

LORAL SPACE & COMMUNICATIONS INC.  
Form 10-K  
March 03, 2014

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

**OR**

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

**Commission file number 1-14180**

**LORAL SPACE & COMMUNICATIONS INC.**

*(Exact name of registrant specified in the charter)*

**Jurisdiction of incorporation: Delaware**

**IRS identification number: 87-0748324**

**888 Seventh Avenue**

**New York, New York 10106**

**(Address of principal executive offices)**

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

**(Registrant's telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common stock, \$.01 par value</b>	<b>NASDAQ</b>

**Securities registered pursuant to Section 12(g) of the Act:**

**Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No  R**

**Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No  R**

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes  No

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

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

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

At February 14, 2014, 21,414,212 shares of the registrant's voting common stock and 9,505,673 shares of the registrant's non-voting common stock were outstanding.

As of June 30, 2013, the aggregate market value of the common stock, the only common equity of the registrant currently issued and outstanding, held by non-affiliates of the registrant, was approximately \$791,183,944

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

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for its 2014 Annual Meeting of Stockholders, which is to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

**LORAL SPACE AND COMMUNICATIONS INC.**

**INDEX TO ANNUAL REPORT ON FORM 10-K**

**For the Year Ended December 31, 2013**

**PART I**

<u>Item 1: Business</u>	3
<u>Item 1A: Risk Factors</u>	15
<u>Item 1B: Unresolved Staff Comments</u>	32
<u>Item 2: Properties</u>	32
<u>Item 3: Legal Proceedings</u>	33
<u>Item 4: Mine Safety Disclosures</u>	33

**PART II**

<u>Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	34
<u>Item 6: Selected Financial Data</u>	37
<u>Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 7A: Quantitative and Qualitative Disclosures about Market Risk</u>	59
<u>Item 8: Financial Statements and Supplementary Data</u>	60
<u>Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	60
<u>Item 9A: Controls and Procedures</u>	60
<u>Item 9B: Other Information</u>	63

**PART III**

<u>Item 10: Directors, Executive Officers and Corporate Governance</u>	63
<u>Item 11: Executive Compensation</u>	63
<u>Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	63

<u>Item 13: Certain Relationships and Related Transactions, and Director Independence</u>	63
<u>Item 14: Principal Accountant Fees and Services</u>	63
<b>PART IV</b>	
<u>Item 15: Exhibits and Financial Statement Schedules</u>	64
<u>Signatures</u>	69

Table of Contents

**PART I**

**Item 1. Business**

**THE COMPANY**

**Overview**

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. The term “Parent Company” is a reference to Loral Space & Communications Inc., excluding its subsidiaries. Prior to completion of the sale of our wholly-owned subsidiary, Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc. (“SS/L”)) in 2012, we were also engaged in the satellite manufacturing business.

**Satellite Services**

Loral has one operating segment consisting of satellite-based communications services.

Loral participates in satellite services operations through its 62.8% economic interest in Telesat Holdings Inc. (“Telesat Holdco”), which owns Telesat Canada (“Telesat”), a leading global fixed satellite services (“FSS”) operator, with offices and facilities around the world. 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.

At December 31, 2013, Telesat provided satellite services to customers from its fleet of 14 in-orbit satellites. In addition, Telesat owns the Canadian Ka-band payload on the ViaSat-1 satellite and has another satellite, Telstar 12 VANTAGE, under construction. Telesat also manages the operations of additional satellites for third parties.

Telesat provides video distribution and direct-to-home (“DTH”) video, as well as end-to-end communications services using both satellite and hybrid satellite-ground networks.

### ***Telesat Services***

Telesat earns the majority of its revenues by providing satellite-based services to customers, who use these services for their own communications requirements or to provide services to customers further down the distribution chain for video and data services. Telesat also earns revenue by providing ground-based transmit and receive services, selling equipment, installing, managing and maintaining satellite networks, and providing consulting services in the field of satellite communications. Telesat categorizes its revenues into: Broadcast, Enterprise Services and Consulting & Other.

### ***Broadcast***

Telesat’s broadcast services business provided approximately 52% of its revenue for the year ended December 31, 2013. These services include:

*DTH.* Both Canadian DTH service providers (Bell TV and Shaw Direct) use Telesat’s satellites as a distribution platform for their services, delivering television programming, audio and information channels directly to customers’ homes. In addition, Telesat’s Anik F3 and Nimiq 5 satellites are used by EchoStar (DISH Network) for DTH services in the United States.

*Video distribution and contribution.* Major broadcasters, cable networks and DTH service providers use Telesat satellites for the full-time transmission of television programming. Additionally, Telesat provides certain broadcasters and DTH service providers bundled value-added services that include satellite capacity, digital encoding of video channels and uplinking and downlinking services to and from Telesat satellites and earth station facilities.

Table of Contents

*Occasional use services.* Occasional use services consist of satellite transmission services for the timely broadcast of video news, sports and live event coverage on a short-term basis enabling broadcasters to conduct on-the-scene transmissions using small, portable antennas.

***Enterprise Services***

Telesat's enterprise services provided approximately 45% of its revenue for the year ended December 31, 2013. These services include:

*Telecommunications carrier services.* Telesat provides satellite capacity and end-to-end services for data and voice transmission to telecommunications carriers located throughout the world. These services include (i) connectivity and voice circuits to remote locations in Canada for customers such as Bell Canada and Northwestel and (ii) space segment services and terrestrial facilities for internet backhaul and access, cellular backhaul and services such as rural telephone and internet access to telecommunications carriers and network services integrators around the world.

*Government services.* The U.S. government is the largest single consumer of fixed satellite services in the world and a significant user of Telesat's international satellites. Over the course of several years, Telesat has implemented a successful strategy to sell through government service integrators, rather than directly to U.S. government agencies. Telesat is also a significant provider of satellite services to the Canadian Government, providing a variety of services from a maritime network for a Canadian Government entity to satellite services to the Department of National Defence.

*Two-way internet services.* Telesat provides Ka-band satellite capacity to Xplornet Communications Inc. and other resellers in Canada who use it to provide two-way broadband Internet services in Canada. Telesat also provides Ka-band satellite capacity to ViaSat/WildBlue which uses it to provide similar services in the United States.

*Resource services.* Telesat provides communications services to geographically diverse locations, both on and off shore, for the oil and gas and mining industries.

*Maritime and aeronautical services.* Telesat is increasingly providing satellite capacity to customers serving the growing maritime and aeronautical markets bringing broadband communications services to commercial airplanes and vessels including cruise and working ships.



*Retail services.* Telesat operates VSAT and hybrid VSAT/terrestrial networks in Canada providing end-to-end services including installation and maintenance of the end user terminal, maintenance of the VSAT hub and provision of satellite capacity. These networks include the support of point-of-sale and other applications at thousands of retail petroleum sites.

*Satellite operator services.* Telesat provides services to other satellite operators in the form of partial channel satellite capacity, full transponder satellite capacity and, on occasion, the relocation and use of an entire satellite at a designated orbital location.

### ***Consulting & Other***

Telesat's consulting & other category provided approximately 3% of its revenues for the year ended December 31, 2013. Telesat's consulting operations allow it to realize operating efficiencies by leveraging Telesat's existing employees and the facility base dedicated to its core satellite communication business. With over 40 years of engineering and technical experience, Telesat is a leading consultant in establishing, operating and upgrading satellite systems worldwide, having provided services to businesses and governments in over 40 countries across six continents. In 2013, the international consulting business provided satellite-related services in approximately 18 countries.

### ***Competitive Strengths***

Telesat's business is characterized by the following key competitive strengths:

Table of Contents

***Leading Global FSS Operator***

Telesat is the fourth largest FSS operator in the world and the largest in Canada, with a strong and growing business. It has a leading position as a provider of satellite services in the North American video distribution market. Telesat provides services to both of the major DTH providers in Canada, Bell TV and Shaw Direct, which together have approximately 2.7 million subscribers, as well as to EchoStar (DISH Network) in the United States, which has approximately 14 million subscribers. Its international satellites are well positioned to serve a number of emerging, high growth markets and serve a range of important customers in those markets. Telstar 11N provides service to American, European and African regions and aeronautical and maritime markets of the Atlantic Ocean Region. Telstar 12 provides intercontinental connectivity from the Americas to the Middle East. Telstar 14R/Estrela do Sul 2 offers high powered coverage of the Americas, the Gulf of Mexico, the Caribbean and the North Atlantic Ocean Region (“NAOR”). Telstar 18 delivers video distribution and contribution throughout Asia and offers connectivity to the U.S. mainland via Hawaiian teleport facilities. Telesat’s current enterprise services customers include leading telecommunications service providers as well as a range of network service providers and integrators, which provide services to enterprises, governments and international agencies and multiple ISPs.

***Blue Chip Customer Base***

Telesat offers its broad suite of satellite services to more than 400 customers worldwide, which include some of the world’s leading television broadcasters, cable programmers, DTH service providers, ISPs, telecommunications carriers, corporations and government agencies. Over 40 years of operation, Telesat has established long-term, collaborative relationships with its customers and has developed a reputation for creating innovative solutions and providing services essential for its customers to reach their end users. Telesat’s customers represent some of the strongest and most financially stable companies in their respective industries. These customers frequently commit to long-term contracts for Telesat’s services, which enhances the predictability of its future revenues and cash flows and supports its future growth.

***Large Contracted Backlog and Young Satellite Fleet Underpin Anticipated Growth and High Revenue Visibility***

Historically, Telesat has been able to generate strong cash flows from its operating activities due to the high operating margins in the satellite industry and its disciplined control of expenses. The stability of Telesat’s cash flows is underpinned by its large revenue backlog. Telesat has been able to generate significant backlog by entering into long-term contracts with its customers, in some cases for all or substantially all of a satellite’s orbital maneuver life.

This revenue backlog supports Telesat’s anticipated growth. A significant proportion of Telesat’s expected revenue growth is based on currently contracted business with its DTH provider customers. In addition to this backlog, Telesat

has historically experienced a high proportion of contract renewals with existing customers. Together, these two factors have produced ongoing, stable cash flows.

Many of Telesat's satellites are relatively new and will not need to be replaced for a significant period of time which defers replacement capital expenditures.

***Portfolio of Orbital Real Estate***

Telesat's satellites occupy highly attractive orbital locations that provide it with a leading position in many of the markets in which it operates due to the scarcity of available satellite spectrum and the strong neighborhoods Telesat has developed at these locations. Access to these orbital locations, coupled with the high capital intensity of the satellite industry, creates high barriers to entry in those markets. Telesat is licensed by Industry Canada to occupy a number of key orbital positions that are well-suited to serve the Americas and maintain its leading position in North America. Telesat's international satellites also occupy highly desirable orbital locations that enable broad pan-regional service with interconnectivity between regions, making them attractive for both intra- and inter-regional services. Telesat has rights to additional spectrum, including Ka-band and reverse DBS band at certain existing orbital locations, including existing DBS locations.

Table of Contents

***Global Operations Provide Revenue Diversification and Economies of Scale***

The combination of Telesat's North American broadcast and enterprise services businesses and Telesat's international business offers diversity in terms of both the customers and regions served as well as the services provided. Telesat continues to benefit from growth in both the broadcast and enterprise services markets, including government services, due to its strong presence in each.

Moreover, as the operator of a fleet of 14 satellites plus multiple other satellites for third parties, Telesat has attained meaningful scale to allow it to leverage its relatively fixed cost base to achieve substantial operating margins.

***Business Strategy***

Telesat's commitment to providing strong customer service and its focus on innovation and technical expertise has allowed it to successfully build its business to date. Building on its existing contractual revenue backlog, Telesat's focus is on increasing the utilization of its existing satellite capacity, maintaining its operating efficiency and, in a disciplined manner, using the strong cash flow generated by its existing business and its contracted expansion satellite to grow in-orbit satellite capacity and strengthen its business.

Telesat believes its satellite fleet produces a strong combination of ongoing revenue from backlog and continuing revenue growth that provides a solid foundation upon which it will seek to continue to grow its revenue and cash flows. To achieve this growth, Telesat will seek to capture the anticipated increased demand for satellite services and capacity, (i) in the broadcast services market, from broadcast video applications, including DTH services, HDTV, and expansion in the number of channels and (ii) in the enterprise services market, from developing market requirements, maritime and aeronautical requirements, government services and enterprise network demand.

Telesat will continue to focus on capturing the anticipated increase in worldwide demand for satellite services through a disciplined satellite expansion program that should drive incremental contracted backlog and cash flows, and further leverage its fixed cost structure. Telstar 12 VANTAGE, a powerful, multi-mission satellite currently under construction, will replace and expand on Telstar 12 at 15 degrees West. This new state-of-the-art satellite is expected to launch in late 2015 and will utilize high throughput capabilities that offer superior performance to meet the growing needs of broadcast, government and enterprise users, including demand for aeronautical and maritime services. By using Ku-band across all coverage beams, Telstar 12 VANTAGE will be compatible with existing Ku-band terminal equipment. The satellite will offer a high level of flexibility with coverage of Europe, the Americas, the Middle East and Africa as well as the Caribbean, North Sea, Mediterranean and South Atlantic regions.

The satellite industry is characterized by a relatively fixed cost base that allows significant revenue growth with relatively minimal increases in operating costs, particularly for sales of satellite capacity. Thus, Telesat anticipates that it can increase its revenues without proportional increases in its operating expenses, allowing for expansion of its margins. Telesat expects to continually review all aspects of its business to contain operating costs and to maintain and potentially improve operating efficiency.

### ***Market and Competition***

Telesat is a leading global FSS operator in a highly competitive industry, and Telesat competes against other global, regional and national satellite operators and with providers of terrestrial-based communications services.

### ***Fixed Satellite Operators***

Other global FSS operators are Intelsat Global S.A. (“Intelsat”), SES S.A. (“SES”) and Eutelsat S.A. (“Eutelsat”). Telesat also competes with a number of nationally or regionally focused FSS operators around the world.

Intelsat, SES and Eutelsat are each substantially larger than Telesat in terms of both the number of satellites they have in-orbit as well as their revenues. Telesat believes that Intelsat and its subsidiaries and SES and its subsidiaries have global fleets of over 50 satellites, and that Eutelsat and its subsidiaries have a fleet of over 30 satellites. Due to their larger sizes, these operators may be able to take advantage of greater economies of scale, may be more attractive to customers, and may (depending on the specific satellite and orbital location in question) have greater flexibility to restore service to their customers in the event of a partial or total satellite failure. In addition, their larger sizes may enable them to devote more resources, both human and financial, to sales, operations, product development and strategic alliances and acquisitions.

Table of Contents

*Regional and domestic providers:* Telesat also competes against regional FSS operators, including:

- in North America: Ciel, ViaSat/WildBlue, HNS/EchoStar, Satmex and Hispasat;
- in Europe, Middle East, Africa: Arabsat, Nilesat, HellasSat, RSCC, Yahsat, Turksat and Spacecom;
- in Asia: AsiaSat, Measat, Thaicom, APT, PT Telkom, Optus and Asia Broadcast Satellite; and
  - in Latin America: Satmex, Star One, Arsat, HispaSat and Hispamar.

A number of other countries have domestic satellite systems against which Telesat competes in those markets.

The Canadian government opened Canadian satellite markets to foreign satellite operators as part of its 1998 World Trade Organization commitments to liberalize trade in basic telecommunications services. As of January 2014, approximately 85 non-Canadian FSS satellites are listed as having been approved by Industry Canada for use in Canada. Three of these are Telesat satellites licensed by other administrations and one is a satellite on which Telesat owns the Canadian-coverage capacity. The growth in satellite service providers using or planning to use Ka-band, including Avanti Communications, O3b, ViaSat/WildBlue, Eutelsat, HNS/EchoStar, Inmarsat, SES, Yahsat and others, will result in increased competition.

In addition, the FSS and the Mobile Satellite Services (“MSS”) sectors, which have historically served distinct customer requirements, are converging. As a result, Telesat faces competition from MSS operators which it expects will increase in the future.

***Terrestrial Service Providers***

Providers of terrestrial-based communications services compete with satellite operators. Increasingly, in developed and developing countries alike, governments are providing funding and other incentives to encourage the expansion of terrestrial networks resulting in increased competition for FSS operators.

***Consulting Services***

The market for satellite consulting services is generally comprised of a few companies qualified to provide services in specific areas of expertise. Telesat's competitors are primarily United States- and European-based companies.

### *Satellite Fleet & Ground Resources*

As of December 31, 2013, Telesat had 14 in-orbit satellites. In addition, Telesat owns the Canadian Ka-band payload on the ViaSat-1 satellite.

Telesat also has ground facilities located around the world, providing both control services to its satellite fleet, as well as to the satellites of other operators as part of its consulting services offerings. Telesat's primary satellite control center ("SCC") is located at its headquarters in Ottawa, Ontario, with a second SCC located in Allan Park, Ontario. A third SCC, in Rio de Janeiro, Brazil is used to operate Telstar 14R/Estrela do Sul 2. In addition, Telesat leases other technical facilities that provide customers with a host of teleport and hub services.

Telesat's North American focused fleet is comprised of seven satellites (Anik F1R, Anik F2, Anik F3, Nimiq 1, Nimiq 4, Nimiq 5 and Nimiq 6), plus the Canadian beams on ViaSat-1. Telesat's international fleet is comprised of five satellites (Anik F1, Telstar 11N, Telstar 12, Telstar 14R/Estrela do Sul 2 and Telstar 18). Telesat's Anik G1 satellite provides service for both North and South America. Telesat's Nimiq 2 is currently being relocated to a different orbital location.

Table of Contents

The table below summarizes selected data relating to Telesat's owned in-orbit satellite capacity as of December 31, 2013:

	<b>Orbital Location</b>	<b>Launch</b>	<b>Manufacturer's End-of-Service Life</b>	<b>Expected End-of- Orbital Maneuver Life<sup>(1)</sup></b>	<b>Frequency<sup>(2)</sup></b>	<b>Model</b>
	<b>Regions Covered</b>	<b>Date</b>	<b>Life</b>	<b>Life<sup>(1)</sup></b>	<b>Frequency<sup>(2)</sup></b>	<b>Model</b>
<b>Anik F1</b>	107.3° WL South America	November 2000	2016	2022	C/Ku	BSS702 (Boeing)
<b>Anik F1R<sup>(3)</sup></b>	107.3° WL North America	September 2005	2020	2023	C/Ku/L	E3000 (EADS Astrium)
<b>Anik F2</b>	111.1° WL Canada, Continental United States	July 2004	2019	2027	C/Ku/Ka	BSS702 (Boeing)
<b>Anik F3</b>	118.7° WL Canada, Continental United States	April 2007	2022	2026	C/Ku/Ka	E3000 (EADS Astrium)
<b>Anik G1</b>	107.3° WL Canada, South America	April 2013	2028	2039	C/Ku/X	SS/L 1300 A2100 AX
<b>Nimiq 1</b>	Not Applicable <sup>(4)</sup>	May 1999	2011	2021	Ku	(Lockheed Martin) A2100 AX
<b>Nimiq 2</b>	Not Applicable <sup>(4)</sup>	December 2002	2015	2021	Ku/Ka	(Lockheed Martin) E3000
<b>Nimiq 4</b>	82° WL Canada 72.7° WL Canada,	September 2008	2023	2027	Ku/Ka	(EADS Astrium)
<b>Nimiq 5</b>	Continental United States	September 2009	2024	2035	Ku	SS/L 1300
<b>Nimiq 6</b>	91.1° WL Canada	May 2012	2027	2046	Ku	SS/L 1300
<b>Telstar 11N</b>	37.55° WL North and Central America,	February 2009	2024	2026	Ku	SS/L 1300



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

	Europe, Africa and the maritime Atlantic Ocean region 15°WL Eastern United States, SE Canada, Europe, Russia, Middle East, South Africa, portions of South and Central America 63°WL Brazil and portions of Latin America, North America, Atlantic Ocean 138° EL India, South East Asia, China, Australia and Hawaii					
<b>Telstar 12</b>		October 1999	2012	2017	Ku	SS/L 1300
<b>Telstar 14R/Estrela do Sul 2</b>		May 2011	2026	2024	Ku	SS/L 1300
<b>Telstar 18<sup>(5)</sup></b>		June 2004	2017	2018	C/Ku	SS/L 1300

Telesat's current estimate of when each satellite will be decommissioned, taking account of anomalies and malfunctions the satellites have experienced to date and other factors such as remaining fuel levels, consumption rates and other available engineering data. These estimates are subject to change and it is possible that the actual (1)orbital maneuver life of any of these satellites will be shorter than Telesat currently anticipates. Further, it is anticipated that the payload capacity of each satellite may be reduced prior to the estimated end of orbital maneuver life. For example, Telesat currently anticipates that it will need to commence the turndown of transponders on Anik F1 prior to the end of commercial service life, as a result of further degradation in available power.

(2) Includes the direct broadcast satellite ("DBS") Ku-Band, extended C-band and extended Ku-band in certain cases.

(3) Telesat does not provide service in the L-band. The L-band payload is licensed to Telesat's customer by the FCC.

(4) Nimiq 1 is currently located in a non-Telesat orbital slot, and Nimiq 2 is currently being relocated to a different orbital location.

(5)

Includes 16.6 MHz of C-band capacity provided to the Government of Tonga in lieu of a cash payment for the use of the orbital location. The satellite carries additional transponders (the "APT transponders"), as to which APT has a prepaid lease through the end of life of the satellite in consideration for APT's funding a portion of the satellite's cost. This transaction was accounted for as a sales-type lease, because substantially all of the benefits and risks incident to the ownership of the leased transponders were transferred to APT. Telesat has agreed with APT among other things that if Telesat is able to obtain the necessary approvals and licenses from the U.S. government under U.S. export laws, it would transfer title to the APT transponders on Telstar 18 to APT, as well as a corresponding interest in the elements on the satellite that are common to or shared by the APT transponders and the Telesat transponders. As required under its agreement with APT, Telesat acquired two transponders from APT for an additional payment in August 2009.

Table of Contents

In addition, Telesat has rights to satellite capacity on other satellites including the Ka-band Canadian payload consisting of nine user beams on ViaSat-1.

***Satellite Services Performance<sup>(1)</sup>***

Loral holds a 62.8% economic interest and a 32.7% voting interest in Telesat Holdco. We use the equity method of accounting for our investment in Telesat Holdco, and its results are not consolidated in our financial statements. Our share of the operating results from our investment in this company is included in equity in net income of affiliates in our consolidated statements of operations and our investment is included in investments in affiliates in our consolidated balance sheet (see Note 6 to our consolidated financial statements).

	Year ended December 31,		
	2013	2012	2011
	(In millions)		
Revenue:			
Total segment revenues	\$ 868	\$ 846	\$ 817
Affiliate eliminations <sup>(2)</sup>	(868 )	(846 )	(817 )
Revenues from satellite services as reported	\$ —	\$ —	\$ —
Operating income:			
Total segment operating income	\$ 435	\$ 354	\$ 515
Affiliate eliminations <sup>(2)</sup>	(435 )	(354 )	(515 )
Operating income from satellite services after eliminations	\$ —	\$ —	\$ —

<sup>(1)</sup> See Consolidated Operating Results in Management's Discussion and Analysis of Financial Condition and Results of Operations for significant items that affect comparability between the periods presented.

<sup>(2)</sup> Affiliate eliminations represent the elimination of amounts attributable to Telesat which is reflected in our consolidated financial statements under the equity method of accounting.

Total Telesat assets were \$4.9 billion, \$5.3 billion and \$5.3 billion as of December 31, 2013, 2012 and 2011, respectively. The decrease in total assets from December 31, 2012 to December 31, 2013 is primarily the result of the change in foreign exchange rates. Backlog was approximately \$4.7 billion and \$5.2 billion as of December 31, 2013 and 2012, respectively. The decrease in backlog is due to revenues recognized and exchange rate changes, partially offset by new orders. It is expected that approximately 15% of the backlog at December 31, 2013 will be recognized as revenue by Telesat in 2014.

**Sale of SS/L**

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

Subsequent to the closing of the Sale and pursuant to the Purchase Agreement, Loral, in December 2012, paid MDA \$6.5 million as a result of the resolution of a contingency. Also, in April 2013, pursuant to the Purchase Agreement, we completed the final allocation of qualified pension plan assets between Loral and SS/L (see Note 13 to our consolidated financial statements).

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

Table of Contents

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

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

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

*Other*

We also own 56% of XTAR, LLC (“XTAR”), a joint venture between Loral and Hisdesat Servicios Estrategicos, S.A. (“Hisdesat”). We account for our ownership interest in XTAR under the equity method of accounting because we do not control certain of its significant operating decisions. XTAR owns and operates an X-band satellite, XTAR-EUR located at 29° E.L., which entered service in March 2005. The satellite 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. The government of Spain granted XTAR rights to an X-band license, normally reserved for government and military use, to develop a commercial business model for supplying X-band capacity in support of military, diplomatic and security communications requirements. XTAR also leases 7.2 72 MHz X-band transponders on the Spainsat satellite located at 30° W.L. owned by Hisdesat, which entered commercial service in April 2006. These transponders, designated as XTAR-LANT, allow XTAR to provide its customers in the U.S. and abroad with additional X-band services and greater flexibility. XTAR currently has contracts to provide X-band services to the U.S. Department of Defense, U.S. Department of State, various agencies of the Spanish Government, the Belgium Ministry of Defense, the Norwegian Ministry of Defense and the Danish armed forces. For more information on XTAR see Note 6 to the Loral consolidated financial statements.

**REGULATION**

Telesat is subject to regulation by government authorities in Canada, the United States and other countries in which it operates and is subject to the frequency and orbital location coordination process of the International Telecommunication Union (“ITU”). Telesat’s ability to provide satellite services in a particular country or region is subject also to the technical constraints of its satellites, international coordination, local regulation including as it applies to securing landing rights and licensing requirements.

### *Canadian Regulatory Environment*

Telesat was established by the government of Canada in 1969 under the Telesat Canada Act. As part of the Canadian government’s divestiture of its shares in Telesat, pursuant to the Telesat Canada Reorganization and Divestiture Act (1991), or the Telesat Divestiture Act, Telesat was continued on March 27, 1992 as a business corporation under the Canada Business Corporations Act, the Telesat Canada Act was repealed and the Canadian government sold its shares in Telesat. The Telesat Divestiture Act provides that no legislation relating to the solvency or winding-up of a corporation applies to Telesat and that its affairs cannot be wound up unless authorized by an Act of Parliament. In addition, Telesat and its shareholders and directors cannot apply for Telesat’s continuation in another jurisdiction or dissolution unless authorized by an Act of Parliament.

Table of Contents

Telesat is a Canadian carrier under the Telecommunications Act (Canada), or the Telecom Act. The Telecom Act authorizes the Canadian Radio-Television and Telecommunications Commission (“CRTC”) to regulate various aspects of the provision of telecommunications services by Telesat and other telecommunications service providers. Under the current regulatory regime, Telesat has pricing flexibility subject to a price ceiling on certain full period FSS services offered in Canada under minimum five-year arrangements, and otherwise Telesat is not required to file tariffs for approvals. Telesat’s DBS services offered within Canada are also subject to CRTC regulation, but have been treated as distinct from its FSS services and facilities. Telesat requires CRTC approval of customer agreements relating to the sale of DBS capacity in Canada, including the rates, terms and conditions of service set out therein. Section 28(2) of the Telecom Act provides that the CRTC may allocate satellite capacity to particular broadcasting undertakings if it is satisfied that the allocation will further the implementation of the broadcasting policy for Canada. The exercise by the CRTC of its rights under section 28(2) of the Telecommunications Act could affect Telesat’s relationship with existing customers, which could have a material adverse effect on Telesat’s results of operations, business prospects and financial condition. In December 2013, the CRTC announced that in 2014 it will undertake an inquiry to examine satellite services offered in Canada, including the rates charged by satellite operators. The CRTC will also launch a proceeding to explore how infrastructure investments in transport facilities in Northwestel’s operating territory could be funded.

Telesat’s operations are also subject to regulation and licensing by Industry Canada pursuant to the Radiocommunication Act (Canada). Industry Canada has the authority to issue licenses, establish standards, assign Canadian orbital locations and plan the allocation and use of the radio frequency spectrum, including the radio frequencies upon which Telesat’s satellites and earth stations depend. The Minister responsible for Industry Canada has broad discretion in exercising this authority to issue licenses, fix and amend conditions of licenses and to suspend or even revoke them. Telesat’s licenses to operate the Anik and Nimiq satellites require it to comply with research and development and other industrial and public benefit commitments, to pay annual radio authorization fees and to provide all-Canada satellite coverage.

Industry Canada traditionally licensed satellite radio spectrum using a competitive licensing process. In 2012, Industry Canada conducted a public consultation on the licensing framework for FSS and BSS in Canada. As a result of the consultation, changes in policy were announced in November 2013. Effective January 6, 2014, all FSS and BSS licenses will be awarded to qualified applicants on a first-come, first-served basis and spectrum licenses will replace radio licenses. Industry Canada is also reviewing the license fees it will charge spectrum license holders but has not yet implemented any changes. The term of spectrum licenses will be 20 years, with a high expectation of renewal. Industry Canada may, however, issue licenses with a shorter term.

The Canadian government opened Canadian satellite markets to foreign satellite operators as part of its 1998 World Trade Organization (“WTO”) commitments to liberalize trade in basic telecommunications services, with the exception of DTH television services provided through FSS or DBS facilities. Satellite digital audio radio service markets were also closed to foreign entry until 2005. In September 2005, the Canadian government revised its satellite-use policy to permit the use of foreign-licensed satellites for digital audio radio services in Canada. Further liberalization of the policy may occur and could result in increased competition in Canadian satellite markets.

Since November 2000, pursuant to the CRTC's Decision CRTC 2000-745, virtually all telecommunications service providers are required to pay contribution charges based on their Canadian telecommunications service revenues, minus certain deductions (e.g., retail Internet and paging revenues, terminal equipment sales and inter-carrier payments). The contribution rate varies from year to year. It was initially set at 4.5% of eligible revenues but was significantly reduced in subsequent years. The rate for 2013 was 0.53%.

### ***United States Regulatory Environment***

The Federal Communications Commission ("FCC") regulates the provision of satellite services to, from, or within the United States.

Telesat has chosen to operate its U.S.-authorized satellites, Telstar 11N and Telstar 12, on a non-common carrier basis. Consequently, it is not subject to rate regulation or other common carrier regulations enacted under the Communications Act of 1934. Telesat pays FCC filing fees in connection with its space station and earth station applications and annual fees to defray the FCC's regulatory expenses. Annual and quarterly status reports must be filed with the FCC for interstate/international telecommunications, and contribution charges to the FCC's Universal Service Fund ("USF") based on eligible United States telecom revenues are paid on a quarterly and annual basis. The USF contribution rate is adjusted quarterly and is currently set at 16.4% for the first quarter of 2014. At the present time, the FCC does not assess USF contributions with respect to bare transponder capacity (i.e. agreements for space segment only). Telesat's United States telecom revenues that are USF eligible are currently small and its USF payments are not material.



Table of Contents

Telesat also owns and operates the portion of the ViaSat-1 satellite (115° WL) payload that is capable of providing service within Canada. The ViaSat-1 satellite is licensed by the United States.

The FCC currently grants satellite authorizations on a first-come, first-served basis to applicants who demonstrate that they are legally, technically and financially qualified, and that the public interest will be served by the grant. Under licensing rules, a bond must be posted for up to \$3 million when an FSS satellite authorization is granted. Some or the entire amount of the bond may be forfeited if there is a failure to meet any of the milestones for satellite contracting, design, construction, launch and commencement of operations. According to current licensing rules, the FCC will issue new satellite licenses for an initial 15-year term and will provide a licensee with an “expectancy” that a subsequent license will be granted for the replacement of an authorized satellite using the same frequencies. At the end of the 15-year term, a satellite that has not been replaced, or that has been relocated to another orbital location following its replacement, may be allowed to continue operations for a limited period of time subject to certain restrictions.

To facilitate the provision of FSS in C-, Ku- and Ka-band frequencies in the United States market, foreign licensed operators may apply to have their satellites placed on the FCC’s Permitted Space Station List. Telesat’s Anik F1, Anik F1R, Anik F2, Anik F3 and Telstar 14R/Estrela do Sul 2 satellites are currently on this list.

The United States made no WTO commitment to open its DTH, DBS or digital audio radio services to foreign competition, and instead indicated that provision of these services by foreign operators would be considered on a case-by-case basis, based on an evaluation of the effective competitive opportunities open to United States operators in the country in which the foreign satellite was licensed (i.e., an ECO-sat test) as well as other public interest criteria. While Canada currently does not satisfy the ECO-sat test in the case of DTH and DBS service, the FCC has found, in a number of cases, that provision of these services into the United States using Canadian-licensed satellites would provide significant public interest benefits and would therefore be allowed. In cases involving Telesat, United States service providers, Digital Broadband Applications Corp., DIRECTV and EchoStar, have all received FCC approval to access Canadian-authorized satellites under Telesat’s direction and control in Canadian-licensed orbital locations to provide DTH-FSS or DBS service into the United States.

The approval of the FCC for the acquisition of our ownership interest in Telesat was conditioned upon compliance by Telesat with commitments made to the Department of Justice, the Federal Bureau of Investigation and the Department of Homeland Security relating to the availability of certain records and communications in the United States in response to lawful United States law enforcement requests for such access.

The export of United States-manufactured satellites and technical information related to satellites, earth station equipment and provision of services to certain countries are subject to State Department, Commerce Department and Treasury Department regulations.

In 1999, the United States State Department published amendments to the International Traffic in Arms Regulations (“ITAR”) which included satellites on the list of items requiring export licenses. These provisions have limited Telesat’s access to technical information and have had a negative impact on Telesat’s international consulting revenues.

If Telesat does not maintain its existing authorizations or obtain necessary future authorizations under the export control laws and regulations of the United States, Telesat may be unable to export technical information or equipment to non-U.S. persons and companies, including to its own non-U.S. employees, as required to fulfill existing contracts. If Telesat does not maintain its existing authorizations or obtain necessary future authorizations under the trade sanctions laws and regulations of the United States, Telesat may not be able to provide satellite capacity and related administrative services to certain countries subject to U.S. sanctions. Telesat’s ability to acquire new United States-manufactured satellites, procure launch services and launch new satellites, operate existing satellites, obtain insurance and pursue its rights under insurance policies or conduct its satellite-related operations and consulting activities could also be negatively affected if Telesat and its suppliers are not able to obtain and maintain required U.S. export authorizations.

Table of Contents

***Regulation Outside Canada and the United States***

The Brazilian national telecommunications agency, ANATEL, has authorized Telesat, through its subsidiary, Telesat Brasil Capacidade de Satélites Ltda. (“TBCS”), to operate a Ku-band FSS satellite at the 63° WL orbital location. In December 2008, TBCS entered into a new 15-year Concession Agreement with ANATEL which requires TBCS to dedicate a minimum amount of bandwidth to serve only Brazil until May 2014. After May 2014, this requirement will be removed. The Concession Agreement obligates TBCS to operate the satellite in accordance with Brazilian telecommunications law and contains provisions to enable ANATEL to levy fines for failure to perform according to the Concession terms.

Telesat, through its subsidiary Telesat Satellite LP, owns Telstar 18, which operates at the 138° EL orbital location under an agreement with APT, which has been granted the right to use the 138° EL orbital location by The Kingdom of Tonga. APT is the direct interface with the Tonga regulatory bodies. Because Telesat gained access to this orbital location through APT, there is greater uncertainty with respect to its ability to maintain access to this orbital location and the frequencies for replacement satellites.

Telesat owns and operates the portion of the ViaSat-1 satellite (115° WL) payload that is capable of providing service within Canada. ViaSat-1 operates in accordance with a license granted by the FCC in the United States. However, by virtue of an intergovernmental arrangement between the United States and the United Kingdom, ViaSat-1 operates in accordance with ITU networks filed by the United Kingdom regulatory agency, OFCOM, on behalf of the Isle of Man. The Isle of Man is a British Crown Dependency and Isle of Man satellite orbital filings are filed with the ITU-BR by OFCOM. ManSat Ltd. has been granted exclusive rights by the Isle of Man Government to manage all aspects of Isle of Man satellite orbital filings. Both Telesat and ViaSat have a commercial relationship with ManSat. ViaSat and Telesat have agreed to cooperate in their dealings with ManSat with respect to the ViaSat-1 satellite for OFCOM and ITU purposes.

***Landing Rights and Other Regulatory Requirements***

In addition to regulatory requirements governing the use of orbital locations, most countries regulate transmission signals to, and for uplink signals from, their territory. Telesat has landing rights in more than 140 countries worldwide. In many jurisdictions, landing rights are granted on a per satellite basis and applications must be made to secure landing rights on replacement satellites.

***International Regulatory Environment — International Telecommunication Union***

The ITU, a body of the United Nations, is responsible for administering access by member states to frequencies in the radio portion of the electromagnetic spectrum. The ITU Radio Regulations set forth the process that member states must follow to secure rights for satellites to use frequencies at orbital locations and the obligations and restrictions that govern such use. The process includes, for example, a “first-come, first-served” system for gaining access to certain frequencies at orbital locations and time limits for bringing the frequencies into use. Other frequencies at specified orbital locations have been reserved in perpetuity for individual administrations’ use.

The Canadian, United States and other member states have rights to use certain frequencies at orbital locations. Telesat has been authorized by its ITU filing administrators (Canada, USA, Brazil and United Kingdom) to use certain frequencies at orbital locations. In addition, through commercial arrangements, Telesat has the right to use certain frequencies for which the Kingdom of Tonga has the rights. Authorized frequencies include those already used by its current satellites, and additional frequencies at various orbital locations that must be brought into use within specified time limits.

The ITU Radio Regulations also govern the process used by satellite operators to coordinate their operations with other satellite operators to avoid harmful interference. Each member state is required to give notice of, coordinate, and register its proposed use of radio frequency assignments at associated orbital locations with the ITU. The filing and registration process is administered by the ITU Radiocommunications Bureau (the “ITU-BR”).

Once a member state has filed with the ITU-BR its proposed use of frequencies at a given orbital location, other member states inform that member state and the ITU-BR of any intended use that has the potential to cause interference to either existing operations, or operations that may occur in accordance with priority rights. The member states are then obligated to negotiate with each other in an effort to coordinate the proposed uses and resolve interference concerns. If all outstanding issues are resolved, the member states notify the ITU-BR that coordination has been successfully completed, which is a requirement for the frequency use to be entered into the ITU’s Master Register (“MIFR”). Registered frequencies are entitled under international law to interference protection from subsequent or nonconforming uses.

## Table of Contents

Under the ITU Radio Regulations, a member state that places a satellite or any ground station into operation without completing coordination could be vulnerable to interference from other systems and may have to alter the operating parameters of its satellite if harmful interference occurs to other users already entered in the MIFR or that have priority rights.

The process of ITU filing and notification in the MIFR of frequencies spans a period of seven to eight years, or longer, depending upon the frequency band and the various provisions of the ITU Radio Regulations that may be invoked. Telesat's authorized frequencies are in various stages of the coordination and notification process. Many frequencies have completed the process and have been registered in the MIFR. In other cases, coordination is on-going so that entry into the MIFR is pending. This is typical for satellite operators. Depending upon the outcome of coordination discussions with other satellite operators Telesat may need to make concessions in terms of how a frequency may be used. This, in turn, could have a material adverse impact on Telesat's financial condition, as well as on the value of its business. The failure to reach an appropriate arrangement with such satellite operators may render it impossible to secure entry into the MIFR and result in substantial restrictions on the use and operations of Telesat's existing satellites at their orbital locations. In the event disputes arise during the coordination process or thereafter, the ITU Radio Regulations set forth procedures for resolving disputes but do not contain a mandatory dispute resolution mechanism or an enforcement mechanism. Rather, the rules invite a consensual dispute resolution process for parties to reach a mutually acceptable agreement. Neither the rules nor international law provide a clear remedy for a party where this voluntary process fails.

Although non-governmental entities, including Telesat, participate at the ITU, only national administrations have full standing as ITU members. Consequently, Telesat must ultimately rely on the administrations of Canada, the United States, Brazil, the United Kingdom and the Kingdom of Tonga to represent its interests, including submitting and coordinating the ITU satellite networks that provide orbital locations and frequency information within the ITU process described above.

## **PATENTS AND PROPRIETARY RIGHTS**

As of December 31, 2013, Telesat had seven patents, all in the United States. These patents expire between 2018 and 2027. Telesat also has several pending domestic and international patent applications.

There can be no assurance that any of the foregoing pending patent applications will be issued. Moreover, there can be no assurance that infringement of existing third party patents has not occurred or will not occur. Additionally, because the patent application process is confidential, there can be no assurance that third parties, including competitors, do not have patents pending that could result in issued patents which Telesat may infringe. In such event, Telesat may be restricted from continuing the infringing activities, which could adversely affect its business, or Telesat may be required to obtain a license from a patent holder and pay royalties, which would increase the cost of doing business.

## **RESEARCH AND DEVELOPMENT**

Telesat's research and development expenditures are incurred for the studies associated with advanced satellite system designs and experimentation and development of space, satellite and ground communications products. This also includes the development of innovative and cost effective satellite applications for the various customer segments it serves.

## **FOREIGN OPERATIONS**

Telesat's revenues from non-U.S. customers, primarily in Canada, Asia, Europe and Latin America represented 69%, 68% and 69% of its consolidated revenues for the years ended December 31, 2013, 2012 and 2011, respectively. At December 31, 2013, 2012 and 2011, substantially all of its long-lived assets were located outside of the United States, primarily in Canada, with the exception of in-orbit satellites. (See Item 1A – “*Risk Factors* – Telesat is subject to risks associated with doing business internationally.”)

## **EMPLOYEES**

As of December 31, 2013, Loral had 22 full time employees.

Table of Contents

As of December 31, 2013, Telesat and its subsidiaries had approximately 423 full and part time employees, approximately 3% of whom are subject to collective bargaining agreements. Telesat's employee body is primarily comprised of professional engineering, sales and marketing staff, administrative staff and skilled technical workers. Telesat considers its employee relations to be good.

**OTHER**

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

**AVAILABLE INFORMATION**

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available without charge on our web site, [www.loral.com](http://www.loral.com), as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. Copies of these documents also are available in print, without charge, from Loral's Investor Relations Department, 888 Seventh Avenue, New York, NY 10106. Loral's web site is an inactive textual reference only, meaning that the information contained on the web site is not part of this report and is not incorporated in this report by reference.

**Item 1A. Risk Factors**

**I. Financial and Telesat Investment Risk Factors**

**Telesat's profitability may be adversely affected by swings in the global financial markets, which may have a material adverse effect on Telesat's customers and suppliers.**

Swings in the global financial markets that include illiquidity, market volatility, changes in interest rates and currency exchange fluctuations can be difficult to predict and negatively affect the ability of certain customers to make payments when due. Such swings may materially and adversely affect us due to the potential insolvency of Telesat's suppliers and customers, inability of customers to obtain financing for their transponder leases, decreased customer demand, delays in supplier performance and contract terminations. Telesat's customers may not have access to capital

or a willingness to spend capital on transponder leases, or their levels of cash liquidity with which to pay for transponder leases may be adversely affected. Access of Telesat's suppliers to capital and liquidity with which to maintain their inventories, production levels or product quality may be adversely affected, which could cause them to raise prices or cease operations. As a result, we may experience a material adverse effect on our business, results of operations and financial condition. These potential effects of swings in the global financial markets are difficult to forecast and mitigate.

**Our equity investment in Telesat may be at risk because of Telesat's leverage.**

At December 31, 2013, Telesat had outstanding indebtedness of CAD 3.4 billion and additional borrowing capacity of CAD 140 million under its revolving facility, based on a U.S. dollar/Canadian dollar exchange rate of \$1.00/CAD 1.0623. Approximately CAD 2.5 billion of this total borrowing capacity is debt that is secured by substantially all of the assets of Telesat. This indebtedness represents a significant amount of indebtedness for a company the size of Telesat. The agreements governing this indebtedness impose operating and financial restrictions on Telesat's activities. These restrictions on Telesat's ability to operate its business could seriously harm its business by, among other things, limiting its ability to take advantage of financing, merger and acquisition and other corporate opportunities, which could in time adversely affect the value of our investment in Telesat.

Borrowings under Telesat's Senior Secured Credit Facilities are at variable rates of interest and expose Telesat to interest rate risk. Assuming all revolving loans are fully drawn, each quarter point change in interest rates would result in a CAD 6.5 million change in annual interest expense on indebtedness under the Senior Secured Credit Facilities. Telesat has entered into, and in the future it may enter into, interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. Telesat may not, however, maintain interest rate swaps with respect to all of its variable rate indebtedness, and any swaps Telesat enters into may not fully mitigate its interest rate risk, may prove disadvantageous or may create additional risks.



Table of Contents

Telesat's indebtedness includes \$1.7 billion that is denominated in U.S. dollars and is unhedged with respect to foreign exchange rates. Changes in exchange rates impact the amount that Telesat pays in interest and may significantly increase the amount that Telesat is required to pay in Canadian dollar terms to redeem the indebtedness either at maturity, or earlier if redemption rights are exercised or other events occur which require Telesat to offer to purchase the indebtedness prior to maturity, and to repay funds drawn under its US-dollar denominated facility. Unfavorable exchange rate changes could affect Telesat's ability to repay or refinance this debt.

A breach of the covenants contained in any of Telesat's loan agreements, including without limitation, a failure to maintain the financial ratios required under such agreements, could result in an event of default. If an event of default were to occur, Telesat's lenders would be able to accelerate repayment of the related indebtedness, and it may also trigger a cross default under other Telesat indebtedness.

If Telesat is unable to repay or refinance its secured indebtedness when due (whether at the maturity date or upon acceleration as a result of a default), the lenders will have the right to proceed against the collateral granted to them to secure such indebtedness, which consists of substantially all of the assets of Telesat and its subsidiaries. Telesat's ability to make payments on, or repay or refinance, its debt, will depend largely upon its future operating performance and market conditions. Disruptions in the financial markets could make it more difficult to renew or extend Telesat's facilities at current commitment levels on similar terms or at all. In the event that Telesat is not able to service or refinance its indebtedness, there would be a material adverse effect on the value of our equity investment in Telesat.

**Telesat's financial results and our U.S. dollar reporting of Telesat's financial results will be affected by volatility in the Canadian/U.S. dollar exchange rate.**

Portions of Telesat's revenue, expenses and debt are denominated in U.S. dollars and changes in the U.S. dollar/Canadian dollar exchange rate may have a negative impact on Telesat's financial results and affect the ability of Telesat to repay or refinance its borrowings. Telesat's main currency exposures as of December 31, 2013 lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations on the exchange rate is on the U.S. dollar denominated debt financing. As of December 31, 2013, a five percent increase (decrease) in the Canadian dollar against the U.S. dollar would have increased (decreased) Telesat's net income by approximately \$141 million. This analysis assumes all other variables, in particular interest rates, remain constant.

Loral reports its investment in Telesat in U.S. dollars while Telesat reports its financial results in Canadian dollars. Loral reports its investment in Telesat using the equity method of accounting. As a result, Telesat's results of operations are subject to conversion from Canadian dollars to U.S. dollars. Changes in the U.S. dollar relationship to the Canadian dollar affect how our financial results as they relate to Telesat are reported in our consolidated financial statements. During 2013, the exchange rate moved from US\$1.00/CAD 0.9921 at December 31, 2012 to US\$1.00/CAD 1.0623 at December 31, 2013.

**While we own 62.8% of Telesat on an economic basis, we own only 32.7% of its voting stock and therefore do not have the right to elect or appoint a majority of its Board of Directors and our interests and those of the other Telesat shareholders may diverge or conflict.**

While we own 62.8% of the economic interests in Telesat, we hold only 32.7% of its voting interests. Although the restrictions on foreign ownership of Canadian satellites have been removed by the government of Canada, we are still subject to our shareholders agreement with the Public Sector Pension Investment Board (“PSP”) and the articles of incorporation of Telesat Holdco, which do not allow us to own more voting stock of Telesat Holdco than we currently own. Also, under our shareholders agreement, the governance and management of Telesat is vested in its 10-member Board of Directors, comprised of three Loral-appointed directors, three PSP-appointed directors and four independent directors, two of whom also own Telesat shares with nominal economic value and 31.05% and 6.82% of the voting interests for Telesat directors, respectively. While we own a greater voting interest in Telesat than any other single stockholder with respect to election of directors and we and PSP, which owns 29.4% of the voting interests for directors and 67.3% of the voting interests for all other matters, together own a majority of Telesat’s voting power, circumstances may occur where our interests and those of PSP diverge or are in conflict. For example, it is likely that any strategic transaction involving our ownership interests in Telesat that we wish to pursue will require the cooperation of PSP, and PSP may not share our objectives or wish to pursue transactions in which we are interested or any transaction at all. In the event that our interests differ from those of PSP, PSP, with the agreement of at least three of the four independent directors, may, subject to veto rights that we have under Telesat’s shareholders agreement, cause Telesat to take actions contrary to our wishes. These veto rights are, however, limited to certain extraordinary actions — for example, the incurrence of more than \$100 million of indebtedness or the purchase of assets at a cost in excess of \$100 million. Moreover, our right to block these actions under the shareholders agreement falls away if, subject to certain exceptions, either (i) ownership or control, directly or indirectly by Dr. Mark H. Rachesky (President of MHR Fund Management LLC, or MHR, which, through its affiliated funds is our largest stockholder) of our voting stock falls below certain levels other than in certain specified circumstances or (ii) there is a change in the composition of a majority of the members of Loral’s board of directors over a consecutive two-year period without the approval of the incumbent directors.

Table of Contents

**We may face indemnification claims from our sale of SS/L.**

In the fourth quarter of 2012, we completed the sale of our subsidiary, SS/L, to MDA. Under the terms of the purchase agreement related to the SS/L sale, we are obligated to indemnify MDA for (1) pre-closing taxes; and (2) Covered Litigation Costs and Covered Litigation Damages (as such terms are defined in the Purchase Agreement) relating to the ViaSat lawsuit, subject to certain sharing formulas and caps. MDA has the right to offset against payments due to us under the Land Note, amounts that have been finally determined to be due pursuant to those indemnification claims. In certain circumstances, MDA has the right to deposit amounts due to us under the Land Note in escrow until pending indemnification claims are resolved. Indemnification claims under the Purchase Agreement could exceed amounts due to us pursuant to the Land Note requiring us to use our existing liquidity to pay such claims. To date, other than with respect to the ViaSat lawsuit, MDA has submitted one unresolved claim for indemnification which relates to pre-closing taxes. We intend vigorously to contest the underlying tax assessment, but there can be no assurance that we will be successful. MDA has also asserted that Loral is obligated to defend and indemnify SS/L with respect to a second patent infringement lawsuit brought by ViaSat against SS/L. We have rejected MDA's assertion that it is obligated to defend and indemnify SS/L on the basis that the new lawsuit does not fall within our defense and indemnification obligations under the Purchase Agreement. The parties have agreed, however, to defer determination of whether Loral is obligated to defend and indemnify SS/L for the new lawsuit until the earlier of judgment or settlement of either of the ViaSat actions and October 25, 2016. There can be no assurance that a dispute will not arise as to whether Loral is obligated to defend and indemnify SS/L for the new ViaSat lawsuit or if such a dispute were to arise that Loral would prevail. We may not be able to settle indemnification claims at or below the recorded value in our financial statements, and indemnification claims under the Purchase Agreement, whether pending now or made in the future, could have a material adverse effect on our financial condition, including liquidity, and results of operations.

**Loral Space & Communications Inc., the parent company, is a holding company with no current operations; we are dependent on cash flow from our affiliates to meet our financial obligations.**

The parent company is a holding company with ownership interests in Telesat and XTAR, LLC ("XTAR"). The parent company has no independent operations or operating assets and has ongoing cash requirements. The ability of Telesat and XTAR to make payments or distributions to the parent company, whether as dividends or as payments under applicable management and consulting agreements or otherwise, will depend on their operating results, including their ability to satisfy their own cash flow requirements and obligations including, without limitation, their debt service obligations. Moreover, covenants contained in the debt agreements of Telesat impose limitations on its ability to dividend funds to the parent company. Even if the applicable debt covenants would permit Telesat to pay dividends, the parent company will not have the ability to cause Telesat to do so. See above "While we own 62.8% of Telesat on an economic basis, we own only 32.7% of its voting stock and therefore do not have the right to elect or appoint a majority of its Board of Directors and our interests and those of the other Telesat shareholders may diverge or conflict." Likewise, any dividend payments by XTAR would require the prior consent of our Spanish partner in the joint venture.

The parent company earns a consulting fee of \$5 million a year from Telesat. Telesat's loan documents generally permit this consulting fee from Telesat to be paid to the parent company in cash except if the senior secured leverage ratio under Telesat's credit and note agreements is greater than 5.25 to 1. When the ratio is greater than 5.25 to 1.0, the consulting fee is paid through the issuance of promissory notes to Loral with an interest rate of 7% and a maturity date of October 31, 2018. Whether Telesat meets the financial performance criteria to enable payment is dependent upon, among other things, foreign exchange rates which are constantly fluctuating. We had notes receivable from Telesat of nil and \$1.3 million as of December 31, 2013 and 2012, respectively, related to payment of consulting fees. It is uncertain at this time whether Telesat will be permitted to continue to pay the consulting fee in cash in the future.

Table of Contents

In connection with our assignment in March 2011 to Telesat of our interest in the Canadian payload on the Viasat-1 satellite, Telesat agreed that, if it obtains certain supplemental capacity on the payload, Loral will be entitled to receive one-half of any net revenue actually earned by Telesat in connection with the leasing of such supplemental capacity to its customers during the first four years after the commencement of service using the supplemental capacity. Loral earned \$1.3 million and \$1.0 million for the years ended December 31, 2013 and 2012, respectively, and had a receivable of \$0.3 million as of December 31, 2013 under this revenue share. There can be no assurance that Loral will receive significant revenues in future years under this agreement.

**XTAR has not generated sufficient revenues to meet all of its contractual obligations, which are substantial.**

XTAR's take-up rate in its service has been slower than anticipated. As a result, it has deferred certain payments owed to us, Hisdesat and Telesat, including payments due under an agreement with Hisdesat to lease certain transponders on the Spainsat satellite. These lease obligations were \$25 million in 2013 with increases thereafter to a maximum of \$28 million per year through the end of the useful life of the satellite, which is estimated to be in 2022. In addition, XTAR has entered into an agreement with Hisdesat whereby the past due balance on the Spainsat transponders of \$32.3 million as of December 31, 2008, together with a deferral of \$6.7 million in payments due in 2009, became payable to Hisdesat over 12 years through annual payments of \$5 million. XTAR's lease and other obligations to Hisdesat, which will aggregate in excess of \$376 million over the life of the satellite, are substantial, especially in light of XTAR's limited revenues to date. XTAR has agreed that most of its excess cash balance would be applied towards making limited payments on these obligations, as well as payments of other amounts owed to us, Hisdesat and Telesat in respect of services provided by them to XTAR. Unless XTAR is able to generate a substantial increase in its revenues, these obligations will continue to accrue and grow, which may have a material and adverse effect on our equity interest in XTAR. As of December 31, 2013, \$6.9 million was due to Loral from XTAR.

**The soundness of financial institutions and counterparties could adversely affect Telesat or us.**

We and Telesat have exposure to many different financial institutions and counterparties (including those under credit, financing and insurance arrangements), including brokers and dealers, commercial banks, investment banks, insurance providers and other institutions and industry participants. We and Telesat are exposed to risk, including credit risk resulting from many of the transactions executed in connection with hedging activities, in the event that any lenders or counterparties, including insurance providers, are unable to honor their commitments or otherwise default under an agreement with Telesat or us.

**We have explored, are exploring and expect in the future to explore various strategic transactions; this process may have an adverse effect on our financial condition and results of operations whether or not a transaction is ultimately consummated.**

We have previously explored, and are exploring, potential strategic transactions involving Telesat. In the future, we expect to continue to pursue strategic alternatives involving Telesat with the goal of maximizing shareholder value. The process of pursuing a strategic transaction will result in transaction costs and may result in the diversion of the attention of operating management of Telesat from business operations, the disclosure of confidential information to competitors or potential customers as part of a due diligence process and an adverse perception of Telesat in the marketplace which could, among other things, adversely affect Telesat's ability to win new business. Any of such results could have a material adverse effect on our financial condition and results of operations whether or not a strategic transaction is consummated. There can be no assurance whether or when any transaction involving Loral or Telesat will occur, and, even if a transaction is consummated, there can be no assurance as to whether or to what degree such a transaction will be successful in maximizing value to our shareholders.

**We may explore and evaluate possible strategic transactions and alliances other than those involving Telesat which require financing which may not be available at all or on favorable terms.**

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

Table of Contents

**As part of our business strategy, we or Telesat may complete acquisitions or dispositions, undertake restructuring efforts or engage in other strategic transactions. These actions could adversely affect our or Telesat's business, results of operations and financial condition.**

As part of our business strategy, we or Telesat may engage in discussions with third parties regarding, or enter into agreements relating to, acquisitions, dispositions, restructuring efforts or other strategic transactions in order to manage our or Telesat's product and technology portfolios or further our strategic objectives. In order to pursue this strategy successfully, we must identify suitable acquisition or alliance candidates and complete these transactions, some of which may be large and complex. Any of these activities may result in disruptions to our business and may not produce the full efficiency and cost reduction benefits anticipated.

**Instability in financial markets could adversely affect our ability to access additional capital.**

In past years, the volatility and disruption in the capital and credit markets reached unprecedented levels. If these conditions reoccur, there can be no assurance that we will not experience a material adverse effect on our ability to borrow money or have access to capital, if needed. Lenders may be unable or unwilling to lend money. In addition, if we determine that it is appropriate or necessary to raise capital in the future, the future cost of raising funds through the debt or equity markets may be expensive or those markets may be unavailable. If we were unable to raise funds through debt or equity markets, it could have a material adverse effect on our business, results of operations and financial condition.

**The Telesat information in this report other than the information included in the audited financial statements is based solely on information provided to us by Telesat.**

Because we do not control Telesat, we do not have the same control and certification processes with respect to the information contained in this report on our satellite services segment that we would have if we controlled Telesat. We are also not involved in managing Telesat's day-to-day operations. Accordingly, the Telesat information contained in this report other than the information included in the audited financial statements is based solely on information provided to us by Telesat and has not been separately verified by us.

## **II. Risk Factors Associated With Satellite Services**

**Telesat's in-orbit satellites may fail to operate as expected due to operational anomalies resulting in lost revenues, increased costs and/or termination of contracts.**

Satellites utilize highly complex technology and operate in the harsh environment of space and therefore are subject to significant operational risks while in orbit. The risks include in-orbit equipment failures, malfunctions and other kinds of problems commonly referred to as anomalies. Satellite anomalies include, for example, circuit failures, transponder failures, solar array failures, telemetry transmitter failures, battery cell and other power system failures, satellite control system failures and propulsion system failures. Some of Telesat's satellites have had malfunctions and other anomalies in the past. Acts of war, terrorism, magnetic, electrostatic or solar storms, space debris, satellite conjunctions or micrometeoroids could also damage Telesat's satellites.

Despite working closely with satellite manufacturers to determine the causes of anomalies and mitigate them in new satellites and to provide for intrasatellite redundancies for certain critical components to minimize or eliminate service disruptions in the event of failure, anomalies are likely to be experienced in the future, whether due to the types of anomalies described above or arising from the failure of other systems or components, and intrasatellite redundancy may not be available upon the occurrence of such anomalies. There can be no assurance that, in these cases, it will be possible to restore normal operations. Where service cannot be restored, the failure could cause the satellite to have less capacity available for sale, to suffer performance degradation, or to cease operating prematurely, either in whole or in part. For example, if the damaged solar array on Telstar 14R/Estrela do Sul 2 were to deploy unexpectedly in the future, this could result in a loss of capability to provide service.



Table of Contents

Any single anomaly or series of anomalies or other failure (whether full or partial) of any of Telesat's satellites could cause Telesat's revenues, cash flows and backlog to decline materially, could require Telesat to repay prepayments made by customers of the affected satellite and could have a material adverse effect on Telesat's relationships with current customers and its ability to attract new customers for satellite services. A failure could result in a customer terminating its contract for service on the affected satellite. If Telesat is unable to provide alternate capacity to an affected customer, the customer may decide to procure all or a portion of its future satellite services from an alternate supplier or the customer's business may be so adversely affected by the satellite failure that it may not have the financial ability to procure future satellite services. In addition, an anomaly that has a material adverse effect on a satellite's overall performance or expected orbital maneuver life could require Telesat to recognize an impairment loss, which in turn would adversely affect us. It may also require Telesat to expedite its planned replacement program, adversely affecting its profitability and increasing its financing needs and limiting the availability of funds for other business purposes. Finally, the occurrence of anomalies may adversely affect Telesat's ability to insure satellites at commercially reasonable premiums, if at all, and may cause insurers to demand additional exclusions in policies they issue.

**The actual orbital maneuver lives of Telesat's satellites may be shorter than Telesat anticipates and Telesat may be required to reduce available capacity on its satellites prior to the end of their orbital maneuver lives.**

Telesat anticipates that its satellites will have the end of orbital maneuver life dates described above in Item 1-Business. For all but one of Telesat's satellites, the expected end-of orbital maneuver life date goes beyond the manufacturer's end-of-service life date. A number of factors will affect the actual commercial service lives of Telesat's satellites, including:

the amount of propellant used in maintaining the satellite's orbital location or relocating the satellite to a new orbital location (and, for newly-launched satellites, the amount of propellant used during orbit raising following launch);

- the durability and quality of their construction;
- the performance of their components;
- conditions in space such as solar flares and space debris;
- operational considerations, including operational failures and other anomalies; and
- changes in technology which may make all or a portion of Telesat's satellite fleet obsolete.

Telesat has been forced to remove satellites from service prematurely in the past due to an unexpected reduction in their previously anticipated end-of-orbital maneuver life. It is possible that the actual orbital maneuver lives of one or more of Telesat's existing satellites may also be shorter than originally anticipated. Further, on some of Telesat's satellites it is anticipated that the total available payload capacity may need to be reduced prior to the satellite reaching its end-of-orbital maneuver life.

Telesat periodically reviews the expected orbital maneuver lives of each of its satellites using current engineering data. A reduction in the orbital maneuver life of any of Telesat's satellites could result in a reduction of the revenues generated by that satellite, the recognition of an impairment loss and an acceleration of capital expenditures. To the extent Telesat is required to reduce the available payload capacity prior to the end of a satellite's orbital maneuver life, its revenues from the satellite would be reduced.

**Telesat's satellite launches may be delayed, it may suffer launch failures or its satellites may fail to reach their planned orbital locations. Any such issue could result in the loss of a satellite or cause significant delays in the deployment of the satellite which could have a material adverse effect on Telesat's results of operations, business prospects and financial condition.**

Delays in launching satellites and in the deployment of satellites are not uncommon and result from construction delays, the unavailability of reliable launch opportunities with suppliers, delays in obtaining required regulatory approvals and launch failures. If satellite construction schedules are not met, a launch opportunity may not be available at the time the satellite is ready to be launched. Satellites are also subject to certain risks related to failed launches. Launch vehicles may fail. Launch failures result in significant delays in the deployment of satellites because of the need to construct replacement satellites, which typically takes up to 30 months or longer, and to obtain another launch vehicle. A delay or perceived delay in launching a satellite, or replacing a satellite, may cause Telesat's current customers to move to another satellite provider if they determine that the delay may cause an interruption in continuous service. In addition, Telesat's contracts with customers who purchase or reserve satellite capacity may allow the customers to terminate their contracts in the event of a delay. Any such termination would require Telesat to refund any prepayment it may have received, and would result in a reduction in Telesat's contracted backlog and would delay or prevent Telesat from securing the commercial benefits of the new satellite. Launch vehicles may also underperform, in which case the satellite may be lost or, if it can be placed into service by using its onboard propulsion systems to reach the desired orbital location, will have a shorter useful life. Certain of Telesat's satellites are nearing their expected end-of-orbital maneuver lives. Any launch failure, underperformance, delay or perceived delay could have a material adverse effect on Telesat's results of operations, business prospects and financial condition.

Table of Contents

**Telesat's insurance will not protect it against all satellite-related losses. Further, Telesat may not be able to renew insurance on its existing satellites or obtain insurance on future satellites on acceptable terms or at all, and, for certain of Telesat's existing satellites, Telesat has elected to forego obtaining insurance.**

Telesat's current satellite insurance does not protect it against all satellite-related losses that it may experience, and it does not have in-orbit insurance coverage for all of the satellites in its fleet. As of December 31, 2013, the total net book value of Telesat's five in-orbit satellites for which it does not have insurance is approximately CAD 99 million. Telesat's insurance does not protect it against business interruption, loss of revenues or delay of revenues. In addition, Telesat does not insure the net book value of performance incentives that may be payable to a satellite's manufacturer as these are payable only to the extent that the satellite operates in accordance with contracted technical specifications. Telesat's existing launch and in-orbit insurance policies include, and any future policies that Telesat obtains can be expected to include, specified exclusions, deductibles and material change limitations. Typically, these insurance policies exclude coverage for damage or losses arising from acts of war, anti-satellite devices, electromagnetic or radio frequency interference and other similar potential risks for which exclusions are customary in the industry at the time the policy is written. In addition, they typically exclude coverage for satellite health-related problems affecting Telesat's satellites that are known at the time the policy is written or renewed. Any claims under existing policies are subject to settlement with the insurers and may, in some instances, be payable to Telesat's customers.

The price, terms and availability of satellite insurance has fluctuated significantly in recent years. These fluctuations may be affected by recent satellite launch or in-orbit failures and general conditions in the insurance industry. Launch and in-orbit policies on satellites may not continue to be available on commercially reasonable terms or at all. To the extent Telesat experiences a launch or in-orbit failure that is not fully insured, or for which insurance proceeds are delayed or disputed, it may not have sufficient resources to replace the affected satellite. In addition, higher premiums on insurance policies increase Telesat's costs, thereby reducing its profitability. In addition to higher premiums, insurance policies may provide for higher deductibles, shorter coverage periods, higher loss percentages required for constructive total loss claims and additional satellite health-related policy exclusions. There can be no assurance that, upon the expiration of an in-orbit insurance policy, which typically has a term of one year, Telesat will be able to renew the policy on terms acceptable to it.

Subject to the requirements of Telesat's senior secured credit facilities and the indenture governing Telesat's senior notes, Telesat may elect to reduce or eliminate insurance coverage for certain of its existing satellites, or elect not to obtain insurance policies for its future satellites, especially if exclusions make such policies ineffective, the costs of coverage make such insurance impractical or if self-insurance is deemed more effective.

**Replacing a satellite upon the end of its service life will require Telesat to make significant expenditures and may require Telesat to obtain shareholder approval.**

To ensure no disruption in Telesat's business and to prevent loss of its customers, Telesat will be required to commence construction of a replacement satellite approximately five years prior to the expected end of service life of the satellite then in orbit. Typically, it costs in the range of \$250 million to \$300 million to construct, launch and insure a satellite. There can be no assurance that Telesat will have sufficient cash, cash flow or be able to obtain third party or shareholder financing to fund such expenditures on favorable terms, if at all, or that Telesat will obtain shareholder approval, where required, to procure replacement satellites. Certain of Telesat's satellites are nearing their expected end-of-orbital maneuver lives. Should Telesat not have sufficient funds available to replace those satellites or should Telesat not receive approval from its shareholders, where required, to purchase replacement satellites, it could have a material adverse effect on Telesat's results of operations, business prospects and financial condition.

Table of Contents

**Telesat is subject to significant and intensifying competition. Telesat experiences competition both within the satellite industry and from other providers of communications capacity. Telesat's failure to compete effectively would result in a loss of revenues and a decline in profitability, which would adversely affect Telesat's business and results of operations, business prospects and financial condition.**

Telesat provides point-to-point and point-to-multipoint services for voice, data and video communications and for high-speed Internet access. A trend toward consolidation of major FSS providers has resulted in the creation of global competitors who are substantially larger than Telesat in terms of both the number of satellites they have in orbit as well as in terms of their revenues. Due to their larger sizes, these operators are able to take advantage of greater economies of scale, may be more attractive to customers, may (depending on the specific satellite and orbital location in question) have greater flexibility to restore service to their customers in the event of a partial or total satellite failure and may be able to offer expansion capacity for future requirements. Telesat also competes against regional satellite operators who may enjoy competitive advantages in their local markets. As a condition of Telesat's licenses for certain satellites, Telesat is required by Industry Canada, the governmental department overseeing Canadian investment innovation and economic development, to invest in research and development related to satellite communication activities. Telesat's global competitors may not face this additional financial burden.

Telesat expects a substantial portion of its ongoing business will continue to be in the Canadian domestic market. This market is characterized by increasing competition among satellite providers and rapid technological development. Historically, the Canadian regulatory framework has required the use of Canadian-licensed satellites for the delivery of DTH programming in Canada. It is possible that this framework could change and allow non-Canadian satellite operators that have adequate service coverage in Canadian territory to compete for future business from Telesat's DTH customers. In 2007, Industry Canada awarded a spectrum which is suitable for providing services to Canadian customers, including DTH, to Ciel Satellite Group which was at the time Canadian controlled but has since become controlled by a foreign entity, SES S.A. the world's second largest FSS satellite operator. In addition, in 2009, Industry Canada authorized FreeHD Canada to use a foreign-based satellite for the provision for DTH services on an interim basis. Industry Canada subsequently awarded FreeHD a license to use 12 and 14 GHz spectrum at the 95.5°W orbital position to operate an interim satellite. Industry Canada also provided approval in principle to 95.5°W Canadian Satellite Communications Inc. to develop and operate a 17 GHz broadcasting service satellite at 95°W.

Telesat's business is also subject to competition from ground based forms of communications technology. For many point-to-point and other services, the offerings provided by terrestrial companies can be more competitive than the services offered via satellite. A number of companies are increasing their ability to transmit signals on existing terrestrial infrastructures, such as fiber optic cable, DSL (digital subscriber line) and terrestrial wireless transmitters often with funding and other incentives provided by government. The ability of any of these companies to significantly increase their capacity and/or the reach of their network likely would result in a decrease in the demand for Telesat's services. Increasing availability of capacity from other forms of communications technology can create an excess supply of telecommunications capacity, decreasing the prices Telesat would be able to charge for its services under new service contracts and thereby negatively affecting Telesat's profitability. New technology could render satellite-based services less competitive by satisfying consumer demand in other ways. Telesat also competes for local regulatory approval in places where more than one provider may want to operate and with other satellite operators for scarce frequency assignments and a limited supply of orbital locations. Telesat's failure to compete effectively could

result in a loss of revenues and a decline in profitability, a decrease in the value of its business and a downgrade of its credit rating, which would restrict its access to the capital markets.

**Fluctuations in available satellite capacity could adversely affect Telesat's results.**

The availability of satellite capacity has fluctuated over time, characterized by periods of undersupply of capacity, followed by periods of substantial new satellite construction which is, in turn, followed by an oversupply of available capacity. To the extent Telesat were to experience another period of oversupply of capacity as a result of new satellite construction or otherwise, it may be forced to decrease the prices it charges for services which would adversely affect its results.

**Reductions in government spending could reduce demand for Telesat's services.**

Governments, in particular the U.S. government, purchase a substantial amount of satellite services from commercial satellite operators, including Telesat. To the extent these governments reduce spending on satellite services, as a result of the need to reduce overall spending during periods of fiscal restraint, to reduce budget deficits or otherwise, demand for Telesat's services could decrease which could adversely affect Telesat's revenue, the prices it is able to charge for services and its results.

Table of Contents

**Changes in technology, video distribution methods and demand could have a material adverse effect on Telesat's results of operations, business prospects and financial condition.**

The implementation of new technologies or the improvement of existing technologies may reduce the transponder capacity needed to transmit a given amount of information thereby reducing the total demand for capacity. For example, improvements in signal compression could allow Telesat's customers to transmit the same amount of data using a reduced amount of capacity. The introduction of Ka-band, high throughput satellites, such as ViaSat-1, which are able to transmit substantially more content per transponder than pre-existing Ka-band satellites, may decrease demand and/or prices for pre-existing Ka-band capacity as well as C-band and Ku-band capacity. Additional Ka-band, high throughput satellites are currently under construction (ViaSat-2 and Jupiter 2). While Telesat owns the Canadian Payload on ViaSat-1, the introduction of more Ka-band, high throughput satellites by other operators into the markets in which Telesat participates could have a material adverse effect on Telesat's results of operations, business prospects and financial condition.

Telesat's business may be negatively impacted by the growth of "over-the-top" ("OTT") video distribution (e.g., Netflix). This type of distribution involves delivery of broadcasting services through an internet service provider that is not involved in the control or distribution of the content itself. The growth of OTT distribution may have a negative impact on the demand for the services of some of Telesat's large customers in the video distribution business and could result in lessened demand for Telesat's satellite capacity.

Developments that Telesat expects to support the growth in demand for satellite services, such as continued growth in corporate data and internet traffic, the continued proliferation of HDTV and continued economic growth in Latin America may fail to materialize or may not occur in the manner or to the extent Telesat anticipates.

**Telesat derives a substantial amount of its revenues from only a few of its customers. A loss of, or default by, one or more of these major customers, or a material adverse change in any such customer's business or financial condition, could materially reduce Telesat's future revenues and contracted backlog.**

For the year ended December 31, 2013, Telesat's top five customers together accounted for approximately 53% of its revenues. At December 31, 2013, Telesat's top five backlog customers together accounted for approximately 84% of its backlog. If any of Telesat's major customers chose to not renew its contract or contracts at the expiration of the existing terms or sought to negotiate concessions, particularly on price, that could have a material adverse effect on Telesat's results of operations, business prospects and financial condition. Telesat's customers could experience a downturn in their business or find themselves in financial difficulties, which could result in their ceasing or reducing their use of Telesat's services (or becoming unable to pay for services they had contracted to buy). In addition, some of Telesat's customers' industries are undergoing significant consolidation, and Telesat's customers may be acquired by each other or other companies, including by Telesat's competitors. Such acquisitions could adversely affect Telesat's ability to sell services to such customers and to any end-users whom they serve. Some customers have in the past

defaulted, and Telesat's customers may in the future default, on their obligations to Telesat due to bankruptcy, lack of liquidity, operational failure or other reasons. Such defaults could adversely affect Telesat's revenue, operating margins and cash flows. If Telesat's contracted revenue backlog is reduced due to the financial difficulties of its customers, Telesat's revenue, operating margins and cash flows would be further negatively impacted.

**Telesat operates in a highly regulated industry and government regulations may adversely affect its ability to sell its services, or increase the expense of such services or otherwise limit Telesat's ability to operate or grow its business.**

As an operator of a global satellite system, Telesat is regulated by government authorities in Canada, the United States and other countries in which it operates.



Table of Contents

In Canada, Telesat's operations are subject to regulation and licensing by Industry Canada pursuant to the Radiocommunication Act (Canada) and by the Canadian Radio-Television and Telecommunications Commission ("CRTC"), under the Telecommunications Act (Canada). Industry Canada has the authority to issue licenses, establish standards, assign Canadian orbital locations, and plan the allocation and use of the radio frequency spectrum, including the radio frequencies upon which Telesat's satellites and earth stations depend. The Minister responsible for Industry Canada has broad discretion in exercising this authority to issue licenses, fix and amend conditions of licenses, and to suspend or even revoke them. The CRTC has authority over the allocation (and reallocation) of satellite capacity to particular broadcasting undertakings. Some of Telesat's service agreements are subject to CRTC approval. Telesat is required to pay different forms of "universal service" charges in Canada and have certain research and development obligations that do not apply to other satellite operators with which it competes. These rates and obligations could change at any time. In December 2013, the CRTC announced that in 2014 it will undertake an inquiry to examine satellite services offered in Canada, including the rates charged by satellite operators. The results of that inquiry may affect Telesat's regulatory framework and could result in more onerous restrictions being imposed on its business or could otherwise have an adverse effect on its operations and financial performance.

In the United States, the Federal Communications Commission ("FCC") regulates the provision of satellite services to, from, or within the United States. Certain of Telesat's satellites are owned and operated through a U.S. subsidiary and are regulated by the FCC. In addition, to facilitate the provision of FSS satellite services in C-, Ku- and Ka-band frequencies in the United States market, foreign licensed operators can apply to have their satellites placed on the FCC's Permitted Space Station List. Telesat's Anik F1, Anik FIR, Anik F2, Anik F3 and Telstar 14R/Estrela do Sul 2 satellites are currently on this list. The export from the United States of satellites and technical information related to satellites, earth station equipment and provision of services to certain countries are subject to State Department, Commerce Department and Treasury Department regulations, in particular the International Traffic in Arms Regulations ("ITAR") which currently includes satellites on the list of items requiring export permits. These ITAR provisions have constrained Telesat's access to technical information and have had a negative impact on its international consulting revenues. In addition, Telesat and its satellite manufacturers may not be able to obtain and maintain necessary export authorizations which could adversely affect its ability to procure new United States-manufactured satellites; control its existing satellites; acquire launch services; obtain insurance and pursue its rights under insurance policies; or conduct its satellite-related operations and consulting activities.

Telesat also operates satellites through licenses granted by, and are subject to regulations in, countries other than Canada and the United States. For example, the Brazilian national telecommunications agency, ANATEL, has authorized Telesat, through its subsidiary, Telesat Brasil Capacidade de Satélites Ltda. ("TBCS"), to operate Telstar 14R/Estrela do Sul 2, a Ku-band FSS satellite at 63° WL pursuant to a Concession Agreement. Telstar 18 operates at the 138° EL orbital location under an agreement with APT, which has been granted the right to use the 138° EL orbital location by The Kingdom of Tonga. Although Telesat's agreement with APT provides it with renewal rights with respect to a replacement satellite at this orbital location, Telesat is relying on third parties to secure those orbital location rights and there can be no assurance that they will be granted at all or on a timely basis. Should Telesat be unsuccessful in obtaining renewal rights for the orbital location, because of the control over the orbital location exercised by Tonga or for other reasons, or Telesat otherwise fails to enter into agreements with APT with respect to such replacement satellite, all revenues obtained from Telstar 18 would cease and could have a material adverse effect on Telesat's results of operations, business prospects and financial condition.

In addition to regulatory requirements governing the use of orbital locations, most countries regulate transmission of signals to and from their territory, and Telesat is required to obtain and maintain authorizations to carry on business in the countries in which Telesat operates.

If Telesat fails to obtain or maintain particular authorizations on acceptable terms, such failure could delay or prevent Telesat from offering some or all of its services and adversely affect its results of operations, business prospects and financial condition. In particular, Telesat may not be able to obtain all of the required regulatory authorizations for the construction, launch and operation of any of its future satellites, for the orbital locations and spectrum for these satellites and for its ground infrastructure, on acceptable terms or at all. Even if Telesat were able to obtain the necessary authorizations and orbital locations, the licenses Telesat obtains may impose significant operational restrictions, or not protect Telesat from interference that could affect the use of its satellites. Countries or their regulatory authorities may adopt new laws, policies or regulations, or change their interpretation of existing laws, policies or regulations, that could cause Telesat's existing authorizations to be changed or cancelled, require Telesat to incur additional costs, impose or change existing pricing, or otherwise adversely affect its operations or revenues. As a result, any currently held regulatory authorizations are subject to rescission and renewal and may not remain sufficient or additional authorizations may be necessary that Telesat may not be able to obtain on a timely basis or on terms that are not unduly costly or burdensome. Further, because the regulatory schemes vary by country, Telesat may be subject to regulations in foreign countries of which Telesat is not presently aware that it is not in compliance with, and as a result could be subject to sanctions by a foreign government.

Table of Contents

**Telesat's operations may be limited or precluded by ITU rules or processes, and Telesat is required to coordinate its operations with those of other satellite operators.**

The International Telecommunication Union ("ITU"), a specialized United Nations agency, regulates the global allocation of radio frequency spectrum and the registration of radio frequency assignments and any associated orbital location in the geostationary satellite orbit. Telesat participates in the activities of the ITU. Only national administrations, however, have full standing as ITU members. Consequently, Telesat must rely on the relevant government administrations to represent its interests.

The ITU establishes the Radio Regulations, an international treaty which contains the rules concerning frequency allocations and the priority to, coordination of, and use of, radio frequency assignments. The ITU Radio Regulations define the allocation of radio frequencies to specific uses. The ITU Radio Regulations are periodically reviewed and revised at World Radiocommunication Conferences ("WRC"), which take place typically every three to four years. As a result, Telesat cannot guarantee that the ITU will not change its allocation decisions and rules in the future in a way that could limit or preclude Telesat's use of some or all of its existing or future orbital locations or spectrum.

The ITU Radio Regulations also establish operating procedures for satellite networks and prescribe detailed coordination, notification and recording procedures. With respect to the frequencies used by commercial geostationary satellites, the ITU Radio Regulations set forth a process for protecting earlier-registered satellite systems from interference from later-registered satellite systems. In order to comply with these rules, Telesat must coordinate the operation of its satellites, including any replacement satellite that has performance characteristics that are different from those of the satellite it replaces, with other satellites. This process requires potentially lengthy and costly negotiations with parties who operate or intend to operate satellites that could affect or be affected by Telesat's satellites. For example, as part of Telesat's coordination effort on Telstar 12, Telesat agreed to provide four 54 MHz transponders on Telstar 12 to Eutelsat S.A. ("Eutelsat") for the life of the satellite and has retained risk of loss with respect to those transponders. Telesat also granted Eutelsat the right to acquire, at cost, four transponders on the replacement satellite for Telstar 12. Telesat has leased back from Eutelsat three of the four transponders to provide service to its customers. In addition, the Russian Satellite Communications Company ("RSCC") is launching a satellite to operate at 14° WL, adjacent to the location of Telesat's Telstar 12 at 15° WL. In the fourth quarter of 2013, Telesat resolved a longstanding coordination issue with RSCC regarding priority rights over certain frequencies. Pursuant to its coordination agreement with RSCC, Telesat will be required to cease using certain frequencies on its Telesat 12 satellite as soon as RSCC's satellite is launched and commences service, which will require Telesat to relocate some of its customers on to alternate frequencies.

In certain countries, a failure to resolve coordination issues is used by regulators as a justification to limit or condition market access by foreign satellite operators. In addition, while the ITU Radio Regulations require later-in-time systems to coordinate their operations with Telesat, Telesat cannot guarantee that other operators will conduct their operations so as to avoid transmitting any signals that would cause harmful interference to the signals that Telesat, or its customers, transmit. This interference could require Telesat to take steps, or pay or refund amounts to its customers, that could have a material adverse effect on Telesat's results of operations, business prospects and financial

condition. The ITU's Radio Regulations do not contain mandatory dispute resolution or enforcement regulations and neither the ITU specifically, nor international law generally, provides clear remedies if the ITU coordination process fails. Failure to coordinate Telesat's satellites' frequencies successfully or to obtain or maintain other required regulatory approvals could have an adverse effect on Telesat's business operations, prospects and financial condition, as well as on the value of its business.

**If Telesat does not occupy unused orbital locations by specified deadlines, or does not maintain satellites in orbital locations it currently uses, those orbital locations may become available for other satellite operators to use.**

Telesat's in-orbit satellites do not currently occupy all of the orbital locations for which it has obtained regulatory authorizations. In some cases, the Telesat satellite that occupies an orbital location is not designed to use all of the frequencies for which Telesat has been authorized.

## Table of Contents

In accordance with the ITU Radio Regulations, governments have rights to use certain orbital locations and frequencies. Certain of these governments have in turn authorized Telesat to use several orbital locations and radio frequencies in addition to those used by its current satellites. Under the ITU Radio Regulations, Telesat must bring into use (“BIU”) these orbital locations and frequencies within a fixed period of time, or the governments in question would lose their priority rights and the orbital location, and frequencies likely would become available for use by another satellite operator. Prior to the WRC which took place in February 2012, the ITU Radio Regulations did not expressly address the manner of use or duration of use required to BIU an orbital location. At the 2012 WRC the ITU Radio Regulations were amended to expressly require, among other things, a minimum duration that a suitable satellite must be deployed and maintained at an orbital location to BIU frequency assignments at that location. In view of these requirements, it may be more difficult and/or costly to preserve unused orbital locations and frequencies and Telesat may not be able to do so. In addition, the governments that have authorized Telesat to use these orbital locations have generally conditioned such use on Telesat meeting certain milestones, including making use of the orbital location by a specified time. If Telesat is unable to place satellites into currently unused orbital locations by specified deadlines and in a manner that satisfies the ITU Radio Regulations, national regulatory requirements, if the ITU and national regulation or requirements were to change, or if Telesat is unable to maintain satellites at the orbital locations that it currently uses, Telesat may lose its rights to use these orbital locations and the locations could become available for other satellite operators to use. The loss of one or more of Telesat’s orbital locations could negatively affect its plans and its ability to implement its business strategy.

**Telesat’s business is capital intensive, and Telesat may not be able to raise adequate capital to finance its business strategies, or Telesat may be able to do so only on terms that significantly restrict its ability to operate its business.**

Implementation of Telesat’s business strategy requires a substantial outlay of capital. As Telesat pursues its business strategies and seeks to respond to developments in its business and opportunities and trends in its industry, its actual capital expenditures may differ from its expected capital expenditures. There can be no assurance that Telesat will be able to satisfy its capital requirements in the future. In addition, if one of Telesat’s satellites failed unexpectedly, there can be no assurance of insurance recovery or the timing thereof and Telesat may need to exhaust or significantly draw upon its revolving credit facility or obtain additional financing to replace the satellite. If Telesat determines that it needs to obtain additional funds through external financing and is unable to do so, Telesat may be prevented from fully implementing its business strategy.

The availability and cost to Telesat of external financing depends on a number of factors, including its credit rating and financial performance and general market conditions. Telesat’s ability to obtain financing generally may be influenced by the supply and demand characteristics of the telecommunications sector in general and of the FSS sector in particular. Declines in Telesat’s expected future revenues under contracts with customers and challenging business conditions faced by its customers are among the other factors that may adversely affect Telesat’s credit and access to the capital markets. Other factors that could impact Telesat’s credit rating include the amount of debt in its current or future capital structure, activities associated with strategic initiatives, the health of its satellites, the success or failure of its planned launches, its expected future cash flows and the capital expenditures required to execute its business strategy. The overall impact on Telesat’s financial condition of any transaction that it pursues may be negative or may be negatively perceived by the financial markets and rating agencies and may result in adverse rating agency actions

with respect to its credit rating and access to the capital markets. Long-term disruptions in the capital or credit markets as a result of uncertainty or recession, changing or increased regulation or failures of significant financial institutions could adversely affect Telesat's access to capital. A credit rating downgrade or deterioration in Telesat's financial performance or general market conditions could limit its ability to obtain financing or could result in any such financing being available only at greater cost or on more restrictive terms than might otherwise be available and, in either case, could result in Telesat deferring or reducing capital expenditures including on new or replacement satellites. In certain circumstances, Telesat is required to obtain the approval of its shareholders to incur additional indebtedness. There can be no assurances that Telesat will receive such approval, if required.

**Market conditions may make it difficult for Telesat to extend the maturity of or refinance its existing indebtedness, and any failure to do so could have a material adverse effect on its business.**

As of December 31, 2013, Telesat had outstanding senior secured credit facilities consisting of: a CAD 475 million term loan A maturing in March 2017; a CAD 139 million term loan B maturing in March 2019; and a \$1.733 billion term loan B maturing in March 2019. Together with Telesat's CAD 140 million revolving credit facility, the U.S. term loan B is subject to a springing maturity which will occur on February 13, 2017 if Telesat's notes are not refinanced by that date. Telesat will need to refinance all or a portion of this indebtedness on or before maturity. Disruptions in the financial markets have occurred in the past and are likely to reoccur again in the future, which could make it more difficult to renew or extend the facilities at current commitment levels, on similar terms or at all. A reduced commitment from the lenders, increased borrowing costs or modification to the financial covenant would result in an increase in Telesat's financing costs and/or a decrease in its liquidity, which could adversely affect Telesat's growth, its financial condition, its results of operations and its ability to make debt payments, including repayments on the Notes when they become due.

Table of Contents

**Telesat may experience a failure of ground operations infrastructure or interference with its satellite signals that impairs the commercial performance of, or the services delivered over, its satellites or the satellites of other operators for whom it provides ground services, which could result in a material loss of revenues.**

Telesat operates an extensive ground infrastructure including a satellite control center in Ottawa, its main earth station and back up satellite control facility at Allan Park, nine earth stations throughout Canada, one teleport located in the United States and one in Brazil and its telemetry, tracking and control (“TT&C”) facility in Perth, Australia. These ground facilities are used for controlling Telesat’s satellites and for the provision of end-to-end services to Telesat’s customers.

Telesat may experience a partial or total loss of one or more of these facilities due to natural disasters (tornado, flood, hurricane or other such acts of God), fire, acts of war or terrorism or other catastrophic events. A failure at any of these facilities would cause a significant loss of service for Telesat customers. Additionally, Telesat may experience a failure in the necessary equipment at the satellite control center, at the back-up facility, or in the communication links between these facilities and remote earth station facilities. A failure or operator error affecting tracking, telemetry and control operations might lead to a break-down in the ability to communicate with one or more satellites or cause the transmission of incorrect instructions to the affected satellite(s), which could lead to a temporary or permanent degradation in satellite performance or to the loss of one or more satellites. Intentional or non-intentional electromagnetic or radio frequency interference could result in a failure of Telesat’s ability to deliver satellite services to its customers. A failure at any of Telesat’s facilities or in the communications links between its facilities or interference with its satellite signal could cause its revenues and backlog to decline materially and could adversely affect its ability to market its services and generate future revenues and profit.

Telesat purchases equipment from third party suppliers and depends on those suppliers to deliver, maintain and support these products to the contracted specifications in order for Telesat to meet its service commitments to its customers. Telesat may experience difficulty if these suppliers do not meet their obligations to deliver and support this equipment. Telesat may also experience difficulty or failure when implementing, operating and maintaining this equipment or when providing services using this equipment. This difficulty or failure may lead to delays in implementing services, service interruptions or degradations in service, which could cause Telesat’s revenues and backlog to decline materially and could adversely affect Telesat’s ability to market its services and generate future revenues and profit.

**Telesat’s dependence on outside contractors could result in delays related to the design, manufacture and launch of its new satellites, which could in turn adversely affect Telesat’s operating results and prospects.**

Any delays in the design, construction or launch of Telesat’s satellites could have a material adverse effect on its business, financial condition and results of operations. There are a limited number of manufacturers that are able to design and build satellites according to the technical specifications and standards of quality Telesat requires, including

Airbus Defense and Space, Thales Alenia Space, Boeing, Lockheed Martin, Orbital and SS/L. There are also a limited number of suppliers able to launch such satellites, including International Launch Services, Arianespace, Mitsubishi Heavy Industries, Space X, Lockheed Martin and Sea Launch. Should any of Telesat's suppliers' businesses fail, it would reduce competition and could increase the cost of satellites and launch services. Adverse events with respect to any of Telesat's manufacturers or launch suppliers could also result in the delay of the design, construction or launch of its satellites. General economic conditions may also affect the ability of Telesat's manufacturers and launch suppliers to provide services on commercially reasonable terms or to fulfill their obligations in terms of manufacturing schedules, launch dates, pricing or other items. Even where alternate suppliers for such services are available, Telesat may have difficulty identifying them in a timely manner, it may incur significant additional expense in changing suppliers, and this could result in difficulties or delays in the design, construction or launch of its satellites.

**A natural disaster could diminish Telesat's ability to provide communications service.**

Natural disasters could damage or destroy Telesat's ground stations resulting in a disruption of service to its customers. Telesat has in place certain operational procedures designed to protect its antennas and ground stations during natural disasters such as a hurricane, but these procedures may not be sufficient and the collateral effects of such disasters such as flooding may impair the functioning of its ground equipment and its ability to control its satellites. If a future natural disaster impairs or destroys any of Telesat's ground facilities, Telesat may be unable to provide service to its customers in the affected area for a period of time.



Table of Contents

**Telesat's future reported net income could be adversely affected by impairments of the value of certain intangible assets.**

The assets on Telesat's consolidated balance sheet as of December 31, 2013 include goodwill valued at approximately CAD 2,447 million and other intangible assets valued at approximately CAD 845 million. A valuation of goodwill and other intangible assets (such as orbital locations) with indefinite useful lives is undertaken on an annual basis, or whenever events or changes in circumstances indicate that the carrying amount is likely to exceed their recoverable amount. Telesat measures for impairment using a projected discounted cash flow method and confirms the assessment using other valuation methods. If the asset's carrying value is more than its recoverable amount, the difference is recorded as a reduction in the amount of the asset on the balance sheet and an impairment charge in the statement of earnings. Testing for impairment requires significant subjective judgments by management. Any changes in the estimates used could have a material impact on the calculation of the recoverable amount and result in an impairment charge. Telesat cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the reported asset values. If Telesat's goodwill or other intangible assets are deemed to be impaired in whole or in part, it could be required to reduce or write off such assets, which could have a material adverse effect on its financial condition.

**The content of third-party transmissions over Telesat's satellites may affect Telesat since Telesat could be subject to sanctions by various governmental entities for the transmission of certain content.**

Telesat provides satellite capacity for transmissions by third parties. Telesat does not decide what content is transmitted over its satellites, although its contracts generally provide it with rights to prohibit certain types of content or to cease transmission or permit Telesat to require its customers to cease their transmissions under certain circumstances. A governmental body or other entity may object to some of the content carried over Telesat's satellites, such as "adult services" video channels or content deemed political in nature. Issues arising from the content of transmissions by these third parties over Telesat's satellites could affect its future revenues, operations or relationship with certain governments or customers.

**Telesat's failure to maintain or obtain authorizations under and comply with the U.S. export control and trade sanctions laws and regulations could have a material adverse effect on its results of operations, business prospects and financial condition.**

The export of satellites and technical data related to satellites, earth station equipment and provision of services are subject to U.S. export control and economic sanctions laws, implemented by U.S. State Department, Commerce Department and Treasury Department regulations. If Telesat does not maintain its existing authorizations or obtain necessary future authorizations under the export control laws and regulations of the United States, it may be unable to export technical data or equipment to non-U.S. persons and companies, including to Telesat's own non-U.S. employees, as required to fulfill existing contracts. If Telesat does not maintain its existing authorizations or obtain

necessary future authorizations under and comply with the trade sanctions laws and regulations of the United States, it may not be able to provide satellite capacity and related administrative services to certain of its customers. Violations of these laws and regulations can also result in civil and criminal sanctions or penalties. Telesat's ability to acquire new satellites, launch new satellites or operate its satellites could also be negatively affected if its suppliers do not obtain required U.S. export authorizations.

**Telesat is subject to risks associated with doing business internationally.**

Telesat's operations internationally are subject to risks that are inherent in conducting business globally. Telesat is subject to compliance with the United States Foreign Corrupt Practices Act ("FCPA") and other similar anti-corruption laws, which generally prohibit companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. While Telesat's employees are required to comply with these laws, Telesat cannot be sure that its internal policies and procedures will always protect it from violations of these laws, despite Telesat's commitment to legal compliance and corporate ethics. Violations of these laws may result in severe criminal and civil sanctions as well as other penalties, and the SEC and U.S. Department of Justice have increased their enforcement activities with respect to the FCPA. The occurrence or allegation of these types of risks may adversely affect Telesat's business, performance, financial condition and results of operations.

Table of Contents

**III. Litigation and Disputes**

**We and SS/L are involved in a patent infringement and breach of contract lawsuit with ViaSat, which, if adversely decided, could have a material adverse effect on our business, financial condition and results of operations.**

We and SS/L are involved in a patent infringement and breach of contract lawsuit with ViaSat, details of which can be found in Note 15 to the Loral consolidated financial statements. Under the terms of the Purchase Agreement relating to our sale of SS/L, we are obligated to indemnify SS/L for all Covered Litigation Costs and Covered Litigation Damages (as such terms are defined in the Purchase Agreement), subject to certain capped cost-sharing by SS/L. There can be no assurance that our or SS/L's defenses and counterclaims will be successful with respect to all or some of ViaSat's claims or that SS/L will prevail with respect to its assertion that ViaSat has infringed SS/L patents. A decision against us or against SS/L in this lawsuit could have a material adverse effect on our business, financial condition and results of operations.

**MDA has asserted a right to indemnification against us with respect to a second lawsuit filed by ViaSat against SS/L; if it is ultimately determined that we are obligated to indemnify SS/L with respect to this new lawsuit, a decision against SS/L in this lawsuit could have a material adverse effect on our business, financial condition and results of operations.**

MDA has asserted that we are obligated to defend and indemnify SS/L with respect to a second patent infringement lawsuit brought by ViaSat against SS/L. We have rejected MDA's assertion that it is obligated to defend and indemnify SS/L on the basis that the new lawsuit does not fall within our defense and indemnification obligations under the Purchase Agreement. The parties have agreed, however, to defer determination of whether we are obligated to defend and indemnify SS/L for the new lawsuit until the earlier of judgment or settlement of either of the ViaSat actions and October 25, 2016. There can be no assurance that a dispute will not arise as to whether we are obligated to defend and indemnify SS/L for the new ViaSat lawsuit or if such a dispute were to arise that we would prevail. If it is ultimately determined that we are obligated to indemnify SS/L for this new lawsuit, a decision against SS/L in this lawsuit could have a material adverse effect on our business, financial condition and results of operations.

**IV. Other Risks**

**Third parties have significant rights with respect to our affiliates.**

Third parties have significant rights with respect to, and we do not have control over management of, our affiliates. For example, while we own 62.8% of the participating shares of Telesat, we own only 32.7% of the voting power. Also, Hisdesat enjoys substantial approval rights in regard to XTAR, our X-band joint venture. The rights of these third parties and fiduciary duties under applicable law could result in others acting or failing to act in ways that are not in our best interest. For example, it is likely that any strategic transaction involving Telesat or XTAR that we wish to pursue will require the cooperation of our joint venture partners, and our partners may not share our objectives or wish to pursue a transaction in which we are interested or any transaction at all.

**The loss of executive officers and our inability to retain other key personnel could materially adversely affect our operations or ability to pursue strategic alternatives.**

Loral and Telesat rely on a number of key employees, including members of management and certain other employees possessing unique experience in technical and commercial aspects of the satellite services business. If Loral or Telesat are unable to retain these employees, it could be difficult to replace them. In addition, the business of Telesat, with its constant technological developments, must continue to attract highly qualified and technically skilled employees. In the future, the inability to retain or replace these employees, or the inability to attract new highly qualified employees, could have a material adverse effect on the results of operations, business prospects and financial condition of Loral or Telesat.

Also, we have retained Michael B. Targoff, our former chief executive officer and president, as a consultant, in particular to provide assistance and guidance in the oversight of strategic matters relating to Telesat and XTAR and the ViaSat lawsuit. The consulting agreement may be terminated by either the Company or Mr. Targoff at any time for any reason or for no reason on ten days prior notice. There can be no assurance that Mr. Targoff will not terminate the agreement, and, were he to do so, the ability of the Company to pursue strategic alternatives with regard to Telesat and XTAR and the outcome of the ViaSat lawsuit could be adversely affected.

Table of Contents

**Interruption or failure of, or cyber-attacks on, Telesat's or our information technology and communications systems could hurt Telesat's or our ability to operate our respective businesses effectively, which could harm Telesat's or our business and operating results.**

Telesat's and our ability to operate our respective businesses depends, in part, on the continuing operation of Telesat's and our information technology and communications systems, which are an integral part of Telesat's and our businesses. We and Telesat rely on our information and communication systems, as well as software applications developed internally and externally to, among other things, effectively manage the accounting and financial functions, including maintaining internal controls, operate Telesat's satellites and satellites for third parties, provide consulting services by Telesat to customers and transmit customer proprietary and/or confidential content and data. Although we and Telesat take steps to secure information and communications systems, including computer systems, intranet and internet sites, email and other telecommunications and data networks, the security measures implemented have not always been effective. While we and Telesat continue to bolster systems with additional security measures, and, working with external experts, mitigate the risk of security breaches, systems may be vulnerable to theft, loss, damage and interruption from a number of potential sources and events, including unauthorized access or security breaches, inclement weather, natural or man-made disasters, earthquakes, explosions, terrorist attacks, floods, fires, cyber-attacks, computer viruses, power loss, telecommunications or equipment failures, transportation interruptions, accidents or other disruptive events or attempts to harm our or Telesat's systems. In addition, Telesat's and our facilities are also potentially vulnerable to break-ins, sabotage and intentional acts of vandalism. Moreover, some of these systems are not fully redundant, and disaster recovery planning cannot account for all eventualities. Telesat's and our business and operations could be adversely affected if, as a result of a significant cyber event or otherwise, operations are disrupted or shut down, confidential or proprietary information is stolen or disclosed, costs are incurred or fines are required in connection with confidential or export-controlled information that is disclosed, significant resources are dedicated to system repairs or to increase cyber security protection or we or Telesat otherwise incur significant litigation or other costs as a result of any such event. While Telesat's or our insurance coverage could offset losses relating to some of these types of events, to the extent any such losses are not covered by insurance, a serious disruption to systems could significantly limit Telesat's or our ability to manage and operate our business efficiently, which in turn could have a material adverse effect on our business, results of operations and financial condition.

**MHR may be viewed as our controlling stockholder and may have conflicts of interest with us in the future.**

As of December 31, 2013, various funds affiliated with MHR and Dr. Rachesky held approximately 38.0% of the outstanding voting common stock of Loral as well as all issued and outstanding shares of Loral non-voting common stock, which, when taken together, represent approximately 57.1% of the outstanding common equity of Loral as of December 31, 2013. As of February 14, 2014, a representative of MHR occupies one of the seven seats on our board of directors. One seat on our board is occupied by a former managing principal of MHR, and one seat, previously occupied by a former managing principal of MHR, is currently vacant. In addition, one of our other directors was selected by the creditors' committee in our predecessor's chapter 11 cases, in which MHR served as the chairman. Conflicts of interests may arise in the future between us and MHR. For example, MHR and its affiliated funds are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. Under our agreement with PSP, subject to certain exceptions, in the event that either (i) ownership or control, directly or indirectly, by Dr. Mark H. Rachesky, President of MHR, of our voting stock falls

below certain levels other than in certain specific circumstances 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, we will lose our veto rights relating to certain actions by Telesat. 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 our right to call PSP's shares at fair market value.

**There is a thin trading market for our voting common stock.**

Trading activity in our voting common stock, which is listed on the NASDAQ National Market, has generally been light, averaging approximately 57,000 shares per day for the year ended December 31, 2013. Moreover, over 50% of our voting common stock is effectively held by MHR and several other stockholders. If any of our significant stockholders should sell some or all of their holdings, it will likely have an adverse effect on our share price. Although the funds affiliated with MHR have restrictions on their ability to sell our shares under U.S. securities laws, we have filed a shelf registration statement in respect of the voting common stock and non-voting common stock they hold in Loral that effectively eliminates such restrictions. Such funds also have other demand and piggyback registration rights in respect of their Loral voting common stock and non-voting common stock that would also, if exercised, effectively eliminate such restrictions. In addition, our board of directors has authorized a stock repurchase program pursuant to which the Company is authorized to purchase up to 800,000 shares of our voting common stock. To the extent the Company does repurchase shares (through 2013, we purchased 154,494 shares of voting common stock), the number of shares available for trading in the market will be reduced thereby increasing further the illiquidity of our stock.

Table of Contents

**The market for our voting common stock could be adversely affected by future issuance of significant amounts of our voting common stock.**

As of December 31, 2013, 21,414,212 shares of our voting common stock and 9,505,673 shares of our non-voting common stock were outstanding. On that date, there were also outstanding 84,213 vested restricted stock units. These restricted stock units may be settled either in cash or Loral voting common stock at the Company's option. As of December 31, 2013, 1,319,533 shares of our voting common stock were available for future grants under our stock incentive plan. The number of shares available for grant would be reduced if outstanding SS/L phantom stock appreciation rights are settled in Loral voting common stock. Moreover, we may further amend our stock incentive plan in the future to provide for additional increases in the number of shares available for grant thereunder.

Sales of significant amounts of our voting common stock to the public, or the perception that those sales could happen, could adversely affect the market for, and the trading price of, our voting common stock.

**A public offering of stock in Telesat could adversely affect the market for, and price of, our common stock and the value of our interest in Telesat.**

Our shareholders agreement with PSP regarding Telesat provides for either PSP or Loral to initiate the process of conducting an initial public offering of the equity shares of Telesat Holdco. In the event Telesat were to conduct a public offering of its equity securities, it is uncertain whether the offering would be a primary offering of shares by Telesat, a secondary offering of shares by either or both of the Telesat shareholders or a combination of both types of offerings. It is also uncertain what effect an offering (and any corporate restructuring required in connection with such offering under the terms of the Telesat shareholders agreement) would have on Loral's governance rights in Telesat. Changes in our Telesat governance rights could adversely affect the value of our interest in Telesat and the price at which our common stock trades. In addition, a public market for Telesat equity would create a situation where there would be two separate public-market proxies for the value of Telesat – our stock and the Telesat stock. Telesat stock would represent a direct interest in Telesat, whereas the value of the common shares of Loral would also include other assets and liabilities, many of which are difficult to value. Having both Telesat stock and our stock trading publicly could create confusion in the market and could adversely affect the liquidity and/or trading values of either our or Telesat's common stock.

**Changes in tax rates or policies or changes to our tax liabilities could affect operating results.**

We are subject to U.S. federal, state and local income taxation on our worldwide income and foreign taxes on certain income from sources outside the United States. Significant judgment is required to determine and estimate our tax liabilities, and our future annual and quarterly tax rates could be affected by numerous factors, including changes in

the applicable tax laws, composition of earnings in countries or states with differing tax rates or our valuation and utilization of deferred tax assets and liabilities. In addition, we are subject to regular examination of our income tax returns by the Internal Revenue Service and other taxing authorities. Although we believe our tax estimates are reasonable, we regularly evaluate the adequacy of our provision for income taxes, and there can be no assurance that any final determination by a taxing authority will not result in additional tax liability which could have a material adverse effect on our results of operations.



Table of Contents

**The future use of tax attributes is limited.**

As of December 31, 2013, we had various tax attributes including federal net operating loss carryforwards, or NOLs, of approximately \$290 million, state NOLs, primarily New York (\$24.1 million) and California (\$77.8 million), and federal and state tax credits, that are available to offset future tax liability (see Notes 2 and 8 to the Loral consolidated financial statements for a description of the accounting treatment of such tax attributes). As our reorganization on November 21, 2005 constituted an “ownership change” under Section 382 of the Internal Revenue Code, our ability to use these tax attributes existing at such effective date, is subject to an annual limitation of approximately \$32.6 million, subject to increase or decrease based on certain factors. If Loral experiences an additional “ownership change” during any three-year period after November 21, 2005, future use of these tax attributes may become further limited. An ownership change may be triggered by sales or acquisitions of Loral equity interests in excess of 50% by shareholders owning five percent or more of our total equity value, i.e., the total market value of our equity interests, as determined on any applicable testing date. We would be adversely affected by an additional “ownership change” if, at the time of such change, the total market value of our equity multiplied by the federal applicable long-term tax exempt rate, which at December 31, 2013 was 3.5%, was less than \$32.6 million. As of December 31, 2013, since the total market value of our equity (\$2.5 billion) multiplied by the federal applicable long-term tax exempt rate was approximately \$88 million, an “ownership change” as of that date would not have had an adverse effect.

**We are subject to the Foreign Corrupt Practices Act.**

We are subject to the Foreign Corrupt Practices Act, or the FCPA, which generally prohibits U.S. companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment, and requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the company. The FCPA applies to companies, individual directors, officers, employees and agents. Under the FCPA, U.S. companies may be held liable for actions taken by strategic or local partners or representatives. If we or our intermediaries fail to comply with the requirements of the FCPA, governmental authorities in the United States could seek to impose civil and/or criminal penalties, which could have a material adverse effect on our business, results of operations, financial conditions and cash flows.

**Accounting standards periodically change and the application of our accounting policies and methods may require management to make estimates about matters that are uncertain.**

The regulatory bodies that establish accounting standards, including, among others, the Financial Accounting Standards Board, or the FASB, and the U.S. Securities and Exchange Commission, or the SEC, periodically revise or issue new financial accounting and reporting standards that govern the preparation of our consolidated financial statements. The effect of such revised or new standards on our consolidated financial statements can be difficult to predict and can materially affect how we record and report our results of operations and financial condition. In addition, our management must exercise judgment in appropriately applying many of our accounting policies and

methods so they comply with generally accepted accounting principles. In some cases, the accounting policy or method chosen might be reasonable under the circumstances and yet might result in our reporting materially different amounts than would have been reported if we had selected a different policy or method. Accounting policies are critical to fairly presenting our results of operations and financial condition and may require management to make difficult, subjective or complex judgments about matters that are uncertain.

**Item 1B. *Unresolved Staff Comments***

None.

**Item 2. *Properties***

*Corporate*

We lease approximately 9,000 square feet of space for our corporate offices in New York.

*Satellite Services*

Telesat leases an area in its headquarters building of approximately 112,000 rentable square feet pursuant to a lease which commenced February 1, 2009 and provides for a 15 year term (terminable by Telesat Canada at any time after 10 years upon two years notice).

The Allan Park earth station, located northwest of Toronto, Ontario on approximately 65 acres of land, houses a customer support center and a technical control center. This facility is the single point of contact for Telesat's international customers and is also the main earth station complex providing TT&C services for the satellites Telesat operates. The Allan Park earth station also houses Telesat's backup satellite control center for the Nimiq and Anik satellites.

Table of Contents

In addition to these facilities, Telesat leases facilities for administrative and sales offices in various locations throughout Canada and the United States as well as in Brazil, England, the Netherlands and Singapore.

**Item 3. *Legal Proceedings***

We discuss certain legal proceedings pending against the Company in the notes to the Loral consolidated financial statements and refer you to that discussion for important information concerning those legal proceedings, including the basis for such actions and relief sought. See Note 15 to the Loral consolidated financial statements for this discussion.

**Item 4. *Mine Safety Disclosures***

Not Applicable

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****(a) Market Price and Dividend Information**

Loral's amended and restated certificate of incorporation provides that the total authorized capital stock of the Company is eighty million (80,000,000) shares consisting of two classes: (i) seventy million (70,000,000) shares of common stock, \$0.01 par value per share, divided into two series, of which 50,000,000 shares are voting common stock and 20,000,000 shares are non-voting common stock and (ii) ten million (10,000,000) shares of preferred stock, \$0.01 par value per share. Each share of voting common stock and each share of non-voting common stock are identical and are treated equally in all respects, except that the non-voting common stock does not have voting rights except as set forth in Article IV(a)(iv) of the amended and restated certificate of incorporation and as otherwise provided by law. Article IV(a)(iv) of Loral's amended and restated certificate of incorporation provides that Article IV(a) of the amended and restated certificate of incorporation, which provides for, among other things, the equal treatment of the non-voting common stock with the voting common stock, may not be amended, altered or repealed without the affirmative vote of holders of a majority of the outstanding shares of the non-voting common stock, voting as a separate class. Except as otherwise provided in the amended and restated certificate of incorporation or bylaws of Loral, each holder of Loral voting common stock is entitled to one vote in respect of each share of Loral voting common stock held of record on all matters submitted to a vote of stockholders.

Holders of shares of Loral common stock are entitled to share equally, share for share in dividends when and as declared by the Board of Directors out of funds legally available for such dividends. Upon a liquidation, dissolution or winding up of Loral, the assets of Loral available to stockholders will be distributed equally per share to the holders of Loral common stock. The holders of Loral common stock do not have any cumulative voting rights. Loral common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to Loral common stock. All outstanding shares of Loral common stock are fully paid and non-assessable.

Our voting common stock trades on the NASDAQ National Market under the ticker symbol "LORL." The table below sets forth the high and low sales prices of Loral voting common stock as reported on the NASDAQ National Market from January 1, 2012 through December 31, 2013.

	High	Low
Year ended December 31, 2013		

Quarter ended December 31, 2013	\$81.36	\$64.53
Quarter ended September 30, 2013	70.74	59.25
Quarter ended June 30, 2013	65.91	59.10
Quarter ended March 31, 2013	62.79	54.67
Year ended December 31, 2012		
Quarter ended December 31, 2012	\$85.84	\$51.91
Quarter ended September 30, 2012	76.77	66.64
Quarter ended June 30, 2012	81.73	56.49
Quarter ended March 31, 2012	82.48	62.99

There is no established trading market for the Company's non-voting common stock. All of the shares of non-voting common stock were issued pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") provided by Section 4(2) of the Securities Act.

See (d), below, for a description of dividends and distributions that affected our stock price during 2012.

**(b) Approximate Number of Holders of Common Stock**

At February 14, 2014, there were 231 holders of record of our voting common stock and five holders of record of our non-voting common stock.

Table of Contents**(c) Issuer Purchases of Equity Securities**

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

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs <sup>(1)</sup>
November 17-30, 2011	44,346	\$ 60.07	44,346	755,654
December 1-31, 2011	92,148	62.25	92,148	663,506
June 28-29, 2012	18,000	66.22	18,000	645,506
Total	154,494		154,494	

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

**(d) Dividends**

On March 28, 2012, our Board of Directors declared a special dividend of \$13.60 per share for an aggregate dividend of \$417.6 million. The dividend was paid on April 20, 2012 to holders of record of Loral voting and non-voting common stock as of April 10, 2012. In accordance with Loral's stock incentive plan, an equitable adjustment was made to outstanding stock-based awards to reflect the special dividend. As a result, options outstanding increased by 19,058 and restricted stock units ("RSUs") increased by 6,875. Michael B. Targoff, Vice Chairman of the Company and former Chief Executive Officer and President, who elected to receive the dividend at the \$13.60 per share value, received 19,368 shares of Loral voting common stock, net of 18,774 shares to satisfy withholding taxes, in lieu of cash payments totaling \$2.4 million on his RSU settlement date in June 2013 (see Note 10 to our consolidated financial statements).

On November 7, 2012, in connection with the receipt of the proceeds from the Sale, our Board of Directors declared a special distribution of \$29.00 per share for an aggregate distribution of \$892.1 million. The special distribution was paid on December 4, 2012 to holders of record of Loral voting and non-voting common stock as of November 19,

2012. In accordance with Loral's stock incentive plan, an equitable adjustment was made to outstanding stock-based awards to reflect the special distribution. Mr. Targoff, who elected to receive the special distribution related to his RSUs at the \$29.00 per share value, received 41,300 shares of Loral voting common stock, net of 40,033 shares to satisfy withholding taxes, in lieu of cash payments totaling \$5.1 million on his RSU settlement date in June 2013 (see Note 10 to our consolidated financial statements).

Loral's ability to pay additional dividends or distributions on its common stock will depend upon its earnings, financial condition and capital needs and other factors deemed pertinent by the Board of Directors.

**(e) Securities Authorized for Issuance under Equity Compensation Plans**

See Note 11 to the Loral consolidated financial statements for information regarding the Company's stock incentive plan. Compensation information required by Item 11 will be presented in the Company's 2014 definitive proxy statement which is incorporated herein by reference or by an amendment to this Annual Report on Form 10-K.

Table of Contents

**(f) Comparison of Cumulative Total Returns**

Set forth below is a graph comparing the cumulative performance of our voting common stock with the NASDAQ Composite Index and the NASDAQ Telecommunications Index from December 31, 2008 to December 31, 2013. The graph assumes that \$100 was invested on December 31, 2008 in each of our voting common stock, the NASDAQ Composite Index and the NASDAQ Telecommunications Index and that all dividends were reinvested. The NASDAQ Telecommunications Index is a capitalization weighted index designed to measure the performance of all NASDAQ-traded stocks in the telecommunications sector, including satellite technology companies.



Table of Contents**Item 6. Selected Financial Data**

The following table sets forth our selected historical financial and operating data for each of the five years in the period ended December 31, 2013.

The information set forth in the following table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

**LORAL SPACE & COMMUNICATIONS INC.**

**(In thousands, except per share data)**

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Statement of operations data:					
(Loss) income from continuing operations before equity in net income of affiliates <sup>(1)</sup>	\$(17,371)	\$66,102	\$(53,721)	\$301,964	\$(26,492)
Equity in net income of affiliates <sup>(2)</sup>	38,827	34,340	106,329	85,625	210,298
Income from continuing operations	21,456	100,442	52,608	387,589	183,806
(Loss) income from discontinued operations, net of tax <sup>(3)</sup>	(4,877)	320,649	74,566	99,752	47,896
Net income attributable to common shareholders	16,579	421,322	126,677	486,846	231,702
Income (loss) per share:					
Basic income (loss) per share					
Continuing operations	\$0.70	\$3.27	\$1.72	\$12.88	\$6.18
Discontinued operations	(0.16)	10.45	2.41	3.30	1.61
	\$0.54	\$13.72	\$4.13	\$16.18	\$7.79
Diluted income (loss) per share					
Continuing operations	\$0.67	\$3.22	\$1.54	\$12.42	\$6.13
Discontinued operations	(0.16)	10.35	2.38	3.21	1.60
	\$0.51	\$13.57	\$3.92	\$15.63	\$7.73
Dividend and Distribution Data:					
Cash dividends declared	\$	\$417,606	\$	\$	\$
Per share		13.60			
Cash distributions declared		892,147			
Per share		29.00			

December 31,

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

	2013	2012	2011	2010	2009
Balance sheet data:					
Cash and cash equivalents	\$5,926	\$87,370	\$197,114	\$165,801	\$168,205
Total assets	327,740	378,992	1,836,153	1,754,909	1,253,452
Non-current liabilities	110,120	121,015	485,598	414,013	380,143
Total liabilities	119,830	192,531	888,568	853,960	821,461
Loral shareholders' equity	207,910	186,461	946,459	900,320	431,991

During 2012, we recorded an \$86.7 million income tax benefit after the statute of limitations for assessment of additional tax expired with regard to certain uncertain tax positions related to Old Loral and several of our federal and state income tax returns filed for 2007 and 2008 (see Note 8 to the Loral consolidated financial statements).

<sup>(1)</sup> During the fourth quarter of 2010, we determined, based on all available evidence, that a full valuation allowance was no longer required on our deferred tax assets and, therefore, \$335.3 million of the valuation allowance was reversed as an income tax benefit.

<sup>(2)</sup> Our principal affiliate is Telesat. Loral also has investments in XTAR and joint ventures providing Globalstar service, which are accounted for under the equity method.

We recorded a gain of \$308.6 million, net of tax, in 2012 in connection with the sale of our wholly-owned <sup>(3)</sup>subsidiary, SS/L, to MDA, which closed on November 2, 2012 (see Notes 1 and 3 to the Loral consolidated financial statements).

Table of Contents

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with our consolidated financial statements (the "financial statements") included in Item 15 of this Annual Report on Form 10-K.*

Loral Space & Communications Inc., a Delaware corporation, together with its subsidiaries, is a leading satellite communications company engaged, through our ownership interests in affiliates, in satellite-based communications services. Prior to completion of the sale of our wholly-owned subsidiary, Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc. ("SS/L")) in 2012, we were also engaged in the satellite manufacturing business (see "Sale of SS/L" below).

**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," "pro," "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 Risk Factors section above, the Commitments and Contingencies section below and to our other periodic reports filed with the Securities and Exchange Commission ("SEC"). We operate in an industry sector in which the value of securities may be volatile and may be influenced by economic and other factors beyond our control. We undertake no obligation to update any forward-looking statements.*

Table of Contents

**Overview**

*Business*

Loral has one operating segment consisting of satellite based communications services. Loral participates in satellite services operations through its ownership interest in Telesat Holdings Inc. (“Telesat Holdco”) which owns Telesat Canada (“Telesat”), a leading global fixed satellite services operator, with facilities around the world. Telesat provides its satellite and communication services from a fleet of satellites that occupy Canadian and other orbital locations.

Loral holds a 62.8% economic interest and a 32.7% voting interest in Telesat Holdco, the world’s fourth largest satellite operator with approximately \$4.7 billion of backlog as of December 31, 2013.

At December 31, 2013, Telesat provided satellite services to customers from its fleet of 14 in-orbit satellites. In addition, Telesat owns the Canadian payload on the ViaSat-1 satellite.

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

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

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

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

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

In 2014, Telesat will remain focused on: increasing utilization on its existing satellites; the construction of Telstar 12 VANTAGE; identifying and pursuing opportunities to expand its satellite fleet; and maintaining cost and operating discipline.

Telesat's operating results are subject to fluctuations as a result of exchange rate variations. Approximately 47% of Telesat's revenues received in Canada for the year ended December 31, 2013, a substantial portion of its expenses and a substantial portion of its indebtedness and capital expenditures were denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. As of December 31, 2013, Telesat's U.S. dollar denominated debt totaled \$2.6 billion. As of December 31, 2013, a five percent increase (decrease) in the Canadian dollar against the U.S. dollar would have increased (decreased) Telesat's net income by approximately \$141 million. This analysis assumes all other variables, in particular interest rates, remain constant.

Table of Contents

*Sale of SS/L*

On November 2, 2012, Loral completed the sale (the “Sale”) of its wholly-owned subsidiary, SS/L, to MDA Communications Holdings, Inc. (“MDA Holdings”), a subsidiary of MacDonald, Dettwiler and Associates Ltd. (“MDA”). Pursuant to the purchase agreement (the “Purchase Agreement”), dated as of June 26, 2012, as amended on October 30, 2012, by and among Loral, SS/L, MDA and MDA Holdings, in a series of transactions, Loral received total cash payments of \$967.9 million plus, for the sale of certain real estate used in connection with SS/L’s business, a three-year promissory note in the principal amount of \$101 million (the “Land Note”). Transaction costs related to the Sale were \$35.2 million.

Subsequent to the closing of the Sale and pursuant to the Purchase Agreement, Loral, in December 2012, paid MDA \$6.5 million as a result of the resolution of a contingency. Also, in April 2013, pursuant to the Purchase Agreement, we completed the final allocation of qualified pension plan assets between Loral and SS/L (see Note 13 to the financial statements).

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

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

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

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

*General*

Since the Sale, Loral's principal asset continues to be its majority ownership interest in Telesat. With the goal of maximizing shareholder value, we have, with the agreement of our Canadian co-owner, Public Sector Pension Investment Board ("PSP"), commenced a process to explore potential strategic transactions involving the possible monetization of Loral's interest in Telesat. The exact structure of any such transaction has not yet been determined. As currently contemplated, such a transaction would be accomplished through a disposition of Loral itself and would likely require the negotiation of a new shareholders agreement between the potential acquiror of Loral and PSP. There can be no assurance as to whether, when or on what terms a strategic transaction involving Telesat or Loral may occur, or that any particular economic, tax, structural or other objectives or benefits with respect to any transaction involving Telesat or Loral's interest therein will be achieved.

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

In connection with the Sale, Loral has restructured its corporate functions and has reduced the number of employees at its headquarters. In 2012, Loral charged approximately \$11.8 million to general and administrative expenses, mainly for severance and related costs. For the years ended December 31, 2013 and 2012, Loral paid restructuring costs of approximately \$3.3 million and \$8.0 million, respectively. At December 31, 2013 and 2012, the liability recorded in the consolidated balance sheet for the restructuring was \$0.5 million and \$3.8 million, respectively, which includes all expected future payments under the restructuring plan relating to the Sale.

Table of Contents

In connection with the corporate office restructuring as a result of the Sale, on December 13, 2012, Loral’s Board of Directors approved termination of Loral’s supplemental executive retirement plan (the “SERP”). The Company made lump sum payments of \$17.7 million to the participants in the SERP in December 2013 in accordance with the requirements of Section 409A of the Internal Revenue Code and the regulations promulgated thereunder.

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

**Consolidated Operating Results**

Please refer to Critical Accounting Matters set forth below in this section.

**2013 Compared with 2012 and 2012 Compared with 2011**

The following compares our consolidated results for 2013, 2012 and 2011 as presented in our financial statements:

**General and Administrative Expenses**

	Year Ended December 31,		
	2013	2012	2011
	(In millions)		
General and administrative expenses	\$ 16.0	\$ 28.8	\$ 18.3

General and administrative expenses decreased by \$12.8 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012, primarily due to severance expense of \$11.8 million in 2012, and a reduction in compensation of \$7.2 million in 2013 resulting from the restructuring of our corporate functions as a result of the Sale, partially offset by a \$7.1 million increase in pension expense due to accelerated amortization as a result of the termination of our SERP.



General and administrative expenses increased by \$10.5 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011, primarily due to severance expense of \$11.8 million in 2012 in connection with the corporate restructuring as a result of the Sale.

### **Gain on Disposition of Net Assets**

Gain on disposition of net assets for the year ended December 31, 2011 represents the gain associated with the sale of Loral's portion of the ViaSat-1 payload and related net assets to Telesat, net of the elimination of Loral's ownership interest in Telesat (see Note 16 to the financial statements).

### **Interest and Investment Income**

	Year Ended December 31,		
	2013	2012	2011
	(In millions)		
Interest and investment income	\$ 1.2	\$ 1.9	\$ 3.1

Interest and investment income for 2013 consists primarily of interest on our cash balance and Land Note. Interest and investment income for 2012 consists primarily of interest income on long-term receivables due from Telesat for consulting fees. Interest and investment income for 2011 includes interest income of \$1.7 million on directors and officers liability insurance claims and \$1.3 million on long-term receivables due from Telesat for consulting fees.

Table of Contents

**Gain on Litigation, Net**