 32.7% voting interest in Telesat (see Note 5). We use the equity method of accounting for our ownership interest in Telesat.

## 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2016 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.

### *Discontinued Operations*

On November 2, 2012, Loral completed the sale (the “Sale”) of its wholly-owned subsidiary, Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc.) (“SSL”), to MDA Communications Holdings, Inc. (“MDA Holdings”), a subsidiary of MacDonald, Dettwiler and Associates Ltd. (“MDA”). Pursuant to the purchase agreement (the “Purchase Agreement”), dated as of June 26, 2012, as amended on October 30, 2012 and March 28, 2013, by and among Loral, SSL, MDA and MDA Holdings, Loral agreed to indemnify MDA and its affiliates from (1) liabilities with respect to certain pre-closing taxes; and (2) certain damages and legal expenses stemming from a lawsuit (the “ViaSat Suit”) brought in 2012 by ViaSat, Inc. (“ViaSat”) against Loral and SSL (see Note 13).

**LORAL SPACE & COMMUNICATIONS INC.**

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

Interest expense that is directly related to the Sale is classified as discontinued operations in the statements of operations and cash flows for the nine months ended September 30, 2017 and three and nine months ended September 30, 2016.

*Investments in Affiliates*

Our ownership interest in Telesat is accounted for using the equity method of accounting. Income and losses of Telesat are recorded based on our economic interest. Our equity in net income or loss of Telesat also reflects amortization of profits eliminated, to the extent of our economic interest in Telesat, on satellites we constructed for them while we owned SSL and on Loral's sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related assets. Non-refundable cash distributions received from Telesat in excess of our initial investment and our share of cumulative equity in comprehensive income of Telesat, net of cash distributions received in prior periods, are recorded as equity in net income of Telesat ("Excess Cash Distribution") since we have no obligation to provide future financial support to Telesat. We do not record additional equity in net income of Telesat until our share of Telesat's future net income exceeds the Excess Cash Distribution. 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. We use the nature of distribution approach to classify distributions from equity method investments on the statements of cash flows. The Company monitors its equity method investments for factors indicating other-than-temporary impairment. An impairment loss is 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 materially differ from estimates.

Significant estimates also included the allowances for doubtful accounts, income taxes, including the valuation of deferred tax assets, the fair value of liabilities indemnified and our pension liabilities.

*Cash, Cash Equivalents and Restricted Cash*

As of September 30, 2017, the Company had \$259.3 million of cash and cash equivalents. Cash and cash equivalents include liquid investments, primarily money market funds, with original maturities of less than 90 days at the time of purchase. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date.

As of September 30, 2017 and December 31, 2016, the Company had restricted cash of \$0.3 million and nil, respectively. The restricted cash of \$0.3 million as of September 30, 2017 represents the amount pledged as collateral to the issuer of a standby letter of credit (the "LC"). The LC, which expires in October 2018 and contains an automatic renewal period of one year, has been provided as a guaranty to the lessor of our corporate offices.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheet to the condensed consolidated statement of cash flows (in thousands):

	September 30, 2017
Cash and cash equivalents	\$ 259,263
Restricted cash included in other assets	304
Cash, cash equivalents and restricted cash shown in the statement of cash flows	\$ 259,567

*Concentration of Credit Risk*

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and receivables. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. As of September 30, 2017 and December 31, 2016, our cash and cash equivalents were invested primarily in several liquid Prime and Government AAA money market funds. The dispersion across funds reduces the exposure of a default at any one fund. As a result, management believes that its potential credit risks are minimal.

**LORAL SPACE & COMMUNICATIONS INC.**

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

*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.

*Assets and Liabilities Measured at Fair Value*

The following table presents our assets and liabilities measured at fair value at September 30, 2017 and December 31, 2016 (in thousands):

September 30, 2017,			December 31, 2016,		
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3

Assets

Cash and cash equivalents:							
Money market funds	\$257,547	—	—	\$35,514	—	—	
Other current assets:							
Indemnification - Sale of SSL	—	—	\$2,410	—	—	\$2,410	
<u>Liabilities</u>							
Long-term liabilities:							
Indemnification - Globalstar do Brasil S.A.	—	—	\$323	—	—	\$357	

The carrying amount of cash equivalents approximates fair value as of each reporting date because of the short maturity of those instruments.

The Company did not have any non-financial assets or non-financial liabilities that were recognized or disclosed at fair value as of September 30, 2017 and December 31, 2016.

*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.

The asset resulting from the indemnification of SSL is for certain pre-closing taxes and reflects the excess of payments since inception over the estimated liability, which was originally determined using the fair value objective approach. The estimated liability for indemnifications relating to Globalstar do Brasil S.A. (“GdB”), originally determined using expected value analysis, is net of payments since inception.



**LORAL SPACE & COMMUNICATIONS INC.**

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

*Contingencies*

Contingencies by their nature relate to uncertainties that require management to exercise judgment both in assessing the likelihood that a liability has been incurred as well as in estimating the amount of potential loss, if any. We accrue for costs relating to litigation, claims and other contingent matters when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management's judgment, as appropriate. Actual amounts paid may differ from amounts estimated, and such differences will be charged to operations in the period in which the final determination of the liability is made.

*Recent Accounting Pronouncements*

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU No. 2017-07, as it applies to the Company, amended the presentation of net periodic pension and postretirement cost (i.e. net benefit cost). The new guidance requires the service cost component to be presented separate from the other components of net benefit cost. While service cost will be presented with other employee compensation costs within operations, the other components of net benefit cost, such as interest cost, amortization of prior service cost, and gains or losses, are required to be separately presented outside of operations, if income or loss from operations is presented. The guidance, to be applied retrospectively, is effective for the Company on January 1, 2018, with earlier application permitted only within the first interim period starting January 1, 2017. The change in presentation of net benefit cost, which will be adopted on January 1, 2018, will not have a material impact on our condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, a consensus of the FASB's Emerging Issues Task Force (the "Task Force"). The new guidance requires entities to show the changes in total cash including cash equivalents and restricted cash, in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The new guidance is effective for the Company on January 1, 2018, with earlier application permitted in any interim or annual period, using a retrospective transition method. The Company early adopted the new guidance in the third quarter of 2017. As a result of adopting the new guidance, the statements of cash flows for the nine months ended September 30, 2017 and 2016 show changes in total cash including cash equivalents and restricted cash, and the nature of the restrictions are disclosed above under *Cash, Cash Equivalents and Restricted Cash*.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*, a consensus of the FASB's Task Force. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance relevant to the Company provides an accounting policy election for classifying distributions received from equity method investments. Such amounts can be classified using (i) a cumulative earnings approach, or (ii) a nature of distribution approach. Under the cumulative earnings approach, an investor compares the distributions received to such investor's cumulative equity method earnings since inception. Any distributions received up to the amount of cumulative equity earnings are considered a return on investment and classified in operating activities. Any excess distributions are considered a return of investment and classified in investing activities. Alternatively, under the nature of distribution approach, an investor classifies the distributions based on the nature of activities of the investee that generated the distribution. If the necessary information is subsequently not available for an investee to determine the nature of the activities, the entity should use the cumulative earnings approach for that investee and report a change in accounting principle on a retrospective basis. The new guidance is effective for the Company on January 1, 2018, with earlier application permitted in any interim or annual period, using a retrospective transition method. The Company adopted the new guidance on January 1, 2017 and made an accounting policy election to use the nature of distribution approach to classify distributions from equity method investments on its statements of cash flows. As a result of adopting the new guidance, the entire distribution of \$242.7 million received from Telesat in the first quarter of 2017 is classified in investing activities on the statement of cash flows for the nine months ended September 30, 2017 (see Note 5).

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

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. ASU No. 2016-09 simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences. Under the new guidance, all excess tax benefits and tax deficiencies related to share-based payment transactions are recognized in the current period as discrete adjustments to income tax expense or benefit in the income statement. Under previous U.S. GAAP, excess tax benefits were recognized in additional paid-in capital while tax deficiencies were recognized first as an offset to accumulated excess tax benefits, then as additional income tax expense. Also, under previous U.S. GAAP, excess tax benefits were not recognized until the related income tax deduction reduced income taxes payable. The Company adopted the new guidance on January 1, 2017, and upon adoption previously unrecognized excess tax benefits of \$4.7 million were recognized as a cumulative-effect adjustment to increase retained earnings and deferred tax assets.

In February 2016, the FASB amended the Accounting Standards Codification (“ASC”) by creating ASC Topic 842, *Leases*. ASC Topic 842 requires a lessee to record a right-of-use asset and a lease liability for all leases with a lease term greater than 12 months. The main difference between previous U.S. GAAP and ASC Topic 842 is the recognition under ASC 842 of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The new guidance, effective for the Company on January 1, 2019, with earlier application permitted, is not expected to have a material impact on our consolidated financial statements.

***Additional Cash Flow Information***

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

	Nine Months Ended September 30,	
	2017	2016
Non-cash operating items:		
Equity in net income of affiliates	\$(183,086)	\$(96,799)
Deferred taxes	26,655	29,010
Depreciation and amortization	33	45
Amortization of prior service credit and actuarial loss	770	687
Net non-cash operating items – continuing operations	\$(155,628)	\$(67,057)
Supplemental information:		

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Interest paid – continuing operations	\$22	\$15
Interest paid – discontinued operations	\$55	\$641
Tax payments, net of refunds – continuing operations	\$10,038	\$194

## LORAL SPACE &amp; COMMUNICATIONS INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. Accumulated Other Comprehensive Loss

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

	Postretirement Benefits	Equity in Telesat Other Comprehensive Loss	Accumulated Other Comprehensive Loss
Balance, January 1, 2016	\$ (13,459 )	\$ (15,239 )	\$ (28,698 )
Other comprehensive (loss) income before reclassification	(1,209 )	15,477	14,268
Amounts reclassified from accumulated other comprehensive loss	594	—	594
Net current-period other comprehensive (loss) income	(615 )	15,477	14,862
Balance, December 31, 2016	(14,074 )	238	(13,836 )
Other comprehensive loss before reclassification	—	(15,715 )	(15,715 )
Amounts reclassified from accumulated other comprehensive loss	500	—	500
Net current-period other comprehensive income (loss)	500	(15,715 )	(15,215 )
Balance, September 30, 2017	\$ (13,574 )	\$ (15,477 )	\$ (29,051 )

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

	Three Months Ended September 30, 2017			2016		
	Before-Tax Amount	Tax Benefit (Provision)	Net-of-Tax Amount	Before-Tax Amount	Tax Provision	Net-of-Tax Amount
Amortization of prior service credits and net actuarial loss	\$257	(a) \$ (90 )	\$ 167	\$229	(a) \$ (88 )	\$ 141
Equity in Telesat other comprehensive (loss) income	(19,255)	6,732	(12,523 )	2,580	(1,008 )	1,572
Other comprehensive (loss) income	\$(18,998)	\$ 6,642	\$(12,356 )	\$2,809	\$(1,096 )	\$ 1,713

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	Nine Months Ended September 30, 2017			2016		
	Before-Tax Amount	Tax Benefit (Provision)	Net-of-Tax Amount	Before-Tax Amount	Tax Provision	Net-of-Tax Amount
Amortization of prior service credits and net actuarial loss	\$770	(a) \$ (270 )	\$ 500	\$687	(a) \$ (261 )	\$ 426
Equity in Telesat other comprehensive (loss) income	(24,184)	8,469	(15,715 )	17,522	(b) (6,659 )	10,863
Other comprehensive (loss) income	\$(23,414)	\$ 8,199	\$(15,215 )	\$18,209	\$(6,920 )	\$ 11,289

(a) Reclassifications are included in general and administrative expenses.

(b) Includes \$20.8 million (\$13.5 million, net of tax) share in the equity of Telesat's other comprehensive income that we could not record in 2015 (see Note 5).

**LORAL SPACE & COMMUNICATIONS INC.**

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

**4. Other Current Assets**

Other current assets consists of (in thousands):

	September 30, 2017	December 31, 2016
Indemnification receivable from SSL for pre-closing taxes (see Note 13)	\$ 2,410	\$ 2,410
Due from affiliate	314	225
Prepaid expenses	449	192
Income taxes receivable	181	545
Other	331	111
Total	\$ 3,685	\$ 3,483

**5. Investments in Affiliates**

Investments in affiliates consist of (in thousands):

	September 30, 2017	December 31, 2016
Telesat	\$ 24,117	\$ 107,950

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Telesat	\$ 43,372	\$ 6,948	\$ 183,086	\$ 96,799

*Telesat*

As of September 30, 2017 and December 31, 2016, we held a 62.7% economic interest and a 32.7% voting interest in Telesat. Our economic interest decreased from 62.8% to 62.7% in March 2016 when certain Telesat employees exercised share appreciation rights related to a total of 178,642 stock options granted under Telesat's share-based compensation plan and received 129,400 non-voting participating preferred shares. Also in March 2016, Telesat repurchased a total of 1,253,477 vested stock options at fair value from Telesat management personnel and other employees for total cash consideration of CAD 24.7 million, of which CAD 18.7 million was paid to management personnel.

We use the equity method of accounting for our majority economic interest in Telesat because we own 32.7% of the voting stock and do not exercise control by other means to satisfy the U.S. GAAP requirement for treatment as a consolidated subsidiary. We have also concluded that Telesat is not a variable interest entity for which we are the primary beneficiary. Loral's equity in net income or loss of Telesat is based on our proportionate share of Telesat's results in accordance with U.S. GAAP and in U.S. dollars. Our proportionate share of Telesat's net income or loss is based on our economic interest as our holdings consist of common stock and non-voting participating preferred shares that have all the rights of common stock with respect to dividends, return of capital and surplus distributions, but have no voting rights.

For the three months ended September 30, 2017, our share of equity in net income of Telesat was \$81.6 million. In the first quarter of 2017, we received \$242.7 million in cash from Telesat, representing our share of an aggregate approximately \$400 million distribution from Telesat to its shareholders and stock option holders. As of June 30, 2017 the cash distribution we received from Telesat exceeded our initial investment and our share of cumulative equity in comprehensive income of Telesat, net of cash distributions received from Telesat in prior periods, by \$39.0 million which we recognized as equity income during the six months ended June 30, 2017. In following the equity method of accounting, for the three months ended September 30, 2017, we reduced our share of Telesat's net income of \$81.6 million by the \$39.0 million excess cash distribution, resulting in the recognition of equity in net income of Telesat of \$43.4 million, including \$0.8 million of elimination of affiliate transactions and related amortization.



**LORAL SPACE & COMMUNICATIONS INC.**

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

In the first quarter of 2016, we recognized our \$57.9 million share of Telesat's net loss and our \$20.8 million share of Telesat's other comprehensive income that we were unable to recognize as of December 31, 2015 as our share of Telesat's cumulative losses, together with cash distributions we received from Telesat, exceeded our recorded cumulative equity in comprehensive income of Telesat and initial investment.

In addition, during the nine months ended September 30, 2016, we recorded an increase in equity in net income of affiliates of \$3.0 million (\$1.8 million net of tax) that should have been recognized in prior periods. As a result, earnings per share (basic and diluted) increased \$0.06 per share. These non-cash adjustments, which were identified and provided by Telesat in connection with its June 30, 2016 closing process, related primarily to an error in mark-to-market accounting for embedded foreign exchange derivatives in a Telesat customer contract. Changes in fair value of these embedded derivatives are required to be recognized under U.S. GAAP, but not under International Financial Reporting Standards, the basis of accounting used by Telesat. The Company has not revised its previous consolidated financial statements for Telesat's non-cash adjustments based on its belief that the effect of such adjustments is not material to the financial statements taken as a whole.

On November 17, 2016, Telesat entered into amended senior secured credit facilities which provide for term loan borrowings of \$2.43 billion maturing on November 17, 2023 and revolving credit borrowings of up to \$200 million (or Canadian dollar equivalent) maturing on November 17, 2021. Telesat also issued, through a private placement, \$500 million of 8.875% senior notes which mature on November 17, 2024.

In connection therewith, on November 17, 2016, Telesat repaid all outstanding amounts under its former senior secured credit facilities and its 6.0% senior notes.

On February 1, 2017, Telesat amended the senior secured credit facilities to effectively reprice the then outstanding term loan borrowings of \$2.424 billion.

The ability of Telesat to pay dividends or certain other restricted payments in cash to Loral is governed by applicable covenants in Telesat's debt and shareholder agreements. Telesat's credit agreement governing its senior secured credit facilities limits, among other items, Telesat's ability to incur debt and make dividend payments if the total leverage ratio ("Total Leverage Ratio") is above 4.50:1.00, with certain exceptions. As of September 30, 2017, Telesat's Total Leverage Ratio was 4.64:1.00. Telesat is, however, permitted to pay annual consulting fees of \$5.0 million to Loral in

cash (see Note 14).

The contribution of Loral Skynet, a wholly owned subsidiary of Loral prior to its contribution to Telesat in 2007, was recorded by Loral at the historical book value of our retained interest combined with the gain recognized on the contribution. However, the contribution was recorded by Telesat at fair value. Accordingly, the amortization of Telesat fair value adjustments applicable to the Loral Skynet assets and liabilities is proportionately eliminated in determining our share of the net income or losses of Telesat. Our equity in net income or loss of Telesat also reflects amortization of profits eliminated, to the extent of our economic interest in Telesat, on satellites we constructed for Telesat while we owned SSL and on Loral's sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related assets.

**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, for the three and nine months ended September 30, 2017 and 2016 and as of September 30, 2017 and December 31, 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Statement of Operations Data:				
Revenues	\$ 170,151	\$ 172,336	\$ 514,800	\$ 522,849
Operating expenses	(33,770 )	(34,626 )	(111,919 )	(102,853 )
Depreciation, amortization and stock-based compensation	(49,741 )	(49,816 )	(145,875 )	(147,207 )
Loss on disposition of long-lived assets	(204 )	(19 )	(220 )	(1,932 )
Operating income	86,436	87,875	256,786	270,857
Interest expense	(37,901 )	(34,311 )	(111,765 )	(104,662 )
Foreign exchange gain (loss)	103,099	(33,639 )	193,259	120,632
(Loss) gain on financial instruments	(6,542 )	2,587	(17,471 )	(3,364 )
Other income	1,200	1,518	348	3,301
Income tax provision	(16,114 )	(13,556 )	(35,571 )	(39,625 )
Net income	\$ 130,178	\$ 10,474	\$ 285,586	\$ 247,139

	September 30, 2017	December 31, 2016
Balance Sheet Data:		
Current assets	\$ 373,975	\$ 678,361
Total assets	4,050,520	4,194,006
Current liabilities	128,247	154,173
Long-term debt, including current portion	2,832,685	2,877,950
Total liabilities	3,549,488	3,597,056
Shareholders' equity	501,032	596,950

***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. We have also concluded that XTAR is not a variable interest entity for which we are the primary beneficiary. As of September 30, 2017 and December 31, 2016, the carrying value of our investment

in XTAR was zero. Beginning January 1, 2016, we discontinued providing for our allocated share of XTAR's net losses as our investment was reduced to zero and we have no commitment to provide further financial support to XTAR.

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

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

XTAR's lease obligation to Hisdesat for the XTAR-LANT transponders (the "Transponder Service") requires payment by XTAR up to a maximum amount of \$28 million per year through the end of the useful life of the satellite which is estimated to be in 2021. Under the lease agreement (the "Spainsat Lease Agreement"), Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the Transponder Service. In September 2016, XTAR and Hisdesat amended the Spainsat Lease Agreement to, among other things, reduce for 2016 and 2017 the minimum capacity required to be leased by XTAR, and accordingly lease payments by XTAR for 2016 and 2017 were reduced from \$26 million to \$18.2 million. The 2016 reduction was retroactive to January 1, 2016. In January 2017, XTAR and Hisdesat again amended the Spainsat Lease Agreement to, among other things, reduce the minimum capacity required to be leased by XTAR for 2017, and accordingly lease payments by XTAR for 2017 were reduced to \$9.5 million. 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, is payable to Hisdesat over 12 years through annual payments of \$5 million (the "Catch Up Payments"). XTAR has a right to prepay, at any time, all unpaid Catch Up Payments discounted at 9%. Cumulative amounts paid to Hisdesat for Catch-Up Payments through September 30, 2017 were \$29.2 million. As of September 30, 2017 and December 31, 2016, XTAR has deferred payment of liabilities of \$31.7 million and \$28.8 million, respectively, for its lease obligation and Catch-Up Payments to Hisdesat. 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. The ability of XTAR to pay dividends and management fees in cash to Loral is governed by XTAR's operating agreement (see Note 14).

The following table presents summary financial data for XTAR for the three and nine months ended September 30, 2017 and 2016 and as of September 30, 2017 and December 31, 2016 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Statement of Operations Data:				
Revenues	\$ 4,236	\$ 3,815	\$11,759	\$14,115
Operating expenses	(3,871 )	(1,882 )	(11,816)	(18,075)
Depreciation and amortization	(1,658 )	(2,191 )	(4,975 )	(6,575 )
Operating loss	(1,293 )	(258 )	(5,032 )	(10,535)
Net loss	(2,786 )	(706 )	(9,488 )	(12,745)

September 30,	December 31,
2017	2016

Balance Sheet Data:

Current assets	\$ 5,639	\$ 6,364
Total assets	30,309	36,008
Current liabilities	59,140	53,795
Total liabilities	76,813	75,395
Members' deficit	(46,504 )	(39,387 )

*Other*

As of September 30, 2017 and December 31, 2016, the Company held an indirect ownership interest in a foreign company that currently serves as the exclusive service provider for Globalstar service in Mexico. The Company accounts for this ownership interest using the equity method of accounting. Loral has written-off its investment in this company, and, because we have no future funding requirements relating to this investment, there is no requirement for us to provide for our allocated share of this company's net losses.

The Company also previously held an indirect ownership interest in a foreign joint venture company that serves as the exclusive service provider for Globalstar service in Russia. In connection with a settlement agreement entered into in June 2017 with the Russian joint venture partner to settle certain arbitration and legal proceedings relating to the joint venture, the parties released each other from all claims either party had or may have against the other relating to the dispute, our investment and their relationship (see Note 13).

**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****6. Other Current Liabilities**

Other current liabilities consists of (in thousands):

	September 30, 2017	December 31, 2016
SSL indemnification liability relating to ViaSat Suit settlement (see Note 13)	\$ —	\$ 2,801
Due to affiliate	162	—
Accrued professional fees	1,391	665
Pension and other postretirement liabilities	108	108
Accrued liabilities	637	198
Total	\$ 2,298	\$ 3,772

**7. Income Taxes**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Total current income tax provision	\$(1,592 )	\$(713 )	\$(55,581 )	\$(2,056 )
Total deferred income tax provision	(14,960 )	(8,198 )	(26,655 )	(29,010 )
Income tax provision	\$(16,552 )	\$(8,911 )	\$(82,236 )	\$(31,066 )

For the nine months ended September 30, 2017 and 2016, our income tax provision for each period is computed by applying an expected effective annual tax rate against the pre-tax results for each period (after adjusting for certain tax items that are discrete to each period). For the three months ended September 30, 2017 and 2016, this amount is then reduced by the tax provision recorded for the six months ended June 30, 2017 and 2016. For the nine months ended September 30, 2017, in accordance with authoritative guidance for accounting for income taxes in interim periods, we applied separate expected effective annual tax rates against our pre-tax loss from continuing operations and our equity in net income of Telesat, combining the results of both computations with the tax items discrete to the nine months

ended September 30, 2017, such as the income tax provision related to the Telesat distribution. For the nine months ended September 30, 2016, we applied a single expected effective annual tax rate, which included tax expense on the equity income of Telesat, against our pre-tax loss from continuing operations for the nine months. This change in how we calculated the estimate was made to improve the accuracy and consistency of the expected effective annual tax rate calculated in interim periods.

The current income tax provision for the nine months ended September 30, 2017 primarily includes our anticipated income tax liability related to the cash distribution received from Telesat after use of available benefits from our alternative minimum tax credits and net operating loss carryforwards and foreign tax credits from Telesat. Based upon our analysis, the amount of foreign tax credits generated from the cash distribution allowed to be utilized against our current tax liability will be limited, thereby resulting in a carryforward of unused foreign tax credits. Since, at the current time, sufficient positive evidence does not exist to support full recovery of the foreign tax credit carryforward, we recorded a full valuation allowance against this deferred tax asset during the nine months ended September 30, 2017. We will continue to maintain this valuation allowance until sufficient positive evidence exists to support full or partial reversal. Such a reversal could be material in future periods.

Effective January 1, 2017, we adopted ASU No. 2016-09, and upon adoption previously unrecognized excess tax benefits of \$4.7 million were recognized as a cumulative-effect adjustment to increase retained earnings and deferred tax assets (see Note 2).

Subsequent to the Sale, to the extent that profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, we would generate sufficient taxable income from the appreciated value of our Telesat investment, which currently has a nominal tax basis, in order to prevent federal net operating losses from expiring and realize the benefit of all remaining deferred tax assets.



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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Current provision for UTPs	\$ (704 )	\$ (636 )	\$ (2,069 )	\$ (1,774 )
Deferred benefit for UTPs	226	289	701	801
Tax provision for UTPs	\$ (478 )	\$ (347 )	\$ (1,368 )	\$ (973 )

As of September 30, 2017, we had unrecognized tax benefits relating to UTPs of \$68 million. The Company recognizes interest and penalties related to income taxes in income tax expense on a quarterly basis. As of September 30, 2017, we have accrued approximately \$9.7 million and \$6.0 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 2012. Earlier years related to certain foreign jurisdictions remain subject to examination. Various 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 certain UTPs related to our state income tax returns filed for 2012, potentially resulting in a \$14.0 million reduction to our unrecognized tax benefits. Pursuant to the Purchase Agreement for the Sale, we are obligated to indemnify SSL for taxes related to periods prior to the closing of the transaction.

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

Nine Months Ended September 30,	
2017	2016

## Liabilities for UTPs:

Opening balance — January 1	\$ 68,658	\$ 69,511
Current provision for potential additional interest	2,069	1,779
Statute expirations	—	(5 )
Ending balance	\$ 70,727	\$ 71,285

As of September 30, 2017, if our positions are sustained by the taxing authorities, the Company's income tax provision from continuing operations would be reduced by approximately \$31.5 million. Other than as described above, there were no significant changes to our UTPs during the nine months ended September 30, 2017 and 2016, and we do not anticipate any other significant changes to our unrecognized tax benefits during the next twelve months.

**8. Long-Term Liabilities**

Long-term liabilities consists of (in thousands):

	September 30, 2017	December 31, 2016
Indemnification liabilities - other (see Note 13)	\$ 323	\$ 357
Liabilities for uncertain tax positions	70,727	68,658
Other	—	244
Total	\$ 71,050	\$ 69,259

**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****9. Stock-Based Compensation***Stock Plans*

The Loral amended and restated 2005 stock incentive plan (the “Stock Incentive Plan”) which allowed for the grant of several forms of stock-based compensation awards including stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other stock-based awards, had a ten-year term and has expired. The Company granted 75,262 restricted stock units under the Stock Incentive Plan that do not expire and remained unconverted as of September 30, 2017 and December 31, 2016.

**10. Earnings Per Share**

Telesat has awarded employee stock options, which, if exercised, would result in dilution of Loral’s economic ownership interest in Telesat from 62.7% to approximately 62.2%.

The following table presents the dilutive impact of Telesat stock options on Loral’s reported income from continuing operations for the purpose of computing diluted earnings per share (in thousands):

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	2016
Income from continuing operations — basic	\$ 24,537	\$ 93,724	\$ 59,652
Less: Adjustment for dilutive effect of Telesat stock options	(713	) (1,346 )	(2,302 )
Income from continuing operations — diluted	\$ 23,824	\$ 92,378	\$ 57,350

Telesat stock options are excluded from the calculation of diluted loss per share for the three months ended September 30, 2016 as the effect would have been antidilutive.

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

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017      2016	
Weighted average common shares outstanding	30,933	30,933	30,933
Unconverted restricted stock units	75	75	75
Common shares outstanding for diluted earnings per share	31,008	31,008	31,008

For the three months ended September 30, 2016, the following unconverted restricted stock units are excluded from the calculation of diluted loss per share as the effect would have been antidilutive (in thousands):

	Three Months Ended September 30, 2016
Unconverted restricted stock units	75

**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. Pensions and Other Employee Benefit Plans**

The following tables provide the components of net periodic cost included in general and administrative expenses for our qualified retirement plan (the “Pension Benefits”) and health care and life insurance benefits for retired employees and dependents (the “Other Benefits”) for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Pension Benefits		Other Benefits	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2017	2016	2017	2016
Service cost	\$ 175	\$ 167	\$ —	\$ —
Interest cost	490	495	5	6
Expected return on plan assets	(531 )	(512 )	—	—
Amortization of net actuarial loss	250	223	1	1
Amortization of prior service credits	—	—	6	5
Net periodic cost	\$ 384	\$ 373	\$ 12	\$ 12

	Pension Benefits		Other Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Service cost	\$ 526	\$ 501	\$ 1	\$ 1
Interest cost	1,470	1,486	14	16
Expected return on plan assets	(1,593 )	(1,535 )	—	—
Amortization of net actuarial loss	749	667	3	4
Amortization of prior service credits	—	—	18	16
Net periodic cost	\$ 1,152	\$ 1,119	\$ 36	\$ 37

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

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments.

### *Foreign Currency*

We are subject to the risks associated with fluctuations in foreign currency exchange rates. To limit this foreign exchange rate exposure, we attempt to denominate all contracts in U.S. dollars. Where appropriate, derivatives are used to minimize the risk of foreign exchange rate fluctuations to operating results and cash flows. We do not use derivative instruments for trading or speculative purposes.

### *Derivatives and Hedging Transactions*

There were no derivative instruments as of September 30, 2017 and December 31, 2016.

## **13. Commitments and Contingencies**

### *Financial Matters*

In the fourth quarter of 2012, we sold our former subsidiary, SSL, to MDA pursuant to the Purchase Agreement. Under the terms of the Purchase Agreement, we are obligated to indemnify MDA and its affiliates from (1) liabilities with respect to certain pre-closing taxes; and (2) certain litigation costs and litigation damages relating to the ViaSat Suit. Our consolidated balance sheets include an indemnification refund receivable of \$2.4 million as of September 30, 2017 and December 31, 2016. This receivable represents payments to date net of the estimated fair value of the liability for our indemnification for our obligation with respect to certain pre-closing taxes. The final amounts for indemnification claims related to pre-closing taxes have not yet been determined. Where appropriate, we intend vigorously to contest the underlying tax assessments, but there can be no assurance that we will be successful. Although no assurance can be provided, we do not believe that these tax-related matters will have a material adverse effect on our financial position or results of operations. For a discussion of the ViaSat Suit and our indemnification obligations related thereto, see Legal Proceedings, below.

**LORAL SPACE & COMMUNICATIONS INC.**

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

In connection with the sale in 2008 by Loral and certain of its subsidiaries and DASA Globalstar LLC to Globalstar Inc. of their respective interests in GdB, the Globalstar Brazilian service provider, Loral agreed to indemnify Globalstar Inc. and GdB for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. Our condensed consolidated balance sheets include liabilities of \$0.3 million and \$0.4 million as of September 30, 2017 and December 31, 2016, respectively, for indemnification liabilities relating to the sale of GdB.

See Note 14 — Related Party Transactions — Transactions with Affiliates — Telesat for commitments and contingencies relating to our agreement to indemnify Telesat for certain liabilities.

***Legal Proceedings***

*ViaSat*

Under the terms of the Purchase Agreement, Loral agreed to indemnify MDA and its affiliates from certain damages in the ViaSat Suit brought in 2012 by ViaSat against Loral and SSL. In September 2014, Loral, SSL and ViaSat entered into a settlement agreement (“the Settlement Agreement”) pursuant to which the ViaSat Suit and an additional patent infringement and breach of contract lawsuit brought by ViaSat against SSL in September 2013 were settled. Loral was also released by MDA, MDA Holdings and SSL from indemnification claims relating to the ViaSat lawsuits under the Purchase Agreement.

The terms of the Settlement Agreement provide, among other things, for payment by Loral and SSL to ViaSat on a joint and several basis of \$100 million, \$40 million of which was paid in September 2014 in connection with entering into the Settlement Agreement, with the remaining \$60 million payable with interest in ten equal quarterly installments of \$6.9 million from October 15, 2014 through January 15, 2017.

Following a mediation session held on December 1, 2014, Loral and MDA entered into an agreement titled “MDA/Loral Dispute Resolution” dated December 1, 2014 (the “Allocation Agreement”), pursuant to which Loral and MDA agreed that Loral will be responsible for \$45 million, and MDA and SSL will be responsible for \$55 million, of the \$100 million litigation settlement with ViaSat.

Pursuant to the Allocation Agreement, Loral paid ViaSat the final installment of \$2.8 million in January 2017. Our condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016 include indemnification liabilities related to the ViaSat Settlement Agreement of nil and \$2.8 million, respectively.

*Joint Venture Arbitration*

In connection with a joint venture that serves as the provider for Globalstar service in Russia in which Loral held an indirect ownership interest, in the fourth quarter of 2016, the Russian joint venture partner (the “Russian JV Partner”) commenced an arbitration against Loral in the London Court of International Arbitration (the “LCIA”). In the arbitration, the Russian JV Partner sought, among other things, to recover (i) losses it claimed it suffered in defending legal proceedings in Russian state courts brought by Loral (the “Collection Action”) and (ii) costs of the arbitration. Loral had brought its Collection Action to collect a payment owed to Loral by the Russian JV Partner in connection with its exit from the joint venture. The amount Loral expected to receive, after legal fees and expenses, would have been less than \$1 million, but the payment was fraudulently diverted, Loral believes, by Russian attorneys retained by Loral’s US counsel to a shell company formed by one of the Russian attorneys. In June 2017, Loral entered into a settlement agreement with the Russian JV Partner pursuant to which, among other things, the arbitration and the Collection Action were settled and the parties released each other from all claims either party had or may have against the other relating to the dispute, Loral’s investment in the joint venture and their relationship. The settlement was conditioned upon the approval by the Russian court of the withdrawal of the Collection Action, which approval was obtained in November 2017. The settlement, which Loral expects to be completed in the fourth quarter of 2017, and related legal fees will not have a material adverse effect on Loral’s financial position or results of operations. The carrying value of Loral’s investment in the Russian joint venture was zero as of September 30, 2017 and December 31, 2016.



**LORAL SPACE & COMMUNICATIONS INC.**

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

*Other Litigation*

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

**14. Related Party Transactions**

*MHR Fund Management LLC*

Mark H. Rachesky, President of MHR Fund Management LLC (“MHR”), and Janet T. Yeung, a principal and the General Counsel of MHR, are members of Loral’s board of directors. Hal Goldstein, a former managing principal of MHR, was a member of the Loral Board until May 2015.

Various funds affiliated with MHR and Dr. Rachesky held, as of September 30, 2017 and December 31, 2016, approximately 39.9% of the outstanding voting common stock and 58.4% of the combined outstanding voting and non-voting common stock of Loral.

*Transactions with Affiliates*

*Telesat*

As described in Note 5, we own 62.7% 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 co-owner, Public Sector Pension Investment Board (“PSP”) and one of its subsidiaries, Telesat Canada 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 and its subsidiaries will be conducted and the relationships among the parties thereto and future shareholders of Telesat. 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 or any of its subsidiaries. Additionally, the Shareholders Agreement details the matters requiring the approval of the shareholders of Telesat (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. The Shareholders Agreement also (i) restricts the ability of holders of certain shares of Telesat to transfer such shares unless certain conditions are met or approval of the transfer is granted by the directors of Telesat, (ii) provides for a right of first offer to certain Telesat shareholders if a holder of equity shares of Telesat wishes to sell any such shares to a third party and (iii) 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 equity securities.

In addition, the Shareholders Agreement provides for either PSP or Loral to initiate the process of conducting an initial public offering of the equity shares of Telesat (a “Telesat IPO”). In connection with our exploration of strategic initiatives to alter the status quo in our ownership of Telesat, in July 2015, we exercised our right under the Shareholders Agreement to require Telesat to conduct a Telesat IPO. Specifically, we requested that Telesat issue not more than 25 million newly issued shares of Telesat voting common stock. We also requested the termination of the Shareholders Agreement and the elimination of certain provisions in Telesat’s Articles of Incorporation, both of which we believe are important for a successful public offering. If those provisions are eliminated, an impediment to the conversion of our non-voting Telesat shares to voting shares would be eliminated. Termination or modification of the Shareholders Agreement and conversion of our non-voting shares to voting shares would enable us, after a Telesat IPO and subject to the receipt of any necessary regulatory approvals, to obtain majority voting control of Telesat. Telesat selected two co-managing underwriters and informed us that it will work to implement a Telesat IPO pending our agreement with PSP on the post-IPO governance matters. To date, no such agreement has been reached. There can be no assurance as to whether, when or on what terms a Telesat IPO, termination or modification of the Shareholders Agreement or any requested changes to Telesat’s Articles of Incorporation may occur or that any particular economic, tax, structural or other objectives or benefits with respect to a Telesat IPO will be achieved. If a Telesat IPO is expected to proceed under unfavorable terms or at an unfavorable price, we may withdraw our demand for a Telesat IPO.

**LORAL SPACE & COMMUNICATIONS INC.**

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

Depending upon the outcome of discussions with PSP relating to Telesat strategic matters, we may assert certain claims against PSP for actions we believe violated our rights relating to the affairs of Telesat under the Telesat Shareholders Agreement and otherwise. In response to our claims, PSP has informed us that it believes that it may have claims against us, although we are not aware of the legal or factual basis for any such claims. We and PSP have agreed that, pending the outcome of our discussions, it would be beneficial to delay the commencement of any action relating to either party's claims and have entered into an agreement (the "Tolling Agreement") which preserves the parties' rights to assert against one another legal claims relating to Telesat. We also included Telesat as a party to the Tolling Agreement because, as a technical matter of Canadian law and for purposes of potentially seeking equitable relief, Telesat may be a necessary party. There can be no assurance that if the Tolling Agreement lapses that we and PSP will not pursue legal claims against one another relating to Telesat. If we pursue claims against PSP, there can be no assurance that our claims will be successful or that the relief we seek will be granted. If PSP pursues claims against us, there can be no assurance that PSP will not prevail on its claims.

Under the Shareholders Agreement, in the event that, except in certain limited circumstances, either (i) ownership or control, directly or indirectly, by Dr. Rachesky of Loral's voting stock falls below certain levels other than in connection with certain specified circumstances, including an acquisition by a Strategic Competitor (as defined in the Shareholders Agreement) or (ii) there is a change in the composition of a majority of the members of the Loral Board of Directors over a consecutive two-year period without the approval of the incumbent directors, Loral will lose its veto rights relating to certain extraordinary actions by Telesat 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, including a right to cause Telesat 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, to cause the sale of Telesat 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 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 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. In addition, Michael B. Targoff, Loral's Vice Chairman, serves on the board of directors of Telesat.

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 term of the Consulting Agreement was renewed upon expiration of its initial term on October 31, 2014 and expires on October 31, 2021. In exchange for Loral's services under the Consulting Agreement, Telesat pays Loral an annual fee of \$5.0 million, payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. Our general and administrative expenses are net of income related to the Consulting Agreement of \$1.25 million for each of the three-month periods ended September 30, 2017 and 2016 and \$3.8 million for each of the nine-month periods ended September 30, 2017 and 2016. For each of the nine-month periods ended September 30, 2017 and 2016, Loral received payments in cash from Telesat, net of withholding taxes, of \$3.6 million for consulting fees.

In connection with the acquisition of our ownership interest in Telesat in 2007, Loral retained the benefit of tax recoveries related to the transferred assets and indemnified Telesat ("Telesat Indemnification") for certain liabilities, including Loral Skynet's tax liabilities arising prior to January 1, 2007. The Telesat Indemnification includes certain tax disputes currently under review in various jurisdictions including Brazil. The Brazilian tax authorities challenged Loral Skynet's historical characterization of its revenue generated in Brazil for the years 2003 to 2006. Telesat received and challenged, on Loral Skynet's behalf, tax assessments from Brazil totaling approximately \$2.4 million. The Company believes that Loral Skynet's filing position will ultimately be sustained requiring no payment under the Telesat Indemnification. There can be no assurance that there will be no future claims under the Telesat Indemnification related to tax disputes.

Loral's employees and retirees participate in certain welfare plans sponsored by Telesat. Loral pays Telesat an annual administrative fee of \$0.1 million and reimburses Telesat for the plan costs attributable to Loral participants.

**LORAL SPACE & COMMUNICATIONS INC.**

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

Loral, along with Telesat, PSP and 4440480 Canada Inc., an indirect wholly-owned subsidiary of Loral (the “Special Purchaser”), entered into grant agreements (the “Grant Agreements”) with certain executives of Telesat (each, a “Participant” and collectively, the “Participants”). Each of the Participants is or was, at the time, an executive of Telesat.

The Grant Agreements confirm grants of Telesat 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 possible obligation of the Special Purchaser to purchase the shares in the place of Telesat should Telesat be prohibited by applicable law or under the terms of any credit agreement applicable to Telesat from purchasing such shares, or otherwise default on such purchase obligation, pursuant to the terms of the Grant Agreements; and (x) the obligation of the Special Purchaser to purchase shares upon exercise by Telesat of its call right under Telesat's Management Stock Incentive Plan in the event of a Participant’s termination of employment; and, in the case of certain executives, (y) the right of each such Participant to require the Special Purchaser or Loral to purchase a portion of the shares in Telesat owned by him in the event of exercise after termination of employment to cover taxes that are greater than the minimum withholding amount; and (z) the right of each such Participant to require Telesat to cause the Special Purchaser or Loral to purchase a portion of the shares in Telesat owned by him, or that are issuable to him under Telesat'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.

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, with Telesat agreeing to the acquisition of such subsidiary by Telesat from the Special Purchaser for nominal consideration and with the purchase price for the shares being paid by Telesat within ten (10) business days after completion of the winding-up of such subsidiary into Telesat.

In the first quarter of 2017, Loral received a \$242.7 million cash distribution from Telesat (see Note 5).

*Other*

As described in Note 6, 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. SSL 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, until December 31, 2013, was charged a quarterly management fee equal to 3.7% of XTAR's quarterly gross revenues. Amounts due to Loral primarily due to the management agreement as of September 30, 2017 and December 31, 2016 were \$6.9 million and \$6.8 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 nine months ended September 30, 2017 and 2016, and we had an allowance of \$6.6 million against receivables from XTAR as of September 30, 2017 and December 31, 2016. Loral and Hisdesat have agreed to waive future management fees for an indefinite period starting January 1, 2014.

### *Consulting Agreement*

On December 14, 2012, Loral entered into a consulting agreement with Michael B. Targoff, Vice Chairman of the Company and former Chief Executive Officer and President. Pursuant to this agreement, Mr. Targoff is engaged as a part-time consultant to the Board to assist the Board with respect to the oversight of strategic matters relating to Telesat and XTAR. Under the agreement, Mr. Targoff receives consulting fees of \$120,000 per month and reimburses the Company for certain expenses. For each of the three and nine month periods ended September 30, 2017 and 2016, Mr. Targoff earned \$360,000 and \$1,080,000, respectively, in consulting fees. Mr. Targoff reimbursed Loral net expenses of \$11,250 and \$42,750 for the three and nine months ended September 30, 2017, respectively, and \$15,750 and \$47,250 for the three and nine months ended September 30, 2016, respectively.

## **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 leading satellite communications company engaged, through our ownership interests in affiliates, in satellite-based communications services.

### **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

### *Business*

Loral has one operating segment consisting of satellite-based communications services. Loral participates in satellite services operations through its 62.7% economic interest in Telesat Canada (“Telesat”), a leading global fixed satellite services operator, with offices and facilities around the world. Prior to and as of December 31, 2016, Telesat Canada was a subsidiary of, and Loral held its ownership interest in Telesat Canada through, Telesat Holdings Inc. Effective January 1, 2017, Telesat Holdings Inc. completed a corporate reorganization of companies under common control, pursuant to which Telesat Holdings Inc. amalgamated with Telesat Interco Inc., a wholly owned subsidiary of Telesat Holdings Inc., and immediately thereafter the newly amalgamated company amalgamated with Telesat Canada. The continuing entity, existing under the laws of Canada, is named Telesat Canada. Telesat has accounted for the reorganization as a continuation of Telesat Holdings Inc.

Our economic interest decreased from 62.8% to 62.7% in March 2016 when certain Telesat employees exercised share appreciation rights related to a total of 178,642 stock options granted under Telesat’s share-based compensation plan and received 129,400 non-voting participating preferred shares.

At September 30, 2017, Telesat, with approximately \$3.2 billion of backlog, provided satellite services to customers from its fleet of 15 in-orbit satellites as well as its Canadian payload on the ViaSat-1 satellite. In addition, Telesat had two other geostationary satellites under construction and had an additional two Ka-band satellites under construction for launch into low earth orbit as part of Telesat’s plans to deploy an advanced, global low earth orbit (“LEO”) constellation offering low latency, high throughput broadband services. Telesat also manages the operations of additional satellites for third parties.

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

Telesat’s desirable spectrum rights, commitment to providing the highest level of customer service, deep technical expertise and culture of innovation have enabled it to successfully develop its business to date. Leveraging these strengths and building on its existing contractual revenue backlog, Telesat’s focus is on profitably growing its business

by increasing the utilization of its in-orbit satellites and, in a disciplined manner, deploying expansion satellite capacity where strong market demand is anticipated. At September 30, 2017, Telesat had under construction two geostationary satellites, Telstar 18 VANTAGE and Telstar 19 VANTAGE, and the aforementioned two Ka-band LEO satellites.

We believe that Telesat 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. However, while Telesat regularly pursues these opportunities, 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 remains focused on increasing the utilization of its existing satellites, the construction of its new satellites, and identifying and pursuing opportunities to invest in expansion of satellite capacity, all while maintaining its operating discipline.

On November 17, 2016, Telesat entered into amended senior secured credit facilities which provide for term loan borrowings of \$2.43 billion which mature on November 17, 2023 and revolving credit borrowings of up to \$200 million (or Canadian dollar equivalent) which mature on November 17, 2021. Telesat also issued, through a private placement, \$500 million of 8.875% senior notes which mature on November 17, 2024.

On November 17, 2016, Telesat repaid all outstanding amounts under its former senior secured credit facilities and its 6.0% senior notes.

On February 1, 2017, Telesat amended the senior secured credit facilities to effectively reprice the then outstanding term loan borrowings of \$2.424 billion.

Telesat's operating results are subject to fluctuations as a result of exchange rate variations. For the nine months ended September 30, 2017, approximately 51% of Telesat's revenues, 42% of its operating expenses, 100% of its interest expense and the majority of its 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. As of September 30, 2017, Telesat's U.S. dollar denominated debt totaled \$2.9 billion. As of September 30, 2017, a five percent increase (decrease) in the Canadian dollar against the U.S. dollar would have increased (decreased) Telesat's net income by approximately \$133.8 million. This analysis assumes all other variables, in particular interest rates, remain constant.

#### *Sale of SSL*

On November 2, 2012, Loral completed the sale (the "Sale") of its wholly-owned subsidiary, Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc.) ("SSL"), to MDA Communications Holdings, Inc. ("MDA Holdings"), a subsidiary of MacDonald, Dettwiler and Associates Ltd. ("MDA"). Pursuant to the purchase agreement (the "Purchase Agreement"), dated as of June 26, 2012, as amended on October 30, 2012 and March 28, 2013, by and among Loral, SSL, MDA and MDA Holdings, Loral agreed to indemnify MDA and its affiliates from certain damages in a lawsuit (the "ViaSat Suit") brought in 2012 by ViaSat, Inc. ("ViaSat") against Loral and SSL. In September 2014, Loral, SSL and ViaSat entered into a settlement agreement (the "Settlement Agreement") pursuant to which the ViaSat Suit and an additional patent infringement and breach of contract lawsuit brought by ViaSat against SSL in September 2013 were settled. Loral was also released by MDA, MDA Holdings and SSL from indemnification claims relating to the ViaSat lawsuits under the Purchase Agreement. The terms of the Settlement Agreement provided, among other things, for payment by Loral and SSL to ViaSat on a joint and several basis of \$100 million, \$40 million of which was paid in September 2014 in connection with entering into the Settlement Agreement, with the remaining \$60 million payable with interest in ten equal quarterly installments of \$6.9 million from October 15, 2014 through January 15, 2017.

Following a mediation session held on December 1, 2014, Loral and MDA entered into an agreement titled "MDA/Loral Dispute Resolution" dated December 1, 2014 (the "Allocation Agreement"), pursuant to which Loral and MDA agreed that Loral was responsible for \$45 million, and MDA and SSL were responsible for \$55 million, of the \$100 million litigation settlement with ViaSat.

Pursuant to the Allocation Agreement, Loral paid ViaSat the final installment of \$2.8 million in January 2017. Our condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016 include indemnification liabilities related to the ViaSat Settlement Agreement of nil and \$2.8 million, respectively.

*General*

Our principal asset is our majority ownership interest in Telesat. In an effort to maximize shareholder value, we have been exploring, and are in discussions with PSP regarding, potential strategic transactions to alter the status quo in our ownership of Telesat. Subject to market conditions and the cooperation of PSP, we continue to explore the combination of Loral and Telesat into one public company and/or the sale of Loral in connection with a sale of Telesat. Also, as described more fully below, we have exercised our right to require that Telesat initiate a public offering, and we may further pursue this right in the event a combination transaction or a sale of Telesat is not likely to be achievable in a timely manner or on satisfactory terms. There can be no assurance as to whether or when we will be able to conclude any strategic transaction or that any strategic initiatives or transaction involving Telesat or Loral may occur, or that any particular economic, tax, structural or other objectives or benefits with respect to any initiative or transaction involving Telesat or Loral's interest therein will be achieved.

In the first quarter of 2017, we received \$242.7 million in cash from Telesat, representing our share of an aggregate approximately \$400 million distribution from Telesat to its shareholders and stock option holders. We intend to use the proceeds of such distribution, net of reasonable reserves for working capital and other liabilities, to make a distribution to our stockholders. There can be no assurance as to the amount and timing of any such distribution, and such distribution may be impacted by the outcome of our discussions regarding, and the structure of, the strategic combination transaction that we are pursuing.

As mentioned above, we have the right under the Telesat Shareholders Agreement to require Telesat to conduct an initial public offering of its equity shares (a “Telesat IPO”), and, in July 2015, we exercised this right. Specifically, we requested that Telesat issue not more than 25 million newly issued shares of Telesat voting common stock. We also requested the termination of the Shareholders Agreement and the elimination of certain provisions in Telesat’s Articles of Incorporation, both of which we believe are important for a successful public offering. If those provisions are eliminated, an impediment to the conversion of our non-voting Telesat shares to voting shares would be eliminated. Termination or modification of the Shareholders Agreement and conversion of our non-voting shares to voting shares would enable us, after a Telesat IPO and subject to the receipt of any necessary regulatory approvals, to obtain majority voting control of Telesat. Telesat selected two co-managing underwriters and informed us that it will work to implement a Telesat IPO pending our agreement with PSP on governance matters following a Telesat IPO. To date, no such agreement has been reached. In the event a combination transaction that we are pursuing or a sale of Telesat as described above is not likely to be achievable in a timely manner or on satisfactory terms, we may further pursue our right to a Telesat IPO. There can be no assurance as to whether, when or on what terms a Telesat IPO, termination or modification of the Shareholders Agreement or any requested changes to Telesat’s Articles of Incorporation may occur or that any particular economic, tax, structural or other objectives or benefits with respect to a Telesat IPO will be achieved. If a Telesat IPO is expected to proceed under unfavorable terms or at an unfavorable price, we may withdraw our demand for a Telesat IPO.

Depending upon the outcome of the strategic initiatives discussed above, we may assert certain claims against PSP for actions we believe violated our rights relating to the affairs of Telesat under the Telesat Shareholders Agreement and otherwise. In response to our claims, PSP has informed us that it believes that it may have claims against us, although we are not aware of the legal or factual basis for any such claims. We and PSP have agreed that, pending the outcome of our discussions relating to Telesat, it would be beneficial to delay the commencement of any action relating to either party’s claims and have entered into an agreement (the “Tolling Agreement”) which preserves the parties’ rights to assert against one another legal claims relating to Telesat. We also included Telesat as a party to the Tolling Agreement because, as a technical matter of Canadian law and for purposes of potentially seeking equitable relief, Telesat may be a necessary party. There can be no assurance that if the Tolling Agreement lapses that we and PSP will not pursue legal claims against one another relating to Telesat. If we pursue claims against PSP, there can be no assurance that our claims will be successful or that the relief we seek will be granted. If PSP pursues claims against us, there can be no assurance that PSP will not prevail on its claims.

Loral may, from time to time, explore and evaluate other possible strategic transactions and alliances which may include joint ventures and strategic relationships as well as business combinations or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds are likely to be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all.

In connection with the acquisition of our ownership interest in Telesat in 2007, Loral has agreed that, subject to certain exceptions described in the Shareholders Agreement, for so long as Loral has an interest in Telesat, it will not compete in the business of leasing, selling or otherwise furnishing fixed satellite service, broadcast satellite service or audio and video broadcast direct to home service using transponder capacity in the C-band, Ku-band and Ka-band

(including in each case extended band) frequencies and the business of providing end-to-end data solutions on networks comprised of earth terminals, space segment, and, where appropriate, networking hubs.

## Consolidated Operating Results

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

*Changes in Critical Accounting Policies* — There have been no changes in our critical accounting policies during the nine months ended September 30, 2017.

### Three Months Ended September 30, 2017 Compared With Three Months Ended September 30, 2016

The following compares our consolidated results for the three months ended September 30, 2017 and 2016 as presented in our financial statements:

#### *General and Administrative Expenses*

	Three Months Ended September 30,	
	2017	2016
	(In thousands)	
General and administrative expenses	\$ 2,015	\$ 1,709

General and administrative expenses increased by \$0.3 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016. No individual components of the change were significant.

#### *Interest and Investment Income*

	Three Months Ended September 30,	
	2017	2016
	(In thousands)	

Interest and investment income \$ 728 \$ 44

Interest and investment income increased by \$0.7 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 primarily due to interest income earned on the cash distribution of \$242.7 million received from Telesat in the first quarter of 2017.

*Other Expense*

	Three Months Ended September 30,	
	2017	2016
Other expense	\$ 985	\$ 187

(In thousands)

Other expense for the three months ended September 30, 2017 and 2016 was primarily related to strategic initiatives.



***Income Tax Provision***

	Three Months Ended	
	September 30,	
	2017	2016
	(In thousands)	
Income tax provision	\$ (16,552 )	\$ (8,911 )

For the three months ended September 30, our income tax provision is summarized as follows: (i) for 2017, we recorded a current tax provision of \$1.6 million and a deferred tax provision of \$15.0 million, resulting in a total provision of \$16.6 million and (ii) for 2016, we recorded a current tax provision of \$0.7 million and a deferred tax provision of \$8.2 million, resulting in a total provision of \$8.9 million.

Our income tax provision for each period is computed by applying an expected effective annual tax rate against the pre-tax results for the nine months ended September 30, 2017 and 2016 (after adjusting for certain tax items that are discrete to each period). This amount is then reduced by the tax provision recorded for the six months ended June 30, 2017 and 2016. For the nine months ended September 30, 2017, in accordance with authoritative guidance for accounting for income taxes in interim periods, we applied separate expected effective annual tax rates against our pre-tax loss from continuing operations and our equity in net income of Telesat, combining the results of both computations with the tax items discrete to the nine months ended September 30, 2017, such as the income tax provision related to the Telesat distribution. For the nine months ended September 30, 2016, we applied a single expected effective annual tax rate, which included tax expense on the equity income of Telesat, against our pre-tax loss from continuing operations for the nine months. This change in how we calculated the estimate was made to improve the accuracy and consistency of the expected effective annual tax rate calculated in interim periods.

Subsequent to the Sale (see Note 2 to the financial statements), to the extent that profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, we would generate sufficient taxable income from the appreciated value of our Telesat investment, which currently has a nominal tax basis, in order to prevent federal net operating losses from expiring and realize the benefit of all remaining deferred tax assets.

***Equity in Net Income of Affiliates***

	Three Months Ended	
	September 30,	
	2017	2016
	(In thousands)	

Telesat Holdings Inc. \$ 43,372 \$ 6,948

Loral's equity in net income of Telesat is based on our proportionate share of Telesat's results in accordance with accounting principles generally accepted in the United States of America ("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 amortization of profits eliminated, to the extent of our economic interest in Telesat, on satellites we constructed for Telesat while we owned SSL and on Loral's sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related assets.

For the three months ended September 30, 2017, our share of equity in net income of Telesat was \$81.6 million. In the first quarter of 2017, we received \$242.7 million in cash from Telesat, representing our share of an aggregate approximately \$400 million distribution from Telesat to its shareholders and stock option holders. As of June 30, 2017 the cash distribution we received from Telesat exceeded our initial investment and our share of cumulative equity in comprehensive income of Telesat, net of cash distributions received from Telesat in prior periods, by \$39.0 million which we recognized as equity income during the six months ended June 30, 2017. In following the equity method of accounting, for the three months ended September 30, 2017, we reduced our share of Telesat's net income of \$81.6 million by the \$39.0 million excess cash distribution, resulting in the recognition of equity in net income of Telesat of \$43.4 million, including \$0.8 million of elimination of affiliate transactions and related amortization.

Summary financial information for Telesat in accordance with U.S. GAAP and in Canadian dollars and U.S. dollars for the three months ended September 30, 2017 and 2016 follows (in thousands):

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	214,443	224,233	170,151	172,336
Operating expenses	(42,313 )	(45,075 )	(33,770 )	(34,626 )
Depreciation, amortization and stock-based compensation	(62,806 )	(64,856 )	(49,741 )	(49,816 )
Loss on disposition of long-lived assets	(267 )	(6 )	(204 )	(19 )
Operating income	109,057	114,296	86,436	87,875
Interest expense	(47,841 )	(44,637 )	(37,901 )	(34,311 )
Foreign exchange gain (loss)	132,949	(46,005 )	103,099	(33,639 )
(Loss) gain on financial instruments	(8,304 )	3,479	(6,542 )	2,587
Other income	1,594	1,988	1,200	1,518
Income tax provision	(20,642 )	(17,653 )	(16,114 )	(13,556 )
Net income	166,813	11,468	130,178	10,474
Average exchange rate for translating Canadian dollars to U.S. dollars ( 1 U.S. dollar equals)	1.2642	1.3020		

Telesat's revenue decreased by \$2.2 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 due primarily to the end of service or service reductions for certain broadcast customers, a decrease in certain international broadcast services and lower revenue from certain international enterprise customers, partially offset by new services for certain enterprise customers and the favorable impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenue. Telesat's revenue excluding foreign exchange impact would have decreased by \$4.6 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016.

Telesat's operating expenses decreased by \$0.9 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 primarily due to lower expense on development of LEO satellites in the third quarter of 2017 as compared to the third quarter of 2016, partially offset by higher installation costs on a one-time sale, higher professional fees and the unfavorable impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses. Telesat's operating expense excluding foreign exchange impact would have decreased by \$1.5 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016.

**Nine months ended September 30, 2017 Compared With Nine months ended September 30, 2016**

The following compares our consolidated results for the nine months ended September 30, 2017 and 2016 as presented in our financial statements:

***General and Administrative Expenses***

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
General and administrative expenses	\$ 6,000	\$ 4,900

General and administrative expenses increased by \$1.1 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 primarily from a \$0.4 million increase in professional fees during the nine months ended September 30, 2017 and a one-time pension charge to XTAR of \$0.4 million during the nine months ended September 30, 2016.

***Interest and Investment Income***

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Interest and investment income	\$ 1,754	\$ 140

Interest and investment income increased by \$1.6 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 primarily due to interest income earned on the cash distribution of \$242.7 million received from Telesat in the first quarter of 2017.

***Other Expense***

Nine Months Ended  
 September 30,  
 2017      2016  
 (In thousands)

Other expense \$ 2,858      \$ 1,306

Other expense for the nine months ended September 30, 2017 was primarily related to strategic initiatives and litigation expenses for the joint venture arbitration with our Russian joint venture partner. Other expense for the nine months ended September 30, 2016 was primarily related to strategic initiatives.

***Income Tax Provision***

Nine Months Ended  
 September 30,  
 2017      2016  
 (In thousands)

Income tax provision \$(82,236) \$(31,066)

For the nine months ended September 30, our income tax provision is summarized as follows: (i) for 2017, we recorded a current tax provision of \$55.6 million and a deferred tax provision of \$26.6 million, resulting in a total provision of \$82.2 million and (ii) for 2016, we recorded a current tax provision of \$2.1 million and a deferred tax provision of \$29.0 million, resulting in a total provision of \$31.1 million.

Our income tax provision for each period is computed by applying an expected effective annual tax rate against the pre-tax results for the nine months ended September 30, 2017 and 2016 (after adjusting for certain tax items that are discrete to each period). For the nine months ended September 30, 2017, in accordance with authoritative guidance for accounting for income taxes in interim periods, we applied separate expected effective annual tax rates against our pre-tax loss from continuing operations and our equity in net income of Telesat, combining the results of both computations with the tax items discrete to the nine months ended September 30, 2017, such as the income tax provision related to the Telesat distribution. For the nine months ended September 30, 2016, we applied a single expected effective annual tax rate, which included tax expense on the equity income of Telesat, against our pre-tax loss from continuing operations for the nine months. This change in how we calculated the estimate was made to improve the accuracy and consistency of the expected effective annual tax rate calculated in interim periods.

For the nine months ended September 30, 2017, the current income tax provision primarily includes our anticipated income tax liability related to the cash distribution received from Telesat after use of available benefits from our alternative minimum tax credits and net operating loss carryforwards and foreign tax credits from Telesat. Based upon our analysis, the amount of foreign tax credits generated from the cash distribution allowed to be utilized against our current tax liability will be limited, thereby resulting in a carryforward of unused foreign tax credits. Since, at the current time, sufficient positive evidence does not exist to support full recovery of the foreign tax credit carryforward, we recorded a full valuation allowance against this deferred tax asset during the nine months ended September 30, 2017. We will continue to maintain this valuation allowance until sufficient positive evidence exists to support full or partial reversal. Such a reversal could be material in future periods.

Subsequent to the Sale, to the extent that profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, we would generate sufficient taxable income from the appreciated value of our Telesat investment, which currently has a nominal tax basis, in order to prevent federal net operating losses from expiring and realize the benefit of all remaining deferred tax assets.

***Equity in Net Income of Affiliates***

	Nine Months Ended	
	September 30,	
	2017	2016
	(In thousands)	
Telesat	\$ 183,086	\$ 96,799

The following is a reconciliation of the changes in our investment in Telesat for the nine months ended September 30, 2017:

	Nine Months Ended September 30, 2017 (In thousands)	
Opening Balance, January 1, 2017		\$107,950
Less: Cash distribution received		(242,735)
Add:		
Equity in net income of Telesat	\$179,062	
Eliminations of affiliate transactions and related amortization	4,024	183,086
Less: Equity in other comprehensive loss of Telesat		(24,184 )
Ending balance, September 30, 2017		\$24,117

In the first quarter of 2017, we received \$242.7 million in cash from Telesat, representing our share of an aggregate approximately \$400 million distribution from Telesat to its shareholders and stock option holders.

In the first quarter of 2016, we recognized our \$57.9 million share of Telesat's net loss and our \$20.8 million share of Telesat's other comprehensive income that we were unable to recognize as of December 31, 2015 as our share of Telesat's cumulative losses, together with cash distributions we received from Telesat, exceeded our recorded cumulative equity in comprehensive income of Telesat and initial investment.

Our condensed consolidated statement of operations for the nine months ended September 30, 2016 includes an increase in equity in net income of affiliates of \$3.0 million (\$1.8 million net of tax) that should have been recognized in prior periods. As a result, earnings per share (basic and diluted) increased \$0.06 per share. These non-cash adjustments, which were identified and provided by Telesat in connection with its June 30, 2016 closing process, related primarily to an error in mark-to-market accounting for embedded foreign exchange derivatives in a Telesat customer contract. Changes in fair value of these embedded derivatives are required to be recognized under U.S.GAAP, but not under IFRS, the basis of accounting used by Telesat. The Company has not revised previous financial statements for these adjustments based on its belief that the effect of such adjustments is not material to the financial statements taken as a whole.

Summary financial information for Telesat in accordance with U.S. GAAP and in Canadian dollars and U.S. dollars for the nine months ended September 30, 2017 and 2016 and as of September 30, 2017 and December 31, 2016 follows (in thousands):

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	675,276	690,976	514,800	522,849
Operating expenses	(146,807)	(135,926)	(111,919)	(102,853)
Depreciation, amortization and stock-based compensation	(191,347)	(194,542)	(145,875)	(147,207)
Loss on disposition of long-lived assets	(288 )	(2,553 )	(220 )	(1,932 )
Operating income	336,834	357,955	256,786	270,857
Interest expense	(146,605)	(138,317)	(111,765)	(104,662)
Foreign exchange gain	253,503	159,422	193,259	120,632
Loss on financial instruments	(22,917 )	(4,446 )	(17,471 )	(3,364 )
Other income	454	4,362	348	3,301
Income tax provision	(46,659 )	(52,367 )	(35,571 )	(39,625 )
Net income	374,610	326,609	285,586	247,139
Average exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.3130	1.3230		

September 30,	December 31,	September 30,	December 31,
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	2017	2016	2017	2016
	(In Canadian dollars)		(In U.S. dollars)	
<b>Balance Sheet Data:</b>				
Current assets	466,420	911,785	373,975	678,361
Total assets	5,051,785	5,637,164	4,050,520	4,194,006
Current liabilities	159,948	207,226	128,247	154,173
Long-term debt, including current portion	3,532,907	3,868,252	2,832,685	2,877,950
Total liabilities	4,426,899	4,834,804	3,549,488	3,597,056
Shareholders' equity	624,886	802,360	501,032	596,950
Period end exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.2472	1.3441		

Telesat's revenue decreased by \$8.0 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 due primarily to the end of service or service reductions for certain customers, a reduction in revenue from Canadian spectrum license fees, which also resulted in a corresponding reduction in operating expenses and lower revenue on certain international enterprise customers, partially offset by new services to certain enterprise customers, a net increase in short-term enterprise services provided to other satellite operators, higher consulting activity and the favorable impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenue. Telesat's revenue excluding foreign exchange impact would have decreased by \$10.0 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016.

Telesat's operating expenses increased by \$9.1 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 primarily due to a special payment made to stock option holders in the first quarter of 2017 in connection with the cash distribution made to Telesat's shareholders, higher professional fees and the unfavorable impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses, partially offset by lower expense on development of LEO satellites, lower share-based compensation and lower cost of sales from the reduction in Canadian spectrum license fees. Telesat's operating expense excluding foreign exchange impact would have increased by \$8.5 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016.

#### ***Loss from Discontinued Operations, net of tax***

Interest expense that is directly related to the Sale is classified as discontinued operations in the statements of operations for the nine months ended September 30, 2017 and three and nine months September 30, 2016.

#### ***Backlog***

Telesat's backlog as of September 30, 2017 and December 31, 2016 was \$3.2 billion.

#### **Liquidity and Capital Resources**

##### ***Loral***

As described above, Loral's principal asset is a 62.7% economic interest in Telesat. We also have a 56% economic interest in XTAR. The operations of Telesat and XTAR are not consolidated but are presented using the equity method of accounting. As of September 30, 2017 and December 31, 2016, the fair value of our investment in XTAR was zero as a result of the decline in its fair value that was determined to be other-than-temporary.

Loral has no debt. Telesat has third party debt with financial institutions. XTAR has no external debt other than to its LLC member, Hisdesat, for restructured lease payments on the Spainsat satellite. XTAR is required to make payments of \$5 million per year to pay down the outstanding restructured lease balance. As of September 30, 2017 and December 31, 2016, XTAR had deferred payment of liabilities to Hisdesat of \$31.7 million and \$28.8 million, respectively, for lease payments, including the restructured lease payments. Loral has not provided a guarantee for the debt of Telesat or XTAR.

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

#### *Cash and Available Credit*

At September 30, 2017, Loral had \$259.3 million of cash and cash equivalents and no debt. The Company's cash and cash equivalents as of September 30, 2017 increased by \$221.8 million from December 31, 2016 due primarily to a cash distribution by Telesat of \$242.7 million and interest income received of \$1.5 million, partially offset by a payment of \$10.0 million for income taxes primarily related to the cash distribution, corporate expenses of \$5.3 million, adjusted for changes in working capital and net of consulting fees from Telesat, a \$2.8 million payment to ViaSat pursuant to the Settlement Agreement and Allocation Agreement, litigation expenditures of \$0.8 million, postretirement benefits funding of \$2.0 million and payments of \$1.5 million related to strategic initiatives. A discussion of cash changes by activity is set forth in the sections, "Net Cash Used in Operating Activities" and "Net Cash Provided by Investing Activities."

Loral did not have a credit facility as of September 30, 2017 and December 31, 2016.

### *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 and Government AAA money market funds. The dispersion across funds reduces the exposure of a default at one fund.

### *Liquidity*

We believe that our cash and cash equivalents will be sufficient to fund projected expenditures for the next 12 months. We expect that our major operating cash outlays for the next 12 months will include income tax payments, payments under employee benefit programs and general corporate expenses net of consulting fees from Telesat.

In the first quarter of 2017, we received \$242.7 million in cash from Telesat, representing our share of an aggregate approximately \$400 million distribution from Telesat to its shareholders and stock option holders. We intend to use the proceeds of such distribution, net of reasonable reserves for working capital and other liabilities, to make a distribution to our stockholders. There can be no assurance as to the amount and timing of any such distribution, and such distribution may be impacted by the outcome of our discussions regarding, and the structure of, the strategic combination transaction that we are pursuing.

### *Risks to Cash Flow*

In the fourth quarter of 2012, we sold our former subsidiary, SSL, to MDA pursuant to the Purchase Agreement. Under the terms of the Purchase Agreement, we are obligated to indemnify MDA from liabilities with respect to certain pre-closing taxes the total amount of which has not yet been determined. Where appropriate, we intend vigorously to contest the underlying tax assessments, but there can be no assurance that we will be successful. Although no assurance can be provided, we do not believe that these tax-related matters will have a material adverse effect on our financial position or results of operations.

## *Telesat*

### *Cash and Available Credit*

As of September 30, 2017, Telesat had CAD 401 million of cash and short-term investments as well as approximately \$200 million of borrowing availability under its revolving credit facility.

### *Liquidity*

A large portion of Telesat's annual cash receipts are reasonably predictable because they are primarily derived from an existing backlog of long-term customer contracts and high contract renewal rates. Telesat believes its cash and short-term investments as of September 30, 2017, cash flows from operating activities, and drawings on the revolving credit facility under its senior secured credit facilities will be adequate to meet Telesat's expected cash requirements for at least the next 12 months for activities in the normal course of business, including capital requirements and required interest and principal payments on debt.

The construction of any satellite replacement or expansion program will require significant capital expenditures. Telesat may choose to invest in new satellites to further grow its business. Cash required for current and future satellite construction programs may 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 the revolving credit facility under Telesat's senior secured credit facilities. In addition, Telesat may sell certain satellite assets and, in accordance with the terms and conditions of Telesat's senior secured credit facilities, reinvest the proceeds in replacement satellites or pay down indebtedness under Telesat's senior secured credit facilities. Subject to market conditions and subject to compliance with the terms and conditions of its senior secured credit facilities and the financial leverage covenant tests therein, Telesat may also have the ability to obtain additional secured or unsecured financing to fund current or future satellite construction. Telesat's ability to access these sources of funding, however, is not guaranteed, and therefore, Telesat may not be able to fully fund additional replacement or new satellite construction programs.

### *Debt*

Telesat's debt as of September 30, 2017 and December 31, 2016 was as follows:

	Maturity	Currency	September 30, 2017 (In CAD thousands)	December 31, 2016
<b>Senior Secured Credit Facilities:</b>				
Revolving credit facility	November 2021	USD or CAD equivalent	—	—
Term Loan B - U.S. facility	November 2023	USD	3,000,446	3,257,998
8.875% Senior notes	November 2024	USD	623,600	672,050
			3,624,046	3,930,048
Less: Deferred financing costs, interest rate floors and prepayment options			(105,916 )	(78,410 )
Total debt under international financial reporting standards			3,518,130	3,851,638
U.S. GAAP adjustments			14,777	16,614
Total debt under U.S. GAAP			3,532,907	3,868,252
Current portion			16,672	24,438
Long-term portion			3,516,235	3,843,814

### ***Senior Secured Credit Facilities***

The obligations under Telesat’s new credit agreement and the guarantees of those obligations are secured, subject to certain exceptions, by a first priority security interest in the assets of Telesat and certain of its subsidiaries (the “Guarantors”). The credit agreement contains covenants that restrict the ability of Telesat and the Guarantors to take specified actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends, entering into sale-leaseback transactions, creating subsidiaries, repaying subordinated debt or amending organizational documents. The credit agreement also requires Telesat and the Guarantors to comply with a maximum first lien leverage ratio and contains customary events of default and affirmative covenants, including an excess cash sweep, that may require Telesat to repay a portion of the outstanding principal under its senior secured credit facilities prior to the stated maturity.

Telesat's senior secured credit facilities are comprised of the following facilities:

— Revolving Credit Facility

Telesat's revolving credit facility ("Revolving Facility") is a \$200 million loan facility available in either U.S. dollar or Canadian dollar equivalent, maturing on November 17, 2021. Loans under the Revolving Facility bear interest at a floating rate of LIBOR plus an applicable margin ranging from 1.50% to 2.00% for prime rate and Alternative Base Rate loans and ranging from 2.50% to 3.00% for Bankers Acceptance and Eurodollar loans. The rates on the Revolving Facility vary depending upon the results of the first lien leverage ratio. The Revolving Facility currently has an unused commitment fee of 40 basis points. As of September 30, 2017, other than approximately \$0.1 million in drawings related to letters of credit, there were no borrowings under this facility.

— Term Loan B — U.S. Facility

Telesat's term loan B — U.S. facility ("U.S. TLB Facility") is a \$2.430 billion loan maturing on November 17, 2023. As of September 30, 2017, \$2.406 billion of this facility was outstanding, which represents the full amount available following mandatory repayments. The initial terms had the outstanding borrowings under Telesat's U.S. TLB Facility bear interest at a floating rate of LIBOR, but not less than 0.75%, plus an initial applicable margin of 3.75%. On February 1, 2017, Telesat amended the senior secured credit facilities to reduce the applicable margin to 3.00% on the then outstanding \$2.424 billion. As of February 1, 2017, the mandatory principal repayments on the U.S. TLB Facility are one quarter of 1.00% of the value of the loan at the time of amendment, which must be paid on the last day of each quarter.

***Senior Notes***

Telesat's senior notes of \$500 million bear interest at an annual rate of 8.875% and are due November 17, 2024. They include covenants or terms that restrict Telesat's ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments, investments or acquisitions, enter into certain transactions with affiliates, modify or cancel Telesat's satellite insurance, effect mergers with another entity, and redeem Telesat's senior notes, without penalty, before November 15, 2022, in each case subject to exceptions provided in the senior notes indenture.



As of September 30, 2017, Telesat was in compliance with the financial covenants of its senior secured credit facilities and the indenture governing the senior notes.

### *Debt Service Cost*

An estimate of interest expense is based upon assumptions of foreign exchange rates, LIBOR and Bankers Acceptance rates and the applicable margins of Telesat's senior secured credit facilities and senior notes. Interest expense includes the impact of Telesat's interest rate swaps which were entered into on October 5, 2017. Telesat's interest expense for the year ending December 31, 2017 is expected to be approximately CAD 195 million.

### *Derivatives*

Telesat uses, from time to time, interest rate and currency derivatives to manage its exposure to changes in interest rates and foreign exchange rates.

As of September 30, 2017, there was one forward exchange contract with a maturity of October 2017 outstanding with an insignificant fair value.

On October 5, 2017, Telesat entered into four interest rate swaps which hedge the interest rate risk on \$1.8 billion of U.S. dollar denominated Term Loan B borrowings. These contracts, which mature between September 2019 and September 2022, are at fixed interest rates ranging from 1.72% to 2.04%, excluding applicable margin.

Telesat also has embedded derivatives that are accounted for separately at fair value. These embedded derivatives are related to the prepayment option included in Telesat's senior notes, as well as an interest rate floor included in the U.S. TLB Facility. As of September 30, 2017, the fair value of the embedded derivative related to the prepayment option on Telesat's senior notes was an asset of CAD 47 million and the fair value of the embedded derivatives related to the interest rate floor was a liability of CAD 9 million.

Telesat also has foreign currency embedded derivatives in its purchase contracts with suppliers and sales contracts with customers as a result of some of these contracts being denominated in a currency other than the functional currency of the substantial parties to the respective contract. The fair value of these foreign currency embedded derivatives as of September 30, 2017 was CAD 5.5 million.

#### *Capital Expenditures*

Telesat has entered into contracts for the construction and launch of satellites and other capital expenditures. The outstanding commitments associated with these contracts were approximately CAD 63 million as of September 30, 2017. These expenditures may 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 funds available under the revolving credit facility.

#### *Contractual Obligations*

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

#### *Statements of Cash Flows*

#### *Net Cash Used in Operating Activities*

Net cash used in operations was \$20.6 million for the nine months ended September 30, 2017.

Net cash used in operating activities by continuing operations was \$17.8 million for the nine months ended September 30, 2017, consisting primarily of a \$61.9 million cash use attributable to income from continuing operations adjusted for non-cash operating items and a \$1.6 million decrease in pension and other postretirement liabilities, partially offset by a \$43.5 million increase in income taxes payable primarily related to the cash distribution received from Telesat in the first quarter of 2017 and a \$2.0 million increase in long-term liabilities.

Net cash used by operating activities from discontinued operations was \$2.8 million for the nine months ended September 30, 2017 representing the final payment to ViaSat pursuant to the Settlement Agreement and the Allocation Agreement.

Net cash used in operations was \$16.2 million for the nine months ended September 30, 2016.

Net cash used in operating activities by continuing operations was \$7.7 million for the nine months ended September 30, 2016, consisting primarily of a \$7.4 million cash use attributable to income from continuing operations adjusted for non-cash operating items, a \$1.4 million decrease in pension and other postretirement liabilities and a \$0.6 million decrease in accrued expenses, partially offset by a \$1.7 million increase in long-term liabilities.

Net cash used by operating activities from discontinued operations was \$8.4 million for the nine months ended September 30, 2016 representing the payments to ViaSat pursuant to the Settlement Agreement and the Allocation Agreement.

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

Net cash provided by investing activities by continuing operations for the nine months ended September 30, 2017 was \$242.7 million primarily representing the cash distribution received from Telesat.

### **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 5 to the financial statements for further information on affiliate matters).

### **Commitments and Contingencies**

Our business and operations are subject to a number of significant risks, the most significant of which are summarized in Part II, Item 1A — Risk Factors and also in Note 13 to our condensed consolidated 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***

#### ***Loral***

#### ***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.

### ***Interest***

During the nine months ended September 30, 2017, our excess cash was invested in money market securities; we did not hold any other marketable securities.

### ***Derivatives***

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.

Loral had no derivative instruments as of September 30, 2017 and December 31, 2016.

### ***Telesat***

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

Telesat's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The most significant impact of variations in the exchange rate is on Telesat's U.S. dollar denominated debt and cash and short-term investments. As of September 30, 2017, Telesat's U.S. dollar denominated debt totaled \$2.9 billion. In addition, a portion of Telesat's revenue and expenses, as well as the majority of its capital expenditures are denominated in U.S. dollars.

For the nine months ended September 30, 2017, approximately 51% of Telesat's revenues, 42% of its operating expenses, 100% of its interest expense and the majority of its capital expenditures were denominated in U.S. dollars. As a result, the volatility of U.S. currency may expose Telesat to foreign exchange risks.

As of September 30, 2017, a five percent increase (decrease) in the value of the Canadian dollar against the U.S. dollar would have increased (decreased) Telesat's net income by approximately \$133.8 million. This analysis assumes all other variables, in particular interest rates, remain constant.

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

Telesat is exposed to interest rate risk on its cash and short-term investments and on its indebtedness, a portion of which includes a variable interest rate. Changes in the interest rates could impact the amount of interest that Telesat receives or is required to pay.

### ***Derivative Financial Instruments***

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

Telesat uses the following instruments, as required:

- forward currency contracts to hedge foreign currency risk on anticipated cash flows, mainly related to the construction of satellites and interest payments;
- currency derivative instruments to hedge the foreign exchange risk on its U.S. dollar denominated debt; and
- interest rate swaps to hedge the interest rate risk related to indebtedness, a portion of which includes a variable interest rate.

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

(a) *Disclosure Controls and Procedures.* Our president and our chief financial officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2017, have concluded that our disclosure controls and procedures were not effective due to the identification of a material weakness. In addition, as a result of the identification of the material weakness with respect to the quarter ended September 30, 2017, our president and our chief financial officer reevaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017, and concluded that our disclosure controls and procedures as of June 30, 2017 were not effective due to the same

material weakness.

The material weakness related to the absence of satisfactory internal controls requiring timely reporting of any allegation of fraud involving management, regardless of the source of the allegation or its level of credibility, to the Company's Audit Committee and performance of appropriate due diligence on anyone acting on behalf of the Company. As a result, management did not timely communicate to the Company's Audit Committee the following allegation of fraud: in July 2017, a Russian attorney, who the Company believes participated in the fraud in Russia that diverted funds due to be paid to the Company in connection with its exit from its joint venture to provide Globalstar service in Russia to a shell company formed by that attorney (see Note 13 to the condensed consolidated financial statements), alleged that an officer of the Company was also involved in the fraud in Russia. The attorney was affiliated with a Russian law firm retained by the Company's US counsel to pursue the Company's exit from the joint venture and was not known to the Company at the time of the fraud in Russia. Prior to communicating the allegation to the Audit Committee, management, notwithstanding its view regarding the lack of credibility of the unsubstantiated allegation, retained outside counsel to examine the allegation; following such examination, outside counsel concluded that there was no evidence implicating Loral personnel. Subsequent to receiving the report from outside counsel retained by management, the Audit Committee retained its own independent counsel to perform an investigation, and the Audit Committee's independent counsel also has determined, based on its substantially completed investigation procedures, that there is no evidence implicating Loral personnel.

We have adopted and are implementing remedial steps designed to address the material weakness and to ensure the fair presentation of our condensed consolidated financial statements. These remedial steps include: 1) employee refresher training on the identification of fraud risks and fraud-related matters, with specific emphasis on the identification and reporting of alleged, suspected or actual fraud; 2) revision of our code of conduct and related controls to require timely reporting of any alleged or suspected fraud involving management regardless of the source of the allegation or its level of credibility; 3) acceleration of employee recertification of our code of conduct; 4) enhancement of the process for preparation of management certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 and management representations provided to the Company's auditors; and 5) enhancement of our internal controls to add a requirement to perform appropriate due diligence on anyone acting on behalf of the Company. Because we are in the process of implementing these remedial steps, there is no assurance that our disclosure controls and procedures will be effective for future periods.

Our president and our chief financial officer have concluded that, notwithstanding the material weakness discussed above, the condensed consolidated financial statements in this Quarterly Report on Form 10-Q present, and the condensed consolidated financial statements in in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 presented, fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented.

(b) *Internal control over financial reporting.* There were no changes in our internal control over financial reporting (as defined in Exchange Act 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.

As noted above, the Company has adopted and is implementing remedial steps to improve its controls relating to (a) timely reporting to the Company's Audit Committee of any allegation of fraud involving management regardless of the source of the allegation or its level of credibility and (b) performing appropriate due diligence on anyone acting on behalf of the Company. We are continuing to evaluate the effectiveness of those remedial steps.



## **PART II.**

### **OTHER INFORMATION**

#### **Item 1. *Legal Proceedings***

##### *ViaSat Suit and Joint Venture Arbitration*

We discuss the settlement of the ViaSat Suit and an arbitration against Loral relating to a Russian joint venture in the notes to the condensed consolidated financial statements and refer the reader to those discussions for important information concerning those matters. See Note 13 to our unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q for these discussions.

##### *Other Litigation*

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

#### **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, 2016 in "Item 1A. Risk Factors." There are no material changes to those risk factors.

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

**Item 6. Exhibits**

The following exhibits are filed as part of this report:

Exhibit 31.1 — Certification of President pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 — Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 — Certification of President pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 — Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101 — Interactive Data Files

(101.INS) XBRL Instance Document

(101.SCH) XBRL Taxonomy Extension Schema Document

(101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document

(101.DEF) XBRL Taxonomy Extension Definition Linkbase Document

(101.LAB) XBRL Taxonomy Extension Label Linkbase Document

(101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

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

Registrant

Loral Space & Communications Inc.

/s/ John Capogrossi

John Capogrossi

*Vice President, Chief Financial Officer and Treasurer*

*(Principal Financial Officer)*

*and Registrant's Authorized Officer*

Date: November 14, 2017