LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
May 10, 2018

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

**SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2018**

**Commission file number 1-14180**

**Loral Space & Communications Inc.**

**600 Fifth Avenue**

**New York, New York 10020**

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

**Jurisdiction of incorporation: Delaware**

**IRS identification number: 87-0748324**

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | þ |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |
| | | Emerging growth company | ¨ |

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

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

As of May 1, 2018, 21,427,078 shares of the registrant’s voting common stock and 9,505,673 shares of the registrant’s non-voting common stock were outstanding.

**LORAL SPACE & COMMUNICATIONS INC.**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**

**For the quarterly period ended March 31, 2018**

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**PART I**

**FINANCIAL INFORMATION**

**Item 1.** ***Financial Statements***

**LORAL SPACE & COMMUNICATIONS INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

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

**(Unaudited)**

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $251,741 | $255,139 |
| Income taxes receivable | 10,851 | 11,105 |
| Other current assets | 4,350 | 3,099 |
| Total current assets | 266,942 | 269,343 |
| Income taxes receivable, non-current | 1,550 | 1,550 |
| Investments in affiliates | 39,306 | 53,430 |
| Deferred tax assets | 55,145 | 50,016 |
| Other assets | 366 | 372 |
| Total assets | $363,309 | $374,711 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accrued employment costs | $1,283 | $2,573 |
| Other current liabilities | 1,718 | 1,279 |
| Total current liabilities | 3,001 | 3,852 |
| Pension and other postretirement liabilities | 18,429 | 18,786 |
| Other liabilities | 61,950 | 61,475 |
| Total liabilities | 83,380 | 84,113 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Preferred stock, 0.01 par value; 10,000,000 shares authorized, no shares issued and outstanding | — | — |
| Common Stock: | | |
| Voting common stock, 0.01 par value; 50,000,000 shares authorized, 21,581,572 issued | 216 | 216 |

| | | |
|---|---|---|
| Non-voting common stock, 0.01 par value; 20,000,000 shares authorized | | |
| 9,505,673 issued and outstanding | 95 | 95 |
| Paid-in capital | 1,019,988 | 1,019,988 |
| Treasury stock (at cost), 154,494 shares of voting common stock | (9,592 ) | (9,592 ) |
| Accumulated deficit | (700,644 ) | (682,831 ) |
| Accumulated other comprehensive loss | (30,134 ) | (37,278 ) |
| Total shareholders' equity | 279,929 | 290,598 |
| Total liabilities and shareholders' equity | $363,309 | $374,711 |

See notes to condensed consolidated financial statements

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**LORAL SPACE & COMMUNICATIONS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

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

**(Unaudited)**

| | Three Months Ended March 31, 2018 | Three Months Ended March 31, 2017 |
|---|---|---|
| General and administrative expenses | $(1,636) | $(1,865) |
| Operating loss | (1,636) | (1,865) |
| Interest and investment income | 888 | 399 |
| Interest expense | (5) | (5) |
| Other expense | (634) | (815) |
| Loss from continuing operations before income taxes and equity in net income of affiliates | (1,387) | (2,286) |
| Income tax benefit (provision) | 587 | (66,064) |
| Loss from continuing operations before equity in net income of affiliates | (800) | (68,350) |
| Equity in net income of affiliates | 5,094 | 139,714 |
| Income from continuing operations | 4,294 | 71,364 |
| Loss from discontinued operations, net of tax | — | (5) |
| Net income | 4,294 | 71,359 |
| Other comprehensive income (loss), net of tax | 7,144 | (3,038) |
| Comprehensive income | $11,438 | $68,321 |
| Net income per share: | | |
| Basic | | |
| Income from continuing operations | $0.14 | $2.31 |
| Loss from discontinued operations, net of tax | — | — |
| Net income | $0.14 | $2.31 |
| Diluted | | |
| Income from continuing operations | $0.14 | $2.30 |
| Loss from discontinued operations, net of tax | — | — |
| Net income | $0.14 | $2.30 |
| Weighted average common shares outstanding: | | |
| Basic | 30,933 | 30,933 |
| Diluted | 31,008 | 31,008 |

See notes to condensed consolidated financial statements

**LORAL SPACE & COMMUNICATIONS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

**(In thousands)**

**(Unaudited)**

| | Common Stock | | | | | Treasury Stock | | | Accumulated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Voting | | Non-Voting | | | Voting | | | Other | |
| | Shares Issued | Amount | Shares Issued | Amount | Paid-In Capital | Shares | Amount | Accumulated Deficit | Comprehensive Loss | Shareholders' Equity |
| Balance, January 1, 2017 | 21,582 | $ 216 | 9,506 | $ 95 | $ 1,019,988 | 154 | $ (9,592 ) | $ (826,460 ) | $ (13,836 ) | $ 170,411 |
| Net income | | | | | | | | 134,464 | | |
| Other comprehensive loss | | | | | | | | | (18,974 ) | |
| Comprehensive income | | | | | | | | | | 115,490 |
| Tax Cuts and Jobs Act, reclassification tax effect | | | | | | | | 4,468 | (4,468 ) | — |
| Cumulative effect adjustment attributable to previously unrecognized excess tax benefits on stock-based compensation | | | | | | | | 4,697 | | 4,697 |
| Balance, December 31, 2017 | 21,582 | 216 | 9,506 | 95 | 1,019,988 | 154 | (9,592 ) | (682,831 ) | (37,278 ) | 290,598 |
| Net income | | | | | | | | 4,294 | | |
| Other comprehensive income | | | | | | | | | 7,144 | |
| Comprehensive income | | | | | | | | | | 11,438 |
| | | | | | | | | (22,107 ) | | (22,107 ) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Cumulative effect adjustment attributable to investment in Telesat, net of tax of $5.4 million | | | | | | | | | | |
| Balance, March 31, 2018 | 21,582 | $ 216 | 9,506 | $ 95 | $ 1,019,988 | 154 | $ (9,592 ) | $ (700,644 ) | $ (30,134 ) | $ 279,929 |

See notes to condensed consolidated financial statements

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**LORAL SPACE & COMMUNICATIONS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Three Months Ended March 31, 2018 | Three Months Ended March 31, 2017 |
|---|---|---|
| Operating activities: | | |
| Net income | $4,294 | $71,359 |
| Loss from discontinued operations, net of tax | — | 5 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Non-cash operating items (Note 2) | (5,961) | (127,289) |
| Changes in operating assets and liabilities: | | |
| Other current assets and other assets | (1,251) | (703) |
| Accrued employment costs and other current liabilities | (850) | (777) |
| Income taxes receivable and payable | 255 | 53,362 |
| Pension and other postretirement liabilities | (357) | (200) |
| Other liabilities | 472 | 656 |
| Net cash used in operating activities – continuing operations | (3,398) | (3,587) |
| Net cash used in operating activities – discontinued operations | — | (2,809) |
| Net cash used in operating activities | (3,398) | (6,396) |
| Investing activities: | | |
| Distribution received from affiliate | — | 242,735 |
| Net cash provided by investing activities – continuing operations | — | 242,735 |
| Net cash provided by investing activities – discontinued operations | — | — |
| Net cash provided by investing activities | — | 242,735 |
| Cash, cash equivalents and restricted cash (Note 2) — period (decrease) increase | (3,398) | 236,339 |
| Cash, cash equivalents and restricted cash (Note 2) — beginning of year | 255,443 | 37,458 |
| Cash, cash equivalents and restricted cash — end of period | $252,045 | $273,797 |

See notes to condensed consolidated financial statements

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**LORAL SPACE & COMMUNICATIONS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## 1. Organization and Principal Business

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

*Description of Business*

Loral has one operating segment consisting of satellite-based communications services. Loral participates in satellite services operations primarily through its ownership interest in Teleast Canada (“Telesat”), a leading global satellite operator. Loral holds a 62.7% economic interest and a 32.7% voting interest in Telesat. We use the equity method of accounting for our ownership interest in Telesat (see Note 5).

Telesat owns and leases a satellite fleet that operates in geostationary earth orbit approximately 22,000 miles above the equator. In this orbit, satellites remain in a fixed position relative to points on the earth’s surface and provide reliable, high-bandwidth services anywhere in their coverage areas, serving as the backbone for many forms of telecommunications. Telesat is also developing a global constellation of low earth orbit (“LEO”) satellites. LEO satellites operate in a circular orbit around the earth with an altitude typically between 500 and 870 miles. Unlike geostationary orbit satellites that operate in a fixed orbital location above the equator, LEO satellites travel around the earth at high velocities requiring antennas on the ground to track their movement. LEO satellite systems have the potential to offer a number of advantages over geostationary orbit satellites to meet growing requirements for broadband services, both consumer and commercial, by providing increased data speeds and capacity, global coverage, and latency on par with, or potentially better than, terrestrial services.

## 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2017 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the SEC.

*Discontinued Operations*

On November 2, 2012, pursuant to the purchase agreement (the “Purchase Agreement”), dated as of June 26, 2012, as amended on October 30, 2012 and March 28, 2013, by and among Loral, Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc.) (“SSL”), MacDonald, Dettwiler and Associates Ltd. (“MDA”) and MDA Communications Holdings, Inc. (“MDA Holdings”), a subsidiary of MDA, Loral completed the sale of SSL (the “SSL Sale”), its wholly-owned subsidiary, to MDA Holdings.

**LORAL SPACE & COMMUNICATIONS INC.**

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

Interest expense that is directly related to the SSL Sale is classified as discontinued operations in the statements of operations and cash flows for the three months ended March 31, 2017.

*Investments in Affiliates*

Our ownership interest in Telesat is accounted for using the equity method of accounting. Income and losses of Telesat are recorded based on our economic interest. Our equity in net income or loss of Telesat also reflects amortization of profits eliminated, to the extent of our economic interest in Telesat, on satellites we constructed for them while we owned SSL and on Loral's sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related assets. Non-refundable cash distributions received from Telesat in excess of our initial investment and our share of cumulative equity in comprehensive income of Telesat, net of cash distributions received in prior periods, are recorded as equity in net income of Telesat ("Excess Cash Distribution") since we have no obligation to provide future financial support to Telesat. After receiving an Excess Cash Distribution, we do not record additional equity in net income of Telesat until our share of Telesat's future net income exceeds the Excess Cash Distribution. Equity in losses of affiliates is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist. We had no guarantees or other funding obligations for our equity method investments as of March 31, 2018 and December 31, 2017. We use the nature of distribution approach to classify distributions from equity method investments on the statements of cash flows. The Company monitors its equity method investments for factors indicating other-than-temporary impairment. An impairment loss is recognized when there has been a loss in value of the affiliate that is other-than-temporary.

*Use of Estimates in Preparation of Financial Statements*

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

Significant estimates also included the allowances for doubtful accounts, income taxes, including the valuation of deferred tax assets, the fair value of liabilities indemnified, the dilutive effect of Telesat stock options (see Note 10) and our pension liabilities.

*Cash, Cash Equivalents and Restricted Cash*

As of March 31, 2018, the Company had $251.7 million of cash and cash equivalents. Cash and cash equivalents include liquid investments, primarily money market funds, with maturities of less than 90 days at the time of purchase. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date.

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

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

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | $ 251,741 | 255,139 |
| Restricted cash included in other assets | 304 | 304 |
| Cash, cash equivalents and restricted cash shown in the statement of cash flows | $ 252,045 | 255,443 |

*Concentration of Credit Risk*

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and receivables. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. As of March 31, 2018 and December 31, 2017, our cash and cash equivalents were invested primarily in several liquid Prime and Government AAA money market funds. Such funds are not insured by Federal Deposit Insurance Corporation. The dispersion across funds reduces the exposure of a default at any one fund. As a result, management believes that its potential credit risks are minimal.

**LORAL SPACE & COMMUNICATIONS INC.**

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

*Fair Value Measurements*

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

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

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

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

*Assets and Liabilities Measured at Fair Value*

The following table presents our assets and liabilities measured at fair value on a recurring and non-recurring basis (in thousands):

| | March 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | | | | | | |
| Money market funds | $249,066 | $ — | $— | $251,742 | $ — | $— |
| Other current assets: | | | | | | |
| Indemnification - Sale of SSL | — | — | 2,410 | — | — | 2,410 |
| Liabilities | | | | | | |
| Long-term liabilities | | | | | | |
| Indemnification - Globalstar do Brasil S.A. | $— | $ — | $285 | $— | $ — | $293 |

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

The Company did not have any non-financial assets or non-financial liabilities that were recognized or disclosed at fair value as of March 31, 2018 and December 31, 2017.

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

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

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

**LORAL SPACE & COMMUNICATIONS INC.**

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

*Contingencies*

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

*Income Taxes*

Loral and its subsidiaries are subject to U.S. federal, state and local income taxation on their worldwide income and foreign taxation on certain income from sources outside the United States. Telesat is subject to tax in Canada and other jurisdictions, and Loral will provide in operating earnings any additional U.S. current and deferred tax required on distributions received or deemed to be received from Telesat. Deferred income taxes reflect the future tax effect of temporary differences between the carrying amount of assets and liabilities for financial and income tax reporting and are measured by applying anticipated statutory tax rates in effect for the year during which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent it is more likely than not that the deferred tax assets will not be realized.

The tax benefit of an uncertain tax position ("UTP") taken or expected to be taken in income tax returns is recognized only if it is "more likely than not" to be sustained on examination by the taxing authorities, based on its technical merits as of the reporting date. The tax benefit recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income taxes in income tax expense on a quarterly basis.

The unrecognized tax benefit of a UTP is recognized in the period when the UTP is effectively settled. A previously recognized tax position is derecognized in the first period in which it is no longer more likely than not that such tax position would be sustained upon examination.

*Earnings per Share*

Basic earnings per share are computed based upon the weighted average number of shares of voting and non-voting common stock outstanding during each period. Shares of non-voting common stock are in all respects identical to and treated equally with shares of voting common stock except for the absence of voting rights (other than as provided in Loral's Amended and Restated Certificate of Incorporation which was ratified by Loral's stockholders on May 19, 2009). Diluted earnings per share are based on the weighted average number of shares of voting and non-voting common stock outstanding during each period, adjusted for the effect of unvested or unconverted restricted stock units. For diluted earnings per share, earnings are adjusted for the dilutive effect of Telesat stock options.

***Recent Accounting Pronouncements***

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. On December 22, 2017, Public Law 115-97, known as the "Tax Cuts and Jobs Act" was signed into law. Among other things, the Tax Cuts and Jobs Act permanently reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective for tax years commencing January 1, 2018. According to ASU 2018-02, an entity may elect either to (a) reclassify from accumulated other comprehensive income (loss) to retained earnings the stranded income tax effects of the federal tax rate change (the "Reclassification") or (b) provide certain disclosures. The new guidance is effective for the Company on January 1, 2019, with earlier adoption permitted in any interim or annual period. The amendments in this update are to be applied either in the period of adoption or retrospectively to each period in which the effect of the tax rate change is recognized. The Company early adopted the new guidance in the fourth quarter of 2017 and elected the Reclassification approach. As a result of adopting the new guidance, we reclassified $4.5 million of stranded deferred federal income tax benefits from accumulated other comprehensive loss to accumulated deficit in the fourth quarter of 2017 related to the change in the federal corporate income tax rate.

**LORAL SPACE & COMMUNICATIONS INC.**

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

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU No. 2017-07, as it applies to the Company, amended the presentation of net periodic pension and postretirement cost (i.e. net benefit cost). The new guidance requires the service cost component to be presented separate from the non-service cost components of net benefit cost. While the service cost will be presented with other employee compensation costs within operations, the non-service cost components of net benefit cost, such as interest cost, amortization of prior service cost, and gains or losses, are required to be separately presented outside of operations, if income or loss from operations is presented. The guidance, to be applied retrospectively, is effective for the Company on January 1, 2018. Adoption of the new guidance on January 1, 2018, with retrospective effect, required us to restate the condensed consolidated statements of operations and comprehensive income for the prior-period presented. Accordingly, for the three months ended March 31, 2017, of the net benefit cost of $0.4 million, we reclassified the non-service cost components of $0.2 million from general and administrative expenses to other expense. Adoption of the new guidance did not affect previously reported financial position, earnings per share, or cash flows.

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

***Additional Cash Flow Information***

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Non-cash operating items: | | |
| Equity in net income of affiliates | $(5,094) | $(139,714) |
| Deferred taxes | (1,141) | 12,171 |
| Depreciation and amortization | 5 | 15 |
| Amortization of prior service credit and actuarial loss | 269 | 239 |

| | | |
|---|---|---|
| Net non-cash operating items – continuing operations | $(5,961) | $(127,289) |
| Supplemental information: | | |
| Interest paid – continuing operations | $5 | $5 |
| Interest paid – discontinued operations | $— | $55 |
| Tax refunds, net of payments - continuing operations | $(181) | $(144) |

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**LORAL SPACE & COMMUNICATIONS INC.**

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

## 3. Accumulated Other Comprehensive Loss

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

| | Postretirement Benefits | Equity in Telesat Other Comprehensive Income (Loss) | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance at January 1, 2017 | $ (14,074) | $ 238 | $ (13,836) |
| Other comprehensive loss before reclassification | (1,365) | (18,280) | (19,645) |
| Amounts reclassified from accumulated other comprehensive loss | 671 | — | 671 |
| Net current-period other comprehensive loss | (694) | (18,280) | (18,974) |
| Tax Cuts and Jobs Act, reclassification of tax effect from accumulated other comprehensive loss to accumulated deficit | (1,686) | (2,782) | (4,468) |
| Balance at December 31, 2017 | (16,454) | (20,824) | (37,278) |
| Other comprehensive income before reclassification | — | 6,931 | 6,931 |
| Amounts reclassified from accumulated other comprehensive loss | 213 | — | 213 |
| Net current-period other comprehensive income | 213 | 6,931 | 7,144 |
| Balance at March 31, 2018 | $ (16,241) | $ (13,893) | $ (30,134) |

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

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Before-Tax Amount | Tax Provision | Net-of-Tax Amount | Before-Tax Amount | Tax Provision | Net-of-Tax Amount |
| Amortization of prior service credits and net actuarial loss | $269 (a) | $ (56) | $ 213 | $239 (a) | $ (85) | $ 154 |
| Equity in Telesat other comprehensive income (loss) | 8,777 | (1,846) | 6,931 | (4,929) | 1,737 | (3,192) |
| Other comprehensive income (loss) | $9,046 | $ (1,902) | $ 7,144 | $(4,690) | $ 1,652 | $ (3,038) |

(a) Reclassifications are included in other expense.

**4. Other Current Assets**

Other current assets consists of (in thousands):

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Indemnification receivable from SSL for pre-closing taxes (see Note 13) | $ 2,410 | $ 2,410 |
| Due from affiliates | 935 | 217 |
| Prepaid expenses | 668 | 198 |
| Other | 337 | 274 |
| | $ 4,350 | $ 3,099 |

**LORAL SPACE & COMMUNICATIONS INC.**

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

## 5. Investments in Affiliates

Investments in affiliates consist of (in thousands):

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Telesat | $ 39,306 | $ 53,430 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Telesat | $5,094 | $139,714 |

***Telesat***

As of March 31, 2018 and December 31, 2017, we held a 62.7% economic interest and a 32.7% voting interest in Telesat. We use the equity method of accounting for our majority economic interest in Telesat because we own 32.7% of the voting stock and do not exercise control by other means to satisfy the U.S. GAAP requirement for treatment as a consolidated subsidiary. We have also concluded that Telesat is not a variable interest entity for which we are the primary beneficiary. Loral's equity in net income or loss of Telesat is based on our proportionate share of Telesat's results in accordance with U.S. GAAP and in U.S. dollars. Our proportionate share of Telesat's net income or loss is based on our economic interest as our holdings consist of common stock and non-voting participating preferred shares that have all the rights of common stock with respect to dividends, return of capital and surplus distributions, but have no voting rights.

For the three months ended March 31, 2017, our share of equity in net income of Telesat was $35.9 million, including a $1.6 million elimination of affiliate transactions and related amortization. In the first quarter of 2017, we received a $242.7 million cash distribution from Telesat which exceeded our initial investment and our share of cumulative equity in comprehensive income of Telesat by $103.8 million. Accordingly, for the three months ended March 31, 2017, we recognized equity in net income of affiliates of $139.7 million, including the Excess Cash Distribution of $103.8 million.

In addition to recording our share of equity in net income of Telesat, we also recorded our share of equity in other comprehensive income of Telesat of $8.8 million for the quarter ended March 31, 2018.

On January 1, 2018, Telesat adopted ASC 606, *Revenue from Contracts with Customers,* for its U.S. GAAP reporting which we use to record our equity income in Telesat. Telesat adopted the new standard using the modified retrospective approach with a cumulative effect adjustment to reduce Telesat's retained earnings by $44.6 million. As a result, we recorded our share of the cumulative effect adjustment by reducing our investment in Telesat by $28.0 million, increasing our deferred tax assets by $5.9 million and increasing our accumulated deficit by $22.1 million. Comparative summary financial data of Telesat presented below has not been restated and continues to be reported under the accounting standards in effect for those periods presented.

In February 2017, Telesat amended its senior secured credit facilities. The amendment to the senior secured credit facilities reduced the applicable margin on the term loan B – U.S. facility ("U.S. TLB Facility") from 3.75% to 3.0%.

In March 2018, Telesat made a $50 million voluntary payment on the U.S. TLB Facility.

In April 2018, Telesat amended the senior secured credit facilities, resulting in a reduction of the margin on the U.S. TLB Facility to 2.5% from 3.0%.

The ability of Telesat to pay dividends or certain other restricted payments in cash to Loral is governed by applicable covenants in Telesat's debt and shareholder agreements. Telesat's credit agreement governing its senior secured credit facilities limits, among other items, Telesat's ability to incur debt and make dividend payments if the total leverage ratio ("Total Leverage Ratio") is above 4.50:1.00, with certain exceptions. As of March 31, 2018, Telesat's Total Leverage Ratio was 4.59:1.00. Telesat is, however, permitted to pay annual consulting fees of $5.0 million to Loral in cash (see Note 14).

**LORAL SPACE & COMMUNICATIONS INC.**

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

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

The following table presents summary financial data for Telesat in accordance with U.S. GAAP, for the three months ended March 31, 2018 and 2017 and as of March 31, 2018 and December 31, 2017 (in thousands):

| | Three Months Ended March 31, 2018 | Three Months Ended March 31, 2017 |
|---|---|---|
| Statement of Operations Data: | | |
| Revenues | $184,866 | $177,111 |
| Operating expenses | (30,603 ) | (41,988 ) |
| Depreciation, amortization and stock-based compensation | (48,499 ) | (48,497 ) |
| Gain (loss) on disposition of long lived asset | 2 | (18 ) |
| Operating income | 105,766 | 86,608 |
| Interest expense | (45,088 ) | (36,793 ) |
| Foreign exchange (loss) gain | (63,301 ) | 17,851 |
| Gain (loss) on financial instruments | 32,383 | (3,613 ) |
| Other income | 1,618 | 461 |
| Income tax provision | (23,770 ) | (9,838 ) |
| Net income | $7,608 | $54,676 |

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance Sheet Data: | | |
| Current assets | $477,039 | $445,104 |
| Total assets | 4,028,918 | 4,082,472 |
| Current liabilities | 155,390 | 126,100 |
| Long-term debt, including current portion | 2,778,023 | 2,829,911 |
| Total liabilities | 3,520,557 | 3,538,656 |

| | | |
|---|---|---|
| Shareholders' equity | 508,361 | 543,816 |

***Other***

We own 56% of XTAR, a joint venture between us and Hisdesat Servicios Estrategicos, S.A. ("Hisdesat") of Spain. We account for our ownership interest in XTAR under the equity method of accounting because we do not control certain of its significant operating decisions. We have also concluded that XTAR is not a variable interest entity for which we are the primary beneficiary. As of March 31, 2018 and December 31, 2017, the carrying value of our investment in XTAR was zero. Beginning January 1, 2016, we discontinued providing for our allocated share of XTAR's net losses as our investment was reduced to zero and we have no commitment to provide further financial support to XTAR.

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

**LORAL SPACE & COMMUNICATIONS INC.**

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

As of March 31, 2018 and December 31, 2017, the Company also held an indirect ownership interest in a foreign company that currently serves as the exclusive service provider for Globalstar service in Mexico. The Company accounts for this ownership interest using the equity method of accounting. Loral has written-off its investment in this company, and, because we have no future funding requirements relating to this investment, there is no requirement for us to provide for our allocated share of this company’s net losses.

## 6. Other Current Liabilities

Other current liabilities consists of (in thousands):

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Due to affiliate | 179 | 9 |
| Accrued professional fees | 1,434 | 1,117 |
| Pension and other postretirement liabilities | 69 | 69 |
| Accrued liabilities | 36 | 84 |
| | $ 1,718 | $ 1,279 |

## 7. Income Taxes

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

| | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Current income tax provision | $ (554) | $ (53,893) |
| Deferred income tax benefit (provision) | 1,141 | (12,171) |
| Income tax benefit (provision) | $ 587 | $ (66,064) |

Our income tax benefit (provision) for each period is computed by applying an expected effective annual tax rate against the pre-tax results for the three months ended March 31, 2018 and 2017 (after adjusting for certain tax items that are discrete to each period). The current income tax provision for each period includes our anticipated income tax liability related to distributions received or deemed to be received from Telesat. The deferred income tax benefit (provision) for each period includes the impact of equity in net income of affiliates from our condensed consolidated statement of operations.

In accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 118, *Income Tax-Accounting Implication of the Tax Cuts and Job Act* (SAB 118), we recognized the preliminary income tax effects of the Tax Cuts and Jobs Act in our consolidated financi