Star Maritime Acquisition Corp.
Form PRER14A
October 25, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

ý Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

STAR MARITIME ACQUISITION CORP.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

ý Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common Stock of Star Bulk Carriers Corp.
Warrants of Star Bulk Carriers Corp.

(2) Aggregate number of securities to which transaction applies:
29,026,924 shares of Common Stock of Star Bulk Carriers Corp. received in merger
20,000,000 Warrants of Star Bulk Carriers Corp. received in merger
20,000,00 shares of Common Stock of Star Bulk Carriers Corp. to be issued upon exercise of Warrants

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
Common Stock of Star Bulk Carriers Corp. received in merger: $9.97/share

Warrant of Star Bulk Carriers Corp.: $1.69/warrant
Common Stock of Star Bulk Carriers Corp. issued upon conversion of warrant:
$8.00/share (based on conversion price)

(4) Proposed maximum aggregate value of transaction:
$483,198,432.28

(5) Total fee paid:
$14,834.19

ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED OCTOBER 24, 2007

PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS OF STAR MARITIME ACQUISITION CORP. AND PROSPECTUS FOR SHARES OF COMMON STOCK AND WARRANTS OF STAR BULK CARRIERS CORP.

Joint Proxy Statement/Prospectus dated , 2007
and first mailed to stockholders on or about , 2007

Dear Star Maritime Stockholders:

You are cordially invited to attend the special meeting of the stockholders of Star Maritime Acquisition Corp., a Delaware corporation, or Star Maritime, relating to the acquisition by Star Bulk Carriers Corp., or Star Bulk, a wholly-owned Marshall Islands subsidiary of Star Maritime, of eight drybulk carriers from certain wholly-owned subsidiaries of TMT Co., Ltd., or TMT, a global shipping company with management headquarters in Taiwan. The acquisition of the eight drybulk carriers, or the Asset Acquisition, is conditioned upon the approval of the merger of Star Maritime with and into Star Bulk, with Star Bulk as the surviving corporation, which we refer to as the Redomiciliation Merger. Star Bulk's acquisition of the eight drybulk carriers from TMT is contingent upon the approval and consummation of the Redomiciliation Merger. Star Maritime has also entered into related agreements with TMT in connection with the acquisition of the vessels. Following the Redomiciliation Merger, Star Maritime will be merged out of existence and Star Bulk will be governed by the laws of the Republic of the Marshall Islands and, pursuant to separate definitive agreements, Star Bulk will acquire the vessels in its initial fleet from wholly-owned subsidiaries of TMT for an aggregate purchase price of $345,237,520, consisting of $224,500,000 in cash and 12,537,645 shares of common stock of Star Bulk to be issued at the time of the Redomiciliation Merger and an additional 1,606,962 shares of common stock of Star Bulk to be issued in two installments. The board of directors of Star Maritime has unanimously approved the Asset Acquisition and Redomiciliation Merger.

Pursuant to the Agreement and Plan of Merger by and between Star Maritime and Star Bulk, or the Merger Agreement, each outstanding share of Star Maritime common stock, par value $0.0001 per share, will be converted into the right to receive one share of Star Bulk common stock, par value $0.01 per share, and each outstanding warrant of Star Maritime will be assumed by Star Bulk with the same terms and restrictions except that each will be exercisable for common stock of Star Bulk. Star Bulk has applied to have its common stock and warrants listed on the Nasdaq Global Market under the symbols "SBLK" and "SBLKW" respectively.

Star Maritime is a Business Combination Company , or BCC , which is a blank check company formed to acquire, through a merger, capital stock exchange, asset acquisition or similar business combination, one or more businesses in the shipping industry. On December 21, 2005, we consummated our initial public offering of 18,867,500 units, with each unit consisting of one share of Star Maritime common stock and one warrant to purchase one share of Star Maritime common stock. The gross proceeds of the initial public offering of $188,675,000 were deposited in a trust account maintained by American Stock Transfer & Trust Company, as trustee, which we refer to as the Trust Account. If we do not complete the Redomiciliation Merger or another business combination transaction by December 21, 2007, Star Maritime will be liquidated and we will distribute to all of the holders of our shares issued in our initial public offering in proportion to their respective equity interests, an aggregate sum equal to the amount in the Trust Account, including any interest (net of any taxes payable) not previously released to us, plus any remaining net assets. Our officers and directors have waived their respective rights to participate in any liquidation distribution with respect to the 9,026,924 shares of common stock issued to them prior to our initial public offering and with respect to the 1,132,500 shares of common stock acquired by certain of our officers and directors in a private placement should we fail to consummate a business combination transaction. In the event of our liquidation, we would not distribute funds from the Trust Account with respect to the Star Maritime warrants, which would expire worthless. Holders of shares of Star Maritime common stock have the right to redeem such shares for cash if such stockholder votes against the Redomiciliation Merger and, at the same time, elects that Star Maritime redeem such shares for cash and the Redomiciliation Merger is approved and completed. The actual per share redemption price will be calculated two business days prior to the consummation of the Redomiciliation Merger. The redemption price would have been $10.39 per share, based on funds in the Trust Account as of June 30, 2007. In order to exercise redemption rights, an eligible stockholder must vote against the Redomiciliation Merger and elect to exercise redemption rights on the enclosed proxy card. If a stockholder votes against the Redomiciliation Merger but fails to properly exercise redemption rights, such stockholder will not be entitled to have its shares redeemed for cash. Any request for redemption, once made, may be withdrawn at any time up to the date of the Star Maritime special meeting.

Your vote is very important. Approval of the Asset Acquisition is conditioned upon approval of the Redomiciliation Merger. Following the effective date of the Redomiciliation Merger, TMT and its affiliates are expected to own between 30.2% and 35.9% of the outstanding common stock of Star Bulk, depending on the number of shares redeemed for cash.

Whether or not you plan to attend the Star Maritime special meeting in person, please submit your proxy card without delay. You may revoke your proxy at any time before it is voted at the meeting. Voting by proxy will not prevent you from voting your shares in person if you subsequently choose to attend the Star Maritime special meeting. The joint proxy statement/prospectus constitutes a proxy statement of Star Maritime and a prospectus of Star Bulk for shares of common stock that Star Bulk will issue to stockholders of Star Maritime and to TMT in respect of the stock consideration portion of the aggregate purchase price of the vessels in the initial fleet. The proposed Asset Acquisition and Redomiciliation Merger are more fully described in this joint proxy statement/prospectus.

Holders of Star Maritime stock will not be entitled to any appraisal rights under the Delaware General Corporation Law in connection with the Redomiciliation Merger.

The registration statement of which this joint proxy statement/prospectus is a part relates to the offering by Star Bulk of up to 43,171,530 shares of common stock of Star Bulk, par value $0.01 per share, which includes 29,026,924 shares of common stock reserved for issuance to shareholders of Star Maritime and an additional 14,144,607 shares reserved for issuance to TMT, in addition to 20,000,000 warrants to purchase shares of common stock of Star Bulk and 20,000,000 common shares underlying such warrants. There is no present market for the securities of Star Bulk.

HOW TO OBTAIN ADDITIONAL INFORMATION

If you would like to receive additional information or if you want additional copies of this document, agreements contained in the appendices or any other documents filed by Star Maritime with the Securities and Exchange Commission, such information is available without charge upon written or oral request. Please contact the following:

Star Maritime Acquisition Corp.
103 Foulk Road
Wilmington, Delaware 19803
Attention: Corporate Secretary
Tel: (302) 656-1950

If you would like to request documents, please do so no later than , 2007, to receive them before Star Maritime's special meeting. Please be sure to include your complete name and address in your request. Please see "Where You Can Find Additional Information" to find out where you can find more information about Star Maritime and Star Bulk. You should only rely on the information contained in this joint proxy statement/prospectus in deciding how to vote on the Redomiciliation Merger. Neither Star Maritime nor Star Bulk has authorized anyone to give any information or to make any representations other than those contained in this joint proxy statement/prospectus. Do not rely upon any information or representations made outside of this joint proxy statement/prospectus. The information contained in this joint proxy statement/prospectus may change after the date of this joint proxy statement/prospectus. Do not assume after the date of this joint proxy statement/prospectus that the information contained in this joint proxy statement/prospectus is still correct.

The place, date and time of the Star Maritime special meeting is as follows: the offices of Seward & Kissel LLP, One Battery Park Plaza, 23rd Floor, New York, New York, on , 2007 at 10:00 a.m.

We encourage you to read this joint proxy statement/prospectus carefully. In particular, you should review the matters discussed under the caption "RISK FACTORS" beginning on page 26.

Star Maritime's board of directors unanimously recommends that Star Maritime stockholders vote "FOR" approval of the Asset Acquisition and the Redomiciliation Merger.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in the merger or otherwise, or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

Prokopios (Akis) Tsirigakis
Chairman of the Board of Directors of Star Maritime Acquisition Corp.

Wilmington, Delaware
, 2007

STAR MARITIME ACQUISITION CORP.

103 Foulk Road
Wilmington, Delaware 19803

Notice of Special Meeting of Star Maritime Acquisition Corp. Stockholders
To Be Held on , 2007

To Star Maritime Stockholders:

A special meeting of stockholders of Star Maritime Acquisition Corp., a Delaware corporation, or Star Maritime, will be held at the offices of Seward & Kissel LLP, One Battery Park Plaza, 23rd Floor, New York, New York on , 2007, at 10:00 a.m., for the following purposes:

1. To consider and vote upon a proposal to approve and authorize the acquisition of eight drybulk carriers by Star Bulk Carriers Corp., or Star Bulk, a wholly-owned Marshall Islands subsidiary of Star Maritime, from certain wholly-owned subsidiaries of TMT Co., Ltd., or TMT, pursuant to definitive agreements, for an aggregate purchase price of $345,237,520, consisting of $224,500,000 in cash and 12,537,645 shares of common stock of Star Bulk to be issued at the time of the Redomiciliation Merger and an additional 1,606,962 shares of common stock of Star Bulk to be issued in two installments, which we refer to as the Asset Acquisition. Star Maritime has also entered into related agreements with TMT in connection with the Asset Acquisition.

2. To consider and vote upon a proposal to approve and authorize the merger, which we refer to as the Redomiciliation Merger, pursuant to the Agreement and Plan of Merger, dated March 14, 2007, by and between Star Maritime and its wholly-owned Marshall Islands subsidiary, Star Bulk Carriers Corp., or Star Bulk, whereby Star Maritime will merge with and into Star Bulk, with Star Bulk as the surviving corporation. As a result of the Redomiciliation Merger: (i) the separate corporate existence of Star Maritime will cease; (ii) each share of Star Maritime common stock, par value $0.0001 per share, will be converted into the right to receive one share of Star Bulk common stock, par value $0.01 per share; and (iii) each outstanding warrant of Star Maritime will be assumed by Star Bulk with the same terms and restrictions, except that each will be exerciseable for common stock of Star Bulk, all as more particularly described in the joint proxy statement/prospectus. The approval of the Asset Acquisition is conditioned upon the approval of the Redomiciliation Merger. Star Bulk cannot complete the Asset Acquisition unless the Redomiciliation Merger is approved and completed; and

3. To adjourn the special meeting in the event Star Maritime has not received the requisite shareholder vote to approve the Asset Acquisition and the Redomiciliation Merger.

As of October 9, 2007, there were 29,026,924 shares of Star Maritime common stock issued and outstanding and entitled to vote. Only Star Maritime stockholders who hold shares of record as of the close of business on , 2007 are entitled to vote at the special meeting or any adjournment or postponement of the special meeting. Approval of the Asset Acquisition is conditioned upon approval of the Redomiciliation Merger. Star Bulk cannot complete the Asset Acquisition unless the Redomiciliation Merger is approved and completed. Star Maritime cannot complete the Redomiciliation Merger unless: (1) the holders of at least a majority of the issued and outstanding shares of Star Maritime entitled to vote at the special meeting vote in favor of the Redomiciliation Merger; (2) holders of at least a majority of the shares of common stock issued in the initial public offering and the private placement vote in favor of the Redomiciliation Merger; and (3) holders of less than 6,600,000 shares of common stock, such number representing 33.0% of the 20,000,000 shares of Star Maritime common stock issued in the initial public offering and private placement, vote against the Redomiciliation Merger and exercise their redemption rights to have their shares redeemed for cash. Holders of shares of Star Maritime common stock have the right to redeem such shares for cash if such stockholder votes against the Redomiciliation Merger and, at the same time, demands that Star Maritime redeem such shares for cash and the Redomiciliation Merger is approved and completed. The actual per share redemption price will be calculated two business days prior to the consummation of the Redomiciliation Merger. The redemption price would have been $10.39 per share, based on funds in the Trust Account as of June 30, 2007. In order to exercise redemption rights, an eligible stockholder must vote against the Redomiciliation Merger and elect to exercise redemption rights on the enclosed proxy card. If a stockholder votes against the Redomiciliation Merger but fails to properly exercise redemption rights, such stockholder will not be entitled to have its shares redeemed for cash. Any request for redemption, once made, may be withdrawn at any time up to the date of the special meeting.

Holders of Star Maritime's stock will not be entitled to any appraisal rights under the Delaware General Corporation Law in connection with the Redomiciliation Merger.

Whether or not you plan to attend the special meeting in person, please submit your proxy card without delay. Voting by proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting. If you fail to return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote "against" the approval and authorization of the Asset Acquisition and the Redomiciliation Merger. You may revoke a proxy at any time before it is voted at the special meeting by executing and returning a proxy card dated later than the previous one, by attending the special meeting in person and casting your vote by ballot or by submitting a written revocation to Star Maritime at 103 Foulk Road, Wilmington, Delaware 19803, Attention: Corporate Secretary, before we take the vote at the special meeting. If you hold your shares through a bank or brokerage firm, you should follow the instructions of your bank or brokerage firm regarding revocation of proxies.

Star Maritime's board of directors unanimously recommends that Star Maritime stockholders vote "FOR" approval of the Asset Acquisition and the Redomiciliation Merger.

By order of the Board of Directors,

Prokopios (Akis) Tsirigakis
Chairman of the Board of Directors of Star Maritime Acquisition Corp.

Wilmington, Delaware
, 2007

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UNTIL , 2007, ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS

Appendix A	Memorandum of Agreement relating to the A Duckling dated January 12, 2007 between Star Bulk Carriers Corp., as buyer, and A Duckling Corporation, as seller.
Appendix B	Memorandum of Agreement relating to the B Duckling dated January 12, 2007 between Star Bulk Carriers Corp., as buyer, and B Duckling Corporation, as seller.
Appendix C	Memorandum of Agreement relating to the C Duckling dated January 12, 2007 between Star Bulk Carriers Corp., as buyer, and C Duckling Corporation, as seller.
Appendix D	Memorandum of Agreement relating to the F Duckling dated January 12, 2007 between Star Bulk Carriers Corp., as buyer, and F Duckling Corporation, as seller.
Appendix E	Memorandum of Agreement relating to the G Duckling dated January 12, 2007 between Star Bulk Carriers Corp., as buyer, and G Duckling Corporation, as seller.
Appendix F	Memorandum of Agreement relating to the I Duckling dated January 12, 2007 between Star Bulk Carriers Corp., as buyer, and I Duckling Corporation, as seller.
Appendix G	Memorandum of Agreement relating to the J Duckling dated January 12, 2007 between Star Bulk Carriers Corp., as buyer, and J Duckling Corporation, as seller.
Appendix H	Memorandum of Agreement relating to the Mommy Duckling dated January 12, 2007 between Star Bulk Carriers Corp., as buyer, and Mommy Management Corporation, as seller.
Appendix I	Supplemental Agreement, dated January 12, 2007.
Appendix J	Master Agreement, dated January 12, 2007.
Appendix K	Agreement and Plan of Merger by and among Star Bulk Carriers Corp. and Star Maritime Acquisition Corp.
Appendix L	Form of Proxy.

QUESTIONS AND ANSWERS ABOUT THE STAR MARITIME SPECIAL MEETING

Q:

What is the purpose of this document?

A:

This document serves as Star Maritime's proxy statement and as the prospectus of Star Bulk. As a proxy statement, this document is being provided to Star Maritime stockholders because the Star Maritime board of directors is soliciting their proxies to vote to approve, at a special meeting of stockholders, (i) the acquisition of eight drybulk carriers by Star Bulk, a wholly-owned Marshall Islands subsidiary of Star Maritime, from certain wholly-owned subsidiaries of TMT pursuant to definitive agreements, for an aggregate purchase price of $345,237,520, consisting of $224,500,000 in cash and 12,537,645 shares of common stock of Star Bulk to be issued at the time of Redomiciliation Merger and an additional 1,606,962 shares of common stock of Star Bulk to be issued in two installments; and (ii) the merger of Star Maritime with and into Star Bulk, with Star Bulk as the surviving corporation. The approval of the Asset Acquisition is conditioned upon the approval of the Redomiciliation Merger. As a prospectus, Star Bulk is providing this document to Star Maritime stockholders because Star Bulk is offering its shares in exchange for shares of Star Maritime common stock and Star Bulk is assuming the outstanding warrants of Star Maritime in the Redomiciliation Merger. The registration statement on Form F-1/F-4 of which this joint proxy statement/prospectus is a part is being filed by Star Bulk to register the shares being offered in exchange for shares of Star Maritime, the 20,000,000 warrants of Star Maritime that will be assumed by Star Bulk, the 20,000,000 shares of Star Bulk common stock issuable upon exercise of such warrants and to register an additional 14,144,607 shares of common stock that Star Bulk will issue to TMT or subsequently to TMT's affiliates in respect of the stock consideration portion of the aggregate purchase price of the vessels in the initial fleet. The shares of common stock that Star Bulk will issue in exchange for shares of Star Maritime are referred to herein as the Merger Consideration.

Q:

What matters will we be asked to vote on at the Star Maritime special meeting?

A:

There are three proposals on which you are being asked to vote. At the special meeting, you will be asked to consider and vote upon a proposal to approve and authorize (i) the acquisition of eight drybulk carriers by Star Bulk, a wholly-owned Marshall Islands subsidiary of Star Maritime, from certain wholly-owned subsidiaries of TMT pursuant to definitive agreements, for an aggregate purchase price of $345,237,520, consisting of $224,500,000 in cash and 12,537,645 shares of common stock of Star Bulk to be issued at the time of Redomiciliation Merger and an additional 1,606,962 shares of common stock of Star Bulk to be issued in two installments; (ii) the merger of Star Maritime with and into Star Bulk, with Star Bulk as the surviving corporation and (iii) to approve the adjournment of the special meeting in order to solicit additional proxies in the event that Star Maritime has not obtained the requisite shareholder approval of the Asset Acquisition and the Redomiciliation Merger. As a result of the Redomiciliation Merger (i) the separate corporate existence of Star Maritime will cease; (ii) each outstanding share of Star Maritime common stock, par value $0.0001 per share, will be converted into the right to receive one share of Star Bulk common stock, par value $0.01 per share; and (iii) each outstanding warrant of Star Maritime will be assumed by Star Bulk with the same terms and restrictions, except that each will be exercisable for common stock of Star Bulk. Approval of the Asset Acquisition is conditioned upon approval of the Redomiciliation Merger. Star Maritime cannot complete the Asset Acquisition unless the Redomiciliation Merger is approved and completed.

Q:

Could you tell me more about the definitive agreements to acquire the vessels?

A:

Star Bulk will acquire the fleet of eight drybulk carriers pursuant to separate memoranda of agreement, which we collectively refer to as the MOAs, by and between Star Bulk and the vessel-owning subsidiaries of TMT, each as supplemented by a Supplemental Agreement by and among Star Maritime, Star Bulk and TMT, and a Master Agreement by and among Star Maritime, Star

Bulk and TMT. We refer to the MOAs, the Supplemental Agreement and the Master Agreement collectively as the Acquisition Agreements. The acquisition of the vessels by Star Bulk is contingent upon, among other things, the approval and consummation of the Redomiciliation Merger. Copies of the MOAs are attached to this joint proxy statement/prospectus as Appendices A-H. A copy of the Supplemental Agreement is attached to this joint proxy statement/prospectus as Appendix I. A copy of the Master Agreement is attached to this joint proxy statement/prospectus as Appendix J.

Q:

Could you tell me more about the parties to the Acquisition Agreements?

A:

Star Maritime was organized under the laws of the State of Delaware on May 13, 2005 and is a Business Combination Company , or BCC , which is a blank check company formed to acquire, through a merger, capital stock exchange, asset acquisition or similar business combination, one or more target businesses in the shipping industry. A target business includes one or more entities with agreements to acquire vessels or an operating business in the shipping industry. Following our formation, our officers and directors were the holders of 9,026,924 shares of common stock representing all of our then issued and outstanding capital stock. On December 21, 2005, we consummated our initial public offering of 18,867,500 units, at a price of $10.00 per unit, each unit consisting of one share of Star Maritime common stock and one warrant to purchase one share of Star Maritime common stock. In addition, we completed a private placement of an aggregate of 1,132,500 units, each unit consisting of one share of common stock and one warrant, to Messrs. Tsirigakis and Syllantavos, our senior executive officers and Messrs. Pappas and Erhardt, two of our directors. As of October 9, 2007 the aggregate value of such securities was $24,042,975. The gross proceeds of the private placement of $11,325,500 were used to pay all fees and expenses of the initial public offering. As a result, the entire gross proceeds of the initial public offering of $188,675,000 were deposited in a trust account maintained by American Stock Transfer & Trust Company, as trustee, which we refer to as the Trust Account. If we do not complete the Redomiciliation Merger or another business combination transaction with a target business by December 21, 2007, we will be liquidated and we will distribute to all holders of our shares issued in the initial public offering in proportion to their respective equity interests, an aggregate sum equal to the amount in the Trust Account, including any interest (net of any taxes payable) not previously released to us, plus any remaining net assets. Our officers and directors have agreed to waive their respective rights to participate in any liquidation distribution should we fail to consummate a business combination transaction with respect to the aggregate of 9,026,924 shares of common stock issued to them prior to our initial public offering and with respect to the aggregate of 1,132,500 shares of common stock acquired by certain of our officers and directors in the private placement. In the event of our liquidation, we would not distribute funds from the Trust Account with respect to the Star Maritime warrants, which would expire worthless.

Star Bulk is a recently formed wholly-owned Marshall Islands subsidiary of Star Maritime and is headquartered in Athens, Greece. Pursuant to the Acquisition Agreements, following the Redomiciliation Merger, Star Bulk will acquire a fleet of eight drybulk carriers from certain subsidiaries of TMT. The eight drybulk carriers that Star Bulk has agreed to purchase constitute 12% of TMT's fleet of 63 vessels, including 22 newbuildings. Following the effective date of the Redomiciliation Merger, TMT and its affiliates are expected to own between 30.2% and 35.9% of the outstanding common stock of Star Bulk, depending on the number of shares of Star Maritime common stock redeemed for cash. See "Description of Star Maritime Securities Common Stock." Star Bulk has applied to have its shares of common stock and warrants listed on the Nasdaq Global Market under the symbols "SBLK" and "SBLKW" respectively.

TMT is a global shipping company with its management headquarters located in Taiwan. TMT has approximately 50 years of experience in the shipping industry. TMT owns and/or operates or invests in vessels in several shipping sectors, including crude oil tankers, drybulk carriers and liquefied natural gas, or LNG, carriers.

Q: **When and where is the special meeting of Star Maritime stockholders?**

A: The special meeting of Star Maritime stockholders will take place at the offices of Seward & Kissel LLP, One Battery Park Plaza, 23rd Floor, New York, New York, on , 2007, at 10:00 a.m.

Q: **Who may vote at the special meeting?**

A: Only holders of record of shares of Star Maritime common stock as of the close of business on , 2007 may vote at the special meeting. As of October 9, 2007, there were 29,026,924 shares of Star Maritime common stock outstanding and entitled to vote.

Q: **What is the required vote to approve and authorize the Asset Acquisition?**

A: The Asset Acquisition must be approved by the holders of a majority of the issued and outstanding shares of common stock of Star Maritime. Adoption and approval of the Asset Acquisition is conditioned upon the adoption and approval of the Redomiciliation Merger. Star Bulk cannot complete the Asset Acquisition unless the Redomiciliation Merger is adopted and approved.

Q: **What is the required vote to approve and authorize the Redomiciliation Merger?**

A: The Delaware General Corporation Law requires that the Redomiciliation Merger must be approved by the holders of a majority of the issued and outstanding shares of common stock of Star Maritime.

In addition, the Redomiciliation Merger must be approved by the holders of at least a majority of the shares of common stock issued in the initial public offering and the private placement, or 10,000,001 shares. Star Maritime may not complete a business combination if the holders of 33% or more of the shares of common stock issued in the initial public offering and the private placement elect to exercise redemption rights in connection with the transaction. A vote in favor of the Redomiciliation Merger is, in effect, a vote in favor of Star Bulk's acquisition of the vessels from TMT.

Messrs. Tsirigakis and Syllantavos, our senior executive officers, and Messrs. Pappas and Erhardt, two of our directors, have agreed to vote an aggregate of 1,132,500 shares of Star Maritime common stock acquired by them in the private placement, which represents 3.9% of Star Maritime's outstanding common stock and 5.7% of the shares issued in the initial public offering and private placement, and any shares of Star Maritime common stock they may acquire in the future in favor of the Redomiciliation Merger and thereby waive redemption rights with respect to such shares. All of Star Maritime's officers and directors have agreed to vote an aggregate of 9,026,924 shares of Star Maritime common stock issued to them prior to our initial public offering in accordance with the vote of the holders of a majority of the shares issued in our initial public offering. Our officers and directors have agreed to waive their respective rights to participate in any liquidation distribution should we fail to consummate a business combination transaction with respect to the aggregate of 9,026,924 shares of common stock issued to them prior to our initial public offering and with respect to the aggregate of 1,132,500 shares of common stock acquired by certain of our officers and directors in the private placement.

Star Maritime will not be able to complete the Redomiciliation Merger unless (1) the holders of at least a majority of the issued and outstanding shares of Star Maritime entitled to vote at the special meeting vote in favor of the Redomiciliation Merger; (2) holders of at least 10,000,001 shares of common stock issued in the initial public offering and the private placement vote in favor of the Redomiciliation Merger; and (3) holders of less than 6,600,000 shares of common stock, such number representing 33.0% of the 20,000,000 shares of Star Maritime common stock issued in the initial public offering and private placement, vote against the Redomiciliation Merger and exercise their redemption rights to have their shares redeemed for cash. In order to exercise redemption rights, an eligible stockholder must vote against the Redomiciliation Merger and elect to exercise redemption rights on the enclosed proxy card. If a stockholder votes against the Redomiciliation Merger but fails to properly exercise redemption rights, such stockholder will not be entitled to have its shares redeemed for cash. Any request for redemption, once made, may be withdrawn at any time up to the date of the special meeting. The actual per share redemption price will be calculated two business days prior to the consummation of the Redomiciliation Merger. The redemption price would have been $10.39 per share, based on funds in the Trust Account as of June 30, 2007.

Q:

Has the board of directors of Star Maritime approved the Asset Acquisition?

A:

Yes. Star Maritime's board of directors has unanimously approved and recommended to the stockholders that they vote **"FOR"** the approval of the Asset Acquisition at the special meeting.

Q:

Has the board of directors of Star Maritime recommended approval of the Redomiciliation Merger?

A:

Yes. Star Maritime's board of directors has unanimously recommended to its stockholders that they vote "**FOR**" the approval and authorization of the Redomiciliation Merger at the special meeting. For various shipping regulatory and tax reasons, the Republic of the Marshall Islands is an attractive country of incorporation for international shipping companies. The merger of Star Maritime with and into Star Bulk with Star Bulk as the surviving corporation will enable Star Bulk, which will be an operating company, to benefit from such advantages. Please read "Background and Reasons for the Merger Recommendations of the Board of Directors" for a discussion of the factors that the Star Maritime's board of directors considered in deciding to recommend the approval and authorization of the Redomiciliation Merger.

Q:

What will I receive in the Redomiciliation Merger?

A:

Pursuant to the Merger Agreement, each outstanding share of Star Maritime common stock will be converted into the right to receive one share of Star Bulk common stock and each outstanding warrant of Star Maritime will be assumed by Star Bulk and contain the same terms and restrictions except that each will be exercisable for common stock of Star Bulk.

Q:

When will Star Bulk take delivery of the vessels in the initial fleet?

A.

On the effective date of the Redomiciliation merger, at least one vessel will be delivered to Star Bulk. Star Bulk expects to take delivery of the remaining vessels in the initial fleet within 60 days following the effective date of the Redomiciliation Merger.

Q:

What are the tax consequences of the Redomiciliation Merger to me?

A:

In the opinion of Seward & Kissel LLP, counsel to Star Maritime, a holder of Star Maritime stock or warrants will not recognize any taxable gain or loss as a result of the Redomiciliation Merger.

Q:

What are the tax consequences of the Redomiciliation Merger to Star Maritime and Star Bulk?

A:

In the opinion of Seward & Kissel LLP, counsel to Star Maritime, upon completion of the Redomiciliation Merger and issuance of Star Bulk shares to TMT, the stockholders of Star Maritime will own less than 80% of Star Bulk. In the opinion of Seward & Kissel LLP, Star Bulk should not be subject to Section 7874(b) of the U.S. Internal Revenue Code of 1986, as amended, or the Code, after the Redomiciliation Merger if, as it believes should be the case, the Redomiciliation Merger and the subsequent issuance of Star Bulk shares to TMT are treated as part of a single Plan or Series of related transactions, and therefore should not be subject to U.S. federal income tax as a U.S. domestic corporation on its worldwide income after the Redomiciliation Merger. However, Star Maritime has not sought a ruling from the U.S. Internal

Revenue Service, or the IRS, on this point. Therefore, there is no assurance that the IRS would not seek to assert that Star Bulk is subject to U.S. federal income tax on its worldwide income after the Redomiciliation Merger, although Star Maritime believes that such an assertion would not be successful.

Even if Section 7874(b) of the Code does not apply to a transaction, Section 7874(a) of the Code, or Section 7874(a), provides that where a corporation organized outside the United States acquires substantially all of the assets of a corporation organized in the United States, the corporation whose assets are being acquired will be subject to U.S. federal income tax on its "inversion gain" if stockholders of the U.S. corporation whose assets are being acquired own at least 60% of the non-U.S. acquiring corporation after the acquisition. "Inversion gain" includes any gain from the transfer of the properties by the corporation organized in the United States to the corporation organized outside the United States as well as certain licensing income. See "Tax Considerations."

Q:

What if I object to the Redomiciliation Merger?

A:

Under Star Maritime's Certificate of Incorporation, holders of shares of Star Maritime common stock have the right to redeem such shares for cash if such stockholder votes against the Redomiciliation Merger, elects to exercise redemption rights and the Redomiciliation Merger is approved and completed. In order to exercise redemption rights, an eligible stockholder must vote against the Redomiciliation Merger and elect to exercise redemption rights on the enclosed proxy card. If a stockholder votes against the Redomiciliation Merger but fails to properly exercise redemption rights, such stockholder will not be entitled to have its shares redeemed for cash. Stockholders exercising redemption rights will be entitled to receive, for each share of common stock redeemed, the pro rata portion of the Trust Account in which the proceeds of the Company's initial public offering are held, plus interest earned thereon (net of taxes). The redemption price would have been $10.39 per share, based on funds in the Trust Account as of June 30, 2007. If you exercise your redemption rights, then you will be exchanging your shares of Star Maritime's common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the effective date of the Redomiciliation Merger and then tender your stock certificate to Star Maritime. If the Redomiciliation Merger is not completed, then these shares will not be redeemed for cash. A stockholder who exercises redemption rights will continue to own any warrants to acquire Star Maritime common stock owned by such stockholder as such warrants will remain outstanding and unaffected by the exercise of redemption rights. See "Description of Star Maritime Securities Common Stock."

Q:

How can I vote?

A:

Please vote your shares of Star Maritime common stock as soon as possible after carefully reading and considering the information contained in this joint proxy statement/prospectus. You may vote your shares prior to the special meeting by signing and returning the enclosed proxy card. If you hold your shares in "street name" (which means, in other words, that you hold your shares through a bank, brokerage firm or nominee), you must vote in accordance with the instructions on the voting instruction card that your bank, brokerage firm or nominee provides to you.

Q:

If my shares are held in "street name" by my bank, brokerage firm or nominee, will they automatically vote my shares for me?

A:

No. Your bank, brokerage firm or nominee cannot vote your shares without instructions from you. You should instruct your bank, brokerage firm or nominee how to vote your shares, following the instructions contained in the voting instruction card that your bank, brokerage firm or nominee provides to you.

Q: **What if I abstain from voting or fail to instruct my bank, brokerage firm or nominee?**

A: Abstaining from voting or failing to instruct your bank, brokerage firm or nominee to vote your shares will have the same effect as a vote "against" the Redomiciliation Merger.

Q: **Can I change my vote after I have mailed my proxy card?**

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting. You may revoke your proxy by executing and returning a proxy card dated later than the previous one, by attending the special meeting in person and casting your vote by ballot or by submitting a written revocation stating that you would like to revoke your proxy. If you hold your shares through a bank, brokerage firm or nominee, you should follow the instructions of your bank, brokerage firm or nominee regarding the revocation of proxies. You should send any notice of revocation or your completed new proxy card, as the case may be, to:

Star Maritime Acquisition Corp.
103 Foulk Road
Wilmington, Delaware 19803
Attention: Corporate Secretary

Q: **Should I send in my stock certificates now?**

A: No. After we complete the Redomiciliation Merger, you will receive written instructions for returning your stock certificates. These instructions will tell you how and where to send in your stock certificates in order to receive the Merger Consideration. Star Maritime shareholders who intend to have their shares redeemed, by electing to have those shares redeemed for cash on the proxy card at the same time they vote against the Redomiciliation Merger, should not send their certificate now, but should do so only after the effective date of the Redomiciliation Merger.

Q: **When is the Redomiciliation Merger expected to occur?**

A: Assuming the requisite the stockholder vote, we expect that the Redomiciliation Merger will occur during the fourth quarter of 2007. Our Certificate of Incorporation provides that if we have entered into definitive agreements to effect a business combination prior to June 21, 2007, we must consummate such business combination by December 21, 2007. Our agreements with TMT qualify as definitive agreements for these purposes.

Q: **May I seek statutory appraisal rights with respect to my shares?**

A: Under applicable Delaware law, you do not have appraisal rights with respect to your shares.

Q: **What happens if the Redomiciliation Merger is not consummated?**

A: The acquisition of the eight drybulk carriers from TMT is contingent upon the approval and consummation of the Redomiciliation Merger. If Star Maritime does not consummate the Redomiciliation Merger or another transaction with a target business by December 21, 2007, then pursuant to Article SIX of its Certificate of Incorporation, Star Maritime's officers must take all actions necessary in accordance with the Delaware General Corporation Law to dissolve and liquidate Star Maritime within 60 days of that date. Following dissolution, Star Maritime would no longer exist as a corporation. In any liquidation, the funds held in the Trust Account, plus any interest earned thereon (net of taxes), together with any remaining out-of-trust net assets will be distributed pro-rata to holders of shares of Star Maritime common stock who acquired such shares of common stock in Star Maritime's initial public offering or in the aftermarket. The estimated consideration that each share of Star Maritime common stock would be paid at liquidation would be $10.39 per common share, based on amounts on deposit in the Trust Account as of June 30, 2007. The closing price of Star Maritime's common stock on the American Stock Exchange ("AMEX") on October 9, 2007 was $14.94 per share. Holders of shares issued prior to our initial public offering including holders of shares purchased in the private placement have waived any

right to any liquidation distribution with respect to such shares. Liquidation and dissolution of Star Maritime would be effected pursuant to Delaware law, which would cause a delay in the distribution of proceeds. The proceeds distributed from the Trust Account may be reduced if a third party successfully asserts a claim against Star Maritime or one of its subsidiaries.

Q:

What happens post-Redomiciliation Merger to the funds deposited in the Trust Account?

A:

Following the approval of the Redomiciliation Merger by Star Maritime stockholders, funds in the Trust Account will be released to Star Maritime. Star Maritime stockholders exercising redemption rights will receive their pro rata portion of the Trust Account. The balance of the funds will be utilized to fund a portion of the cash portion of the aggregate purchase price for the eight dry bulk carriers in the initial fleet. As of June 30, 2007 the amount of funds from the Trust Account that will remain to be applied for the cash portion of the aggregate purchase price will be $196,084,213 if no shareholders redeem and $127,510,223 if the maximum 32.99% of shareholders redeem assuming a redemption price of $10.39.

Q:

What other important considerations are there?

A:

You should also be aware that in pursuing the Redomiciliation Merger, Star Maritime has incurred substantial expenses. Star Maritime currently has limited available funds outside the Trust Account and will, therefore, not be required to borrow funds or make arrangements with vendors and service providers in reliance on the expectation that such expenses will be paid by Star Bulk following consummation of the Redomiciliation Merger. Star Bulk intends to drawdown amounts under its credit facility sufficient to fund the balance of the cash portion of the aggregate purchase price of the vessels in the initial fleet to the extent that funds in the Trust Account are used to pay redeeming stockholders. In connection with the acquisition of the eight drybulk carriers, Star Bulk expects to borrow approximately $40.0 million if no shareholders redeem and approximately an additional $70.0 million if 32.99% of the shareholders redeem up to a maximum of $120.0 million. If for any reason the Redomiciliation Merger is not consummated, Star Maritime's creditors may seek to satisfy their claims from funds in the Trust Account. This could result in further depletion of the Trust Account, which would reduce a stockholder's pro rata portion of the Trust Account upon liquidation. As of the date of this joint proxy statement/prospectus, there are no creditor claims against Star Maritime or Star Bulk.

Q:

Who will manage Star Bulk?

A:

Messrs. Tsirigakis and Syllantavos, who currently serve as the Chief Executive Officer and director and Chief Financial Officer and director of Star Maritime, respectively, will serve in these roles at Star Bulk following the Redomiciliation Merger. In addition, Messrs. Pappas, Erhardt and Søfteland, who currently serve as directors of Star Maritime, as well as Messrs. Nobu Su and Peter Espig, each of whom are nominees of TMT, will serve as directors of Star Bulk.

Q:

What is the anticipated dividend policy of Star Bulk?

A:

Star Bulk currently intends to pay quarterly dividends to the holders of its common shares in February, May, August and November, in amounts that will allow it to retain a portion of its cash flows to fund vessel or fleet acquisitions, and for debt repayment and other corporate purposes, as determined by its management and board of directors. Star Bulk intends to pay a dividend of $0.325 per share for the first full operating quarter following the Redomiciliation Merger. Star Bulk intends to pay a partial dividend in February 2008 which it estimates will be in an amount of $0.325 per common share pro rated for the number of ownership days during the fourth quarter of 2007. The payment of dividends is not guaranteed or assured and may be discontinued at the sole discretion of Star Bulk's board of directors and may not be paid in the anticipated amounts and frequency set forth in this joint proxy statement/prospectus. Star Bulk's board of directors will continually review its dividend policy and make adjustments that it believes appropriate. See "Dividend Policy of Star Bulk."

SUMMARY

This summary highlights selected information from this joint proxy statement/prospectus but may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire joint proxy statement/prospectus, including eight Memoranda of Agreement attached as Appendix A through Appendix H, the Supplemental Agreement attached as Appendix I, the Master Agreement attached as Appendix J and the Agreement and Plan of Merger attached as Appendix K. Please read these documents carefully as they are the legal documents that govern the Redomiciliation Merger and your rights in the Redomiciliation Merger. We have included page references in parentheses to direct you to a more detailed description of the items presented in this summary. Unless the context otherwise requires, references to "we," "us" or "our" refers to Star Maritime.

The Parties to the Redomiciliation Merger (page 66)

Star Maritime Acquisition Corp.
103 Foulk Road
Wilmington, Delaware 19803
Telephone: (302) 656-1950

Star Maritime is a blank check company, also known as a Business Combination Company , or BCC , organized under the laws of the State of Delaware on May 13, 2005. "Business Combination Company " and "BCC " are service marks of Maxim Group LLC. Star Maritime was formed to acquire, through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more target businesses in the shipping industry. On December 15, 2005, Star Maritime consummated a private placement whereby certain of Star Maritime's officers and directors purchased an aggregate of 1,132,500 units at a purchase price of $10.00 per unit. On December 21, 2005, Star Maritime completed an initial public offering of 18,867,500 units at a purchase price of $10.00 per unit. Each unit consisted of one share of Star Maritime's common stock and one warrant. Each warrant entitles the holder to purchase one share of Star Maritime's common stock at an exercise price of $8.00 per share. Star Maritime's common stock and warrants currently trade on the American Stock Exchange under the symbols SEA and SEA.WS, respectively. Other than activities incident to its initial public offering and the pursuit of a business combination, Star Maritime has not engaged in any operations to date. If Star Maritime does not consummate the Redomiciliation Merger or another a business combination by December 21, 2007, then, pursuant to Article SIXTH of its Certificate of Incorporation, Star Maritime's officers must take all actions necessary in accordance with the Delaware General Corporation Law to dissolve and liquidate Star Maritime within 60 days of that date.

Star Bulk Carriers Corp.
40 Ag. Konstantinou Avenue
Aethrion Center, Suite B34
Maroussi 15124
Athens, Greece
Telephone: 011-30-210-638-7399

Star Bulk is a wholly-owned Marshall Islands subsidiary of Star Maritime incorporated on December 13, 2006 with no history of operations, and is headquartered in Athens, Greece. Pursuant to the Acquisition Agreements, following the Redomiciliation Merger, Star Bulk will acquire a fleet of eight drybulk carriers from certain subsidiaries of TMT. Following the effective date of the Redomiciliation Merger, TMT and its affiliates are expected to own between 30.2% and 35.9% of the outstanding common stock of Star Bulk, depending on the number of shares redeemed for cash. See "Description of Star Maritime Securities Common Stock."

Mr. Akis Tsirigakis, the Chairman, Chief Executive Officer and President of Star Maritime, will serve as the Chief Executive Officer and President of Star Bulk. Mr. George Syllantavos, the Chief

Financial Officer of Star Maritime will serve as the Chief Financial Officer of Star Bulk. The board of directors of Star Bulk will be comprised of seven directors. Each of the five current directors of Star Maritime will serve as directors of Star Bulk. In addition, Mr. Nobu Su and Mr. Peter Espig, each nominees of TMT, will serve as directors of Star Bulk. Mr. Petros Pappas and Mr. Nobu Su will each serve as non-executive Co-Chairman.

Star Bulk has applied to have its shares of common stock and warrants listed on the Nasdaq Global Market under the symbols "SBLK" and "SBLKW" respectively.

The Seller of the Vessels in the Initial Fleet (page 60)

TMT Co., Ltd.
12 Floor 167 FU HSIN NORTH ROAD
Taipei 105
Taiwan, Republic of China
Attention: Corporate Secretary
011 886 2 221750229

Star Bulk has entered into definitive agreements to acquire the eight drybulk carriers from subsidiaries of TMT. TMT is a global shipping company with its management headquarters located in Taiwan. TMT has approximately 50 years of experience in the shipping industry. TMT owns through companies registered in Panama and/or operates or invests in vessels in several shipping sectors, including crude oil tankers, drybulk carriers and liquified natural gas, or LNG, carriers.

The Redomiciliation Merger (page 66)

Subject to the terms and conditions of the Merger Agreement, Star Maritime will merge with and into Star Bulk, a corporation organized under the laws of the Republic of the Marshall Islands, the separate corporate existence of Star Maritime will cease and Star Bulk will be the surviving corporation.

Star Bulk has entered into definitive agreements to acquire a fleet of eight drybulk carriers with a combined cargo-carrying capacity of approximately 691,000 dwt. from certain subsidiaries of TMT. We refer to these eight drybulk carriers as the initial fleet. The aggregate purchase price for the initial fleet is $345,237,520, consisting of $224,500,000 in cash and 12,537,645 shares of common stock of Star Bulk to be issued at the time of Redomiciliation Merger and an additional 1,606,962 shares of common stock of Star Bulk to be issued in two installments. Such shares of common stock will be issued concurrently with the Redomiciliation Merger to TMT, as agent for its vessel-owning subsidiaries. Star Maritime has also entered into related agreements with TMT in connection with the acquisition of the vessels. Under the Master Agreement, Star Maritime, in connection with Star Bulk's acquisition of the vessels from TMT, undertook to use commercially reasonable efforts to file a registration/proxy statement with the Securities and Exchange Commission, or SEC, to obtain shareholder approval for the Redomiciliation Merger and to comply, and cause Star Bulk to comply, with all applicable rules and regulations of the SEC, and to obtain on behalf of itself, Star Bulk and TMT all approvals, consents, exemptions, or authorizations from such governmental agencies or authorities as may be necessary in order to effect the merger and transactions contemplated by the Master Agreement, the Supplemental Agreement, and the MOAs. Star Maritime is also a party to the Supplemental Agreement. The purpose of the Supplemental Agreement, generally, is to provide for the timing of the delivery of, and payment of the consideration for, the vessels as provided for under the MOAs. If the Redomiciliation Merger is not approved by the requisite vote of the stockholders of Star Maritime, the MOAs and the Supplemental Agreement shall be deemed terminated, cancelled and of no further force and effect.

In connection with the acquisition of the vessels in the initial fleet, Star Bulk has also agreed to issue to TMT or its nominated affiliates, additional shares of Star Bulk common stock, which we refer to as the Additional Stock. Specifically, Star Bulk will issue (i) 803,481 additional shares of Star Bulk's common stock, no more than 10 business days following Star Bulk's filing of its Annual Report on Form 20-F for the fiscal year ended December 31, 2007, and (ii) 803,481 additional shares of Star Bulk's common stock, no more than 10 business days following Star Bulk's filing of its Annual Report on Form 20-F for the fiscal year ended December 31, 2008.

Following the effective date of the Redomiciliation Merger, TMT and its affiliates are expected to own between 30.2% and 35.9% of Star Bulk's outstanding common stock, depending on the number of shares redeemed for cash. After giving effect to the issuance of the Additional Stock, TMT and its affiliates are expected to own between 32.8% and 38.7% of the Star Bulk's outstanding common stock, depending on the number of shares redeemed for cash.

The following chart illustrates the share ownership of Star Maritime prior to the Redomiciliation Merger and of Star Bulk following the Redomiciliation Merger.

Upon issuance of the Additional Stock of 1,606,962 shares to TMT the breakdown of share ownership Post-Merger, assuming no redemptions, will be:

Total 43,171,530 shares, Public : 43.7% - 18,867,500 shares, TMT : 32.8% - 14,144,607 shares, Sponsors : 23.5% - 10,159,424 shares

Redemption Rights (page 47)

As provided in Star Maritime's Certificate of Incorporation, holders of Star Maritime common stock have the right to redeem their shares for cash by voting against the Redomiciliation Merger and electing to have such shares redeemed for cash. The exercise of redemption rights must be made on the proxy card at the same time that the stockholder votes against the Redomiciliation Merger. With respect to each share of common stock for which stockholders have exercised redemption rights, Star Maritime will redeem each such share for a pro rata portion of the Trust Account in which the proceeds of Star Maritime's initial public offering are held, plus interest earned thereon. As of June 30, 2007 the amount of funds from the Trust Account that will remain to be applied for the cash portion of the aggregate purchase price will be $196,084,213 if no shareholders redeem and $127,510,223 if the maximum 32.99% of shareholders redeem assuming a redemption price of $10.39. The actual per share redemption price will be calculated within two business days of the consummation of the Redomiciliation Merger. If you exercise your redemption rights, then you will be exchanging your shares of Star Maritime common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the effective date of the Redomiciliation Merger and then tender your stock certificate to Star Maritime. If the Redomiciliation Merger is not completed, then these shares will not be redeemed for cash. A stockholder who exercises redemption rights will continue to own any warrants to acquire Star Maritime common stock owned by such stockholder as such warrants will remain outstanding and unaffected by the exercise of redemption rights.

The approval of the Asset Acquisition is conditioned upon the approval of the Redomiciliation Merger. Star Bulk cannot complete the Asset Acquisition unless the Redomiciliation Merger is approved and completed. Star Maritime cannot complete the Redomiciliation Merger unless (1) the holders of at least a majority of the issued and outstanding shares of Star Maritime entitled to vote at the special meeting vote in favor of the Redomiciliation Merger; (2) holders of at least a majority of the shares of common stock issued in the initial public offering and the private placement vote in favor of the Redomiciliation Merger; and (3) holders of less than 6,600,000 shares of common stock, such number representing 33.0% of the 20,000,000 shares of Star Maritime common stock issued in the initial public offering and private placement, vote against the Redomiciliation Merger and exercise their redemption rights to have their shares redeemed for cash. In order to exercise redemption rights, an eligible stockholder must vote against the Redomiciliation Merger and elect to exercise redemption rights on the enclosed proxy card. If a stockholder votes against the Redomiciliation Merger but fails to properly exercise redemption rights, such stockholder will not be entitled to have its shares redeemed for cash. Any request for redemption, once made, may be withdrawn at any time up to the date of the special meeting.

Merger Consideration (page 66)

Pursuant to the Merger Agreement, each outstanding share of Star Maritime common stock will be converted into the right to receive one share of Star Bulk common stock and each outstanding warrant of Star Maritime will be assumed by Star Bulk and will contain the same terms and restrictions except that each will be exercisable for common stock of Star Bulk.

Procedure for Receiving Merger Consideration (page 66)

Promptly after the effective time of the Redomiciliation Merger, an exchange agent appointed by Star Bulk will mail a letter of transmittal and instructions to Star Maritime stockholders. The letter of transmittal and instructions will tell Star Maritime stockholders how to surrender their stock certificates in exchange for the Merger Consideration. Star Maritime stockholders should not return their stock certificates with the enclosed proxy card, and they should not forward their stock certificates to the exchange agent without a letter of transmittal.

The Star Maritime Special Meeting (page 45)

The special meeting of Star Maritime stockholders will take place at the offices of Seward & Kissel LLP, One Battery Park Plaza, 23rd Floor, New York, New York on   , 2007, at 10 a.m.

Quorum, Record Date and Voting (page 45)

A quorum of Star Maritime's stockholders is necessary to hold a valid meeting. A quorum will be present at the Star Maritime special meeting if a majority of the issued and outstanding shares of Star Maritime's common stock entitled to vote at the meeting are present in person or by proxy. Abstentions and broker non-votes will count as present for the purpose of establishing a quorum. Only holders of record of shares of Star Maritime common stock as of the close of business on   , 2007 may vote at the Star Maritime special meeting. As of October 9, 2007, there were 29,026,924 shares of Star Maritime common stock outstanding and entitled to vote. Holders of shares of Star Maritime common stock will have one vote for each share of Star Maritime common stock owned at the close of business on the record date. Star Maritime warrants do not have voting rights.

Proxies (page 46)

Proxies may be solicited by mail, telephone or in person. Star Maritime may engage a proxy solicitor to assist it in the solicitation of proxies. If you grant a proxy, you may still vote your shares in person if you revoke your proxy before the special meeting or if you attend the special meeting and vote in person.

Recommendations of the Boards of Directors and Reasons for the Redomiciliation Merger (page 54)

In reaching its decision with respect to the Redomiciliation Merger, the board of directors of Star Maritime considered the various regulatory and tax advantages to operating an international shipping company domiciled in the Republic of the Marshall Islands as compared to a corporation domiciled in the United States. The board of directors has unanimously determined that it is advisable and in the best interests of Star Maritime's stockholders to merge with and into Star Bulk, a wholly-owned Marshall Islands subsidiary, with Star Bulk as the surviving corporation, which would acquire vessels and operate as an international shipping company. In reaching its decision with respect to the merger with and into Star Bulk, which has entered into definitive agreements to acquire the vessels in the initial fleet, the board of directors of Star Maritime reviewed various due diligence materials including the vessels' classification society records, records relating to the vessels' physical inspection and vessel valuations prepared by independent purchase and sale brokers recognized in the international shipping industry, as well as advice provided by its financial advisors to Star Maritime's management. The board of directors of Star Maritime has unanimously determined that the Redomiciliation Merger is advisable and in the best interests of Star Maritime's stockholders and that the aggregate purchase price of the initial fleet to be paid by Star Bulk is reasonable. Accordingly, the Star Maritime board of directors unanimously recommends that Star Maritime stockholders vote "**FOR**" the approval and authorization of the Redomiciliation Merger at the Star Maritime special meeting.

Interests of Certain Persons in the Redomiciliation Merger (page 57)

When you consider the recommendation of Star Maritime's board of directors that you vote in favor of approval of the Redomiciliation Merger, you should keep in mind that certain of Star Maritime's officers and directors have interests in the Redomiciliation Merger that are different from, or in addition to, your interest as a stockholder. These interests currently known to us are:

- Star Maritime's officers and directors paid $25,000 in cash for a total of 9,026,924 shares of Star Maritime common stock prior to the initial public offering. These shares, without taking into account any discount that may be associated with certain restrictions on these shares, collectively have a market value of approximately $134,862,245 based on Star Maritime's share price of $14.94 as of October 9, 2007. Our initial stockholders have agreed to surrender up to an aggregate of 200,000 of their shares of common stock to us for cancellation upon consummation of a business combination in the event public stockholders exercise their right to have Star Maritime redeem their shares for cash. The number of shares that our initial stockholders will surrender will be determined by calculating the dollar amount of the Trust Account (exclusive of interest) paid to redeeming stockholders above $9.43 per share (which amount consists of $9.23 per share attributable to such stockholders and $0.20 per share attributable to the underwriters' deferred discount) and dividing it by $10.00 (the value attributed to the shares for purposes of this calculation). Accordingly, for each 1,000 shares redeemed up to 3,508,772 shares, our initial stockholders will surrender 57 shares for cancellation. None of the 9,026,924 shares issued prior to the initial public offering to these individuals may be released from escrow until December 15, 2008 during which time the value of the shares may increase or decrease; however, since such shares were acquired for $0.003 per share, the holders are likely to benefit from the Redomiciliation Merger notwithstanding any decrease in the market price of the shares. Further, if the Redomiciliation Merger is not approved and Star Maritime fails to consummate an alternative transaction within the requisite period and we are therefore required to liquidate, such shares do not carry the right to receive any distributions upon liquidation.

- Messrs. Tsirigakis and Syllantavos, our senior executive officers and Messrs. Pappas and Erhardt, two of our directors, purchased an aggregate of 1,132,500 units in the private placement at a purchase price of $10.00 per unit (comprised of one share of common stock and one warrant to purchase a share of common stock of Star Maritime) or a total of $11,325,500, and as of October 9, 2007, the aggregate market value of such securities was $24,042,975. Star Maritime's officers and directors agreed to vote their common shares included in the units in favor of the

Redomiciliation Merger and thereby waive redemption rights with respect to those shares. If the Redomiciliation Merger is not approved and Star Maritime fails to consummate an alternative transaction within the requisite period and Star Maritime is therefore required to liquidate, those shares do not carry the right to receive distributions upon liquidation. No officers or directors of Star Maritime or Star Bulk have purchased any securities of Star Maritime in the after market with the exception of 50,000 warrants purchased by Messr. Syllantavos on July 19, 2007 at a purchase price of $4.93 per warrant.

After the completion of the Redomiciliation Merger, Mr. Tsirigakis will serve as Star Bulk's Chief Executive Officer and President and Mr. Syllantavos will serve as Star Bulk's Chief Financial Officer. Star Bulk Management Inc., or Star Bulk Management, has entered into employment agreements with Messrs. Tsirigakis and Syllantavos. See "Information Concerning Star Bulk Compensation of Directors and Senior Management." Star Bulk's board of directors will be comprised of seven directors. Each of the five current directors of Star Maritime will serve as directors of Star Bulk. In addition Mr. Su and Mr. Espig, each a nominee of TMT, will serve as directors. Mr. Pappas and Mr. Su will each serve as non-executive Co-Chairman of the board of Star Bulk. Such individuals will, following the Redomiciliation Merger, be compensated in such manner, and in such amounts, as Star Bulk's board of directors may determine to be appropriate. See "Information Concerning Star Bulk Compensation of Directors and Senior Management."

Maxim Group LLC, the underwriters of our initial public offering, has an interest in the Redomiciliation Merger which consists of the $3,773,500 in contingent underwriting compensation and $226,500 of contingent placement fees held in the Trust Account as of March 31, 2007 that it will receive upon the consummation of a business combination as well as the $800,000 that it will receive in its financial advisory role with respect to the Redomiciliation Merger. In addition, Maxim has an interest in having as few shareholders as possible exercise their redemption rights because Maxim has agreed that it will forfeit $0.20 per share (up to a maximum of $1,286,730) plus interest thereon of its contingent underwriting compensation for each share redeemed by a shareholder in connection with a business combination transaction.

Mr. Nobu Su and Mr. Peter Espig, who are affiliates of TMT, will each join the board of directors of Star Bulk following the Redomiciliation Merger. Star Bulk has entered into one year time charters for two vessels in the initial fleet, the Star Gamma and the Star Iota, with TMT as the charterer. The estimated TMT payments and corresponding Star Bulk gross revenues from these charters will be $10,203,000 and $6,444,000 respectively for the two vessels for the duration of the time charter agreements.

Acquisition Financing (page 65)

On May 10, 2007 Star Bulk entered into a commitment letter with Commerzbank AG that will, subject to the approval of the Redomiciliation Merger, provide Star Bulk with a credit facility of up to $120,000,000 with a minimum nine-year term and secured by the vessels that Star Bulk has agreed to acquire from TMT. Star Bulk intends to drawdown amounts under its credit facility sufficient to fund the balance of the cash portion of the aggregate purchase price of the vessels in the initial fleet to the extent that funds in the Trust Account are used to pay redeeming stockholders. Following the acquisition of the eight drybulk carriers, Star Bulk expects to have working capital of approximately $1.6 million. Any excess un-drawn funds under the credit facility will be used for additional vessel acquisitions and to provide working capital.

Conditions to the Redomiciliation Merger (page 68)

The completion of the Redomiciliation Merger is subject to the satisfaction or, if permissible, waiver of a number of conditions, comprising of (i) Star Maritime obtaining the requisite approval of its shareholders; (ii) Star Maritime receiving an opinion of counsel that (x) the Redomiciliation Merger will be treated as a "reorganization" within the meaning of Section 368(a) of the Code; (y) each of Star

Bulk and Star Maritime will be treated as a "party to a reorganization" within the meaning of Section 368(b) of the Code; and (z) neither Star Maritime nor the stockholders of Star Maritime will recognize any taxable gain or loss for U.S. federal income tax purposes upon the consummation of the Redomiciliation Merger; (iii) Star Maritime receiving certificates from officers of Star Bulk and from the Registrar of Corporations of the Republic of the Marshall Islands; and (iv) the absence of any Material Adverse Effect, as defined in the Merger Agreement, with respect to Star Bulk, the likelihood of which was not previously disclosed to Star Maritime by Star Bulk. Each condition to the completion of the Redomiciliation Merger may be waived other than obtaining the requisite vote of shareholders of Star Maritime. We expect to complete the Redomiciliation Merger during the third quarter of 2007, but we cannot be certain when or if the conditions will be satisfied or, if permissible, waived. Star Maritime believes that the only material condition to the completion of the Redomiciliation Merger is obtaining the requisite shareholder vote. Accordingly, Star Maritime does not anticipate resoliciting shareholder approval if any of the other conditions to the Redomiciliation Merger are waived. Star Maritime does not currently expect to waive any conditions of the Redomiciliation Merger.

Star Maritime cannot complete the Redomiciliation Merger unless (1) the holders of at least a majority of the issued and outstanding shares of Star Maritime entitled to vote at the special meeting vote in favor of the Redomiciliation Merger; (2) holders of at least a majority of the shares of common stock issued in the initial public offering and the private placement vote in favor of the Redomiciliation Merger; and (3) holders of less than 6,600,000 shares of common stock, such number representing 33.0% of the 20,000,000 shares of Star Maritime common stock issued in the initial public offering and private placement, vote against the Redomiciliation Merger and exercise their redemption rights to have their shares redeemed for cash.

The obligations of Star Bulk to purchase the vessels in the initial fleet and the obligations of TMT to sell the vessels in the initial fleet are subject to the approval of the Redomiciliation Merger and the Asset Acquisition by Star Maritime's stockholders in addition to customary closing conditions.

Termination of the Merger Agreement (page 68)

The Merger Agreement may be terminated (i) at any time prior to the effective time of the Redomiciliation Merger by mutual consent in writing of Star Maritime and Star Bulk; or (ii) unilaterally upon written notice by either Star Maritime or Star Bulk, in the event of such other parties' material breach of any representation or warranty contained in the Merger Agreement.

Termination of the Master Agreement (page 62)

The Master Agreement will terminate and be of no further force or effect in the event that the Redomiciliation Merger is not authorized and approved by the requisite vote of Star Maritimes' stockholders.

Liquidation if No Business Combination (page 70)

You should also be aware that in pursuing the Redomiciliation Merger, Star Maritime has incurred substantial expenses. Star Maritime currently has limited available funds outside the Trust Account, and will therefore be required to borrow funds or make arrangements with vendors and service providers in reliance on the expectation that such expenses will be paid by Star Bulk following consummation of the Redomiciliation Merger. If for any reason the Redomiciliation Merger is not consummated, Star Maritime's creditors may also seek to satisfy their claims from funds in the Trust Account. This could result in depletion of the Trust Account, which would reduce a stockholder's pro rata portion of the Trust Account upon liquidation.

Material U.S. Federal Income Tax Consequences (page 58)

Star Maritime has obtained the opinion of its counsel, Seward & Kissel LLP, that the Redomiciliation Merger will be treated as a nontaxable reorganization for U.S. federal income tax purposes. The opinion of Seward & Kissel LLP is subject to the limitations and qualifications set forth in the discussion of "Material

U.S. Federal Income Tax Consequences." Because the Redomiciliation Merger will be treated as a nontaxable reorganization for U.S. federal income tax purposes, Star Bulk will not recognize gain or loss as a result of the Redomiciliation Merger. In addition, Star Maritime stockholders will not recognize gain or loss upon the exchange of their shares of Star Maritime common stock solely for shares of Star Bulk common stock pursuant to the Redomiciliation Merger. However, a Star Maritime stockholder who receives solely cash in exchange for his or her shares of Star Maritime common stock generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between his basis for U.S. federal income tax purposes in such shares and the cash received. The federal income tax consequences of the Redomiciliation Merger are complicated and may differ between individual stockholders. We strongly urge each Star Maritime stockholder to consult his or her own tax advisor regarding the federal income tax consequences of the Redomiciliation Merger in light of his or her own personal tax situation and also as to any state, local, foreign or other tax consequences arising out of the Redomiciliation Merger. Further, we do not give any opinion regarding the tax impact in the event that Star Maritime stockholders exercise redemption rights.

Accounting Treatment (page 59)

The Redomiciliation Merger will be accounted for as a business combination between companies under common control with Star Bulk as the accounting acquirer. The assets and liabilities of Star Maritime acquired by Star Bulk will be recorded as of the acquisition date at their respective costs and added to those of Star Bulk. Following the effective date of the Redomiciliation Merger, Star Bulk will continue as the surviving company and the separate corporate existence of Star Maritime shall cease. Accordingly, the results of operations after completion of the acquisition will be those of Star Bulk.

Comparison of Star Maritime and Star Bulk Stockholder Rights (page 141)

Star Maritime is incorporated under the laws of the State of Delaware. Star Bulk is incorporated under the laws of the Republic of the Marshall Islands. Upon consummation of the Redomiciliation Merger, the stockholders of Star Maritime will become shareholders of Star Bulk. Star Bulk's amended and restated articles of incorporation and by-laws differ from the organizational documents governing the rights of the former Star Maritime stockholders. In particular, Star Maritime's certificate of incorporation authorizes the issuance of up to 1,000,000 shares of blank check preferred stock by its board of directors. Star Bulk's articles of incorporation authorize the issuance of up to 25,000,000 shares of blank check preferred stock by the board of directors. Star Maritime's certificate of incorporation provides that a special meeting of stockholders may be called by a majority of the entire board of directors or the Chief Executive Officer, and shall be called by the Secretary at the request in writing of stockholders owning a majority in amount of the entire capital stock of the corporation issued and outstanding and entitled to vote. Star Bulk's organizational documents require that a special meeting of stockholders may only be called by the board of directors, jointly by the Co-Chairmen or the President. In addition, Star Bulk's articles of incorporation include a provision which limits Star Bulk from engaging in a business combination transaction with stockholders owning 20% or more of the outstanding voting stock of Star Bulk.

Regulatory Approvals (page 59)

Star Maritime and Star Bulk do not expect that the Redomiciliation Merger will be subject to any state or federal regulatory requirements other than filings under applicable securities laws and the effectiveness of the registration statement of Star Bulk of which this joint proxy statement/prospectus is part, and the filing of certain merger documents with the Registrar of Corporations of the Republic of the Marshall Islands and with the Secretary of State of the State of Delaware. Star Maritime and Star Bulk intend to comply with all such requirements. We do not believe that, in connection with the completion of the Redomiciliation Merger, any consent, approval, authorization or permit of, or filing with or notification to, any merger control authority will be required in any jurisdiction.

STAR BULK SUMMARY FINANCIAL INFORMATION

Because Star Bulk was incorporated on December 13, 2006, and has no operating history, Star Bulk does not have any historical financial statements for any period other than a balance sheet as of February 5, 2007, which is included later in this joint proxy statement/prospectus.

		As of February 5, 2007
		(Expressed in U.S. dollars, except for share and per share data)
Assets		
Current assets:		
Cash and cash equivalents	$	1,000
Total current assets		1,000
Total assets	$	1,000
Liabilities and Shareholders' Equity		
Commitments and contingencies (Note 4)		
Shareholders' Equity		
Common stock (100,000,000 shares authorized, par value $0.01 per share, 500 issued and outstanding)		5
Preferred stock (25,000,000 shares authorized, par value $0.01 per share, none issued and outstanding)		
Paid-in capital		995
Total shareholders' equity		1,000
Total liabilities and shareholders' equity	$	1,000

STAR MARITIME SUMMARY FINANCIAL INFORMATION

Star Maritime Acquisition Corp. was incorporated in Delaware on May 13, 2005 to serve as a vehicle for the acquisition through a merger, capital stock exchange, asset acquisition, or other similar business combination with one or more businesses in the shipping industry. Star Maritime has not acquired an entity as of the date of this prospectus. Star Maritime has selected December 31 as its fiscal year end. Star Maritime is considered to be in the development stage and is subject to the risks associated with activities of development stage companies. The summary financial information set forth below should be read in conjunction with the audited financial statements of Star Maritime for the period from inception to December 31, 2006 and for the fiscal years ended December 31, 2005 and 2006 and related notes included elsewhere in this joint proxy statement/prospectus.

Star Maritime Acquisition Corp. and Subsidiary
(a development stage company)

Condensed Consolidated Balance Sheets
(in U.S. dollars)

	June 30, 2007	December 31, 2006	December 31, 2005
	(unaudited)		
ASSETS			
Current Assets:			
Cash	$ 620,400	$ 2,118,141	$ 593,281
Investments in trust account	196,084,213	192,915,257	188,858,542
Prepaid expenses and other current assets	122,234	149,647	118,766
Total Current Assets	196,826,847	195,183,045	189,570,589
Property and equipment, net	5,694	3,256	3,256
Deferred tax asset			9,000
TOTAL ASSETS	**$ 196,832,541**	**$ 195,186,301**	**$ 189,579,589**
LIABILITIES & STOCKHOLDERS' EQUITY			
Liabilities			
Accounts payable & accrued expenses	$ 474,520	$ 603,520	$ 344,638
Deferred Interest on investments	3,290,971	2,163,057	
Deferred underwriting fees	4,000,000	4,000,000	4,000,000
Income taxes payable		206,687	
Total Liabilities	7,765,491	6,973,264	4,344,638
Common Stock, $.0001 par value, 6,599,999 shares subject to possible redemption, at redemption value of $9.80 per share	64,679,990	64,679,990	64,679,990
Commitments			
Stockholders' Equity			
Preferred Stock, $.0001 par value; authorized, 1,000,000 shares; none issued or outstanding			
	2,903	2,903	2,903

		June 30, 2007		December 31, 2006		December 31, 2005
Common Stock, $.0001 par value, authorized, 100,000,000 shares; 29,026,924 shares issued and outstanding. (including 6,599,999 shares subject to possible redemption)						
Additional paid in capital		120,441,727		120,441,727		120,441,727
Earnings accumulated in the development stage		3,942,430		3,088,417		110,331
Total Stockholders' Equity		124,387,060		123,533,047		120,554,961
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**196,832,541**	**$**	**195,186,301**	**$**	**189,579,589**

Star Maritime Acquisition Corp. and Subsidiary
(a development stage company)

Condensed Consolidated Statements of Income
(in U.S. dollars)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	May 13, 2005 (date of inception) to June 30, 2007	For the Year Ended December 31, 2006	May 13, 2005 (date of inception) to December 31, 2005	May 13, 2005 (date of inception) to December 31, 2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Operating expenses								
Professional fees	$ 368,896	$ 107,029	$ 960,390	$ 128,046	$ 1,576,413	$ 596,423	$ 19,600	$ 616,023
Insurance	22,500	37,000	48,780	63,250	165,256	112,242	4,234	116,476
Due diligence costs	33,199	45,997	76,496	57,293	339,373	262,877		262,877
Other	184,274	117,371	370,885	134,639	636,820	239,558	26,377	265,935
Total operating expenses	608,869	307,397	1,456,551	383,228	2,717,862	1,211,100	50,211	1,261,311
Interest income	1,187,784	1,162,544	2,310,564	2,157,198	6,889,979	4,395,873	183,542	4,579,415
Income before provision for income taxes	578,915	855,147	854,013	1,773,970	4,172,117	3,184,773	133,331	3,318,104
Provision for income taxes		122,120		243,326	229,687	206,687	23,000	229,687
Net income	$ 578,915	$ 733,027	$ 854,013	$ 1,530,644	$ 3,942,430	$ 2,978,086	$ 110,331	$ 3,088,417
Earnings per share (basic and diluted)	$ 0.02	$ 0.03	$ 0.03	$ 0.05	$ 0.17	$ 0.10	$ 0.01	$ 0.14
Weighted average shares outstanding basic and diluted	29,026,924	29,026,924	29,026,924	29,026,924	23,328,717	29,026,924	9,918,282	21,601,120

Star Maritime Acquisition Corp. and Subsidiary
(a development stage company)

Condensed Consolidated Statements of Cash Flows
(in U.S. dollars)

	Six months ended June 30, 2007	Six months ended June 30, 2006	May 13, 2005 (date of inception) to June 30, 2007	For the Year Ended December 31, 2006	May 13, 2005 (date of inception) to December 31, 2005	May 13, 2005 (date of inception) to December 31, 2006
	(unaudited)	(unaudited)	(unaudited)			
Cash flows from operating activities:						
Net Income	$ 854,013	$ 1,530,644	$ 3,942,430	$ 2,978,086	$ 110,331	$ 3,088,417
Adjustments to reconcile net income to net cash (used in) provided by operating activities:						
Depreciation	1,220		1,628	408		408
Changes in operating assets and liabilities:						
Increase in value of trust account	(3,168,956)	(2,213,374)	(7,409,213)	(4,056,715)	(183,542)	(4,240,257)
Decrease (increase) in prepaid expenses and other current assets	27,413	18,151	(122,234)	(30,881)	(118,766)	(149,647)
Increase (decrease) in deferred tax asset				9,000	(9,000)	
Increase (decrease) in accounts payable and accrued expenses	(129,000)	(226,126)	474,520	429,467	174,053	603,520
Increase in deferred interest	1,127,914	1,061,703	3,290,971	2,163,057		2,163,057
Increase (decrease) in taxes payable	(206,687)	267,967		206,687		206,687
Net cash (used in) provided by operating activities	(1,494,083)	438,966	178,102	1,699,109	(26,924)	1,672,185
Cash flows from investing activites:						
Payment to trust account			(188,675,000)		(188,675,000)	(188,675,000)
Capital expenditures	(3,658)		(7,322)	(3,664)		(3,664)
Net cash used in investing activities	(3,658)		(188,682,322)	(3,664)	(188,675,000)	(188,678,664)
Cash flows from financing activities:						
Gross proceeds from public offering			188,675,000		188,675,000	188,675,000
Gross proceeds from private placement			11,325,000		11,325,000	11,325,000
Proceeds of note payable to stockholder			590,000		590,000	590,000
			(590,000)		(590,000)	(590,000)

	Six months ended June 30, 2007	Six months ended June 30, 2006	May 13, 2005 (date of inception) to June 30, 2007	For the Year Ended December 31, 2006	May 13, 2005 (date of inception) to December 31, 2005	May 13, 2005 (date of inception) to December 31, 2006
Repayment of note payable to stockholder						
Proceeds from sale of shares of common stock			25,000		25,000	25,000
Payment of offering costs			(10,900,380)	(170,585)	(10,729,795)	(10,900,380)
Net cash provided by financing activities			189,124,620	(170,585)	189,295,205	189,124,620
Net cash (decrease) increase for period	(1,497,741)	438,966	620,400	1,524,860	593,281	2,118,141
Cash at beginning of period	2,118,141	593,281		593,281		
Cash at end of period	$ 620,400	$ 1,032,247	$ 620,400	$ 2,118,141	$ 593,281	$ 2,118,141
Supplemental cash disclosure						
Interest paid	$	$	$ 9,163		$ 9,163	$ 9,163
Supplemental schedule of non-cash financing activities						
Accrual of deferred underwriting fees	$	$	$ 4,000,000		$ 4,000,000	$ 4,000,000
Accrual of offering costs	$	$	$		$ 170,585	

STAR MARITIME ACQUISITION CORP.
UNAUDITED PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET

The following unaudited pro forma combined consolidated balance sheet presents the financial position of Star Maritime as of June 30, 2007, assuming the acquisition of the vessels had been completed as of June 30, 2007. The historical financial information has been adjusted to give effect to pro forma events that are directly attributable to the Redomiciliation Merger, factually supportable, and expected to have a continuing impact on the combined results.

We are providing the following information to aid you in your analysis of the financial aspects of the Redomiciliation Merger. We derived this information from the unaudited balance sheet of Star Maritime as of June 30, 2007. This information should be read together with the Star Maritime audited financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for Star Maritime and other financial information included elsewhere in this joint proxy statement/prospectus.

The unaudited pro forma combined information is for illustrative purposes only. You should not rely on the unaudited pro forma combined balance sheet as being indicative of the historical financial position that would have been achieved had the Redomiciliation Merger been consummated as of this date.

See Notes to Unaudited Pro Forma Combined Consolidated Balance Sheet

UNAUDITED PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2007
(in U.S. dollars)

	Star Maritime Acquisition Corp. and Subsidiary	Pro Forma Adjustments (with no stock redemption)	Combined	Additional Pro Forma Adjustments (with 6,598,000 shares of common stock redemption)	Combined (stock redemption)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	620,400	40,000,000 (a) 196,084,213 (b) (224,500,000)(c) (4,900,000)(e) (4,000,000)(f)	3,304,613	67,970,961 (h) (64,679,990)(i) (3,290,971)(j)	3,304,613
Restricted investment	196,084,213	(196,084,213)(b)			
Prepaid expenses and other current assets	122,234		122,234		122,234
Total current assets	196,826,847		3,426,847		3,426,847
Fixed assets, net	5,694		5,694		5,694
Vessels, net		397,912,882 (c)	397,912,882		397,912,882
Deferred tax asset					
Total assets	196,832,541	204,512,882	401,345,423		401,345,423
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses	474,520		474,520		474,520
Deferred interest on investment	3,290,971	(3,290,971)(g)			
Deferred underwriting fees	4,000,000	(4,000,000)(f)			
Income taxes payable					
Long-term debt, current portion					
Total current liabilities	7,765,491		474,520		474,520
Long-term debt, net of current portion		40,000,000 (a)	40,000,000	67,970,961 (h)	107,970,961
Other long term liabilities					
Total liabilities	7,765,491		40,474,520		108,445,481
Common Stock, 6,599,999 subject to possible redemption at a redemption value of $9.80 per share	64,679,990	(64,679,990)(d)			
Commitments	64,679,990				

	Star Maritime Acquisition Corp. and Subsidiary	Pro Forma Adjustments (with no stock redemption)	Combined	Additional Pro Forma Adjustments (with 6,598,000 shares of common stock redemption)	Combined (stock redemption)
STOCKHOLDERS' EQUITY:					
Preferred stock, $.0001 par value; authorized, 1,000,000 shares, none issued or outstanding					
Common stock, $.0001 par value; authorized, 100,000,000 shares; 29,026,924 shares issued and outstanding (including 6,599,999 shares subject to possible redemption)	2,903	1,414 (c)			
		660 (d)	4,817	(660)(i)	4,157
Additional paid-in capital	120,441,727	173,411,468 (c)			
		64,679,330 (d)		(20)(k)	
		(4,900,000)(e)	353,632,685	(64,679,330)(i)	
				20 (k)	288,953,355
Earnings accumulated in the development stage	3,942,430	3,290,971 (g)	7,233,401	(3,290,971)(j)	3,942,430
Total stockholders' equity	124,387,060		360,870,903		292,899,942
Total liabilities and stockholders' equity	196,832,541	204,512,882	401,345,423		401,345,423

STAR MARITIME ACQUISITION CORP.
NOTES TO UNAUDITED PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2007

The pro forma consolidated balance sheet reflects the acquisition of the fleet of vessels from the subsidiaries of TMT and the drawdown of the loan to partially finance that transaction as further discussed in the "Summary" section of this document. The historical balance sheet of Star Maritime at June 30, 2007 used in the preparation of the unaudited pro forma financial information has been derived from the unaudited consolidated balance sheet of Star Maritime at June 30, 2007. The Redomiciliation Merger is to be accounted for as a merger of entities under common control, and as such assets will continue to be recorded at their historical cost.

Separate pro forma consolidated balance sheets have been presented for the following circumstances (1) that no Star Maritime stockholders exercise their right to have their shares redeemed upon the consummation of the Redomiciliation Merger and (2) that holders of 6,599,999 shares of Star Maritime common stock elect to have their shares redeemed upon the consummation of the Redomiciliation Merger at the redemption value of $9.80 per share, based on the amount held in the Star Maritime Trust Account, plus interest income to date thereon, at June 30, 2007.

Descriptions of the adjustments included in the unaudited consolidated pro forma balance sheets are as follows:

(a) Reflects the drawdown of the loan of $40,000,000 under the credit facility described in "Acquisition Financing". Star Bulk has entered into a commitment letter with an international shipping lender that will, subject to the approval of the Agreement and Plan of Merger, provide Star Bulk with a credit facility of up to $120,000,000 with a nine-year term and secured by five of the eight drybulk carriers that Star Bulk has agreed to acquire from TMT. Star Bulk intends to draw down $40,000,000 under the credit facility on the effective date of the Redomiciliation Merger to fund a portion of the cash consideration of the aggregate purchase price of in the initial fleet. The remaining funds under the credit facility may be used to replace funds from our Trust Account used to pay costs relating to the redemption of Star Maritime stockholders who vote against the Redomiciliation Merger and elect to redeem their shares. Any excess un-drawn funds under the credit facility may be used for additional vessel acquisitions and to provide working capital.

(b) To transfer the total Investment in trust account balance to the operating cash account.

(c) Reflects the acquisition of eight drybulk carriers from certain subsidiaries of TMT for an aggregate estimated purchase price of $397.9 million consisting of $224.5 million payable in cash and $173.4 million payable in 14,144,607 common shares of Star Bulk. For accounting purposes, the stock consideration will be measured based on the fair market value of the shares at the time the vessels are delivered. In estimating the value of the shares included in the aggregate purchase price, we utilized the closing price of $12.26 as of June 29, 2007 of the common stock of Star Maritime.

(d) In conjunction with the Redomiciliation Merger, all non-redeemed common stock forfeits redemption rights.

(e) To record transaction costs comprised of: advisor fees of $2.8 million, legal fees of $1.1 million, $0.7 million in accounting fees and other fees of $0.3 million totalling $4.9 million. The advisory fees of Maxim, CF&Co. and Bongard are payable only upon the successful completion of the Redomiciliation Merger.

(f) To reflect payment of underwriters' deferred compensation, related to services provided in connection with Star Maritime's initial public offering in December 2005.

(g) To record interest on Trust Account previously deferred.

(h) To drawdown an additional $68.0 million under the Company's credit facility of up to $120 million to replace funds from the Trust Account used for the payment of redemption value and deferred interest to investors.

(i) Reflects the redemption of 32.99% of Star Maritime shares of common stock issued in the Company's initial public offering, at June 30, 2007 redemption value of $9.80 per share. The number of shares assumed redeemed, 6,599,999, is based on 32.99% of the IPO shares outstanding prior to the Redomiciliation Merger and represents the maximum number of shares that may be redeemed without precluding the consummation of the Redomiciliation Merger.

(j) To reflect the payment of interest earned by the redeeming shareholders.

(k) Reflects the 200,000 common shares certain of our officers and directors have agreed to surrender for cancellation upon the consummation of a business combination in the event public stockholders exercise their right to have Star Maritime redeem their shares for cash.

MARKET PRICE AND DIVIDEND INFORMATION

Star Maritime's units commenced trading on the American Stock Exchange under the symbol "SEAU," on December 16, 2005. Effective on February 27, 2006, Star Maritime's common stock and warrants began to trade separately under the symbols "SEA," and "SEA.WS", respectively, and the units ceased trading. The closing high and low sales prices of Star Maritime's units, common stock, and warrants as reported by the American Stock Exchange, for the quarters indicated are as follows:

	Units		Common Stock		Warrants	
	High	**Low**	**High**	**Low**	**High**	**Low**
2005:						
Fourth Quarter (December 16 to December 31)	$ 10.00	$ 9.82	NA	NA	NA	NA
2006:						
First Quarter (January 1 to February 27)(1)	$ 10.25	$ 9.84	NA	NA	NA	NA
First Quarter (February 27 to March 31)	NA	NA	$ 9.92	$ 9.62	$ 1.25	$ 0.87
Second Quarter (April 1 to June 30)	NA	NA	$ 10.16	$ 9.47	$ 1.20	$ 0.87
Third Quarter (July 1 to September 31)	NA	NA	$ 9.74	$ 9.45	$ 1.06	$ 0.70
Fourth Quarter (October 1 to December 31)	NA	NA	$ 9.90	$ 9.60	$ 0.84	$ 0.55
2007:						
First Quarter (January 1 to January 16)(2)	NA	NA	$ 9.93	$ 9.87	$ 0.87	$ 0.72
First Quarter (January 17 to March 31)	NA	NA	$ 10.30	$ 9.86	$ 2.15	$ 1.20
Second Quarter (April 1 to June 29)(3)	NA	NA	$ 12.31	$ 10.34	$ 4.25	$ 2.18
Third Quarter (July 2 to September 28)	NA	NA	$ 14.03	$ 11.30	$ 5.85	$ 3.10
Fourth Quarter (October 1 to October 9)(4)	NA	NA	$ 14.94	$ 14.05	$ 6.29	$ 5.76

(1) Star Maritime's units ceased trading on February 27, 2006. Star Maritime's common stock and warrants commenced trading separately as of this date.

(2) The last full trading day prior to the announcement of a proposal for a business combination involving Star Bulk. On January 16, 2007, the closing price of Star Maritime common stock and warrants was $9.90 and $0.87, respectively.

(3) On June 29, 2007 the closing price of the common stock and warrants of Star Maritime was $12.26 and $4.04, respectively.

(4) On October 9, 2007 the closing price of the common stock and warrants of Star Maritime was $14.94 and $6.29 respectively.

As of October 9, 2007, there were nine stockholders of record of Star Maritime common stock and five holders of record of Star Maritime warrants. Such numbers do not include beneficial owners holding shares or warrants through nominee names.

Star Maritime is a blank check company and as a result, has never declared or paid any dividends on its common stock.

Stockholders are urged to obtain a current market quotation for Star Maritime securities.

Star Bulk's securities are not currently listed and do not trade on any stock exchange. Star Bulk has applied to list its common stock and warrants on the Nasdaq Global Market under the symbols "SBLK" and "SBLKW" respectively. Star Bulk is recently formed company and no dividends have been paid on any Star Bulk securities.

RISK FACTORS

You should consider carefully the following risk factors, as well as the other information set forth in this joint proxy statement/prospectus, before making a decision on the Redomiciliation Merger. The following risk factors contain all material risks that are currently known or we believe are reasonably foreseeable. Some of the following risks relate principally to the industry in which Star Bulk, as the surviving corporation, will operate and its business in general. Any of the risk factors could significantly and negatively affect Star Bulk's business, financial condition or operating results.

Company Risk Factors Relating to the Surviving Corporation

Star Bulk has no operating history and may not operate profitably in the future.

Star Bulk was formed December 13, 2006. Star Bulk has entered into agreements to acquire eight drybulk carriers and expects to take delivery of the vessels within sixty days following the effective date of the Redomiciliation Merger. However, Star Bulk has no operating history. Its financial statements do not provide a meaningful basis for you to evaluate its operations and ability to be profitable in the future. Star Bulk may not be profitable in the future.

Star Bulk's senior executive officers and directors may not be able to organize and manage a publicly traded operating company adversely affecting the Company's overall financial position.

None of Star Bulk's senior executive officers or directors has previously organized and managed a publicly traded operating company, and Star Bulk's senior executive officers and directors may not be successful in doing so. The demands of organizing and managing a publicly traded operating company are much greater as compared to a private or blank check company and some of Star Bulk's senior executive officers and directors may not be able to meet those increased demands.

If any of the eight drybulk carriers in Star Bulk's fleet are not delivered on time or delivered with significant defects, Star Bulk's proposed business, results of operations and financial condition could suffer.

Star Bulk has entered into separate memoranda of agreement with wholly-owned subsidiaries of TMT to acquire the eight drybulk carriers in its initial fleet. On the effective date of the Redomiciliation Merger, at least one of the vessels in the initial fleet will be delivered to Star Bulk. Star Bulk expects to take delivery of the remaining vessels within sixty days following the effective date of the Redomiciliation Merger. A delay in the delivery of any of these vessels to Star Bulk or the failure of TMT to deliver a vessel at all could adversely affect Star Bulk's business, results of operations and financial condition. The delivery of these vessels could be delayed or certain events may arise which could result in Star Bulk not taking delivery of a vessel, such as a total loss of a vessel, a constructive loss of a vessel, or substantial damage to a vessel prior to delivery. In addition, the delivery of any of these vessels with substantial defects could have similar consequences.

If Star Bulk fails to manage its planned growth properly, it may not be able to successfully expand its fleet adversely affecting the Company's overall financial position.

Star Bulk intends to continue to expand its fleet. Star Bulk's growth will depend on:

- locating and acquiring suitable vessels;
- identifying and consummating acquisitions or joint ventures;
- integrating any acquired vessels successfully with its existing operations;
- enhancing its customer base;
- managing its expansion; and

obtaining required financing.

Growing any business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty experienced in obtaining additional qualified personnel and managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures. Star Bulk may not be successful in executing its growth plans and may incur significant expenses and losses.

Star Bulk's loan agreements may contain restrictive covenants that may limit its liquidity and corporate activities.

The new senior secured credit facility that Star Bulk expects to enter into and any future loan agreements may impose operating and financial restrictions on it. These restrictions may limit its ability to:

- incur additional indebtedness;
- create liens on its assets;
- sell capital stock of its subsidiaries;
- make investments;
- engage in mergers or acquisitions;
- pay dividends;
- make capital expenditures;
- change the management of its vessels or terminate or materially amend the management agreement relating to each vessel; and
- sell its vessels.

Therefore, Star Bulk may need to seek permission from its lenders in order to engage in some important corporate actions. The lenders' interests may be different from those of Star Bulk, and Star Bulk cannot guarantee that it will be able to obtain the lenders' permission when needed. This may prevent Star Bulk from taking actions that are in its best interest.

Servicing debt will limit funds available for other purposes, including capital expenditures and payment of dividends.

Star Bulk expects to incur up to $40,000,000 of indebtedness in connection with the purchase of the vessels in the initial fleet and may also incur additional secured debt to finance the acquisition of additional vessels. Star Bulk may also incur up to an additional $70,000,000 of indebtedness to replace funds from our Trust Account that have been utilized to cover the cost of redeeming stockholders of Star Maritime. Star Bulk may be required to dedicate a portion of its cash flow from operations to pay the principal and interest on its debt. These payments limit funds otherwise available for working capital expenditures and other purposes, including payment of dividends. Star Bulk has not yet determined whether to purchase additional vessels or incur debt in the near future for additional vessel acquisitions. Assuming that no shareholders elect to redeem, Star Bulk will have available approximately $70,000,000 under its credit facility to fund future acquisitions. If Star Bulk is unable to service its debt, it could have a material adverse effect on Star Bulk's financial condition and results of operations.

Poor performance of Star Bulk's charters may lead to decreased revenues and a reduction in earnings.

Star Bulk will enter into a time charter with each of Worldlink Shipping Limited for the *Star Alpha*, North China Shipping Limited Bahamas for the *Star Epsilon*, Essar for the *Star Delta*, Neptune for the *Star Zeta*, Hyundai for the *Star Theta* and TMT for the *Star Iota* and *Star Gamma*. Star Bulk's revenues may be dependent on the performance of its charterers and, as a result, defaults by its charterers may materially adversely affect Star Bulk's revenues. Star Bulk has not independently analyzed the creditworthiness of the charterers, consistent with industry practice in the drybulk shipping industry.

In the highly competitive international drybulk shipping industry, Star Bulk may not be able to compete for charters with new entrants or established companies with greater resources which may adversely affect its results of operations.

Star Bulk will employ its vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than Star Bulk. Competition for the transportation of drybulk cargoes can be intense and depends on price, location, size, age, condition and the acceptability of the vessel and its managers to the charterers. Due in part to the highly fragmented market, competitors with greater resources could operate larger fleets through consolidations or acquisitions that may be able to offer better prices and fleets.

Star Bulk may be unable to attract and retain key management personnel and other employees in the shipping industry, which may negatively affect the effectiveness of its management and its results of operations.

Star Bulk's success will depend to a significant extent upon the abilities and efforts of its management team. Star Bulk has only two employees, its Chief Executive Officer and Chief Financial Officer. Star Bulk's wholly-owned subsidiary, Star Bulk Management, plans to hire additional employees following the Redomiciliation Merger to perform the day to day management of the vessels in the initial fleet. Star Bulk Management does not currently have any employees. Star Bulk's success will depend upon its ability to retain key members of its management team and the ability of Star Bulk Management to recruit and hire suitable employees. The loss of any of these individuals could adversely affect Star Bulk's business prospects and financial condition. Difficulty in hiring and retaining personnel could adversely affect Star Bulk's results of operations. Star Bulk does not intend to maintain "key man" life insurance on any of its officers. Star Bulk Management has entered into employment agreements with Mr. Akis Tsirigakis and Mr. George Syllantavos, Star Bulk's Chief Executive Officer and Chief Financial Officer, respectively, and has adopted an equity incentive plan in order to provide the board of directors a mechanism for incentivizing key employees in the future.

As Star Bulk commences its business, it will need to implement its operations and financial systems and hire new shoreside staff; if it cannot implement these systems or recruit suitable employees, its performance may be adversely affected.

Star Bulk's operating and financial systems may not be adequate as it commences operations, and its attempts to implement those systems may be ineffective. In addition, as Star Bulk expands its fleet, it will have to rely on its wholly-owned subsidiary, Star Bulk Management, to recruit shoreside administrative and management personnel. Star Bulk Management intends to sub-contract crew management, which includes the recruitment of seafarers, to third-party technical management companies. On-shore personnel will be recruited by Star Bulk Management through referrals from other shipping companies and traditional methods of securing personnel, such as placing classified advertisements in shipping industry periodicals. Star Bulk Management may not be able to continue to hire suitable employees as Star Bulk expands its fleet. If Star Bulk Management's unaffiliated crewing agent encounters business or financial difficulties, Star Bulk may not be able to adequately staff its vessels. If Star Bulk is unable to operate its financial and operations systems effectively or to recruit suitable employees, its performance may be materially adversely affected.

Risks involved with operating ocean going vessels could affect Star Bulk's business and reputation, which would adversely affect its revenues.

The operation of an ocean-going vessel carries inherent risks. These risks include the possibility of:

- crew strikes and/or boycotts;
- marine disaster;
- piracy;

- environmental accidents;
- cargo and property losses or damage; and
- business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries or adverse weather conditions.

Any of these circumstances or events could increase Star Bulk's costs or lower its revenues.

Star Bulk's vessels may suffer damage and it may face unexpected drydocking costs, which could adversely affect its cash flow and financial condition.

If Star Bulk's vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. Star Bulk may have to pay drydocking costs that its insurance does not cover. The loss of earnings while these vessels are being repaired and reconditioned, as well as the actual cost of these repairs, would decrease its earnings.

Purchasing and operating secondhand vessels may result in increased operating costs and vessel off-hire, which could adversely affect Star Bulk's earnings.

Star Bulk's inspection of secondhand vessels prior to purchase does not provide it with the same knowledge about their condition and cost of any required or anticipated repairs that it would have had if these vessels had been built for and operated exclusively by Star Bulk. Generally, Star Bulk will not receive the benefit of warranties on secondhand vessels.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers.

Governmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment, to Star Bulk's vessels and may restrict the type of activities in which the vessels may engage. As Star Bulk's vessels age, market conditions may not justify those expenditures or enable Star Bulk to operate its vessels profitably during the remainder of their useful lives.

Star Bulk has inspected the vessels that it will acquire from TMT, has considered the age and condition of the vessels in budgeting for operating, insurance and maintenance costs, and that if Star Bulk acquires additional second hand vessels in the future, it may encounter higher operating and maintenance costs due to the age and condition of those additional vessels.

Star Bulk's worldwide operations will expose it to global risks that may interfere with the operation of its vessels.

Star Bulk is expected to primarily conduct its operations worldwide. Changing economic, political and governmental conditions in the countries where Star Bulk is engaged in business or in the Marshall Islands where Star Bulk intends to register all of its vessels, affect Star Bulk's operations. In the past, political conflicts, particularly in the Arabian Gulf, resulted in attacks on vessels, mining of waterways and other efforts to disrupt shipping in the area. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. The likelihood of future acts of terrorism may increase, and Star Bulk's vessels may face higher risks of being attacked. In addition, future hostilities or other political instability in regions where Star Bulk's vessels trade could have a material adverse effect on its trade patterns and adversely affect its operations and performance.

Star Bulk may not have adequate insurance to compensate it if it loses its vessels, which may have material adverse effect on it financial condition and results of operation.

Star Bulk is expected to procure hull and machinery insurance, protection and indemnity insurance, which includes environmental damage and pollution insurance coverage and war risk

insurance for its fleet. Star Bulk does not expect to maintain for all of its vessels insurance against loss of hire, which covers business interruptions that result from the loss of use of a vessel. Star Bulk may not be adequately insured against all risks. Star Bulk may not be able to obtain adequate insurance coverage for its fleet in the future. The insurers may not pay particular claims. Star Bulk's insurance policies may contain deductibles for which it will be responsible and limitations and exclusions which may increase its costs or lower its revenue. Moreover, insurers may default on claims they are required to pay. If Star Bulk's insurance is not enough to cover claims that may arise, the deficiency may have a material adverse effect on Star Bulk's financial condition and results of operations.

Star Bulk is incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law, which may negatively affect the ability of public shareholders to protect their interests.

Star Bulk's corporate affairs are governed by its Articles of Incorporation and By-laws and by the Marshall Islands Business Corporations Act or BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, public shareholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

Star Bulk is incorporated under the laws of the Marshall Islands and its directors and officers are non-U.S. residents, and although you may bring an original action in the courts of the Marshall Islands or obtain a judgment against Star Bulk, its directors or its management based on U.S. laws in the event you believe your rights as a shareholder have been infringed, it may be difficult to enforce judgments against Star Bulk, its directors or its management.

Star Bulk is incorporated under the laws of the Republic of the Marshall Islands, and all of its assets are located outside of the United States. Star Bulk's business will be operated primarily from its offices in Athens, Greece. In addition, Star Bulk's directors and officers, following the Redomiciliation Merger, will be non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against Star Bulk or against these individuals in the United States if you believe that your rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict you from enforcing a judgment against Star Bulk's assets or the assets of its directors and officers. Although you may bring an original action against Star Bulk, its affiliates or any expert named in this prospectus in the courts of the Marshall Islands based on U.S. laws, and the courts of the Marshall Islands may impose civil liability, including monetary damages, against Star Bulk, its affiliates or any expert named in this prospectus for a cause of action arising under Marshall Islands law, it may impracticable for you to do so given the geographic location of the Marshall Islands. For more information regarding the relevant laws of the Marshall Islands, please read "Enforceability of Civil Liabilities."

There is a risk that Star Bulk could be treated as a U.S. domestic corporation for U.S. federal income tax purposes after the Redomiciliation Merger which would adversely affect its earnings.

Section 7874(b) of the Code provides that, unless certain requirements are satisfied, a corporation organized outside the United States which acquires substantially all of the assets (through a plan or a series of related transactions) of a corporation organized in the United States will be treated as a U.S. domestic corporation for U.S. federal income tax purposes if shareholders of the U.S. corporation whose assets are being acquired own at least 80% of the non-U.S. acquiring corporation after the acquisition. If Section 7874(b) of the Code were to apply to Star Maritime and the Redomiciliation Merger, then, among other consequences, Star Bulk, as the surviving entity of the Redomiciliation Merger, would be subject to U.S. federal income tax as a U.S. domestic corporation on its worldwide income after the Redomiciliation Merger. These consequences are discussed in more detail under the heading "Tax Considerations Material U.S. Federal Income Tax Consequences United States Federal Income Tax Considerations Tax Consequences of the Merger." The Redomiciliation Merger has been structured so that upon completion of the Redomiciliation Merger and the concurrent issuance of stock to TMT under the Acquisition Agreements, the stockholders of Star Maritime will own less than 80% of Star Bulk and therefore, Star Bulk should not be subject to Section 7874(b) of the Code after the Redomiciliation Merger. Star Maritime has obtained an opinion of its counsel, Seward & Kissel, LLP, that Section 7874(b) should not apply to the Redomiciliation Merger. However, there is no authority directly addressing the application of Section 7874(b) to a transaction such as the Redomiciliation Merger where shares in a foreign corporation such as Star Bulk are issued concurrently with (or shortly after) a merger. In particular, since there is no authority directly applying the "series of related transactions" or "plan" provisions to the post-acquisition stock ownership requirements of Section 7874(b), there is no assurance that the United States Internal Revenue Service, or IRS, will agree with Seward & Kissel's opinion on this matter. Moreover, Star Maritime has not sought a ruling from the IRS on this point. Therefore, there is no assurance that the IRS would not seek to assert that Star Bulk is subject to U.S. federal income tax on its worldwide income after the Redomiciliation Merger although Seward and Kissel is of the opinion that such an assertion should not be successful.

Star Bulk may have to pay tax on United States source income, which would reduce its earnings.

Under the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as Star Bulk and its subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S. source shipping income and such income is subject to a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury regulations promulgated thereunder.

Star Bulk expects that it and each of its subsidiaries will qualify for this statutory tax exemption and Star Bulk will take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause Star Bulk to lose the benefit of this tax exemption and thereby become subject to U.S. federal income tax on Star Bulk's U.S. source income.

If Star Bulk or its subsidiaries are not entitled to this exemption under Section 883 for any taxable year, Star Bulk or its subsidiaries would be subject for those years to a 4% U.S. federal income tax on its U.S.-source shipping income. The imposition of this taxation could have a negative effect on Star Bulk's business and would result in decreased earnings.

U.S. tax authorities could treat Star Bulk as a "passive foreign investment company," which could have adverse U.S. federal income tax consequences to U.S. holders.

Star Bulk will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of its assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. shareholders of a PFIC may be subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on Star Bulk's proposed method of operation, Star Bulk intends to take the position for United States federal income tax purposes it is not a PFIC with respect to any taxable year. In this regard, Star Bulk intends to treat the gross income it will derive or will be deemed to derive from its time chartering activities as services income, rather than rental income. Accordingly, Star Bulk intends to take the position that its income from its time chartering activities does not constitute "passive income," and the assets that it will own and operate in connection with the production of that income do not constitute passive assets.

There is, however, no direct legal authority under the PFIC rules addressing Star Bulk's proposed method of operation. In addition, Star Bulk has not received an opinion of counsel with respect to this issue. Accordingly, no assurance can be given that the U.S. Internal Revenue Service, or the IRS, or a court of law will accept Star Bulk's position, and there is a risk that the IRS or a court of law could determine that Star Bulk is a PFIC. Moreover, no assurance can be given that Star Bulk would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of its operations. For example, if Star Bulk were treated as earning rental income from its chartering activities rather than services income, Star Bulk would be treated as a PFIC.

If the IRS were to find that Star Bulk is or has been a PFIC for any taxable year, its U.S. shareholders will face adverse U.S. tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders), such shareholders would be liable to pay U.S. federal income tax at the then highest income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of Star Bulk's common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of Star Bulk's common shares. These consequences are discussed in more detail under the heading "Tax Considerations Material U.S. Federal Income Tax Consequences United States Federal Income Taxation of U.S. Holders Passive Foreign Investment Company Status and Significant Tax Consequences."

Investors should not rely on an investment in Star Bulk if they require dividend income. It is not certain that Star Bulk will pay a dividend and the only return on an investment in Star Bulk may come from appreciation of the common stock.

Star Bulk's intention is to pay quarterly dividends as described in "Star Bulk's Dividend Policy." However, Star Bulk may incur other expenses or liabilities that would reduce or eliminate the cash available for distribution as dividends. Star Bulk's loan agreements, including the credit facility agreement that Star Bulk expects to enter into, may also prohibit or restrict the declaration and payment of dividends under some circumstances.

In addition, the declaration and payment of dividends will be subject at all times to the discretion of Star Bulk's board of directors. The timing and amount of dividends will depend on Star Bulk's earnings, financial condition, cash requirements and availability, fleet renewal and expansion, restrictions in its loan agreements, the provisions of Marshall Islands law affecting the payment of dividends and other factors. Marshall Islands law generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividends, or if there is no surplus, dividends may be declared or paid out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Star Bulk may not pay dividends in the anticipated amounts and frequency set forth in this joint proxy statement/prospectus or at all.

Star Bulk is a holding company, and will depend on the ability of its subsidiaries to distribute funds to it in order to satisfy its financial obligations or to make dividend payments.

Star Bulk is a holding company and its subsidiaries, all of which are, or upon their formation will be, wholly-owned by it either directly or indirectly, will conduct all of Star Bulk's operations and own all of Star Bulk's operating assets. Star Bulk will have no significant assets other than the equity interests in its wholly-owned subsidiaries. As a result, Star Bulk's ability to make dividend payments depends on its subsidiaries and their ability to distribute funds to Star Bulk. If Star Bulk is unable to obtain funds from its subsidiaries, Star Bulk's board of directors may exercise its discretion not to pay dividends.

Star Bulk may not be able to borrow amounts under its credit facility which may affect its ability to purchase the vessels in the initial fleet.

Star Bulk's ability to borrow amounts under its credit facility to acquire the initial fleet from TMT will be subject to the satisfaction of customary conditions precedent and compliance with terms and conditions included in the loan documents, and to circumstances that may be beyond its control such as world events, economic conditions, the financial standing of the bank or its willingness to lend to shipping companies such as Star Bulk. Prior to each drawdown, Star Bulk will be required, among other things, to provide the lender with acceptable valuations of the vessels in its fleet confirming that they are sufficient to satisfy minimum security requirements. To the extent that Star Bulk is not able to satisfy these requirements, including as a result of a decline in the value of its vessels, Star Bulk may not be able to draw down the full amount under its credit facility without obtaining a waiver or consent from the lender. Star Bulk will also not be permitted to borrow amounts under the facility if it experiences a change of control.

The assumptions underlying Star Bulk's "Forecasted Cash Available for Dividends, Reserves and Extraordinary Expenses" are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those forecasted.

The financial forecast in Star Bulk's "Statement of Forecasted Results of Operations and Cash Available for Dividends, Reserves and Extraordinary Expenses" has been prepared by the management of Star Bulk and Star Bulk has not received an opinion or report on it from any independent registered public accounting firm and the forecast has not been prepared in accordance with generally accepted accounting principles. The assumptions underlying the forecast are inherently uncertain and are subject to significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those forecasted. If Star Bulk does not achieve the forecasted results, Star Bulk may not be able to operate profitably, successfully implement its business strategy to expand its fleet or pay dividends to its shareholders in which event the market price of Star Bulk's common shares may decline materially.

If the Redomiciliation Merger is completed, the Star Maritime warrants, which will be assumed by Star Bulk, become exerciseable and you may experience dilution.

Under the terms of the Star Maritime warrants, the warrants become exerciseable upon the completion of a business combination transaction. If the Redomiciliation Merger is approved, Star Maritime expects to complete the Redomiciliation Merger during the third quarter of 2007. Star Maritime has 20,000,000 warrants to purchase common stock issued and outstanding at an exercise price of $8.00 per common share. Star Maritime warrants will become exerciseable upon the effective date of the Redomiciliation Merger and as a result, you may experience dilution.

Registration rights held by Star Maritime's stockholders who purchased shares prior to the initial public offering may have an adverse effect on the market price of Star Bulk's common stock.

Star Maritime's initial stockholders who purchased common stock prior to the initial public offering are entitled to demand that Star Bulk register the resale of their shares at any time after they are released from escrow which, except in limited circumstances, will not be before December 21, 2008. If such stockholders exercise their registration rights with respect to all of their shares, there will be an additional 9,026,924 shares of common stock eligible for trading in the public market. In addition, certain of Star Maritime's officers and directors who purchased units in Star Maritime's private placement in December 2005 are entitled to demand the registration of the securities underlying the 1,132,500 units at any time after Star Maritime announces that it has entered into a letter of intent, an agreement in principle or a definitive agreement in connection with a business combination. Star Maritime announced Star Bulk's entry into the Acquisition Agreements on January 17, 2007. If all of these stockholders exercise their registration rights with respect to all of their shares of common stock, there will be an additional 1,132,500 shares of common stock eligible for trading in the public market. The presence of these additional shares may have an adverse effect on the market price of Star Bulk's common stock.

We depend on officers who may engage in other business activities in the international shipping industry which may create conflicts of interest.

Prokopios Tsirigakis, Star Bulk's Chief Executive Officer and a member of its board of directors, and George Syllantavos, Star Bulk's Chief Financial Officer, Secretary and member of its board of directors intend to participate in business activities not associated with Star Bulk. As a result, Mr. Tsirigakis and Mr. Syllantavos may devote less time to Star Bulk than if they were not engaged in other business activities and may owe fiduciary duties to the shareholders of both Star Bulk as well as shareholders of other companies which they may be affiliated, which may create conflicts of interest in matters involving or affecting Star Bulk and its customers. It is not certain that any of these conflicts of interest will be resolved in Star Bulk's favor.

Star Maritime's directors and executive officers have interests in the Redomiciliation Merger that are different from yours.

In considering the recommendation of Star Maritime's directors to vote to approve the Redomiciliation Merger, you should be aware that they have agreements or arrangements that provide them with interests in the Redomiciliation Merger that differ from, or are in addition to, those of Star Maritime stockholders generally. If the Redomiciliation Merger is not approved, Star Maritime will be liquidated and we will distribute to all of the holders of our shares issued in our initial public offering in proportion to their respective equity interests, an aggregate amount equal to funds on deposit in the Trust Account, including any interest (net of any taxes payable) not previously released to us, plus any remaining net assets. If we fail to consummate a business combination transaction, our officers and directors have waived their respective rights to participate in any liquidation distribution with respect to the 9,026,924 shares of common stock issued to them prior to our initial public offering and with respect to the 1,132,500 shares of common stock acquired by certain of our officers and directors in the private placement and we would not distribute funds from the Trust Account with respect to the Star Maritime warrants, which would expire. The personal and financial interests of the members of our board of directors and executive officers may have influenced their motivation in identifying and selecting a target business and completing a business combination timely. Consequently, their discretion in identifying and selecting a suitable target business may result in a conflict of interest when determining whether the terms, conditions and timing of a particular business combination are appropriate and in Star Maritime's stockholders' best interest.

Company Risk Factors Relating to Star Maritime Acquisition Corp.

Star Maritime will dissolve and liquidate if it does not consummate the Redomiciliation Merger, in which event its stockholders may be held liable for claims by third parties against Star Maritime to the extent of distributions received by them.

If Star Maritime does not consummate the Redomiciliation Merger or another business combination by December 21, 2007, then, pursuant to Article SIXTH of its Certificate of Incorporation, Star Maritime's officers must take all actions necessary in accordance with the Delaware General Corporation Law to dissolve and liquidate Star Maritime within 60 days of that date. Therefore, Star Maritime will dissolve and liquidate the Trust Account to its public stockholders if it does not complete the Redomiciliation Merger, or another business combination, by December 21, 2007.

Under Sections 280 through 282 of the Delaware General Corporation Law, stockholders of a corporation may be held liable for claims by third parties against the corporation to the extent of distributions received by them in dissolution of the corporation. If a corporation complies with certain procedures intended to ensure that it makes reasonable provision for all claims against it, including a 60-day notice period during which any third-party claims can be brought against the corporation, a 90-day period during which the corporation may reject any claims brought, and an additional 150-day waiting period before any liquidating distributions are made to stockholders, any liability of stockholders with respect to a liquidating distribution is limited to the lesser of such stockholder's pro rata share of the claim or the amount distributed to the stockholder, and any liability of the stockholder would be barred after the third anniversary of the dissolution. Although Star Maritime will seek stockholder approval to liquidate the Trust Account to its public stockholders as part of a plan of dissolution and liquidation, it does not intend to comply with those procedures. In the event that Star Maritime's directors recommend, and the stockholders approve, a plan of dissolution and liquidation where it is subsequently determined that the reserve for claims and liabilities was insufficient, stockholders who received a return of funds from the Trust Account could be liable for claims made by creditors to the extent of distributions received by them. As such, Star Maritime's stockholders could potentially be liable for any claims to the extent of distributions received by them in dissolution, and any such liability of Star Maritime stockholders will likely extend beyond the third anniversary of such dissolution. Accordingly, third parties may seek to recover from Star Maritime stockholders amounts owed to them by Star Maritime.

The procedures Star Maritime must follow under Delaware law if it dissolves and liquidates may result in substantial delays in the liquidation of the Trust Account to its public stockholders as part of its plan of dissolution and distribution.

If third parties bring claims against Star Maritime, the proceeds held in trust could be reduced which would result in a per-share liquidation value receivable by Star Maritime's public stockholders from the Trust Account as part of its plan of dissolution and liquidation that is less than $10.00.

Star Maritime's placing of funds in trust may not protect those funds from third party claims against it. Star Maritime has not procured waivers from any creditors or prospective target businesses, and if the Redomiciliation Merger is not effected, the material creditors of Star Maritime would consist of its legal advisors, accountants, and service providers in connection with the Redomiciliation Merger, such as experts and printers. As of October 9, 2007, there are no creditor claims against Star Maritime.

Accordingly, the proceeds held in trust could be subject to claims that could take priority over the claims of Star Maritime's public stockholders, which would result in a per-share liquidation value receivable by Star Maritime's public stockholders from funds held in the Trust Account that is less than $10.00.

In connection with our initial public offering, our initial stockholders each entered into a letter agreement whereby our initial stockholders agreed to indemnify Star Maritime against any loss, liability, claims, damage and expense whatsoever (including, but not limited to, any and all legal and other expenses reasonably incurred in investigating, preparing or defending against any litigation, whether pending or threatened, or any claim whatsoever) which the Star Maritime may become subject as a result of any claim by any vendor that is owed money by Star Maritime for services rendered or products sold but only to the extent necessary to ensure that such loss, liability, claim, damage or expense does not reduce the amount in the Trust Account. Pursuant to this letter agreement, Star Maritime may seek indemnity from the initial stockholders to the extent amounts in the Trust Account are not sufficient to fund the Star Maritime's liabilities and expenses. Star Maritime, Star Bulk and both of their boards of directors may be obligated to seek enforcement of the letter agreements to ensure against reductions in the Trust Account.

In the event that Star Maritime's board recommends and its stockholders approve a plan of dissolution and liquidation where it is subsequently determined that the reserve for claims and liabilities is insufficient, stockholders who received a return of funds from the Trust Account as part of the liquidation could be liable for claims made by creditors.

Additionally, if Star Maritime is forced to file a bankruptcy case or an involuntary bankruptcy case is filed against it which is not dismissed, the funds held in the Trust Account may be subject to applicable bankruptcy law, and may be included in Star Maritime's bankruptcy estate and subject to the claims of third parties with priority over the claims of Star Maritime's stockholders. Star Maritime's stockholders could also be required to return any distributions received by them in dissolution as a preference or under other avoidance or recovery theories under applicable bankruptcy law. To the extent any bankruptcy claims deplete the Trust Account, Star Maritime may not be able to return the liquidation amounts due to its public stockholders.

If the Redomiciliation Merger or another business combination is not approved by Star Maritime's stockholders by December 21, 2007, then the funds in the Trust Account may only be distributed upon Star Maritime's dissolution and therefore, payments from the Trust Account to public stockholders may be delayed.

If the Redomiciliation Merger or another business combination is not approved by Star Maritime's stockholders by December 21, 2007, then the funds held in the Trust Account may not be distributed except upon Star Maritime's dissolution. Unless and until stockholder approval to dissolve Star Maritime is obtained from Star Maritime's stockholders, the funds held in the Trust Account will not be released. Consequently, holders of a majority of Star Maritime's outstanding stock must approve the dissolution in order to receive the funds held in the Trust Account and the funds will not be available for any other corporate purpose. The procedures required for Star Maritime to liquidate under the Delaware General Corporation Law, or a vote to reject any plan of dissolution and distribution by its stockholders, may result in substantial delays in the liquidation of the Trust Account to Star Maritime's public stockholders as part of its plan of dissolution and distribution.

Star Maritime currently believes that any plan of dissolution and liquidation subsequent to December 21, 2007 would proceed in approximately the following manner:

- Star Maritime's directors would, consistent with Delaware law and the obligations described in its amended and restated certificate of incorporation to dissolve, prior to the passing of the December 21, 2007 deadline, convene and adopt a specific plan of dissolution and liquidation, which it would then vote to recommend to its stockholders; at such time it would also cause to be prepared a preliminary proxy statement setting out such plan of dissolution and liquidation as well as the board's recommendation of such plan;

- upon such deadline, it would file a preliminary proxy statement with the Securities and Exchange Commission;

- if the Securities and Exchange Commission does not review the preliminary proxy statement, then, approximately 10 days following the passing of such deadline, it would mail the proxy statements to its stockholders, and approximately 30 days following the passing of such deadline it would convene a meeting of stockholders, at which they would either approve or reject the plan of dissolution and liquidation; and

- if the Securities and Exchange Commission does review the preliminary proxy statement, Star Maritime currently estimates that it would receive their comments approximately 30 days following the passing of such deadline. Star Maritime would mail the proxy statements to stockholders following the conclusion of the comment and review process (the length of which cannot be predicted with any certainty, and which may be substantial) and it would convene a meeting of its stockholders at which they would either approve or reject the plan of dissolution and liquidation.

Pursuant to the terms of its certificate of incorporation, Star Maritime's powers following the expiration of the permitted time periods for consummating a business combination would automatically thereafter be limited to acts and activities relating to dissolving and winding up affairs, including liquidation. The funds held in the Trust Account may not be distributed except upon dissolution and, unless and until such approval is obtained from stockholders, the funds held in the Trust Account would not be released. Consequently, holders of a majority of Star Maritime's outstanding stock must approve the dissolution in order to receive the funds held in the Trust Account and the funds would not be available for any other corporate purpose.

The procedures required for Star Maritime to liquidate under the Delaware law, or a vote to reject any plan of dissolution and liquidation by Star Maritime's stockholders, may result in substantial delays in the liquidation of the Trust Account to Star Maritime's public stockholders as part of the plan of dissolution and liquidation.

Industry Risk Factors Relating to Star Bulk

The drybulk shipping industry is cyclical and volatile, and this may lead to reductions and volatility of charter rates, vessel values and results of operations.

The degree of charter hire rate volatility among different types of drybulk carriers has varied widely. If Star Bulk enters into a charter when charter hire rates are low, its revenues and earnings will be adversely affected. In addition, a decline in charter hire rates likely will cause the value of the vessels that Star Bulk will own, to decline and Star Bulk may not be able to successfully charter its vessels in the future at rates sufficient to allow it to operate its business profitably or meet its obligations. The factors affecting the supply and demand for drybulk carriers are outside of Star Bulk's control and are unpredictable. The nature, timing, direction and degree of changes in drybulk shipping market conditions are also unpredictable.

Factors that influence demand for seaborne transportation of cargo include:

- demand for and production of drybulk products;

- the distance cargo is to be moved by sea;

- global and regional economic and political conditions;

- environmental and other regulatory developments; and

- changes in seaborne and other transportation patterns, including changes in the distances over which cargo is transported due to geographic changes in where commodities are produced and cargoes are used.

The factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- vessel casualties;
- price of steel;
- number of vessels that are out of service;
- changes in environmental and other regulations that may limit the useful life of vessels; and
- port or canal congestion.

Star Bulk anticipates that the future demand for its vessels will be dependent upon continued economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the world's drybulk carrier fleet and the sources and supply of cargo to be transported by sea. If the global vessel capacity increases in the drybulk shipping market, but the demand for vessel capacity in this market does not increase or increases at a slower rate, the charter rates could materially decline. Adverse economic, political, social or other developments could have a material adverse effect on our business, financial condition, results of operations and ability to pay dividends.

Charter rates in the drybulk shipping market are at historically high levels and future growth will depend on continued economic growth in the world economy that exceeds growth in vessel capacity. A reduction in world economic growth may have an adverse effect on the Company's financial condition and results of operations.

Charter rates for the drybulk carriers recently have been at historically high levels. Star Bulk anticipates that future demand for its vessels, and in turn future charter rates, will be dependent upon continued economic growth in the world's economy, particularly in China and India, as well as seasonal and regional changes in demand and changes in the capacity of the world's fleet. According to Drewry Shipping Consultants Limited, or Drewry, the world's drybulk carrier fleet is expected to increase in 2007 as a result of substantial scheduled deliveries of newly constructed vessels and low forecasts for scrapping of existing vessels. Continued economic growth in the world economy that exceeds growth in vessel capacity will be necessary to sustain current charter rates. There can be no assurance that economic growth will not decline or that vessel scrapping will occur at an even lower rate than forecasted. A decline in charter rates could have a material adverse effect on Star Bulk's business, financial condition and results of operations.

An economic slowdown in the Asia Pacific region could have a material adverse effect on Star Bulk's business, financial position and results of operations.

A significant number of the port calls made by Star Bulk's vessels may involve the loading or discharging of raw materials and semi-finished products in ports in the Asia Pacific region. As a result, a negative change in economic conditions in any Asia Pacific country, but particularly in China or India, may have an adverse effect on Star Bulk's future business, financial position and results of operations, as well as its future prospects. In particular, in recent years, China has been one of the world's fastest growing economies in terms of gross domestic product. Star Bulk cannot assure you that such growth will be sustained or that the Chinese economy will not experience contraction in the future. Moreover, any slowdown in the economies of the United States, the European Union or certain Asian countries may adversely effect economic growth in China and elsewhere. Star Bulk's business, financial position and results of operations, as well as its future prospects, will likely be materially and adversely affected by an economic downturn in any of these countries.

Star Bulk may become dependent on spot charters in the volatile shipping markets which may have an adverse impact on stable cash flows and revenues.

Star Bulk may employ one or more of its vessels on spot charters, including when time charters on vessels expire. The spot charter market is highly competitive and rates within this market are subject to volatile fluctuations, while longer-term period time charters provide income at pre-determined rates over more extended periods of time. If Star Bulk decides to spot charter its vessels, there can be no assurance that Star Bulk will be successful in keeping all its vessels fully employed in these short-term markets or that future spot rates will be sufficient to enable its vessels to be operated profitably. A significant decrease in charter rates could affect the value of Star Bulk's fleet and could adversely affect its profitability and cash flows with the result that its ability to pay debt service to its lenders and dividends to its shareholders could be impaired.

Star Bulk's operating results will be subject to seasonal fluctuations, which could affect its operating results and the amount of available cash with which Star Bulk can pay dividends.

Star Bulk will operate its vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in quarter to quarter volatility in its operating results, which could affect the amount of dividends that Star Bulk pays to its shareholders from quarter to quarter. The drybulk carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, revenues of drybulk carrier operators in general have historically been weaker during the fiscal quarters ended June 30 and September 30, and, conversely, been stronger in fiscal quarters ended December 31 and March 31. This seasonality may materially affect Star Bulk's operating results and cash available for dividends.

Star Bulk will be subject to regulation and liability under environmental laws that could require significant expenditures and affect its cash flows and net income.

Star Bulk's business and the operation of its vessels will be materially affected by government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which its vessels operate, as well as in the country or countries of their registration. Because such conventions, laws, and regulations are often revised, Star Bulk cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale prices or useful lives of its vessels. Additional conventions, laws and regulations may be adopted which could limit Star Bulk's ability to do business or increase the cost of its doing business and which may materially and adversely affect its operations. Star Bulk will be required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to its operations.

The operation of Star Bulk's vessels is affected by the requirements set forth in the United Nations' International Maritime Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires shipowners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. Each of Star Bulk's vessels will be ISM code-certified but we cannot assure that such certificate will be maintained indefinitely.

Star Bulk expects to maintain, for each of its vessels, pollution liability coverage insurance in the amount of $1 billion per incident. If the damages from a catastrophic incident exceeded Star Bulk's insurance coverage, it could have a material adverse effect on Star Bulk's financial condition and results of operations.

The operation of drybulk carriers has particular operational risks which could affect our earnings and cash flow.

The operation of certain ship types, such as drybulk carriers, has certain particular risks. With a drybulk carrier, the cargo itself and its interaction with the vessel can be an operational risk. By their nature, drybulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, drybulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold) and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach while at sea. Hull breaches in drybulk carriers may lead to the flooding of the vessels' holds. If a drybulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel's bulkheads leading to the loss of a vessel. If Star Bulk is unable to adequately maintain its vessels, it may be unable to prevent these events. Any of these circumstances or events could negatively impact Star Bulk's business, financial condition, results of operations and ability to pay dividends. In addition, the loss of any of its vessels could harm Star Bulk's reputation as a safe and reliable vessel owner and operator.

If any of Star Bulk's vessels fails to maintain its class certification and/or fails any annual survey, intermediate survey, drydocking or special survey, it could have a material adverse impact on Star Bulk's financial condition and results of operations.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention or SOLAS. Star Bulk's vessels are expected to be classed with one or more classification societies that are members of the International Association of Classification Societies.

A vessel must undergo annual surveys, intermediate surveys, drydockings and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Star Bulk's vessels are expected to be on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel will also be required to be drydocked every two to three years for inspection of the underwater parts of such vessels.

If any vessel does not maintain its class and/or fails any annual survey, intermediate survey, drydocking or special survey, the vessel will be unable to carry cargo between ports and will be unemployable and uninsurable. Any such inability to carry cargo or be employed, or any such violation of covenants, could have a material adverse impact on Star Bulk's financial condition and results of operations.

Maritime claimants could arrest Star Bulk's vessels, which could interrupt its cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arresting or attachment of one or more of Star Bulk's vessels could interrupt its cash flow and require it to pay large sums of funds to have the arrest lifted which would have a material adverse effect on Star Bulk's financial condition and results of operations. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one of Star Bulk's vessels for claims relating to another of its vessels.

Governments could requisition Star Bulk's vessels during a period of war or emergency, resulting in loss of earnings.

A government could requisition for title or seize Star Bulk's vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition Star Bulk's vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of Star Bulk's vessels could have a material adverse effect on Star Bulk's financial condition and results of operations.

Because Star Bulk will operate its vessels worldwide, terrorism and other events outside Star Bulk's control may negatively affect its operations and financial condition.

Because Star Bulk will operate its vessels worldwide, terrorist attacks such as the attacks on the United States on September 11, 2001, the bombings in Spain on March 11, 2004 and in London on July 7, 2005, and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets and may affect Star Bulk's business, results of operations and financial condition. The continuing conflict in Iraq may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also have a material adverse effect on Star Bulk's ability to obtain additional financing on terms acceptable to it or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Any of these occurrences could have a material adverse impact on our operating results, revenues and costs.

Terrorist attacks may also negatively affect Star Bulk's operations and financial condition and directly impact its vessels or its customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession in the United States or the world. Any of these occurrences could have a material adverse impact on Star Bulk's financial condition and costs.

Risks Factors Relating to the Redomiciliation Merger

There may not be an active market for Star Bulk's common stock or warrants, which may cause its common stock or warrants to trade at a discount and make it difficult to sell your common stock or warrants.

Prior to the Redomiciliation Merger, there has been no public market for Star Bulk's common stock or warrants. Star Bulk cannot assure you that an active trading market for Star Bulk's common stock or warrants will develop or be sustained after the Redomiciliation Merger or that the price of Star Bulk's common stock or warrants in the public market will reflect its actual financial performance.

The price of Star Bulk's shares after the Redomiciliation Merger may be volatile.

The price of Star Bulk's shares after the Redomiciliation Merger may be volatile, and may fluctuate due to factors such as:

- actual or anticipated fluctuations in quarterly and annual results;

- limited operating history;
- mergers and strategic alliances in the shipping industry;
- market conditions in the industry;
- changes in government regulation;
- fluctuations in Star Bulk's quarterly revenues and earnings and those of its publicly held competitors;
- shortfalls in Star Bulk's operating results from levels forecasted by securities analysts;
- announcements concerning Star Bulk or its competitors; and
- the general state of the securities markets.

The international drybulk shipping industry has been highly unpredictable and volatile. The market for common shares in this industry may be equally volatile.

Star Bulk may choose to redeem its outstanding warrants at a time that is disadvantageous to warrant holders.

Star Bulk may redeem the warrants issued as a part of the units in Star Maritime's Initial Public Offering that will be assumed by Star Bulk in the Redomiciliation Merger at any time after the warrants become exercisable, in whole and not in part, at a price of $0.01 per warrant, upon a minimum of 30 days prior written notice of redemption, if and only if, the last sales price of Star Bulk's common stock equals or exceeds $14.25 per share for any 20 trading days within a 30 trading day period ending three business days before the notice of redemption is sent. Redemption of the warrants could force the warrant holders to (i) exercise the warrants and pay the exercise price therefor at a time when it may be disadvantageous for the holders to do so, (ii) sell the warrants at the then-current market price when they might otherwise wish to hold them, or (iii) accept the nominal redemption price which, at the time the warrants are called for redemption, is likely to be substantially less than the market value of the warrants.

Star Maritime and Star Bulk expect to incur significant costs associated with the Redomiciliation Merger, whether or not the Redomiciliation Merger is completed and the incurrence of these costs will reduce the amount of cash available to be used for other corporate purposes.

Star Maritime and Star Bulk expect to incur significant costs associated with the Redomiciliation Merger, whether or not the Redomiciliation Merger is completed. In connection with the Redomiciliation Merger, if the merger is completed we expect to incur $4.9 million in expenses inclusive of $2.85 million paid as contingent compensation to our advisors, and if the Redomiciliation Merger is not consummated we expect to incur $2.05 million in expenses. The incurrence of these expenses will reduce the amount of cash available to be used for other corporate purposes, including distribution upon a liquidation. As of June 30, 2007 approximately $395,000 of such expenses had been incurred and paid out of Star Maritime's working capital.

As a result of the Redomiciliation Merger, Star Bulk stockholders will be solely dependent on a single business.

As a result of the Redomiciliation Merger, Star Bulk stockholders will be solely dependent upon the performance of Star Bulk and its drybulk shipping business. Star Bulk will be subject to a number of risks that relate generally to the shipping industry and other risks that specifically relate to Star Bulk. See "Company Risk Factors Relating to the Surviving Corporation" and "Industry Risk Factors Relating to the Surviving Corporation."

Star Maritime may waive one or more of the conditions to the Redomiciliation Merger without resoliciting stockholder approval for the Redomiciliation Merger.

Star Maritime may agree to waive, in whole or in part, some of the conditions to its obligations to complete the Redomiciliation Merger, to the extent permitted by applicable laws. The board of directors of Star Maritime will evaluate the materiality of any waiver to determine whether amendment of this joint proxy statement/prospectus and resolicitation of proxies is warranted. In some instances, if the board of directors of Star Maritime determines that a waiver is not sufficiently material to warrant resolicitation of stockholders, Star Maritime has the discretion to complete the Redomiciliation Merger without seeking further stockholder approval.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus contains forward-looking statements. These forward-looking statements include information about possible or assumed future results of operations or the performance of the Star Bulk after the Redomiciliation Merger, the expected completion and timing of the Redomiciliation Merger and other information relating to the Redomiciliation Merger. Words such as "projects," "predicts," "should," "forecasts," "expects," "intends," "plans," "believes," " anticipates," "estimates," and variations of such words and similar expressions are intended to identify the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements include statements regarding:

- the delivery and operation of assets of Star Bulk, the surviving corporation in the Redomiciliation Merger;
- Star Bulk's future operating or financial results;
- future, pending or recent acquisitions, business strategy, areas of possible expansion, and expected capital spending or operating expenses; and
- drybulk market trends, including charter rates and factors affecting vessel supply and demand.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this prospectus. You should read this joint proxy statement/prospectus and the documents that we reference herein and have filed as exhibits to the registration statement of which this joint proxy statement/prospectus forms a part completely and with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we do not undertake any obligation to update or revise any forward-looking statements contained in this joint proxy statement/prospectus, whether as a result of new information, future events or otherwise.

THE STAR MARITIME SPECIAL MEETING

Time, Place and Purpose of the Special Meeting

This joint proxy statement/prospectus is being furnished to Star Maritime stockholders as part of the solicitation of proxies by Star Maritime's board of directors for use at the special meeting of Star Maritime stockholders to be held at , New York, New York on , 2007, at 10:00 a.m. The purpose of the special meeting is for Star Maritime stockholders to consider and vote upon three proposals: (i) the acquisition of eight drybulk carriers by Star Bulk, a wholly-owned Marshall Islands subsidiary of Star Maritime, from certain wholly-owned subsidiaries of TMT, pursuant to definitive agreements, for an aggregate purchase price of $345,237,520, consisting of $224,500,000 in cash and 12,537,645 shares of common stock of Star Bulk to be issued at the time of Redomiciliation Merger and an additional 1,606,962 shares of common stock of Star Bulk to be issued in two installments; (ii) to approve and authorize the Agreement and Plan of Merger by and between Star Maritime with and into its wholly-owned Marshall Islands subsidiary, Star Bulk, with Star Bulk as the surviving corporation and (iii) to approve the adjournment of the special meeting in order to solicit additional proxies in the event that Star Maritime has not obtained the requisite shareholder approval of the Asset Acquisition and the Redomiciliation Merger. Adoption and approval of the Asset Acquisition is conditioned upon the adoption and approval of the Redomiciliation Merger. Star Bulk cannot complete the Asset Acquisition unless the Redomiciliation Merger is adopted and approved. Star Bulk has entered into separate definitive agreements to acquire the vessels in the initial fleet. You are also being asked to vote upon a proposal to approve the adjournment of the special meeting in the event that Star Maritime has not obtained the requisite shareholder approval of the Asset Acquisition and Redomiciliation Merger. See "Adjournments and Postponements" below. The eight Memoranda of Agreement relating to the purchase of the vessels in the initial fleet are attached as Appendix A through Appendix H, the Supplemental Agreement is attached as Appendix I and the Master Agreement is attached as Appendix J to this joint proxy statement/prospectus. The Agreement and Plan of Merger is attached as Appendix K. This joint proxy statement/prospectus and the enclosed form of proxy are first being mailed to Star Maritime stockholders on or about , 2007.

Record Date and Voting

The holders of record of shares of Star Maritime common stock as of the close of business on the record date, which was , 2007, are entitled to receive notice of, and to vote at, the special meeting. On the record date, there were 29,026,924 shares of Star Maritime common stock outstanding.

The holders of a majority of the shares of Star Maritime common stock that were outstanding on the record date, represented in person or by proxy, will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. Abstentions and properly executed broker non-votes will be counted as shares present and entitled to vote for the purposes of determining a quorum. "Broker non-votes" result when the beneficial owners of shares of Star Maritime common stock do not provide specific voting instructions to their brokers. Brokers are precluded from exercising their voting discretion with respect to the approval of non-routine matters such as the proposed merger, and, thus, absent specific instructions from the beneficial owner of those shares, brokers are not empowered to vote the shares with respect to the approval of such matters.

Holders of shares of Star Maritime common stock will have one vote for each share of Star Maritime common stock held by them at the close of business on the record date. Star Maritime warrants do not have voting rights.

Required Vote

The Asset Acquisition must be approved by the holders of a majority of the issued and outstanding shares of common stock of Star Maritime. Adoption and approval of the Asset Acquisition is conditioned upon the adoption and approval of the Redomiciliation Merger. Star Bulk cannot complete the Asset Acquisition unless the Redomiciliation Merger is adopted and approved.

Star Maritime cannot complete the Redomiciliation Merger unless (1) the holders of at least a majority of the issued and outstanding shares of Star Maritime entitled to vote at the special meeting vote in favor of the Redomiciliation Merger; (2) holders of at least a majority of the shares of common stock issued in the initial public offering and the private placement vote in favor of the Redomiciliation Merger; and (3) holders of less than 6,600,000 shares of common stock, such number representing 33.0% of the 20,000,000 shares of Star Maritime common stock issued in the initial public offering and private placement, vote against the Redomiciliation Merger and exercise their redemption rights to have their shares redeemed for cash.

Because the vote is based on the number of shares of Star Maritime common stock outstanding rather than on the number of votes cast, failure to vote your shares (including as a result of broker non-votes), and votes to abstain, are effectively votes "against" the Redomiciliation Merger. A vote in favor of the Redomiciliation Merger is, in effect, a vote in favor of Star Bulk's acquisition of the vessels from TMT. You may vote your shares of Star Maritime common stock by completing and returning the enclosed proxy card by mail or by appearing and voting in person by ballot at the special meeting. Regardless of whether you plan to attend the special meeting, you should vote your shares by proxy as described above as soon as possible.

If you hold your shares through a bank, brokerage firm or nominee, you must vote in accordance with the instructions on the voting instruction card that your bank, brokerage firm or nominee provides to you. You should instruct your bank, brokerage firm or nominee as to how to vote your shares, following the directions contained in such voting instruction card.

Holders of more than 10,000,000 shares of common stock issued in the initial public offering and the private placement must vote in favor of the Redomiciliation Merger for it to be approved. Messrs. Tsirigakis and Syllantavos, our senior executive officers, and Messrs. Pappas and Erhardt, two of our directors, have agreed to vote an aggregate of 1,132,500 shares, or 3.9% of Star Maritime's outstanding common stock, owned by them and any shares of Star Maritime common stock they may acquire in favor of the Redomiciliation Merger and thereby waive redemption rights with respect to such shares. All of Star Maritime's officers and directors have agreed to vote an aggregate of 9,026,924 shares or 31.1% of Star Maritime's outstanding common stock, held by them in accordance with the vote of the holders of a majority of the shares issued in Star Maritime's initial public offering.

Proxies; Revocation

If you vote your shares of Star Maritime common stock by signing a proxy card, your shares will be voted at the special meeting as you indicate on your proxy card. If no instructions are indicated on your signed proxy card, your shares will be voted "**FOR**" the approval and authorization of the Redomiciliation Merger.

You may revoke your proxy at any time before your proxy is voted at the special meeting. A proxy may be revoked prior to the vote at the special meeting in any of three ways:

- by executing and returning a proxy card dated later than the previous one to Star Maritime at 103 Foulk Road, Wilmington, Delaware 19803, Attention: Corporate Secretary;
- by attending the special meeting in person and casting your vote by ballot; or
- by submitting a written revocation to Star Maritime at 103 Foulk Road, Wilmington, Delaware 19803, Attention: Corporate Secretary.

Attendance at the special meeting will not, in itself, constitute revocation of a previously granted proxy. If you do not hold your shares of Star Maritime common stock in your own name, you may revoke or change a previously given proxy by following the instructions provided by the bank, brokerage firm, nominee or other party that is the registered owner of the shares.

Star Maritime does not expect that any matters other than the proposal to authorize and adopt the Redomiciliation Merger will be brought before the special meeting. If, however, such a matter is properly presented at the special meeting or any adjournment or postponement of the special meeting, the persons appointed as proxies will have discretionary authority to vote the shares represented by duly executed proxies in accordance with their discretion and judgment.

Star Maritime will pay the cost of soliciting proxies for the special meeting. In addition to soliciting proxies by mail, Star Maritime's directors and executive officers may solicit proxies personally and by telephone, facsimile or other electronic means of communication. These persons will not receive additional or special compensation for such solicitation services. Star Maritime will, upon request, reimburse banks, brokerage firms and other nominees for their expenses in sending proxy materials to their customers who are beneficial owners and obtaining their voting instructions.

Redemption Rights

As provided in Star Maritime's Certificate of Incorporation, holders of Star Maritime common stock have the right to redeem their shares for cash by voting against the Redomiciliation Merger and electing to have such shares redeemed for cash. The exercise of redemption rights must be made on the proxy card at the same time that the stockholder votes against the Redomiciliation Merger. The per-share redemption price is equal to $10.00 per share, which amount represents $9.80 per share, plus the pro rata portion of any accrued interest earned on the Trust Account (net of taxes payable) not previously distributed to us and $0.20 per share plus interest thereon (net of taxes payable) of contingent underwriting compensation which the underwriters have agreed to forfeit to pay redeeming stockholders, calculated as of two days prior to the consummation of the Redomiciliation Merger. Accordingly, the actual per-share redemption price will fluctuate prior to the date such shares would be redeemed. Based on the amount of cash held in the Trust Account at June 30, 2007, you would have been entitled to redeem each share of common stock that you hold for approximately $10.39. The actual per share redemption price will be calculated two business days prior to the consummation of the Redomiciliation Merger. If you exercise your redemption rights, then you will be exchanging your shares of Star Maritime common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the effective date of the Redomiciliation Merger and then tender your stock certificate to Star Maritime. If the Redomiciliation Merger is not completed, then these shares will not be redeemed for cash. A stockholder who exercises redemption rights will continue to own any warrants to acquire Star Maritime common stock owned by such stockholder as such warrants will remain outstanding and unaffected by the exercise of redemption rights.

As of June 30, 2007, funds available from the Trust Account to fund vessel acquisitions, working capital, and deferred underwriting fees and other corporate expenses were $196,084,213 assuming no shares are redeemed and $127,510,223 if the maximum 32.99% of shareholders redeem assuming a redemption price of $10.39. Star Bulk intends to draw down amounts under its credit facility sufficient to fund the balance of the cash portion of the aggregate purchase price of the vessels in the initial fleet. To the extent funds from the Trust Account are used to pay redeeming stockholders, Star Bulk intends to draw down amounts under its credit facility so that following the acquisition of the vessels, Star Bulk would have working capital of $1.6 million.

Star Maritime cannot complete the Redomiciliation Merger unless (1) the holders of at least a majority of the issued and outstanding shares of Star Maritime entitled to vote at the special meeting vote in favor of the Redomiciliation Merger; (2) holders of at least a majority of the shares of common stock issued in the initial public offering and the private placement vote in favor of the Redomiciliation

Merger; and (3) holders of less than 6,600,000 shares of common stock, such number representing 33.0% of the 20,000,000 shares of Star Maritime common stock issued in the initial public offering and private placement, vote against thman, Times, Serif; margin: 0pt 0">

For the year ended December 31, 2011, we recorded income of $4.5 million which represents the recovery under our directors and officers insurance coverage of plaintiffs' legal fees related to shareholders litigation based on a court decision in February 2011.

Other Expense

	Year Ended December 31,		
	2013	2012	2011
	(In millions)		
Other expense	$0.7	$0.3	$6.7

Other expense for the year ended December 31, 2013 is primarily comprised of expenses related to the evaluation of strategic initiatives.

Other expense for the year ended December 31, 2012 includes expenses of $1.0 million related to strategic initiatives and $0.6 million related to the special distribution to shareholders, partially offset by a $1.3 million gain related to a foreign exchange forward contract to hedge the foreign exchange risk associated with the payment of the second tranche of the special cash distribution from Telesat that was received in July 2012.

Other expense for the year ended December 31, 2011 includes expenses related to the evaluation of strategic alternatives for SS/L and preparation for a potential spin-off of SS/L.

Income Tax (Provision) Benefit

	Year Ended December 31,		
	2013	2012	2011
	(In millions)		
Income tax (provision) benefit	$(1.8)	$93.3	$(41.4)

For 2013, we recorded a current tax benefit of $26.3 million (which included a benefit of $1.0 million to reduce our liability for uncertain tax positions (“UTPs”)) and a deferred tax provision of $28.2 million, resulting in a total tax provision of $1.8 million on a pre-tax loss from continuing operations of $15.5 million. For 2012, we recorded a current tax benefit of $115.3 million (which included a benefit of $110.3 million to reduce our liability for UTPs) and a deferred tax provision of $22.0 million (which included a provision of $25.0 million for UTPs), resulting in a total tax benefit of $93.3 million on a pre-tax loss from continuing operations of $27.2 million. For 2011, we recorded a current tax provision of $0.9 million (which included a provision of $2.1 million to increase our liability for UTPs) and a deferred tax provision of $40.5 million (which included a benefit of $1.2 million for UTPs), resulting in a total provision of $41.4 million on a pre-tax loss from continuing operations of $12.3 million.

During 2013, the current tax benefit of $26.3 million primarily related to the refunds received from our federal and state income tax returns filed for 2012 (primarily as a result of the enhanced extraterritorial income exclusion provided by former section 114 of the Internal Revenue Code) and the benefit from the carryback of the Company’s 2013 federal tax loss against taxes previously paid for 2012. We anticipate filing for and receiving the refund from this carryback claim in 2014. Without the Sale, we would not have remeasured the extraterritorial income exclusion because it would have provided only a minimal cash tax benefit.

During 2012, the statute of limitations for assessment of additional tax expired with regard to certain UTPs related to Old Loral and several of our federal and state tax returns filed for 2007 and 2008, which resulted in a net tax benefit of $86.7 million to continuing operations (a current tax benefit of $112.9 million, including the reversal of applicable interest and penalties previously accrued, offset by a deferred tax provision of $26.2 million).

The deferred tax provision for each period included the impact of our equity in net income of Telesat.

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As of December 31, 2013 and 2012, we maintained a valuation allowance of $7.2 million and $7.1 million, respectively, against our deferred tax assets for certain tax credit and loss carryovers due to the limited carryforward periods and will continue to maintain such valuation allowance until sufficient positive evidence exists to support its full or partial reversal.

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

See Critical Accounting Matters — *Taxation* below for discussion of our accounting method for income taxes.

Equity in Net Income of Affiliates

	Year Ended December 31,		
	2013	2012	2011
	(In millions)		
Telesat	$ 47.3	$ 40.8	$ 114.5
XTAR	(5.9)	(6.5)	(6.7)
Other	(2.6)	—	(1.5)
	$ 38.8	$ 34.3	$ 106.3

The following is a reconciliation of the changes in our investment in Telesat for the years ended December 31, 2013 and 2012 (in millions):

	Year Ended December 31,	
	2013	2012
Opening Balance, January 1	$ —	$ 377.2
Equity in net income of Telesat	57.0	40.4
Eliminations of affiliate transactions and related amortization	(2.3)	(7.0)
Adjustment relating to excess cash distribution over carrying value of investment (see below)	(7.4)	7.4
Proportionate share of Telesat other comprehensive income	12.9	2.1

Cash distributions received from Telesat	—	(420.1)
Ending balance, December 31	$ 60.2	$ —

As of December 31, 2013, we hold a 62.8% economic interest and a 32.7% voting interest in Telesat. Our economic interest decreased from 64% to 62.8% and our voting interest decreased from $33^1/_3$% to 32.7% in December 2012 when certain executives of Telesat exercised share appreciation rights related to a total of 5,311,568 stock options granted under Telesat's share based compensation plan and received 2,249,747 non-voting participating preferred shares. Also in December 2012, Telesat's board of directors approved the repurchase for cash consideration of 20% of all vested stock options. A total of 1,660,619 options were repurchased. Telesat paid CAD 35.3 million in cash consideration for the stock option repurchase and net withholding taxes relating to the exercise of the share appreciation rights.

In March 2012, Telesat completed a refinancing and recapitalization transaction which resulted in special cash distributions to Loral of CAD 375 million ($376 million) in the first quarter of 2012 and CAD 45 million ($44 million) in July 2012 (see Note 6 to our consolidated financial statements).

As of December 31, 2012, the special cash distributions received from Telesat exceeded our recorded cumulative equity in net income of Telesat, including the effect of the stock transactions in December 2012, and our initial investment by approximately $7.4 million. In following the equity method of accounting, our investment balance in Telesat was reduced to zero as of December 31, 2012. For the year ended December 31, 2013, we reduced our equity in net income of Telesat by the excess special cash distribution of $7.4 million.

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

Summary financial information for Telesat in accordance with U.S. GAAP and in Canadian dollars ("CAD") and U.S. dollars ("$") for the years ended December 31, 2013, 2012 and 2011 and as of December 31, 2013 and 2012 follows (in millions):

	Year Ended December 31			Year Ended December 31		
	2013	2012	2011	2013	2012	2011
	(In Canadian dollars)			(In U.S. dollars)		
Statement of Operations Data:						
Revenues	892.8	845.8	808.4	867.9	846.1	817.3
Operating expenses	(190.5)	(242.6)	(186.0)	(185.2)	(242.7)	(188.1)
Depreciation, amortization and stock-based compensation	(252.8)	(249.0)	(245.3)	(245.8)	(249.1)	(248.0)
Gain on insurance proceeds	—	—	135.0	—	—	136.5
Impairment of intangible assets	—	—	(1.1)	—	—	(1.1)
Loss on disposition of long-lived assets	(1.7)	(0.8)	(1.5)	(1.6)	(0.8)	(1.5)
Operating income	447.8	353.4	509.5	435.3	353.5	515.1
Interest expense	(216.2)	(236.3)	(218.2)	(210.2)	(236.4)	(220.6)
Expense of refinancing	(20.2)	(80.1)	—	(19.7)	(80.1)	—
Foreign exchange (losses) gains	(197.1)	81.1	(80.1)	(191.5)	81.1	(81.0)
Gains (losses) on financial instruments	113.2	(25.8)	50.1	110.0	(25.8)	50.7
Other income	11.6	1.4	2.0	11.3	1.4	2.0
Income tax provision	(40.1)	(28.1)	(64.6)	(39.0)	(28.1)	(65.3)
Net income	99.0	65.6	198.7	96.2	65.6	200.9
Average exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.0287	0.9996	0.9891			

	As of December 31,		As of December 31,	
	2013	2012	2013	2012
	(In Canadian dollars)		(In U.S. dollars)	
Balance Sheet Data:				
Current assets	389.7	287.3	366.8	289.6
Total assets	5,237.0	5,300.1	4,929.8	5,342.3
Current liabilities	383.2	235.8	360.7	237.7
Long-term debt, including current portion	3,416.1	3,492.1	3,215.8	3,519.9
Total liabilities	4,547.6	4,733.3	4,280.9	4,771.0
Shareholders' equity	689.4	566.8	648.9	571.3

Period end exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.0623	0.9921

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Telesat revenue increased by $22 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012 due primarily to revenue on the Nimiq 6 and Anik G1 satellites which entered commercial service in June 2012 and May 2013, respectively, a termination fee on Nimiq 2 when the satellite was returned to Telesat by its customer and increased short-term services provided to another satellite operator using the Nimiq 1 satellite. These increases were partially offset by decreases in revenue with respect to the Nimiq 1 and Nimiq 2 satellites, decreased consulting revenue and the impact of change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues. Telesat's revenue excluding foreign exchange impact would have increased $35 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Telesat revenue increased by $29 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011 due primarily to growth in international enterprise services activities, inauguration of commercial services on ViaSat-1 in December 2011 and revenue earned on Telesat's Nimiq 6 satellite which commenced service in June 2012, partially offset by a scheduled rate reduction on a long term contract for one of Telesat's North American DTH satellites which occurred during 2011, termination payment of a consulting contract and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues. Telesat revenue excluding foreign exchange impact would have increased by approximately $34 million for the year ended December 31, 2012 as compared with the year ended December 31, 2011.

Telesat's operating expense for the year ended December 31, 2012 includes a $49 million expense related to special payments to certain employees of Telesat in connection with a cash distribution made to Telesat's shareholders.

Telesat's operating income increased by $82 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to the revenue increase described above, the expense related to the special payments to certain employees of Telesat in connection with a cash distribution to shareholders in 2012, non-recurring cost associated with a payment made to independent directors in 2012, lower in-orbit insurance in 2013, lower revenue related expense and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses, partially offset by an increase in stock-based compensation in 2013. Telesat's operating income excluding foreign exchange impact would have increased by $85 for the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Telesat's operating income decreased by $162 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the gain on insurance proceeds in 2011 related to a solar array deployment failure following the launch of the Telstar 14R/Estrela do Sul 2 satellite and the expense related to the special payments to executives and certain employees of Telesat in connection with a cash distribution to shareholders in 2012, partially offset by the revenue increase described above. The change in operating income for the year ended December 31, 2012 as compared with the year ended December 31, 2011 was not significantly impacted by the change in foreign exchange rates.

Expense of refinancing for the year ended December 31, 2013 primarily represents premium paid and the write-off of deferred financing costs related to the redemption of Telesat's 12.5% senior subordinated notes. Expense of refinancing for the year ended December 31, 2012 represents deferred financing costs on the previous credit facilities and deferred financing costs and redemption premiums on the previous senior notes which were charged to expense as a result of the refinancings.

Telesat's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat's main currency exposures as of 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 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.

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

We regularly evaluate our investment in XTAR to determine whether there has been a decline in fair value that is other than temporary. We have performed an impairment test for our investment in XTAR as of December 31, 2013, using the most recent forecast, and concluded that our investment in XTAR was not impaired. Any declines in XTAR's projected revenues may result in a future impairment charge.

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For the year ended December 31, 2013, we recorded a loss contingency of $3.7 million for an indemnification of pre-closing liabilities related to our sale of Globalstar do Brasil S.A. (“GdB”) in 2008. We also recorded a gain of $1.1 million related to the sale of our ownership interest in an affiliate with no carrying value.

Equity in net income of affiliates for the year ended December 31, 2011, included a charge of $1.5 million to reduce the carrying value of our investment in an affiliate to zero based on our determination that the investment had been impaired and the impairment was other than temporary.

Income from Discontinued Operations, net of taxes

As a result of the Sale, we reflect SS/L’s operations as discontinued operations in our consolidated financial statements for the years ended December 31, 2012 and 2011.

Loss from discontinued operations for the year ended December 31, 2013 primarily comprises changes in the fair value of our indemnification liabilities related to the Sale, net of a $3.0 million income tax benefit.

The following is a summary of SS/L’s operating results which are included in income from discontinued operations for the years ended December 31, 2012 and 2011 (in millions):

	Year Ended December 31,	
	2012 [(1)]	2011
Revenues	$ 940.3	$ 1,107.4
Operating income	$ 3.4	$ 106.7
Income before income taxes	$ 22.2	$ 122.3
Income tax provision	(10.2)	(47.8)
Net income	12.0	74.5
Gain on Sale, net of tax	308.6	—
Income from discontinued operations, net of tax	$ 320.6	$ 74.5

(1) Reference to the year ended December 31, 2012 in the table above is for the period January 1, 2012 to November 2, 2012, the date of the Sale.

Backlog

Telesat's backlog as of December 31, 2013 and 2012 was $4.7 billion and $5.2 billion, respectively. It is expected that approximately 15% of satellite services backlog will be recognized as revenue by Telesat during 2014. As of December 31, 2013, Telesat had received approximately $370 million of customer prepayments.

Critical Accounting Matters

The preparation of financial statements in conformity with U.S. GAAP requires us 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 amounts of revenues and expenses reported for the period. Actual results could differ from estimates.

Investments in Affiliates

Ownership interests in Telesat and XTAR are accounted for using the equity method of accounting. Income and losses of affiliates are recorded based on our beneficial interest. Intercompany profit arising from transactions with affiliates is eliminated to the extent of our beneficial interest. Equity in losses of affiliates is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist. The Company monitors its equity method investments for factors indicating other-than-temporary impairment. An impairment loss would be recognized when there has been a loss in value of the affiliate that is other-than-temporary.

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.

These provisions are applicable to all of our assets and liabilities that are measured and recorded at fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at December 31, 2013:

	Level 1	Level 2	Level 3
	(In millions)		
Assets			
Cash equivalents: Money market funds	$3.2	$ —	$—

Note receivable: Land Note	$—	$ —	$101.0
Liabilities			
Indemnifications:			
Sale of SS/L	$—	$ —	$10.9
Globalstar do Brasil S.A.	$—	$ —	$1.3

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments. The carrying amount of the Land Note approximates fair value because the stated interest rate is consistent with current market rates. The fair value of indemnifications related to the Sale was estimated using Monte Carlo simulation based on the potential probability weighted cash flows that would be a guarantor's responsibility in an arm's length transaction. The fair value of indemnifications related to GdB was estimated using expected value analysis.

The Company does not have any non-financial assets or non-financial liabilities that are recognized or disclosed at fair value on a recurring basis as of December 31, 2013.

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 would be recorded when the carrying amount of the investment exceeds its current fair value and is determined to be other than temporary.

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Taxation

Loral is subject to U.S. federal, state and local income taxation on its worldwide income and foreign taxes on certain income from sources outside the United States. Our foreign subsidiaries are subject to taxation in local jurisdictions. 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.

We use the liability method in accounting for taxes whereby income taxes are recognized during the year in which transactions are recorded in the financial statements. Deferred 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. We assess the recoverability of our deferred tax assets and, based upon this analysis, record a valuation allowance against the deferred tax assets to the extent recoverability does not satisfy the "more likely than not" recognition criteria.

The tax benefit of a 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. We recognize potential accrued interest and penalties related to our liability for UTPs 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. Previously recognized tax positions are derecognized in the first period in which it is no longer more likely than not that the tax position would be sustained upon examination. Evaluating the technical merits of a tax position and determining the benefit to be recognized involves a significant level of judgment in the assumptions underlying such evaluation.

Pension and Other Employee Benefits

We maintain a qualified pension plan, which is a defined benefit pension plan. We terminated our SERP in December 2012 and made final lump sum payments related to the plan in December 2013. In addition to providing pension benefits, we provide certain health care and life insurance benefits for retired employees and dependents. Pension and other employee postretirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions, including the discount rate and expected long-term rate of return on plan assets. Material changes in these pension and other employee postretirement benefit costs may occur in the future due to changes in these assumptions, as well as our actual experience.

The discount rate is subject to change each year, based on a hypothetical yield curve developed from a portfolio of high quality, corporate, non-callable bonds with maturities that match our projected benefit payment stream. The resulting discount rate reflects the matching of the plan liability cash flows to the yield curve. The discount rate determined on this basis, recommended by our consulting actuary and adopted by us, for the qualified pension plan and other employee postretirement benefit costs was 4.75% as of December 31, 2013, an increase of 75 basis points from December 31, 2012.

The expected long-term rate of return on pension plan assets is selected by taking into account the expected duration of the plan’s projected benefit obligation, asset mix and the fact that its assets are actively managed to mitigate risk. Allowable investment types include equity investments and fixed income investments. Both investment types may include alternative investments which are permitted to be up to 40% of total plan assets. Pension plan assets are primarily managed by Russell Investment Corp. (“Russell”), which allocates the assets into specified Russell-designed funds as we direct. Each specified Russell fund is then managed by investment managers chosen by Russell. We also engage non-Russell related investment managers through Russell, in its role as trustee, to invest pension plan assets. The targeted long-term allocation of our pension plan assets is 60% in equity investments and 40% in fixed income investments. The expected long-term rate of return on plan assets determined on this basis was 7.25% for 2013 and 8.0% for 2012 and 2011. For 2014, we will continue to use an expected long-term rate of return of 7.25%.

Pension and other employee postretirement benefit costs included in income from continuing operations are expected to decrease to approximately $0.6 million in 2014 from $8.5 million in 2013, primarily due to the effect in 2013 of the termination of the SERP and the higher discount rate in 2014. Lowering the discount rate and the expected long-term rate of return each by 0.5% would have increased the qualified pension and other employee postretirement benefit costs by approximately $0.1 million and $0.1 million, respectively, in 2013.

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The benefit obligations for pensions and other employee postretirement benefits exceeded the fair value of plan assets by $17.1 million at December 31, 2013. We are required to recognize the funded status of a benefit plan on our balance sheet. Market conditions and interest rates significantly affect future assets and liabilities of Loral’s pension and other employee benefits plans.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. In addition, share-based payment transactions with nonemployees are measured at the fair value of the equity instrument issued. We use the Black-Scholes-Merton option-pricing model and other models as applicable to estimate the fair value of these stock-based awards. These models require us to make significant judgments regarding the assumptions used within the models, the most significant of which are the stock price volatility assumption, the expected life of the option award, the risk-free rate of return and dividends during the expected term. Changes in these assumptions could have a material impact on the amount of stock-based compensation we recognize.

The Company estimates expected forfeitures of stock-based awards at the grant date and recognizes compensation cost only for those awards expected to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions may impact the timing of the total amount of expense recognized over the vesting period. We base our estimate of the average life of a stock-based award using the midpoint between the vesting and expiration dates. Our risk-free rate of return assumption for awards is based on term-matching, nominal, monthly U.S. Treasury constant maturity rates as of the date of grant. We assume no dividends during the expected term.

The SS/L phantom stock appreciation rights program was designed to incentivize and reward our employees based on the increase in a synthetically determined value of SS/L’s equity. As SS/L’s common stock has not historically been publicly traded and thus does not have a readily ascertainable market value, its equity value under the program was derived from a formula that calculates equity value based on a multiple of Adjusted EBITDA plus cash on hand less debt at the end of the relevant year. Each phantom stock appreciation right provides the recipient with the right to receive an amount equal to the increase in our notional stock price over the base price at the date of grant multiplied by the number of phantom stock appreciation rights vested on the applicable vesting date. The baseline price at each grant date is updated accordingly.

The phantom stock appreciation rights have fixed exercise dates. As such, the phantom stock appreciation rights are automatically exercised and the value (if any) is paid out on each vesting date. The phantom stock appreciation rights may be settled in Loral stock or cash at our option. The number of shares of Loral stock to be issued on the vesting date is determined by dividing the value of the phantom stock appreciation rights by the price per share of Loral stock on the vesting date. Accordingly, the phantom stock appreciation rights are accounted for as liability awards and the value of the awards is adjusted quarterly for changes in the value of the award resulting from increases or decreases in actual or forecasted Adjusted EBITDA for the relevant year. Compensation expense is recognized ratably over the requisite vesting period. For the liability retained by Loral, the SS/L notional stock price was frozen as of December 31, 2011 in connection with the Sale.

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, in management's opinion, 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. Management considers the assessment of loss contingencies as a critical accounting policy because of the significant uncertainty relating to the outcome of any potential legal actions and other claims and the difficulty of predicting the likelihood and range of the potential liability involved, coupled with the material impact on our results of operations that could result from legal actions or other claims and assessments.

Accounting Standards Issued and Not Yet Implemented

For discussion of accounting standards issued and not yet implemented that could have an impact on us, see Note 2 to our consolidated financial statements.

Liquidity and Capital Resources

Loral

As described above, Loral's principal asset is a 62.8% economic interest in Telesat. In addition, we have a 56% economic interest in XTAR and a note receivable of $101 million related to the Sale. The operations of Telesat and XTAR are not consolidated but are presented using the equity method of accounting.

Loral has no debt. Telesat has third party debt with financial institutions. XTAR has no external debt other than to its LLC member, Hisdesat, for restructured lease payments on the Spainsat satellite. XTAR makes payments of $5 million per year to pay down the outstanding restructured lease balance. The Company has not provided a guarantee for the debt of Telesat or XTAR.

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

Cash and Available Credit

At December 31, 2013, Loral had $6 million of cash and cash equivalents, a note receivable from MDA for $101 million and no debt. The Company's cash and cash equivalents decreased by $81 million from December 31, 2012. The cash decrease during 2013 consisted primarily of a payment of $35 million for income taxes on the gain related to the Sale, an $18 million lump sum payment to the participants in the SERP related to its termination, $9 million of withholding taxes paid related to stock-based compensation, $12 million of legal expenses, $7 million of corporate expenses, a $4 million indemnification payment related to GdB and $3 million of severance payments, partially offset by an income tax refund of $10 million. A discussion of cash changes by activity is set forth in the sections, "Net Cash

(Used In) Provided By Operating Activities," "Net Cash Provided By (Used In) Investing Activities," and "Net Cash Used In Financing Activities."

The Company did not have a credit facility as of December 31, 2013 and 2012.

Cash Management

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

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

Liquidity

On March 28, 2013, Loral entered into Amendment No. 2 to the Purchase Agreement in connection with the sale of SS/L. Under the terms of the Purchase Agreement, Loral is obligated to indemnify SS/L for certain litigation costs and litigation damages relating to the ViaSat lawsuit subject to certain capped cost-sharing by SS/L. Pursuant to Amendment No. 2, the parties agreed to modify SS/L's capped cost-sharing obligations and also 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 under the $101 million Land Note. As a result, principal payments of $67.3 million are due from MDA to Loral on March 31, 2014

We believe that our cash and cash equivalents, including the receipt of $67.3 million under the Land Note on March 31, 2014 will be sufficient to fund projected expenditures for the next 12 months. We expect that our major cash outlays for the next 12 months will include ViaSat litigation costs, employee benefit programs and general corporate expenses. The Sale has enabled us to reduce the annual run rate of general corporate expenses to approximately $6 million, net of consulting fees from Telesat of $5 million per year. We are also considering an additional contribution to our qualified pension plan to reduce the unfunded obligation. Offsetting these expenditures are the income sharing arrangement for certain Canadian transponders on the ViaSat-1 satellite, reimbursement of certain ViaSat litigation costs from SS/L under the terms of the Purchase Agreement, as amended, and the receipt of income tax refunds, in addition to the Land Note receipt.

Risks to Cash Flow

In the fourth quarter of 2012, we sold our former subsidiary, SS/L, to MDA pursuant to the Purchase Agreement. Under the terms of the Purchase Agreement, we are obligated to indemnify MDA from (1) liabilities with respect to certain pre-closing taxes; and (2) certain litigation costs and litigation damages relating to the ViaSat lawsuit, subject to certain sharing formulas and caps. Other than with respect to the ViaSat lawsuit (see below), MDA has submitted one unresolved claim for indemnification which relates to pre-closing taxes. The amount of this claim has not yet been determined. We intend vigorously to contest the underlying tax assessment, but there can be no assurance that we will be successful. Although no assurance can be provided, we do not believe that this matter will have a material adverse effect on our financial position or results of operations. Our consolidated balance sheets include liabilities of $10.9 million and $16.5 million as of December 31, 2013 and December 31, 2012, respectively, representing the estimated fair value of all potential indemnification liabilities relating to the Sale.

ViaSat has sued SS/L and Loral in the United States District Court for the Southern District of California. ViaSat's amended complaint alleges, among other things, that SS/L and Loral directly and indirectly infringed, that SS/L and Loral induced infringement, and that SS/L contributed to the infringement of, certain ViaSat patents in connection with the manufacture of satellites by SS/L for customers other than ViaSat. The amended complaint also alleges that each of SS/L and Loral breached non-disclosure obligations in certain contracts with ViaSat. ViaSat's amended complaint seeks, among other things, damages (including treble damages with respect to the patent infringement claims) in amounts to be determined at trial and to enjoin SS/L and Loral from further infringement of the ViaSat patents and breach of contract.

SS/L and Loral have answered ViaSat's complaint and asserted defenses to ViaSat's claims and counterclaims seeking a declaratory judgment that neither SS/L nor Loral has infringed and that they are not infringing the ViaSat patents, that ViaSat's patents are invalid and that at least certain of ViaSat's patents are unenforceable due to inequitable conduct. SS/L has also asserted counterclaims against ViaSat for patent infringement, breach of contract and correction of the inventorship of one of ViaSat's patents and its assignment to SS/L, alleging, among other things, that ViaSat infringed certain SS/L patents in connection with its manufacture and sale of certain satellite communication products and services, that ViaSat misappropriated certain of SS/L's proprietary information and that SS/L employees conceived or contributed to the conception of one of ViaSat's patents. SS/L's counterclaims seek, among other things, damages (including treble damages with respect to at least one of the patent infringement claims) in amounts to be determined at trial, to enjoin ViaSat from further infringement of the SS/L patents and further misappropriation of SS/L's proprietary information and to correct the inventorship of one ViaSat's patents and have it assigned to SS/L.

Trial of the litigation with ViaSat is scheduled for March 2014. We believe that each of SS/L and Loral has, and we intend vigorously to pursue, meritorious defenses and counterclaims to ViaSat's claims. There can be no assurance, however, that SS/L's and Loral's defenses and counterclaims will be successful with respect to all or some of ViaSat's claims or that SS/L will prevail with respect to its assertion that ViaSat has infringed SS/L patents. We believe that SS/L's and Loral's conduct was consistent with, and in due regard for, any applicable and valid intellectual property rights of ViaSat. Although no assurance can be provided, we do not believe that this matter will have a material adverse effect on our financial position or results of operations.

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In September 2013, ViaSat filed a new complaint against SS/L in the United States District Court for the Southern District of California alleging, among other things, that SS/L directly infringed, and induced and encouraged infringement of, certain newly issued ViaSat patents not asserted in the original lawsuit in connection with the manufacture of satellites by SS/L for customers other than ViaSat. ViaSat's new complaint seeks, among other things, damages (including treble damages) in amounts to be determined at trial and to enjoin SS/L from further infringement of the ViaSat patents. The complaint did not name Loral as a defendant. MDA has asserted that Loral is obligated to defend and indemnify SS/L with respect to the newly-brought litigation under the Purchase Agreement on the same terms and conditions as Loral's defense and indemnification of SS/L in the existing pending litigation. Loral has 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 its defense and indemnification obligations under the Purchase Agreement. SS/L is defending the new lawsuit. 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.

Telesat

Cash and Available Credit

As of December 31, 2013, Telesat had CAD 299 million of cash and short-term investments as well as approximately CAD 140 million of borrowing availability under its revolving credit facility. Telesat believes that cash and short-term investments as of December 31, 2013, cash flow from operating activities and drawings on the available lines of credit under the Telesat senior secured credit facilities will be adequate to meet its expected cash requirements for at least the next 12 months for activities in the normal course of business, including required interest and principal payments on debt.

As of December 31, 2013, Telesat's commitments for capital and operating expenditures expected to be paid in fiscal 2014 were CAD 80 million and CAD 24 million, respectively. For fiscal 2014, Telesat also expects its payments of principal and interest relating to its long-term debt including the cross-currency basis swaps to be approximately CAD 356 million. Telesat expects to meet its cash needs for fiscal 2014 through a combination of operating cash and short-term investments, cash flow from operating activities or through borrowings on available lines of credit under its senior secured credit facilities.

Cash Flows from Operating Activities

Cash generated from operating activities for the year ended December 31, 2013 was CAD 487 million, a CAD 194 million increase over the prior year. The increase was primarily due to improved working capital, an increase in revenue earned on Telesat's Nimiq 6 and Anik G1 satellites, growth in its enterprise activities, special payments made in the prior year to certain employees in connection with a cash distribution made to the Telesat shareholders, repurchase of stock options in the prior year for cash consideration, exercise of share appreciation rights in the prior year and lower interest paid, partially offset by lower customer prepayments for future satellite services.

Cash generated from operating activities for the year ended December 31, 2012 was CAD 293 million, a CAD 131 million decrease over the prior year. The decrease was primarily due to special payments made to certain employees in connection with a cash distribution made to Telesat's shareholders, the repurchase of stock options for cash consideration, exercise of share appreciation rights, lower customer prepayments on future services and lower insurance proceeds.

Cash generated from operating activities for the year ended December 31, 2011 was CAD 424 million. This consisted of cash flow from operations of CAD 368 million, customer prepayments of future satellite services of CAD 58 million, insurance proceeds relating to Telesat's Anik F1 satellite of CAD 11 million and a CAD 13 million reduction of working capital.

Cash Flows used in Investing Activities

Cash used in investing activities for the year ended December 31, 2013 was CAD 79 million. This consisted of CAD 71 million of cash outflows related to Telesat's satellite programs for the completion and launch of Anik G1 in April 2013, and for the on-going construction of Telstar 12 VANTAGE, as well as CAD 8 million for other property and equipment, net of proceeds from the sale of assets.

Cash used in investing activities for the year ended December 31, 2012 was CAD 170 million. This consisted of cash outflows related to capital expenditures of CAD 163 million for the construction of Telesat's Anik G1 satellite and the successful completion of its Nimiq 6 satellite, as well as CAD 8 million for other property and equipment.

Cash used in investing activities for the year ended December 31, 2011 was CAD 251 million. This consisted of cash outflows related to capital expenditures of CAD 356 million for the construction of Telesat's Telstar 14R/Estrela do Sul 2, Anik G1 and Nimiq 6 satellites, and its Canadian payload on the ViaSat-1 satellite, CAD 18 million for other capital expenditures and CAD 13 million for the assumption of Loral's 15 year revenue contract with Xplornet Communications Inc. These cash uses were partially offset by cash inflows of CAD 135 million from insurance proceeds related to Telstar 14R/Estrela do Sul 2.

Cash Flows used in Financing Activities

Cash used in financing activities for the year ended December 31, 2013 was CAD 291 million. This was primarily the result of redeeming Telesat's 12.5% senior subordinated notes and the associated premiums for early redemption. Other financing activities included mandatory repayments made on Telesat's senior secured credit facilities, debt issue costs relating to the re-pricing and amendment of Telesat's credit agreement on April 2, 2013 and satellite performance incentive payments.

Cash used in financing activities for the year ended December 31, 2012 was CAD 219 million. This consisted of the CAD 1.9 billion repayment of Telesat's previous senior secured credit facilities dated October 31, 2007, the CAD 695 million repayment of its 11.0% senior notes redeemed in the second quarter of 2012 and the CAD 14 million repayment of its term loan B facilities. There were also amounts paid to shareholders which included CAD 657 million as a return of capital and CAD 162 million for repayment of Telesat's former senior preferred shares and former promissory note with PSP. There were CAD 52 million of debt issue costs related to Telesat's senior secured credit facilities and issuance of Telesat's 6.0% senior notes, as well as CAD 39 million of redemption premiums. The cash flows from financing activities consisted of CAD 2.4 billion of proceeds from the credit agreement and CAD 900 million of proceeds from the issuance of Telesat's 6.0% senior notes.

Cash used in financing activities for the year ended December 31, 2011 was CAD 115 million which consisted of CAD 109 million in scheduled principal repayments on Telesat's Canadian and U.S. term loan facilities, as well as satellite performance incentive payments of CAD 6 million.

Liquidity

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

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

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Debt

Telesat’s debt as of December 30, 2013 and December 31, 2012 was as follows:

	Maturity	Currency	December 31, 2013	2012
			(In CAD millions)	
Senior Secured Credit Facilities:				
Revolving credit facility	March 28,2017	CAD or USD equivalent	—	—
Term Loan A	March 28,2017	CAD	475	500
Term Loan B - U.S. facility	March 28,2019	USD	1,841	1,703
Term Loan B - Canadian facility	March 28,2019	CAD	139	174
6.0% Senior notes	May 15, 2017	USD	956	893
12.5% Senior subordinated notes	November 1, 2017	USD	—	215
			3,411	3,485
Less: Deferred financing costs, interest rate floors and prepayment options			(69)	(78)
Total debt under international financial reporting standards			3,342	3,407
U.S. GAAP adjustments			74	85
Total debt under U.S. GAAP			3,416	3,492
Current portion			71	45
Long term portion			3,345	3,447

On April 2, 2013, Telesat amended its senior secured credit facilities, to convert CAD 34 million from Canadian dollars to U.S. dollars and reduce the interest rate on the Canadian term loan B facility and the U.S. term loan B facility by 0.50%. The amendment also reduced the interest rate floors on the debt to 0.75% and 1.00% for the U.S. term loan B facility and Canadian term loan B facility, respectively. The permitted leverage ratio to incur the first lien debt is now 4.25:1.00 which represents a change from the prior 4.00:1.00 senior secured leverage ratio test in the credit agreement.

On May 1, 2013, Telesat redeemed all outstanding 12.5% Senior Subordinated Notes at a price equal to 106.25% of the principal amount from cash on-hand.

Senior Secured Credit Facilities

The obligations under the credit agreement and the guarantees of those obligations are secured, subject to certain exceptions, by first priority liens and security interest in the assets of Telesat and the guarantors. The credit agreement contains covenants that restrict the ability of Telesat and certain of its subsidiaries to take specified actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends, entering into sales-leaseback transactions, creating subsidiaries, repaying subordinated debt or amending organizational documents. The credit agreement also requires Telesat to comply with a maximum senior secured leverage ratio and contains customary affirmative covenants and events of default.

The senior secured credit facilities are comprised of the following facilities:

i — Revolving Credit Facility

Telesat’s revolving credit facility (“Revolving Facility”) is a $140 million loan facility available in either Canadian or U.S. dollars, maturing on March 28, 2017. Loans under the Revolving Facility bear interest at a floating rate plus an applicable margin of 2.00% for prime rate and Alternative Base Rate (“ABR”) loans and 3% for Bankers Acceptance (“BA”) and Eurodollar loans. The Revolving Facility currently has an unused commitment fee of 50 basis points. As of December 31, 2013, other than approximately CAD 0.2 million in drawings related to letters of credit, there were no borrowings under this facility.

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ii — Term Loan A Facility

Telesat's term loan A facility ("TLA Facility") was initially a CAD 500 million loan maturing on March 28, 2017. As of December 31, 2013, CAD 475 million of the facility was outstanding which represents the full amount available following mandatory repayments. The outstanding borrowings under the TLA Facility bears interest at a floating rate of the BA borrowing rate plus an applicable margin of 3.00%. The mandatory principal repayments on the TLA Facility are payable in varying amounts on a quarterly basis.

iii — Term Loan B — Canadian Facility

Telesat's Canadian term loan B facility ("Canadian TLB Facility") was initially a CAD 175 million loan maturing on March 28, 2019. On April 2, 2013, Telesat's senior secured credit facilities were amended to convert CAD 34 million from Canadian to U.S. dollars, which as a result decreased Telesat's Canadian TLB Facility. As of December 31, 2013, CAD 139 million of the facility was outstanding, which represents the full amount available following mandatory repayments. The Canadian TLB Facility currently bears interest at a floating rate of the BA borrowing rate, but not less than 1.00%, plus an applicable margin of 3.25%. The mandatory principal repayments on the Canadian TLB Facility are ¼ of 1% of the original amount of the loan, which must be paid on the last day of each quarter.

iv — Term Loan B — U.S. Facility

Telesat's U.S. term loan B facility ("U.S. TLB Facility") was originally a $1.725 billion loan maturing on March 28, 2019. On April 2, 2013, Telesat's senior secured credit facilities were amended to convert CAD 34 million from Canadian to U.S. dollars, which as a result increased Telesat's U.S. TLB Facility. As at December 31, 2013, $1.733 billion of the facility was outstanding, which represents the full amount available following mandatory repayments. The outstanding borrowings under the U.S. TLB Facility bear interest at a floating rate of LIBOR, but not less than 0.75%, plus an applicable margin of 2.75%. The mandatory principal repayments on the U.S. TLB Facility are ¼ of 1% of the original amount of the loan, which must be paid on the last day of each quarter.

The maturity date for each of the senior secured credit facilities described above will be accelerated if Telesat's existing 6.0% senior notes or certain refinancing thereof are not repurchased, redeemed, refinanced or deferred before the date that is 91 days prior to the maturity date of such notes.

In order to hedge its currency risk, Telesat retained its cross-currency basis swaps to synthetically convert $1.0 billion of future U.S. dollar denominated payment obligations to CAD 1.2 billion. The cross-currency basis swaps are being amortized on a quarterly basis at ¼ of 1% of the original amount. As of December 31, 2013, the balance of the swaps was CAD 1.2 billion and they bear interest at a floating rate of BA plus an applicable margin of approximately 387 basis points. These swaps mature on October 31, 2014.

6.0% Senior Notes due May 15, 2017

The senior notes, in the amount of $900 million, bear interest at an annual rate of 6.0% and are due May 15, 2017. They include covenants or terms that restrict Telesat's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel its satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the senior notes prior to May 15, 2014, in each case subject to exceptions provided in the senior notes indenture.

As of December 31, 2013, Telesat was in compliance with the financial covenants of its senior secured credit facilities and the indenture governing its 6.0% senior notes.

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Debt Service Cost

An estimate of interest expense is based upon assumptions of foreign exchange rates, LIBOR and BA rates and the applicable margins of Telesat's senior secured credit facilities and senior notes. Telesat's estimated interest expense for the year ending December 31, 2014, is expected to be approximately CAD 188 million.

Derivatives

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

In order to manage its currency risk, Telesat has cross-currency basis swaps to synthetically convert $1.0 billion of the U.S. TLB debt into CAD 1.2 billion of debt. Any non-cash loss will remain unrealized until this contract is settled. The contract matures on October 31, 2014.

At December 31, 2013, Telesat had a series of five interest rate swaps to fix interest on CAD 1.5 billion of Canadian dollar denominated debt at a weighted average fixed rate of 2.63% (excluding applicable margins) and one interest rate swap to pay a fixed rate of 1.46% (excluding applicable margins) on CAD 300 million of U.S. dollar denominated debt. These contracts mature between October 31, 2014 and September 30, 2016.

Telesat also has embedded derivatives related to a prepayment option included in Telesat's senior notes as well as interest rate floors included in its Canadian and U.S. TLB Facilities. The prepayment option on the senior notes will expire on its maturity date of May 15, 2017. The interest rate floors on the Canadian and U.S. TLB Facilities will expire on their maturity date of March 28, 2019.

Capital Expenditures

Telesat has entered into contracts for the construction and launch of the Telstar 12 VANTAGE satellite. The outstanding commitments as of December 31, 2013, on these contracts were approximately CAD 182 million. These expenditures will be funded from some or all of the following: cash and cash equivalents, cash flow from operating activities, cash flow from customer prepayments or through borrowings on available lines of credit under the Revolving Facility. For the year ended December 31, 2013, Telesat had capital expenditures of CAD 84 million which included CAD 4 million in trade and other payables, as compared to CAD 170 million in the prior year.

Contractual Obligations and Other Commercial Commitments

The following table aggregates our contractual obligations and other commercial commitments as of December 31, 2013 (in thousands).

Contractual Obligations:

	Payments Due by Period [2]				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Lease payments[1]	$ 924	$ 616	$ 308	$ —	$ —

(1) Represents future minimum payments under operating leases.

(2) Does not include our liabilities for uncertain tax positions of $79.7 million. Because the timing of future cash outflows associated with our liabilities for uncertain tax positions is highly uncertain, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities (see Note 8 to our financial statements). Does not include obligations for pension and other postretirement benefits, for which we are required to make employer contributions of approximately $4.7 million in 2014. We also expect to make employer contributions to our plans in future years.

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Net Cash (Used in) Provided by Operating Activities

Net cash used in operations was $71 million for the year ended December 31, 2013

Net cash used in operating activities by continuing operations was $22 million for the year ended December 31, 2013, consisting primarily of an increase in income taxes receivable of $12 million, an $18 million lump sum payment to the participants in the SERP as a result of its termination, an $8 million decrease in accrued expenses and other current liabilities of which $4 million relates to payment of the GdB indemnification liability and $3 million in contributions to the qualified pension plan, partially offset by $20 million from income from continuing operations adjusted for non-cash operating items, which included a tax benefit of $10 million received in cash during 2013.

Net cash used in operating activities by discontinued operations was $49 million for the year ended December 31, 2013 consisting primarily of income tax payments of $35 million relating to the gain on the Sale and payment of $13 million of indemnification liabilities related to the Sale.

Net cash used in operations was $100 million for the year ended December 31, 2012.

Net cash used in operating activities by continuing operations was $34 million for the year ended December 31, 2012, consisting primarily of the decrease in our liability for UTPs of $110 million, the decrease in income taxes payable of $22 million and the decrease in accrued expenses and other current liabilities of $5 million, partially offset by income from continuing operations adjusted for non-cash operating items of $79 million, the decrease in long-term receivables of $21 million and the increase in pension and other postretirement liabilities of $6 million. The decrease in long-term receivables was due primarily to the collection of notes receivable from Telesat for consulting services.

Net cash used in operating activities by discontinued operations was $67 million for the year ended December 31, 2012.

Net cash provided by operating activities was $58 million for the year ended December 31, 2011.

Net cash used in operating activities by continuing operations was $21 million for the year ended December 31, 2011, consisting primarily of income from continuing operations adjusted for non-cash operating items of $19 million, the decrease in taxes payable of $8 million and the increase in long-term receivables of $3 million, partially offset by the decrease in other current assets and other assets of $10 million.

Net cash provided by operating activities from discontinued operations was $79 million for the year ended December 31, 2011.

Net Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities from continuing operations for the year ended December 31, 2013 was $1 million relating to the proceeds from the sale of our ownership interests in an affiliate.

Net cash provided by investing activities for the year ended December 31, 2012 was $1.25 billion. Net cash provided by investing activities from continuing operations was $422 million resulting primarily from special cash distributions by Telesat of $420 million. Proceeds from the Sale provided cash from discontinued operations of $933 million, net of transaction costs of $35 million. Net cash used in other investing activities by discontinued operations was $108 million.

Net cash used in investing activities for the year ended December 31, 2011 was $4 million. Net cash provided by investing activities from continuing operations was $51 million consisting of proceeds of $61 million from the sale of our interest in the ViaSat-1 satellite and related net assets, partially offset by the additional investment of $10 million in XTAR, representing our 56% share of an $18 million capital call. Net cash used in investing activities by discontinued operations was $55 million.

Net Cash Used in Financing Activities

Net cash used in financing activities by continuing operations for the year ended December 31, 2013 was $12 million which includes funding of $9 million of withholding taxes relating to stock-based compensation and a $3 million adjustment to tax benefits associated with stock-based compensation.

Net cash used in financing activities for the year ended December 31, 2012 was $1.26 billion. Net cash used in financing activities by continuing operations was $1.30 billion primarily due to payment of a special cash distribution of $892 million and a special cash dividend of $418 million to common shareholders and funding by the Company of withholding taxes on employee cashless stock option exercises of $12 million, net of proceeds from and excess tax benefit associated with exercise of employee stock options. Net cash provided by financing activities from discontinued operations was $44 million.

Net cash used in financing activities for the year ended December 31, 2011 was $23 million, which included $15 million for withholding taxes on cashless exercise of employee stock options, net of proceeds from and excess tax benefit associated with exercise of employee stock options and $8 million for the repurchase of the Company’s voting common stock.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by the rules and regulations of the SEC, that have or are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. As a result, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these arrangements.

Other

Operating cash flows for 2013 included contributions of approximately $2.7 million to the qualified pension plan, net of $1.2 million received as a true-up of amounts transferred to the SS/L pension plan related to the Sale. We also made regular benefit payments of $0.4 million for our supplemental executive retirement plan, in addition to the lump sum payment of $17.7 million related to the termination of the supplemental executive retirement plan. Operating cash flows from continuing operations for 2012 included contributions of approximately $2.2 million to the qualified pension plan and benefit payments relating to the supplemental executive retirement plan of approximately $1.0 million. Operating cash flows from continuing operations for 2011 included contributions of approximately $2.0

million to the qualified pension plan and benefit payments relating to the supplemental executive retirement plan of approximately $1.0 million. During 2014, based on current estimates, we will be required to contribute approximately $4.6 million to the qualified pension plan. We are also considering an additional contribution to the qualified pension plan to reduce the unfunded obligation. We expect our funding for other employee postretirement benefit plans to be insignificant.

Affiliate Matters

Loral has made certain investments in joint ventures in the satellite services business that are accounted for under the equity method of accounting (see Note 6 to our consolidated financial statements for further information on affiliate matters).

Our consolidated statements of operations reflect the effects of the following amounts in income from discontinued operations related to transactions with or investments in affiliates (in millions):

	Year Ended December 31,	
	2012	2011
Revenues	$ 57.6	$ 140.0
Elimination of Loral’s proportionate share of profits relating to affiliate transactions	(16.9)	(18.5)
Profits relating to affiliate transactions not eliminated	9.5	10.4

Commitments and Contingencies

Our business and operations are subject to a number of significant risks, the most significant of which are summarized in Item 1A — Risk Factors and also in Note 15 to our consolidated financial statements.

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Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

Loral

Foreign Currency

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

Interest

During 2013, our excess cash was invested in money market securities; we did not hold any other marketable securities.

Derivatives

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

Loral had no derivative instruments as of December 31, 2013.

Telesat

Foreign Exchange Risk

Telesat's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat is also exposed to foreign currency risk on anticipated transactions, such as the costs of satellite construction, launch and acquisition.

Telesat's main currency exposures as of December 31, 2013 lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables, deferred satellite performance incentive payments and debt financing.

Approximately 47% of Telesat's revenue and a substantial portion of its expenses, indebtedness and capital expenditures are denominated in U.S. dollars for the year ended December 31, 2013. 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 a result, the volatility of U.S. currency may expose Telesat to foreign exchange risks.

As of December 31, 2013, a five percent change in the Canadian dollar against the U.S. dollar would have changed Telesat's net income by approximately $141 million. This analysis assumes that all other variables, in particular, interest rates, remain constant.

Interest Rate Risk

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

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Derivative Financial Instruments

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

Telesat uses the following instruments, as required:

- forward currency contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites and interest payments;
- cross-currency basis swaps to hedge the foreign currency risk on a portion of its U.S. dollar denominated debt; and
- interest rate swaps to hedge the interest rate risk related to debt financing which is primarily variable rate financing.

Telesat's derivative financial instruments also include embedded derivatives that are related to prepayment options included on its senior notes, as well as interest rate floors included in its Canadian and U.S. TLB facilities.

Item 8. ***Financial Statements and Supplementary Data***

See Index to Financial Statements and Financial Statement Schedules on page F-1.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our president and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2013, have concluded that our disclosure controls and procedures were effective and designed to ensure that information relating to Loral and its consolidated subsidiaries required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission rules and forms. The term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our president and our chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under such criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Our management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its attestation report which is included below.

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Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our president and our chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls may also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Loral Space & Communications Inc.

New York, New York

We have audited the internal control over financial reporting of Loral Space & Communications Inc. and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2013, of the Company and our report dated March 3, 2014 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

New York, New York

March 3, 2014

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Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Executive Officers of the Registrant

The following table sets forth information concerning the executive officers of Loral as of February 14, 2014.

Name	Age	Position
Avi Katz	55	President, General Counsel and Secretary since December 2012. Senior Vice President, General Counsel and Secretary from January 2008 to December 2012. Vice President, General Counsel and Secretary from November 2005 to January 2008.
John Capogrossi	60	Vice President, Chief Financial Officer, Treasurer and Controller since March 2013. Vice President and Controller from January 2008 to March 2013. Executive Director, Financial Planning and Analysis, from October 2006 to January 2008. Assistant Controller from November 2005 to October 2006.

The remaining information required under Item 10 will be presented in the Company's 2014 definitive proxy statement which is incorporated herein by reference or by amendment to this Annual Report on Form 10-K.

Item 11. ***Executive Compensation***

Information required under Item 11 will be presented in the Company's 2014 definitive proxy statement which is incorporated herein by reference or by amendment to this Annual Report on Form 10-K.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information required under Item 12 will be presented in the Company's 2014 definitive proxy statement which is incorporated herein by reference or by amendment to this Annual Report on Form 10-K.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

Information required under Item 13 will be presented in the Company's 2014 definitive proxy statement which is incorporated herein by reference or by amendment to this Annual Report on Form 10-K.

Item 14. ***Principal Accountant Fees and Services***

Information required under Item 14 will be presented in the Company's 2014 definitive proxy statement which is incorporated herein by reference or by amendment to this Annual Report on Form 10-K.

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PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) 1. Financial Statements

Index to Financial Statements and Financial Statement Schedule

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Loral Space & Communications Inc. dated May 19, 2009(7)
3.2	Amended and Restated Bylaws of Loral Space & Communications Inc. dated December 23, 2008(5)
3.3	Amendment No. 1 to Bylaws of Loral Space & Communications dated January 12, 2010(10)
10.1	Purchase Agreement, dated as of June 26, 2012, by and among Loral Space & Communications Inc., Space Systems/Loral, Inc., MacDonald, Dettwiler and Associates Ltd. and MDA Communications Holdings, Inc.(17)
10.2	Amendment No. 1 to the Purchase Agreement, dated as of October 30, 2012, by and among Loral Space & Communications Inc., Space Systems/Loral, Inc., MacDonald, Dettwiler and Associates Ltd. and MDA Communications Holdings, Inc.(18)
10.3	Amendment No. 2 to Purchase Agreement, dated March 28, 2013, by and among Loral Space & Communications Inc., Space Systems/Loral, LLC, MacDonald, Dettwiler and Associates Ltd. and MDA Communications Holdings, Inc.(22)
10.4	Amended and Restated Promissory Note, dated as of March 28, 2013, by and between MacDonald, Dettwiler and Associates Ltd., as maker, and Loral Space & Communications Inc., as payee (22)
10.5	Shareholders Agreement, dated as of October 31, 2007, between Public Sector Pension Investment Board, Red Isle Private Investments Inc., Loral Space & Communications Inc., Loral Space & Communications Holdings Corporation, Loral Holdings Corporation, Loral Skynet Corporation, John P. Cashman, Colin D. Watson, Telesat Holdings Inc. (formerly 4363205 Canada Inc.), Telesat Interco Inc. (formerly 4363213 Canada Inc.), Telesat and MHR Fund Management LLC(2)
10.6	Consulting Services Agreement, dated as of October 31, 2007, by and between Loral Space & Communications Inc. and Telesat(2)
10.7	Indemnity Agreement, dated as of October 31, 2007, by and among Loral Space & Communications Inc., Telesat, Telesat Holdings Inc., Telesat Interco Inc. and Henry Gerard (Hank) Intven(2)
10.8	Acknowledgement and Indemnity Agreement, dated as of October 31, 2007, between Loral Space & Communications Inc., Telesat, Telesat Holdings Inc. (formerly 4363205 Canada Inc.), Telesat Interco Inc. (formerly 4363213 Canada Inc.) and McCarthy Tétrault LLP(2)
10.9	Amended and Restated Registration Rights Agreement dated December 23, 2008 by and among Loral Space & Communications Inc. and the Persons Listed on the Signature Pages Thereof(5)

10.10	Letter Agreement, dated as of June 30, 2009, by and among Loral Space & Communications Inc, MHR Capital Partners Master Account LP, MHR Capital Partners (100) LP, MHR Institutional Partners LP, MHRA LP, MHRM LP, MHR Institutional Partners II LP, MHR Institutional Partners IIA LP and MHR Institutional Partners III LP.(8)
10.11	Partnership Interest Purchase Agreement dated December 21, 2007 by and among GSSI, LLC, Globalstar, Inc., Loral/DASA Globalstar, LP, Globalstar do Brasil, SA., Loral/DASA do Brasil Holdings Ltda., Loral Holdings LLC, Global DASA LLC, LGP (Bermuda) Ltd., Mercedes-Benz do Brasil Ltda. (f/k/a DaimlerChrysler do Brasil Ltda.) and Loral Space & Communications Inc.(3)
10.12	Beam Sharing Agreement, dated as of January 11, 2008, by and between Loral Space & Communications Inc. and ViaSat Inc.(4)
10.13	Satellite Capacity and Gateway Service Agreement dated as of December 31, 2009 between Loral Space & Communications Inc. and Barrett Xplore Inc.(9)
10.14	Gateway Facilities Assignment and Assumption Agreement dated as of March 1, 2011 by and between Telesat Canada, Loral Space & Communications Inc. and Loral Canadian Gateway Corporation(12)

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Exhibit Number	Description
10.15	Space Segment Assignment and Assumption Agreement dated as of March 1, 2011 by and between Telesat IOM Limited and Loral Space & Communications Inc.(12)
10.16	Barrett Assignment Agreement dated as of March 1, 2011 by and between Telesat IOM Limited and Loral Space & Communications Inc.(12)
10.17	General Release dated December 14, 2012 between Loral Space & Communications Inc. and Michael B. Targoff(19) ‡
10.18	Consulting Agreement dated December 14, 2012 between Loral Space & Communications Inc. and Michael B. Targoff(19) ‡
10.19	General Release and Separation Agreement dated December 14, 2012 between Loral Space & Communications Inc. and Richard P. Mastoloni(19) ‡
10.20	Consulting Agreement dated December 14, 2012 between Loral Space & Communications Inc. and Richard P. Mastoloni(19) ‡
10.21	General Release and Separation Agreement dated March 15, 2013 between Loral Space & Communications Inc. and Harvey B. Rein(21) ‡
10.22	Consulting Agreement dated March 15, 2013 between Loral Space & Communications Inc. and Harvey B. Rein(21) ‡
10.23	Form of Officers' and Directors' Indemnification Agreement between Loral Space & Communications Inc. and Loral Executives(1) ‡
10.24	Loral Space Management Incentive Bonus Program (Adopted as of December 17, 2008)(5) ‡
10.25	Loral Space & Communications Inc. 2005 Stock Incentive Plan (Amended and Restated as of April 3, 2009)(6) ‡
10.26	Form of Director 2009 Restricted Stock Unit Agreement(11) ‡
10.27	Form of Director 2010 Restricted Stock Unit Agreement(13) ‡
10.28	Form of Director 2011 Restricted Stock Unit Agreement(16) ‡
10.29	Form of Director 2012 Restricted Stock Unit Agreement(20) ‡
10.30	Loral Space & Communications Inc. Severance Policy for Corporate Officers (Amended and restated as of August 4, 2011)(15) ‡
10.31	

	Grant Agreement, dated as of May 20, 2011, by and among Telesat Holdings Inc., Telesat Canada, Loral Space & Communications Inc., the Public Sector Pension Investment Board, 4440480 Canada Inc. and Daniel Goldberg(14) ‡
10.32	Grant Agreement, dated as of May 31, 2011, by and among Telesat Holdings Inc., Telesat Canada, Loral Space & Communications Inc., the Public Sector Pension Investment Board, 4440480 Canada Inc. and Michael C. Schwartz(14) ‡
10.33	Grant Agreement, dated as of May 31, 2011, by and among Telesat Holdings Inc., Telesat Canada, Loral Space & Communications Inc., the Public Sector Pension Investment Board, 4440480 Canada Inc. and Michel G. Cayouette(14) ‡
10.34	Grant Agreement, dated as of November 18, 2013, by and among Telesat Holdings Inc., Telesat Canada, Loral Space & Communications Inc., the Public Sector Pension Investment Board, 4440480 Canada Inc. and Daniel Goldberg(23) ‡
10.35	Grant Agreement, dated as of November 18, 2013, by and among Telesat Holdings Inc., Telesat Canada, Loral Space & Communications Inc., the Public Sector Pension Investment Board, 4440480 Canada Inc. and Michel G. Cayouette(23) ‡

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Exhibit Number	Description
10.36	Grant Agreement, dated as of November 18, 2013, by and among Telesat Holdings Inc., Telesat Canada, Loral Space & Communications Inc., the Public Sector Pension Investment Board, 4440480 Canada Inc. and Paul D. Bush(23) ‡
14.1	Code of Conduct, Revised as of January 17, 2013(20)
21.1	List of Subsidiaries of the Registrant†
23.1	Consent of Deloitte & Touche LLP†
23.2	Consent of Deloitte & Touche LLP†
31.1	Certification of President pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002†
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002†
32.1	Certification of President pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002†
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002†
99.1	Articles of Incorporation of Telesat Holdings Inc. (formerly 4363205 Canada Inc.)(2)
99.2	By-Law No. 1 of Telesat Holdings Inc. (formerly 4363205 Canada Inc.)(2)
99.3	Credit Agreement, dated as of March 28, 2012, by and among Telesat Holdings, Inc., Telesat Canada, Telesat LLC, the guarantors party thereto, JP Morgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto(24)
99.4	Amendment No. 1, dated April 2, 2013, to the Credit Agreement, dated March 28, 2012, among Telesat Holdings Inc., Telesat Canada, Telesat LLC, the guarantors party thereto, JP Morgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto(26)
99.5	Indenture, dated May 14, 2012, with respect to Telesat Canada's 6.0% Senior Notes due 2017, among Telesat Canada, Telesat LLC, as co-issuer, the guarantors party thereto, and The Bank of New York Mellon, as Trustee(25)
99.6	First Supplemental Indenture, dated as of September 13, 2013, with respect to Telesat Canada's 6.0% Senior Notes due 2017, among Telesat Luxembourg S.à r.l., Telesat Canada, Telesat LLC, as co-issuer, the guarantors party thereto and The Bank of New York Mellon, as Trustee(27)

	Interactive Data Files†
	(101.INS) XBRL Instance Document
	(101.SCH) XBRL Taxonomy Extension Schema Document
101	(101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document
	(101.DEF) XBRL Taxonomy Extension Definition Linkbase Document
	(101.LAB) XBRL Taxonomy Extension Label Linkbase Document
	(101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from the Company's Current Report on Form 8-K filed on November 23, 2005.

(2) Incorporated by reference from the Company's Current Report on Form 8-K filed on November 2, 2007.

(3) Incorporated by reference from the Company's Current Report on Form 8-K filed December 21, 2007.

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(4) Incorporated by reference from the Company’s Current Report on Form 8-K filed on January 16, 2008.

(5) Incorporated by reference from the Company’s Current Report on Form 8-K filed on December 23, 2008.

(6) Incorporated by reference from the Company’s Current Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed on May 11, 2009.

(7) Incorporated by reference from the Company’s Current Report on Form 8-K filed on May 20, 2009.

(8) Incorporated by reference from the Company’s Current Report on Form 8-K filed on June 30, 2009.

(9) Incorporated by reference from the Company’s Current Report on Form 8-K filed on January 7, 2010.

(10) Incorporated by reference from the Company’s Current Report on Form 8-K filed on January 15, 2010.

(11) Incorporated by reference from the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed on March 15, 2010.

(12) Incorporated by reference from the Company’s Current Report on Form 8-K filed on March 3, 2011.

(13) Incorporated by reference from the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed on March 15, 2011.

(14) Incorporated by reference from the Company’s Current Report on Form 8-K filed on June 13, 2011.

(15) Incorporated by reference from the Company’s Current Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed on August 9, 2011.

(16) Incorporated by reference from the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed on February 29, 2012.

(17) Incorporated by reference from the Company’s Current Report on Form 8-K filed on June 28, 2012.

(18) Incorporated by reference from the Company’s Current Report on Form 8-K filed on November 5, 2012.

(19) Incorporated by reference from the Company’s Current Report on Form 8-K filed on December 17, 2012.

(20) Incorporated by reference from the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed on March 1, 2013.

(21) Incorporated by reference from the Company’s Current Report on Form 8-K filed on March 18, 2013.

(22) Incorporated by reference from the Company’s Current Report on Form 8-K filed on April 3, 2013.

(23) Incorporated by reference from the Company’s Current Report on Form 8-K filed on November 20, 2013.

(24) Incorporated by reference from the Form 6-K filed by Telesat Canada on March 29, 2012.

(25) Incorporated by reference from the Form 6-K filed by Telesat Canada on May 14, 2012.

(26) Incorporated by reference from the Form 6-K filed by Telesat Holdings Inc. on April 2, 2013.

(27) Incorporated by reference from the Form 20-F filed by Telesat Holdings Inc. on February 24, 2014.

† Filed herewith.

‡Management contract or compensatory plan, contract or arrangement with directors or named executive officers.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LORAL SPACE & COMMUNICATIONS INC.

By: /s/ AVI KATZ
Avi Katz

President, General Counsel & Secretary
Dated: March 3, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	**Title**	**Date**
/s/ MARK H. RACHESKY, M.D. Mark H. Rachesky, M.D.	Director, Non-Executive Chairman of the Board	March 3, 2014
/s/ MICHAEL B. TARGOFF Michael B. Targoff	Director, Vice Chairman of the Board	March 3, 2014
/s/ HAL GOLDSTEIN Hal Goldstein	Director	March 3, 2014
/s/ JOHN D. HARKEY, JR. John D. Harkey, Jr.	Director	March 3, 2014
/s/ ARTHUR L. SIMON Arthur L. Simon	Director	March 3, 2014
/s/ JOHN P. STENBIT John P. Stenbit	Director	March 3, 2014
/s/ AVI KATZ Avi Katz	President, General Counsel & Secretary (Principal Executive Officer)	March 3, 2014
/s/ JOHN CAPOGROSSI	Vice President, Chief Financial Officer,	March 3, 2014

John Capogrossi	Treasurer and Controller (Principal Financial Officer and Principal Accounting Officer)

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INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Loral Space & Communications Inc.

New York, New York

We have audited the accompanying consolidated balance sheets of Loral Space & Communications Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 3, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 3, 2014

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LORAL SPACE AND COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$5,926	$87,370
Notes receivable	67,333	34,917
Income taxes receivable	13,234	571
Deferred tax assets	3,784	4,165
Other current assets	568	2,084
Total current assets	90,845	129,107
Long-term receivables	33,667	67,333
Investments in affiliates	116,820	62,517
Long-term deferred tax assets	83,708	117,381
Other assets	2,700	2,654
Total assets	$327,740	$378,992
LIABILITIES AND EQUITY		
Current liabilities:		
Accrued employment costs	$960	$4,922
Income taxes payable	—	34,505
Other current liabilities	8,750	32,089
Total current liabilities	9,710	71,516
Pension and other postretirement liabilities	17,003	25,174
Long-term liabilities	93,117	95,841
Total liabilities	119,830	192,531
Commitments and contingencies		
Equity:		
Loral shareholders' equity:		
Preferred stock, 0.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock:		
Voting common stock, 0.01 par value; 50,000,000 shares authorized, 21,568,706 and 21,416,834 issued	216	214
Non-voting common stock, 0.01 par value; 20,000,000 shares authorized 9,505,673 issued and outstanding	95	95
Paid-in capital	1,015,656	1,027,266
Treasury stock (at cost), 154,494 shares of voting common stock	(9,592)	(9,592)
Accumulated deficit	(777,549)	(794,128)

Accumulated other comprehensive loss	(20,916)	(37,394)
Total equity	207,910	186,461
Total liabilities and equity	$327,740	$378,992

See notes to consolidated financial statements

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LORAL SPACE AND COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2013	2012	2011
General and administrative expenses	$(16,038)	$(28,774)	$(18,345)
Gain on disposition of net assets	—	—	5,118
Operating loss	(16,038)	(28,774)	(13,227)
Interest and investment income	1,238	1,928	3,143
Interest expense	(17)	(106)	(122)
Gain on litigation, net	—	—	4,535
Other expense	(713)	(261)	(6,675)
Loss from continuing operations before income taxes and equity in net income of affiliates	(15,530)	(27,213)	(12,346)
Income tax (provision) benefit	(1,841)	93,315	(41,375)
(Loss) income from continuing operations before equity in net income of affiliates	(17,371)	66,102	(53,721)
Equity in net income of affiliates	38,827	34,340	106,329
Income from continuing operations	21,456	100,442	52,608
(Loss) income from discontinued operations, net of tax	(4,877)	320,649	74,566
Net income	16,579	421,091	127,174
Net loss (income) attributable to noncontrolling interest	—	231	(497)
Net income attributable to Loral common shareholders	$16,579	$421,322	$126,677
Net income per share attributable to Loral common shareholders:			
Basic			
Income from continuing operations	$0.70	$3.27	$1.72
(Loss) income from discontinued operations, net of tax	(0.16)	10.45	2.41
Net income	$0.54	$13.72	$4.13
Diluted			
Income from continuing operations	$0.67	$3.22	$1.54
(Loss) income from discontinued operations, net of tax	(0.16)	10.35	2.38
Net income	$0.51	$13.57	$3.92
Weighted average common shares outstanding:			
Basic	30,850	30,703	30,680
Diluted	30,999	30,991	31,166

See notes to consolidated financial statements

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LORAL SPACE AND COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income	$16,579	$421,091	$127,174
Other comprehensive income (loss), net of tax:			
Unrealized gain on derivatives	—	1,306	5,447
Unrealized loss on investments	—	(580)	(535)
Post-retirement benefits	8,482	115,042	(50,648)
Proportionate share of Telesat other comprehensive (loss) income	7,996	1,313	(12,866)
Other comprehensive income (loss), net of tax	16,478	117,081	(58,602)
Comprehensive income	33,057	538,172	68,572
Comprehensive loss (income) attributable to noncontrolling interest	—	231	(497)
Comprehensive income attributable to Loral common shareholders	$33,057	$538,403	$68,075

See notes to consolidated financial statements

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LORAL SPACE AND COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share amounts)

	Common Stock Voting Shares Issued	Amount	Non-Voting Shares Issued	Amount	Paid-In Capital	Treasury Stock Voting Shares	Amount	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Shareholders' Equity Attributable to Loral	Noncontro Interest	T E
Balance, January 1, 2011	20,925	209	9,506	95	1,028,263			(32,374)	(95,873)	900,320	629	
Net income								126,677			497	
Other comprehensive loss									(58,602)			
Comprehensive income										68,075		
Exercise of stock options	305	3			1,055					1,058		
Shares surrendered to fund withholding taxes					(16,972)					(16,972)		
Tax benefit associated with exercise of stock options					1,198					1,198		
Stock-based compensation					1,180					1,180		
Voting common stock repurchased						136	$(8,400)			(8,400)		
Balance, December 31, 2011	21,230	$212	9,506	$95	$1,014,724	136	$(8,400)	$94,303	$(154,475)	$946,459	$1,126	$
Net income (loss)								421,322			(231)	
Other comprehensive income									117,081			

Comprehensive income										538,403	
Elimination of noncontrolling interest resulting from the Sale											(895)
Common dividends declared ($13.60 per share)								(417,606)		(417,606)	
Special distribution declared ($29.00 per share)								(892,147)		(892,147)	
Exercise of stock options	169	2			1,633					1,635	
Shares surrendered to fund withholding taxes	18				(6,992)					(6,992)	
Tax benefit associated with stock-based compensation					16,919					16,919	
Stock-based compensation					1,151					1,151	
Cash settlement of restricted stock units					(169)					(169)	
Voting common stock repurchased						18	(1,192)			(1,192)	
Balance, December 31, 2012	21,417	214	9,506	95	1,027,266	154	(9,592)	(794,128)	(37,394)	186,461	—
Net income								16,579			
Other comprehensive income									16,478		
Comprehensive income										33,057	
Exercise of restricted stock units	175	2			(2)					—	
Equitable adjustment to restricted stock	120	1			(1)					—	

units for dividends and distributions												
Shares surrendered to fund withholding taxes	(143)	(1)			(8,896)					(8,897)		
Adjustment to tax benefit associated with stock-based compensation					(3,128)					(3,128)		
Stock-based compensation					417					417		
Balance, December 31, 2013	21,569	$216	9,506	$95	$1,015,656	154	$(9,592)	$(777,549)	$(20,916)	$207,910	$—	$

See notes to consolidated financial statements

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LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Operating activities:			
Net income	$16,579	$421,091	$127,174
Loss (income) from discontinued operations, net of tax	4,877	(320,649)	(74,566)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Non-cash operating items (Note 2)	(1,521)	(21,053)	(71,435)
Changes in operating assets and liabilities:			
Long-term receivables	—	20,700	(3,145)
Other current assets and other assets	2,012	(1,992)	10,144
Accounts payable	—	—	41
Accrued expenses and other current liabilities	(8,442)	(5,447)	1,161
Income taxes receivable and payable	(12,112)	(22,043)	(8,282)
Pension and other postretirement liabilities	(21,183)	6,169	(1,099)
Long-term liabilities	(1,750)	(110,663)	(834)
Net cash used in operating activities – continuing operations	(21,540)	(33,887)	(20,841)
Net cash (used in) provided by operating activities – discontinued operations	(48,965)	(66,605)	78,835
Net cash (used in) provided by operating activities	(70,505)	(100,492)	57,994
Investing activities:			
Distributions received from affiliate	—	420,199	—
Proceeds from sale of investments, net	1,150	1,694	—
Capital expenditures	(64)	(4)	(350)
Proceeds from sale of net assets	—	—	61,482
Decrease in restricted cash	—	—	625
Investments in and advances to affiliates	—	—	(10,379)
Net cash provided by investing activities – continuing operations	1,086	421,889	51,378
Net cash used in investing activities – discontinued operations	—	(107,778)	(55,415)
Cash proceeds from the Sale, net of transaction costs of $35,219	—	932,661	—
Net cash provided by (used in) investing activities	1,086	1,246,772	(4,037)
Financing activities:			
Special cash distribution paid	—	(892,147)	—
Cash dividend paid	—	(417,606)	—
Voting common stock repurchased	—	(1,664)	(7,928)
Proceeds from the exercise of stock options	—	1,635	1,058
Cash settlement of restricted stock units	—	(169)	—
Funding of withholding taxes for stock-based compensation	(8,897)	(6,992)	(16,972)
Excess tax benefit associated with stock-based compensation	(3,128)	16,919	1,198

Net cash used in financing activities – continuing operations	(12,025)	(1,300,024)	(22,644)
Net cash provided by financing activities – discontinued operations	—	44,000	—
Net cash used in financing activities	(12,025)	(1,256,024)	(22,644)
(Decrease) increase in cash and cash equivalents	(81,444)	(109,744)	31,313
Cash and cash equivalents — beginning of period	87,370	197,114	165,801
Cash and cash equivalents — end of period	$5,926	$87,370	$197,114

See notes to consolidated financial statements

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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.

Description of Business

Loral has one operating segment consisting of satellite-based communications services. Loral participates in satellite services operations through its ownership interest in Telesat Holdings Inc. (“Telesat Holdco”) which owns Telesat Canada (“Telesat”), a global satellite services operator. Telesat owns and leases a satellite fleet that operates in geosynchronous earth orbit approximately 22,000 miles above the equator. In this orbit, satellites remain in a fixed position relative to points on the earth’s surface and provide reliable, high-bandwidth services anywhere in their coverage areas, serving as the backbone for many forms of telecommunications.

Loral holds a 62.8% economic interest and a 32.7% voting interest in Telesat Holdco (see Note 6). We use the equity method of accounting for our ownership interest in Telesat Holdco.

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

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 and March 28, 2013, by and among Loral, SS/L, MDA and MDA Holdings, 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).

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 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.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

For 2012 and 2011, the operations of SS/L are reported as discontinued operations in our statements of operations and cash flows (see Note 3).

2. Basis of Presentation

The consolidated financial statements include the results of Loral and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany transactions have been eliminated.

Investments in Affiliates

Ownership interests in Telesat and XTAR, LLC ("XTAR") are accounted for using the equity method of accounting. Income and losses of affiliates are recorded based on our beneficial interest. Intercompany profit arising from transactions with affiliates is eliminated to the extent of our beneficial interest. Equity in losses of affiliates is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist. The Company monitors its equity method investments for factors indicating other-than-temporary impairment. An impairment loss would be recognized when there has been a loss in value of the affiliate that is other-than-temporary.

Use of Estimates in Preparation of Financial Statements

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

Significant estimates also included the allowances for doubtful accounts, the fair value of stock-based compensation, the realization of deferred tax assets, uncertain tax positions, the fair value of and gains or losses on derivative instruments and our pension liabilities.

Cash and Cash Equivalents

As of December 31, 2013, the Company had $5.9 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 and no redemption limitations. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date.

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. Our receivables are from large multinational corporations for which the creditworthiness is generally substantial. In addition, the Land Note is guaranteed by Royal Bank of Canada. As a result, management believes that its potential credit risks are minimal.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO 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 on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at December 31, 2013 and December 31, 2012 (in thousands):

	December 31, 2013			December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3

Assets						
Cash equivalents:						
Money market funds	$3,216	$ —	$—	$86,820	$ —	$—
Note receivable:						
Land Note	$—	$ —	$101,000	$—	$ —	$101,000
Liabilities						
Indemnifications:						
Sale of SS/L	$—	$ —	$10,897	$—	$ —	$16,528
Globalstar do Brasil S.A.	$—	$ —	$1,320	$—	$ —	$1,510

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments. The carrying amount of the Land Note approximates fair value because the stated interest rate is consistent with current market rates. The fair value of indemnifications related to the sale of SS/L was estimated using Monte Carlo simulation based on the potential probability weighted cash flows that would be a guarantor's responsibility in an arm's length transaction. The fair value of indemnifications related to Globalstar do Brasil S.A. ("GdB") was estimated using expected value analysis. The Company does not have any non-financial assets or non-financial liabilities that are recognized or disclosed at fair value on a recurring basis as of December 31, 2013.

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.

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.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivative Instruments

Derivative instruments are recorded at fair value. Changes in the fair value of derivatives that have been designated as cash flow hedging instruments are included in “Unrealized gain on derivatives” as a component of other comprehensive loss in the accompanying consolidated statements of comprehensive income to the extent of the effectiveness of such hedging instruments and reclassified to income in the same period or periods in which the hedge transaction impacts income. Any ineffective portion of the change in fair value of the designated hedging instruments is included in the consolidated statements of operations. Changes in fair value of derivatives that are not designated as hedging instruments are included in the consolidated statements of operations (see Note 14).

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. In addition, share-based payment transactions with nonemployees are measured at the fair value of the equity instrument issued. We use the Black-Scholes-Merton option-pricing model and other models as applicable to estimate the fair value of these stock-based awards. These models require us to make significant judgments regarding the assumptions used within the models, the most significant of which are the stock price volatility assumption, the expected life of the option award, the risk-free rate of return and dividends during the expected term.

The Company estimates expected forfeitures of stock-based awards at the grant date and recognizes compensation cost only for those awards expected to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions may impact the timing of the total amount of expense recognized over the vesting period. We base our estimate of the average life of a stock-based award using the midpoint between the vesting and expiration dates. Our risk-free rate of return assumption for awards is based on term-matching, nominal, monthly U.S. Treasury constant maturity rates as of the date of grant. We assume no dividends during the expected term.

SS/L phantom stock appreciation rights are classified as liabilities in our consolidated balance sheets.

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 potential accrued interest and penalties related to its liability for UTPs 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. Previously recognized tax positions are derecognized in the first period in which it is no longer more likely than not that the tax position would be sustained upon examination.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 outstanding stock options and unvested or unconverted restricted stock units, restricted stock and SS/L phantom stock appreciation rights.

Additional Cash Flow Information

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

	Year Ended December 31,		
	2013	2012	2011
Non-cash operating items:			
Equity in net income of affiliates	$(38,827)	$(34,340)	$(106,329)
Deferred taxes	28,184	22,003	40,468
Depreciation and amortization	18	62	115
Stock-based compensation	417	1,072	1,060
Gain on disposition of net assets	—	—	(6,913)
Amortization of prior service credit and actuarial loss	8,687	(8,224)	250
Unrealized gain on nonqualified pension plan assets	—	(108)	(157)
Gain on disposition of available-for-sale securities	—	(202)	—
(Gain) loss on foreign currency transactions and contracts	—	(1,316)	71
Net non-cash operating items – continuing operations	$(1,521)	$(21,053)	$(71,435)
Non-cash operating items – discontinued operations	$—	$(346,377)	$69,209
Non-cash investing activities:			
Note received from land sale	$—	$101,000	$—
Capital expenditures incurred not yet paid – discontinued operations	$—	$—	$7,766
Non-cash financing activities:			
Repurchase of voting common stock not yet paid - continuing operations	$—	$—	$472

Supplemental information:			
Interest paid – continuing operations	$17	$106	$145
Interest paid – discontinued operations	$—	$1,841	$1,504
Tax (refunds) payments, net – continuing operations	$(10,061)	$122	$5,937
Tax payments, net of refunds – discontinued operations	$35,074	$—	$—

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740)*: *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This new standard requires the netting of unrecognized tax benefits (“UTBs”) against available deferred tax assets for losses and other carryforward benefits that would be available to offset the liability for uncertain tax positions rather than presenting the UTB on a gross basis. The guidance, effective for the Company on January 1, 2014, will have no impact on our consolidated financial statements as the Company has already adopted this methodology.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830) - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* ASU No. 2013-05 clarifies that the cumulative translation adjustment should be released into net income only when a reporting entity ceases to have a controlling financial interest in a subsidiary or a business within a foreign entity. Further, for an equity method investment that is a foreign entity, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. The guidance, effective for the Company on January 1, 2014, is not expected to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405) – Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. ASU No. 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of: (a) the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors, and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance, effective for the Company on January 1, 2014, is not expected to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (ASC Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The guidance, effective for the Company on January 1, 2013, requires changes in presentation which have been included in our consolidated financial statements.

3. Discontinued Operations

As a result of the Sale (see Note 1), we reflect SS/L's operations as discontinued operations in our consolidated financial statements for the years ended December 31, 2012 and 2011.

Loss from discontinued operations for the year ended December 31, 2013 primarily comprises changes in the fair value of our indemnification liabilities related to the Sale, net of a $3.0 million income tax benefit.

The following is a summary of SS/L's financial information included in income from discontinued operations for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	2011
Revenues	$ 940,347	$ 1,107,365
Operating income	$ 3,441	$ 106,661
Income before income taxes	$ 22,167	$ 122,336
Income tax provision	(10,157)	(47,770)
Net income	12,010	74,566
Gain on Sale	576,090	—
Income tax provision on Sale	(267,451)	—
Gain on Sale, net of tax	308,639	—
Income from discontinued operations, net of tax	$ 320,649	$ 74,566

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

4. Accumulated Other Comprehensive Loss

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

	Derivatives	Available-for-Sale Securities	Postretirement Benefits	Proportionate Share of Telesat Other Comprehensive Loss	Accumulated Other Comprehensive Loss
Balance at January 1, 2011	$ (6,753)	$ 1,115	$ (82,047)	$ (8,188)	$ (95,873)
Other comprehensive (loss) before reclassification	(5,272)	(535)	(51,172)	(12,866)	(69,845)
Amounts reclassified from accumulated other comprehensive income (loss)	10,719	—	524	—	11,243
Net current-period other comprehensive income (loss)	5,447	(535)	(50,648)	(12,866)	(58,602)
Balance at December 31, 2011	(1,306)	580	(132,695)	(21,054)	(154,475)
Other comprehensive (loss) income before reclassification	(415)	(120)	1,668	1,313	2,446
Amounts reclassified from accumulated other comprehensive income (loss)	1,721	(460)	113,374	—	114,635
Net current-period other comprehensive income (loss)	1,306	(580)	115,042	1,313	117,081
Balance at December 31, 2012	—	—	(17,653)	(19,741)	(37,394)
Other comprehensive income before reclassification	—	—	3,102	7,996	11,098

Amounts reclassified from accumulated other comprehensive loss	—	—	5,380 (a)	—	5,380
Net current-period other comprehensive income	—	—	8,482	7,996	16,478
Balance at December 31, 2013	$ —	$ —	$ (9,171)	$ (11,745)	$ (20,916)

(a) Reclassification from postretirement benefits accumulated other comprehensive loss is comprised of $8.7 million included in general and administrative expenses and $3.3 million tax benefit thereon included in income tax benefit in our consolidated statement of operations.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Year ended December 31, 2013			
Postretirement Benefits:			
Net actuarial loss and prior service credits	$ 5,012	$ (1,910)	$ 3,102
Amortization of prior service credits and net actuarial loss	8,687	(3,307)	5,380
Postretirement benefits	13,699	(5,217)	8,482
Proportionate share of Telesat Holdco other comprehensive (loss) gain	12,906	(4,910)	7,996
Other comprehensive income (loss)	$ 26,605	$ (10,127)	$ 16,478
Year ended December 31, 2012			
Postretirement Benefits:			
Net actuarial loss and prior service credits	$ 2,962	$ (1,294)	$ 1,668
Amortization of prior service credits and net actuarial loss	5,120	(2,067)	3,053
Amount reclassifed to statement of operations upon disposition of SS/L	123,377	(13,056)	110,321
Postretirement benefits	131,459	(16,417)	115,042
Proportionate share of Telesat Holdco other comprehensive income (loss)	2,141	(828)	1,313
Derivatives:			
Unrealized (loss) gain on foreign currency hedges	(693)	278	(415)
Less: reclassification adjustment for loss (income) included in net income from discontinued operations	6,502	(2,611)	3,891
Amount reclassified to statement of operations upon disposition of SS/L	638	(2,808)	(2,170)
Net unrealized gain (loss) on derivatives	6,447	(5,141)	1,306
Available-for-sale securities:			
Unrealized loss on available-for-sale securities	(78)	(42)	(120)
Less: reclassification adjustment for gain included in net income	(276)	(184)	(460)
Net unrealized loss on available-for-sale securities	(354)	(226)	(580)
Other comprehensive income (loss)	$ 139,693	$ (22,612)	$ 117,081
Year ended December 31, 2011			
Postretirement Benefits:			
Net actuarial loss and prior service credits	$ (85,596)	$ 34,424	$ (51,172)
Amortization of prior service credits and net actuarial loss	876	(352)	524

Postretirement benefits	(84,720)	34,072	(50,648)
Proportionate share of Telesat Holdco other comprehensive (loss) income	(21,517)	8,651	(12,866)
Derivatives:			
Unrealized (loss) gain on foreign currency hedges	(8,821)	3,549	(5,272)
Less: reclassification adjustment for loss (income) included in net income from discontinued operations	17,935	(7,216)	10,719
Net unrealized gain on derivatives	9,114	(3,667)	5,447
Unrealized (loss) gain on available-for-sale securities	(895)	360	(535)
Other comprehensive (loss) income	$ (98,018)	$ 39,416	$ (58,602)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

5. Receivables

Receivable balances related to the Land Note (see Note 1) and the Telesat consulting services fee (see Note 16) as of December 31, 2013 and 2012 are presented below (in thousands):

	December 31,	
	2013	2012
Land Note receivable	$101,000	$101,000
Telesat notes receivable for consulting services	—	1,250
	101,000	102,250
Less: current portion	(67,333)	(34,917)
Long-term receivables	$33,667	$67,333

As a result of the amendment to the Purchase Agreement on March 28, 2013, principal payments under the Land Note are scheduled to be received as follows: $67.3 million on March 31, 2014 and $33.7 million on March 31, 2015. Interest on the Land Note ranges between one and one and one half percent per annum and is payable quarterly.

See Note 16 for the terms of the Telesat notes receivable for consulting services.

6. Investments in Affiliates

Investments in affiliates consist of (in thousands):

	December 31,	
	2013	2012
Telesat Holdings Inc.	$60,157	$—
XTAR, LLC	56,663	62,517
	$116,820	$62,517

Our investment in Telesat Holdco was reduced to zero as of December 31, 2012, as discussed below.

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

	Year Ended December 31,		
	2013	2012	2011
Telesat Holdings Inc.	$47,251	$40,814	$114,476
XTAR, LLC	(5,854)	(6,474)	(6,681)
Other	(2,570)	—	(1,466)
	$38,827	$34,340	$106,329

Income from discontinued operations in our consolidated statements of operations reflects the effects of the following amounts related to SS/L's transactions with our affiliates (in thousands):

	Year Ended December 31,	
	2012	2011
Revenues included in income from discontinued operations	$ 57,571	$ 139,960
Elimination of Loral's proportionate share of profits relating to affiliate transactions	(16,912)	(18,498)
Profits included in income from discontinued operations relating to affiliate transactions not eliminated	9,513	10,411

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The above amounts related to transactions with affiliates exclude the effect of Loral's sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related net assets. As a result of this sale to Telesat, Loral received a $13 million sale premium and reversed $5 million of cumulative intercompany profit eliminations that were recorded when the satellite was being built for Loral. This combined benefit was reduced by the $11 million elimination of the portion of the benefit applicable to Loral's interest in Telesat, which has been reflected as a reduction of our investment in Telesat, and the remaining $7 million has been reflected as a gain on our consolidated statement of operations including $1.8 million in income from discontinued operations for the year ended December 31, 2011.

Equity in net income of affiliates for the year ended December 31, 2012 included $4.6 million of profits previously eliminated on satellite sales from SS/L to affiliates that should have been recognized in prior periods as the satellites were depreciated. The Company has not revised previously reported amounts based on its belief that the effect of such adjustments is not material to the financial statements taken as a whole.

Telesat

As of December 31, 2013 and 2012, we held a 62.8% economic interest and a 32.7% voting interest in Telesat. Our economic interest decreased from 64% to 62.8% and our voting interest decreased from $33^1/_3$% to 32.7% in December 2012 when certain executives of Telesat exercised share appreciation rights related to a total of 5,311,568 stock options granted under Telesat's share based compensation plan and received 2,249,747 non-voting participating preferred shares.

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.

On March 28, 2012, Telesat entered into a new credit agreement (the ‘‘Telesat Credit Agreement’’) with a syndicate of banks which provided for the extension of credit under the senior credit facilities in the principal amount of up to approximately $2.55 billion, increasing Telesat’s debt by $490 million from the previous credit facilities. Simultaneously with entering into the Telesat Credit Agreement, Telesat terminated and paid all outstanding amounts under its previous credit facilities and recorded an expense of refinancing of $22 million related to deferred financing costs on the previous credit facilities.

In connection with the closing of the Telesat Credit Agreement in March 2012, the Board of Directors of Telesat approved special cash distributions to Telesat’s shareholders of CAD 656.5 million, including a distribution of CAD 420 million to Loral. The special distributions by Telesat to its shareholders were authorized to be paid in two tranches; the first tranche was paid by Telesat on March 28, 2012, with Loral receiving CAD 375 million ($376 million), and the second tranche was paid by Telesat on July 5, 2012, with Loral receiving CAD 45 million ($44 million).

In connection with the cash distribution to Telesat’s shareholders, on March 28, 2012 the Board of Directors of Telesat authorized cash payments of CAD 48.6 million to certain employees of Telesat.

As of December 31, 2012, the special cash distributions received from Telesat exceeded our recorded cumulative equity in net income of Telesat and our initial investment by $7.4 million. In following the equity method of accounting, our investment balance in Telesat was reduced to zero as of December 31, 2012. For the year ended December 31, 2013, we reduced our equity in net income of Telesat by the excess special cash distribution of $7.4 million.

In March 2012, Telesat completed the refinancing of all of its issued and outstanding senior preferred shares, which were replaced with a promissory note of CAD 146 million, which was equal to the outstanding liquidation value and accrued dividends on the senior preferred shares. The promissory note requires payment of at least 50% of the principal amount on March 28, 2014, with the balance, if any, to be repaid no later than March 28, 2016. Telesat will pay interest on the promissory note in the amount of 9.75% for the first two years and adjusting thereafter to reflect the then-current market rate (but no less than 11% per annum).

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

On October 29, 2012, Telesat issued, through a private placement, an additional $200 million of 6% senior notes due 2017. Telesat has used the net proceeds from the debt offering to fund the repayment of certain indebtedness owed to its principal shareholders, including accrued and unpaid interest thereon and for general corporate purposes.

On April 2, 2013, Telesat re-priced and amended the Telesat Credit Agreement. The amendment converted CAD 34 million from Canadian to U.S. dollars and decreased the interest rates on Telesat’s Canadian and U.S. term loan B facilities by 0.50%. The amendment also decreased the interest rate floors on the debt to 1.00% and 0.75% for the Canadian term loan B facility and U.S. term loan B facility, respectively. The permitted leverage ratio to incur first lien debt is now 4.25:1.00 which represents a change from the prior 4.00:1.00 senior secured leverage ratio in the credit agreement.

On May 1, 2013, Telesat redeemed its 12.5% senior subordinated notes due November 1, 2017 at a price of 106.25% of the principal amount of the senior subordinated notes. Expense of refinancing for the year ended December 31, 2013 primarily represents the premium paid and the write-off of deferred financing costs related to this note redemption.

The ability of Telesat to pay dividends or certain other restricted payments as well as consulting fees in cash to Loral is governed by applicable covenants in Telesat’s debt and shareholder agreements. Under Telesat’s credit agreement and the indenture for Telesat’s 6% senior notes, dividends or certain other restricted payments may be paid only if there is a sufficient capacity under a restricted payment basket, which is based on a formula of cumulative consolidated EBITDA less 1.4 times cumulative consolidated interest expense. Under the 6% senior note indenture and credit agreement, Telesat is generally permitted to pay consulting fees to Loral in cash. Our general and administrative expenses are net of income related to the Consulting Agreement of $5.0 million for each of the years ended December 31, 2013, 2012 and 2011. For the years ended December 31, 2013, 2012 and 2011, Loral received payments in cash from Telesat of $6.3 million, $25.7 million and $3.2 million, respectively, for consulting fees and interest. The payments received by Loral from Telesat for the years ended December 31, 2013 and 2012 included $2.6 million and $24.1 million, respectively, for redemption of notes receivable. These amounts were not allowed to be paid previously because Telesat did not meet the leverage ratio required for payment under the indenture for its 12.5% senior subordinated notes due November 1, 2017.

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 the net income or loss of Telesat also reflects the elimination of our profit, to the extent of our economic interest, on satellites we constructed for Telesat while we owned SS/L.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table presents summary financial data for Telesat in accordance with U.S. GAAP, as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Statement of Operations Data:			
Revenues	$867,914	$846,148	$817,269
Operating expenses	(185,179)	(242,705)	(188,119)
Depreciation, amortization and stock-based compensation	(245,764)	(249,134)	(248,012)
Gain on insurance proceeds	—	—	136,507
Impairment of intangible assets	—	—	(1,112)
Loss on disposition of long lived asset	(1,677)	(778)	(1,499)
Operating income	435,294	353,531	515,034
Interest expense	(210,180)	(236,398)	(220,598)
Expense of refinancing	(19,655)	(80,104)	—
Foreign exchange(losses) gains	(191,569)	81,073	(80,991)
Gains (losses) on financial instruments	110,034	(25,755)	50,731
Other income	11,343	1,362	1,964
Income tax provision	(39,039)	(28,154)	(65,271)
Net income	$96,228	$65,555	$200,869

	December 31,	
	2013	2012
Balance Sheet Data:		
Current assets	$366,814	$289,614
Total assets	4,929,838	5,342,313
Current liabilities	360,744	237,739
Long-term debt, including current portion	3,215,831	3,519,872
Total liabilities	4,280,902	4,770,966
Shareholders' equity	648,936	571,347

Telesat had capital expenditures of $77.7 million, $170.2 million and $377.9 million for the years ended December 31, 2013, 2012 and 2011, respectively.

XTAR

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

XTAR owns and operates an X-band satellite, XTAR-EUR, located at 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.

We regularly evaluate our investment in XTAR to determine whether there has been a decline in fair value that is other-than-temporary. We have performed an impairment test for our investment in XTAR as of December 31, 2013, using XTAR's most recent forecast, and concluded that our investment in XTAR was not impaired. Any declines in XTAR's projected revenues may result in a future impairment charge.

In January 2005, Hisdesat provided XTAR with a convertible loan in the principal amount of $10.8 million due February 2011, for which Hisdesat received enhanced governance rights in XTAR. The loan was subsequently extended to December 31, 2011. In November 2011, Loral and Hisdesat made capital contributions to XTAR in proportion to their respective ownership interests, and the proceeds were used to repay the loan balance of $18.5 million, which included the principal amount and accrued interest. Loral's capital contribution was $10.4 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

XTAR's lease obligation to Hisdesat for the XTAR-LANT transponders requires payments by XTAR of $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. Under this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. In March 2009, XTAR entered into an agreement with Hisdesat pursuant to which the past due balance on XTAR-LANT transponders of $32.3 million as of December 31, 2008, together with a deferral of $6.7 million in payments due in 2009, will be payable to Hisdesat over 12 years through annual payments of $5 million (the "Catch Up Payments"). XTAR has a right to prepay, at any time, all unpaid Catch Up Payments discounted at 9%. Cumulative amounts paid to Hisdesat for Catch-Up Payments through December 31, 2013 were $24.2 million. XTAR has also agreed that XTAR's excess cash balance (as defined) will be applied towards making limited payments on future lease obligations, as well as payments of other amounts owed to Hisdesat, Telesat and Loral for services provided by them to XTAR (see Note 16). The ability of XTAR to pay dividends and management fees in cash to Loral is governed by XTAR's operating agreement.

The following table presents summary financial data for XTAR as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 (in thousands):

	December 31,		
	2013	2012	2011
Statement of Operations Data:			
Revenues	$35,283	$32,674	$37,055
Operating expenses	(33,763)	(34,627)	(34,734)
Depreciation and amortization	(9,247)	(9,298)	(9,617)
Operating loss	(7,727)	(11,251)	(7,296)
Net loss	(10,897)	(14,651)	(11,882)

	December 31,	
	2013	2012
Balance Sheet Data:		
Current assets	$6,970	$7,838
Total assets	64,745	74,721
Current liabilities	22,443	18,849
Total liabilities	56,872	55,953
Members' equity	7,873	18,768

In the prior year, XTAR's liability to Hisdesat of $27.4 million for Catch Up Payments as of December 31, 2012 was included in current liabilities. In the XTAR summary financial data above, the liability for Catch Up Payments is reflected as a long-term liability because the amount is payable over 12 years. This change had no effect on the Loral consolidated financial statements.

Other

In connection with the sale in 2008 by Loral and certain of its subsidiaries and DASA Globalstar LLC to Globalstar Inc. of their respective interests in GdB, the Globalstar Brazilian service provider, Loral agreed to indemnify Globalstar Inc. and GdB for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. As a result of an April 2013 adverse court decision in Brazil relating to a potential tax liability, an adverse outcome for which was previously believed to be remote, Loral recorded a loss contingency and made a payment of $3.7 million in 2013.

Equity in net income of affiliates for the year ended December 31, 2013 includes net cash proceeds of $1.1 million related to the sale of ownership interests in an affiliate with no carrying value.

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As of December 31, 2013 and December 31, 2012, the Company held various indirect ownership interests in two foreign companies that currently serve as exclusive service providers for Globalstar service in Mexico and Russia. The Company accounts for these ownership interests using the equity method of accounting. Loral has written-off its investments in these companies, and, because we have no future funding requirements relating to these investments, there is no requirement for us to provide for our allocated share of these companies' net losses.

Equity in net income of affiliates for the year ended December 31, 2011 includes a charge of $1.5 million to reduce the carrying value of our investment in an affiliate to zero based on our determination that the investment has been impaired and the impairment is other than temporary.

7. Other Current Liabilities

Other current liabilities consists of (in thousands):

	December 31,	
	2013	2012
Pension and other postretirement liabilities	$128	$18,157
Indemnification liabilities (see Note 15)	6,138	5,835
Deferred tax liability	—	3,663
Other	2,484	4,434
	$8,750	$32,089

8. Income Taxes

The (provision) benefit for income taxes on the loss from continuing operations before income taxes and equity in net income of affiliates consists of the following (in thousands):

Year Ended December 31,

	2013	2012	2011
Current:			
U.S. Federal	$25,567	$55,928	$(1,212)
State and local	976	59,390	305
Foreign	(200)	—	—
Total current	26,343	115,318	(907)
Deferred:			
U.S. Federal	(26,981)	(3,325)	(32,670)
State and local	(1,203)	(18,678)	(7,798)
Total deferred	(28,184)	(22,003)	(40,468)
Total income tax (provision) benefit	$(1,841)	$93,315	$(41,375)

Our current tax (provision) benefit includes a decrease (increase) to our liability for UTPs for (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Decrease to unrecognized tax benefits	$1,952	$61,470	$2,198
Interest expense	(1,429)	27,672	(4,880)
Penalties	521	21,175	627
Total	$1,044	$110,317	$(2,055)

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During 2013, the current tax benefit of $26.3 million primarily relates to the refunds received from our federal and state income tax returns filed for 2012 (primarily as a result of the enhanced extraterritorial income exclusion provided by former section 114 of the Internal Revenue Code) and the benefit from the carryback of the Company’s 2013 federal tax loss against taxes previously paid for 2012. We anticipate filing for and receiving the refund from this carryback claim in 2014. Without the Sale, we would not have remeasured the extraterritorial income exclusion because it would have provided only a minimal cash tax benefit.

During 2012, the statute of limitations for assessment of additional tax expired with regard to certain UTPs related to Old Loral and several of our federal and state income tax returns filed for 2007 and 2008 which resulted in an $86.7 million benefit to our income tax provision from continuing operations (a current tax benefit of $112.9 million, which included the reversal of applicable interest and penalties previously accrued, offset by a deferred tax provision of $26.2 million).

The deferred tax provision for each period included the impact of our equity in net income of Telesat.

In addition to the (provision) benefit for income taxes on the loss from continuing operations presented above, we also recorded the following items (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Tax benefit (provision) on (loss) income from discontinued operations	$2,995	$(10,157)	$(47,770)
Tax provision on Sale of discontinued operations	—	(267,451)	—
Excess tax benefit from stock-based compensation recorded to paid-in-capital	(3,128)	16,919	1,198
Deferred tax (provision) benefit for adjustments in other comprehensive income (loss) (See Note 4)	(10,127)	(22,612)	39,416

The Company uses the with-and-without approach of determining when excess tax benefits from stock-based compensation have been realized. With the carryback of its 2013 U.S. federal NOL to 2012, the Company re-determined the excess tax benefit from stock-based compensation and recorded a $3.1 million decrease to paid-in-capital for the year ended December 31, 2013. In addition to the deferred tax assets on the consolidated balance sheet as of December 31, 2013, the Company had $9.0 million of federal AMT credits that, when realized in the future, will be recorded as an increase to paid-in-capital.

The (provision) benefit for income taxes differs from the amount computed by applying the statutory U.S. Federal income tax rate on the loss from continuing operations before income taxes and equity in net income of affiliates because of the effect of the following items (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Tax benefit at U.S. Statutory Rate of 35%	$5,435	$9,524	$4,321
Permanent adjustments which change statutory amounts:			
State and local income taxes, net of federal income tax	155	34,605	(2,802)
Equity in net income of affiliates	(13,589)	(12,019)	(37,215)
Extraterritorial income exclusion	6,177	11,200	—
Domestic production activity benefit	2,317	—	—
Provision for unrecognized tax benefits	(332)	46,542	(1,137)
Interest on deferred installment sale	(1,296)	—	—
Nondeductible expenses	(762)	(603)	(1,906)
Change in valuation allowance	(121)	2,311	684
Federal research and development credit	402	99	—
Other, net	(227)	1,656	(3,320)
Total income tax (provision) benefit	$(1,841)	$93,315	$(41,375)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the activity related to our unrecognized tax benefits (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Balance at January 1	$76,080	$115,293	$132,211
Increases related to prior year tax positions	6,755	453	1,220
Decreases related to prior year tax positions	(1,025)	(27)	(24,745)
Decreases as a result of statute expirations	(1,283)	(61,021)	(1,629)
Decreases as a result of tax settlements	—	(8,184)	(7,606)
Increases related to current year tax positions	—	29,566	15,842
Balance at December 31	$80,527	$76,080	$115,293

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2007. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward. While we intend to contest any future tax assessments for uncertain tax positions, no assurance can be provided that we would ultimately prevail. During the next twelve months, the statute of limitations for assessment of additional tax will expire with regard to certain UTPs related to our federal income tax returns filed for 2010 and state income tax returns filed for 2007 and 2009, potentially resulting in a $2.6 million reduction to our unrecognized tax benefits. Pursuant to the Purchase Agreement for the Sale, we are obligated to indemnify SS/L for taxes related to periods prior to the closing of the transaction.

Our liability for UTPs decreased from $80.7 million at December 31, 2012 to $79.7 million at December 31, 2013 and is included in long-term liabilities in the consolidated balance sheets. At December 31, 2013, we have accrued $4.1 million and $9.0 million for the potential payment of tax-related interest and penalties, respectively. If our positions are sustained by the taxing authorities, approximately $36.9 million of the tax benefits will reduce the Company's income tax provision from continuing operations. Other than as described above, there were no significant changes to our unrecognized tax benefits during the year ended December 31, 2013, and we do not anticipate any other significant increases or decreases to our unrecognized tax benefits during the next twelve months.

In connection with the acquisition of our ownership interest in Telesat, Loral retained the benefit of tax recoveries related to the transferred assets and indemnified Telesat for Loral Skynet tax liabilities relating to periods preceding 2007. The unrecognized tax benefits related to the Loral Skynet subsidiaries were transferred to Telesat subject to the contractual tax indemnification provided by Loral. Loral's net receivable at December 31, 2013 for the probable outcome of these matters is not material. (see Note 16)

At December 31, 2013, we had federal NOL carryforwards of $290.4 million, state NOL carryforwards, primarily New York ($24.1 million) and California ($77.8 million), and federal research credits of $1.2 million which expire from 2016 to 2033, as well as federal and state AMT and state research credit carryforwards of approximately $11.9 million that may be carried forward indefinitely.

The reorganization of the Company on the Effective Date constituted an ownership change under section 382 of the Internal Revenue Code. Accordingly, use of our tax attributes, such as NOLs and tax credits generated prior to the ownership change, are subject to an annual limitation of approximately $32.6 million, subject to increase or decrease based on certain factors. Our annual limitation was increased significantly each year through 2010, the last year allowed for the recognition of additional benefits from our "net unrealized built-in gains" (i.e., the excess of fair market value over tax basis for our assets) as of the Effective Date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

We assess the recoverability of our NOLs and other deferred tax assets and based upon this analysis, record a valuation allowance to the extent recoverability does not satisfy the “more likely than not” recognition criteria. We continue to maintain our valuation allowance until sufficient positive evidence exists to support full or partial reversal. As of December 31, 2013, we had a valuation allowance totaling $7.2 million against our deferred tax assets for certain tax credit and loss carryovers due to the limited carryforward periods. During 2013, the valuation allowance increased by $0.1 million which was recorded as a provision to continuing operations in our statement of operations. Subsequent to the Sale, to the extent that profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, we would generate sufficient taxable income from the appreciated value of our Telesat investment, which currently has a nominal tax basis, in order to prevent federal net operating losses from expiring and realize the benefit of all remaining deferred tax assets.

During 2012, the valuation allowance decreased by $3.8 million, of which $2.3 million was recorded as a benefit to continuing operations and $1.5 million was recorded as a benefit to discontinued operations in our statement of operations.

During 2011, the valuation allowance decreased by $0.3 million, of which $0.7 million was recorded as a benefit to continuing operations and $0.4 million was recorded as a provision to discontinued operations in our statement of operations.

The significant components of the net deferred income tax assets are (in thousands):

	December 31,	
	2013	2012
Deferred tax assets:		
Net operating loss and tax credit carryforwards	$132,820	$131,359
Compensation and benefits	1,590	3,766
Indemnification liabilities	5,946	7,440
Other, net	4,909	5,450
Federal benefit of uncertain tax positions	10,216	9,931
Pension costs	1,154	15,746
Total deferred tax assets before valuation allowance	156,635	173,692
Less valuation allowance	(7,228)	(7,108)
Deferred tax assets net of valuation allowance	149,407	166,584
Deferred tax liabilities:		

Deferred installment sale	(37,974)	(38,818)
Investments in and advances to affiliates	(28,848)	(9,883)
Total deferred tax liabilities	(66,822)	(48,701)
Net deferred tax assets	$82,585	$117,883
Classification on consolidated balance sheets:		
Current deferred tax assets	$3,784	$4,165
Long-term deferred tax assets	83,708	117,381
Other current liabilities	—	(3,663)
Long term liabilities	(4,907)	—
Net deferred tax assets	$82,585	$117,883

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

9. Long Term Liabilities

Long term liabilities consists of (in thousands):

	December 31,	
	2013	2012
Indemnification liabilities (see Note 15)	$6,079	$12,204
Deferred tax liability	4,907	—
Liabilities for uncertain tax positions	79,688	80,732
Other	2,443	2,905
	$93,117	$95,841

10. Equity

In June 2013, the Company settled 175,000 restricted stock units (“RSUs”) granted in 2009, 2010 and 2011 to Michael B. Targoff, Vice Chairman of the Company and former Chief Executive Officer and President. In connection with this settlement, the Company issued to Mr. Targoff 91,204 shares of its voting common stock, net of 83,796 shares to satisfy withholding taxes. The grant date fair value of these RSUs was previously recorded as stock-based compensation as the RSUs vested, and the stock issuance had no effect on our consolidated financial statements.

Special Dividend and Special Distribution

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 RSUs increased by 6,875. This equitable adjustment had no effect on our consolidated financial statements. Mr. Targoff, who elected to receive the dividend on his RSUs 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.

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. This equitable adjustment had no effect on our consolidated financial statements. 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.

Treasury Stock

In November 2011, our Board of Directors authorized the purchase of up to 800,000 shares of our voting common stock. These purchases may be made from time to time in the open market or private transactions, as conditions may warrant. We intend to hold repurchased shares of our voting common stock in treasury. We account for the treasury shares using the cost method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following is a summary of common stock purchases under this repurchase program (total cost in thousands):

	Shares Repurchased	Total Cost	Average Cost
Year ended December 31,			
2012	18,000	$1,192	$ 66.22
2011	136,494	8,400	61.54
Total program	154,494	$9,592	$ 62.04

11. Stock-Based Compensation

Stock Plans

The Loral amended and restated 2005 stock incentive plan (the "Stock Incentive Plan") allows for the grant of several forms of stock-based compensation awards including stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other stock-based awards (collectively, the "Awards"). The total number of shares of voting common stock reserved and available for issuance under the Stock Incentive Plan is 1,403,746 shares of which 1,319,533 were available for future grant at December 31, 2013. This number of shares of voting common stock available for issuance would be reduced if restricted stock units or SS/L phantom stock appreciation rights are settled in voting common stock. In addition, shares of common stock that are issuable under awards that expire, are forfeited or canceled, or withheld in payment of the exercise price or taxes relating to an Award, will again be available for Awards under the Stock Incentive Plan.

Mr. Targoff was awarded 85,000 RSUs (the "Initial Grant") on March 5, 2009 (the "Grant Date"). In addition, the Company agreed to issue Mr. Targoff 50,000 RSUs on the first anniversary of the Grant Date and 40,000 RSUs on the second anniversary of the Grant Date (the "Subsequent Grants"). Vesting of the Initial Grant required the satisfaction of two conditions: a time-based vesting condition and a stock price vesting condition. Vesting of the Subsequent Grants was subject only to the stock-price vesting condition. The time-based vesting condition for the Initial Grant was satisfied upon Mr. Targoff's continued employment through March 5, 2010, the first anniversary of the Grant Date. The stock price vesting condition, which applied to both the Initial Grant and the Subsequent Grants, was also satisfied. As a result of the termination of Mr. Targoff's employment in December 2012, both the Initial Grant and the Subsequent Grants were settled in June 2013, in accordance with Internal Revenue Code Section 409A (see Note 10).

As of December 31, 2013, there were 84,213 vested RSU's outstanding. A summary of the Company's non-vested RSU activity for the year ended December 31, 2013 is presented below:

	Shares	Weighted Average Grant- Date Fair Value
Non-vested RSUs at January 1, 2013	27,681	$ 38.53
Granted	—	
Vested	(27,681)	$ 38.53
Forfeited	—	
Non-vested RSUs at December 31, 2013	—	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In June 2009, the Company introduced a performance based long-term incentive compensation program consisting of SS/L phantom stock appreciation rights (“SS/L Phantom SARs”). Because SS/L common stock was not freely tradable on the open market and thus did not have a readily ascertainable market value, SS/L equity value under the program was derived from an Adjusted EBITDA-based formula. Each SS/L Phantom SAR provides the recipient with the right to receive an amount equal to the increase in SS/L’s notional stock price over the base price multiplied by the number of SS/L Phantom SARs vested on the applicable vesting date, subject to adjustment. The SS/L notional stock price was frozen as of December 31, 2011 in connection with the Sale. SS/L Phantom SARs are settled and the value (if any) is paid out on each vesting date. SS/L Phantom SARs may be settled in Loral voting common stock (based on the fair value of Loral voting common stock on the date of settlement) or cash at the option of the Company. SS/L Phantom SARs expire on June 30, 2016.

As of December 31, 2013, all remaining unvested SS/L Phantom SARs granted to Loral employees vest on March 18, 2014. The fair value of the SS/L Phantom SARs in included as a liability in our consolidated balance sheet.

A summary of the Company’s non-vested SS/L Phantom SAR activity for the year ended December 31, 2013 is presented below:

	Shares	Weighted Average Grant- Date Fair Value
Non-vested SS/L Phantom SARs at January 1, 2013	70,000	$ 2.13
Granted	—	
Vested	(56,250)	$ 2.13
Forfeited	—	
Non-vested SS/L Phantom SARs at December 31, 2013	13,750	$ 2.13

During fiscal years 2013, 2012 and 2011, the following activity occurred under the Stock Incentive Plan (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Total intrinsic value of options exercised	$—	$17,472	$39,018

Total fair value of restricted stock vested	$—	$287	$155
Total fair value of restricted stock units vested	$2,241	$1,403	$3,969

Stock-based compensation expense consists of the following:

	2013	2012	2011
Stock-based compensation	$488	$1,796	$2,545

Included in total stock-based compensation expense is stock-based compensation paid in cash of $0.5 million, $2.3 million and $2.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, there is no unrecognized compensation cost related to non-vested awards.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

12. Earnings Per Share

Telesat has awarded employee stock options, which, if exercised, would result in dilution of Loral's ownership interest in Telesat to approximately 62.0%. The following table presents the dilutive impact of Telesat stock options on Loral's reported income from continuing operations for the purpose of computing diluted earnings per share (in thousands):

	Year Ended December 31, 2013		
	2013	2012	2011
Income from continuing operations — basic	$ 21,456	$ 100,442	$ 52,608
Less: Adjustment for dilutive effect of Telesat stock options	(641)	(683)	(4,352)
Income from continuing operations — diluted	$ 20,815	$ 99,759	$ 48,256

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

	Year Ended December 31,		
	2013	2012	2011
Common and potential common shares outstanding for diluted earnings per share:			
Weighted average common shares outstanding	30,850	30,703	30,680
Stock options	—	61	257
Unvested or unconverted restricted stock units	149	226	226
Unvested or unconverted restricted stock	—	1	3
Common shares outstanding for diluted earnings per share	30,999	30,991	31,166

13. Pensions and Other Employee Benefit Plans

Pensions

We maintain a qualified defined benefit pension plan, to which members may contribute in order to receive enhanced pension benefits. Employees hired after June 30, 2006 do not participate in the defined benefit pension plan, but participate in our defined contribution savings plan with an additional Company contribution. Benefits are based primarily on members' compensation and/or years of service. Our funding policy is to fund the qualified pension plan in accordance with the Internal Revenue Code and regulations thereon. Plan assets are generally invested in equity investments and fixed income investments. Pension plan assets are managed primarily by Russell Investment Corp. ("Russell"), which allocates the assets into funds as we direct.

Other Benefits

In addition to providing pension benefits, we provide certain health care and life insurance benefits for retired employees and dependents. Participants are eligible for these benefits generally when they retire from active service and meet the eligibility requirements for our pension plan. These benefits are funded primarily on a pay-as-you-go basis, with the retiree generally paying a portion of the cost through contributions, deductibles and coinsurance provisions.

Sale of SS/L

As required by the Purchase Agreement, prior to the closing of the Sale on November 2, 2012, new stand-alone SS/L pension plans were established. Pension obligations related to SS/L current and former employees and plan assets determined through an initial allocation methodology were transferred from the Loral pension plans to the newly formed plans. With the closing of the Sale, the newly formed SS/L plans were transferred to SS/L. Subsequent to the closing of the Sale, our actuary performed a review to determine the amount of qualified plan assets that proportionately relate to the benefit liabilities of the SS/L pension participants in accordance with the asset priorities of Section 4044 of ERISA. This review resulted in a true-up of the initial asset transfer between plans. As a result, Loral contributed $10.7 million to its qualified pension plan, which transferred $11.9 million to SS/L's plan. In return, MDA paid Loral $11.9 million, pursuant to the Purchase Agreement. The net effect of this true-up, which took place in April 2013, was a $1.2 million increase to Loral's cash balance and a $1.2 million decrease to the assets of Loral's qualified pension plan. This net change in plan assets is shown in the table below as "Transfer due to Sale" in 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Termination of Supplemental Executive Retirement Plan ("SERP")

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 the SERP. The Company made lump sum payments of $17.7 million in December 2013 to the participants in the SERP in accordance with the requirements of Section 409A of the Internal Revenue Code and the regulations promulgated thereunder. Other current liabilities as of December 31, 2012 included approximately $18.1 million for SERP payments based on benefits earned, including recurring monthly payments to December 2013 and lump sum payouts in December 2013. The lump sum payouts were calculated based on plan provisions.

Funded Status

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for 2013 and 2012, and a statement of the funded status as of December 31, 2013 and 2012, respectively. Amounts shown for 2012 include activity for SS/L prior to the Sale on November 2, 2012. We use a December 31 measurement date for the pension plans and other post-retirement benefit plans (in thousands).

	Pension Benefits Year Ended December 31,		Other Benefits Year Ended December 31,	
	2013	2012	2013	2012
Reconciliation of benefit obligation:				
Obligation at beginning of period	$ 62,488	$ 549,013	$ 1,051	$ 66,049
Service cost	311	12,113	2	447
Interest cost	1,843	21,675	65	2,597
Participant contributions	28	1,252	51	1,646
Plan amendment	—	(1,497)	230	—
Actuarial (gain) loss	(3,874)	7,690	249	(967)
Benefit payments	(1,868)	(21,200)	(147)	(2,662)
Transfer due to Sale	—	(506,558)	—	(66,059)
Curtailment and settlement	(18,686)	—	16	—
Obligation at December 31,	40,242	62,488	1,517	1,051
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of period	20,207	299,292	—	27
Actual return on plan assets	3,120	28,821	—	1

Employer contributions	3,955	34,746	96	988
Participant contributions	28	1,252	51	1,646
Benefit payments	(1,467)	(19,985)	(147)	(2,662)
Transfer due to Sale	(1,215)	(323,919)	—	—
Fair value of plan assets at December 31,	24,628	20,207	—	—
Funded status at end of period	$ (15,614)	$ (42,281)	$ (1,517)	$ (1,051)

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The benefit obligations for pensions and other employee benefits exceeded the fair value of plan assets by $17.1 million at December 31, 2013 (the “unfunded benefit obligations”). The unfunded benefit obligations were measured using a discount rate of 4.75% and 4.00% at December 31, 2013 and 2012, respectively. Lowering the discount rate by 0.5% would have increased the unfunded benefit obligations by approximately $3.1 million and $3.5 million as of December 31, 2013 and 2012, respectively. Market conditions and interest rates will significantly affect future assets and liabilities of Loral’s pension and other employee benefits plans.

The pre-tax amounts recognized in accumulated other comprehensive loss as of December 31, 2013 and 2012 consist of (in thousands):

	Pension Benefits December 31,		Other Benefits December 31,	
	2013	2012	2013	2012
Actuarial loss	$(9,636)	$(23,698)	$(444)	$(244)
Amendments-prior service (cost) credit	—	—	(89)	74
	$(9,636)	$(23,698)	$(533)	$(170)

The amounts recognized in other comprehensive loss during the years ended December 31, 2013 and 2012 consist of (in thousands):

	2013		2012	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Actuarial gain (loss) during the period	$5,491	$ (249)	$498	$ 967
Prior service (cost) credit during the period	—	(230)	1,497	—
Amortization of actuarial loss (gain)	5,947	44	9,773	(279)
Amortization of prior service cost (credit)	—	9	(2,266)	(611)
Recognition due to curtailment	2,624	63	(1,497)	—
Amount reclassified to statement of operations upon disposition of SS/L	—	—	135,618	(12,241)
Total recognized in other comprehensive income (loss)	$14,062	$ (363)	$143,623	$ (12,164)

Amounts recognized in the balance sheet consist of (in thousands):

	Pension Benefits		Other Benefits	
	December 31,		December 31,	
	2013	2012	2013	2012
Current Liabilities	$—	$18,075	$128	$83
Long-Term Liabilities	15,614	24,206	1,389	968
	$15,614	$42,281	$1,517	$1,051

The estimated actuarial loss for pension benefits that will be amortized from accumulated other comprehensive income into net periodic cost over the next fiscal year is $0.4 million.

The accumulated pension benefit obligation was $39.2 million and $60.0 million at December 31, 2013 and 2012, respectively.

During 2013, we contributed $4.0 million to the qualified pension plan, received $1.2 million as a true-up of qualified pension plan assets related to the Sale and contributed $0.1 million for other employee post-retirement benefits. In addition, we made recurring benefit payments for the SERP of $0.4 million and lump sum payments of $17.7 million related to the SERP termination. During 2014, based on current estimates, our minimum required contributions to the qualified pension plan will be approximately $4.6 million. We expect our funding for other employee post-retirement benefits will be insignificant.

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The following table provides the components of net periodic cost included in income from continuing operations for the plans for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Pension Benefits Year Ended December 31,			Other Benefits Year Ended December 31,		
	2013	2012	2011	2013	2012	2011
Service cost	$311	$824	$802	$ 2	$ 6	$ 5
Interest cost	1,843	2,523	2,480	65	45	48
Expected return on plan assets	(1,503)	(1,435)	(1,376)	—	—	—
Recognition due to curtailment	1,671	(1,497)	—	78	—	—
Amortization of prior service credit	—	—	—	9	(24)	(24)
Amortization of net actuarial loss (gain)	5,947	748	268	44	12	5
Net periodic cost	$8,269	$1,163	$2,174	$ 198	$ 39	$ 34

Assumptions

Assumptions used to determine net periodic cost:

	For the Year Ended December 31,		
	2013	2012	2011
Discount rate	4.00 %	4.75 %	5.50 %
Expected return on plan assets	7.25 %	8.00 %	8.00 %
Rate of compensation increase	4.25 %	4.25 %	4.25 %

Assumptions used to determine the benefit obligation:

	December 31,		
	2013	2012	2011
Discount rate	4.75%	4.00%	4.75%
Rate of compensation increase	4.25%	4.25%	4.25%

The expected long-term rate of return on pension plan assets is selected by taking into account the expected duration of the projected benefit obligation for the plans, the asset mix of the plans and the fact that the plan assets are actively managed to mitigate risk. The expected long-term rate of return on plan assets determined on this basis was 7.25% for the year ended December 31, 2013 and 8.0% for the years ended December 31, 2012 and 2011. Our expected long-term rate of return on plan assets for 2014 is 7.25%.

Actuarial assumptions to determine the benefit obligation for other benefits as of December 31, 2013 used a health care cost trend rate of 9.0% decreasing gradually to 5% by 2021. Actuarial assumptions to determine the benefit obligation for other benefits as of December 31, 2012, used a health care cost trend rate of 9.5% decreasing gradually to 5% by 2021. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percent change in assumed health care cost trend rates for 2013 would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 5	$ (5)
Effect on the health care component of the accumulated postretirement benefit obligation	$ 142	$ (122)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Plan Assets

The Company has established the pension plan as a retirement vehicle for participants and as a funding vehicle to secure promised benefits. The investment goal is to provide a total return that over time will earn a rate of return to satisfy the benefit obligations given investment risk levels, contribution amounts and expenses. The pension plan invests in compliance with the Employee Retirement Income Security Act 1974, as amended (“ERISA”), and any subsequent applicable regulations and laws.

The Company has adopted an investment policy for the management and oversight of the pension plan. It sets forth the objectives for the pension plans, the strategies to achieve these objectives, procedures for monitoring and control and the delegation of responsibilities for the oversight and management of pension plan assets.

The Company’s Board of Directors has delegated primary fiduciary responsibility for pension assets to an investment committee. In carrying out its responsibilities, the investment committee establishes investment policy, makes asset allocation decisions, determines asset class strategies and retains investment managers to implement asset allocation and asset class strategy decisions. It is responsible for the investment policy and may amend such policy from time to time.

Pension plan assets are invested in various asset classes in what we believe is a prudent manner for the exclusive purpose of providing benefits to participants. U.S. equities are held for their long-term expected return premium over fixed income investments and inflation. Non-U.S. equities are held for their expected return premium (along with U.S. equities), as well as diversification relative to U.S. equities and other asset classes. Fixed income investments are held for diversification relative to equities. Alternative investments are held for both diversification and higher returns than those typically available in traditional asset classes. Asset allocation policy is reviewed regularly.

Asset allocation policy is the principal method for achieving the pension plan’s investment objectives stated above. Asset allocation policy is reviewed regularly by the investment committee. The pension plans’ actual and targeted asset allocations are as follows:

December 31,

	Actual Allocation				Target Allocation			
	2013		2012		Target		Target Range	
Equities	58	%	59	%	60	%	50-70%	
Fixed Income	42	%	41	%	40	%	30-50%	
	100	%	100	%	100	%	100	%

The target and target range levels can be further defined as follows:

	Target Allocation			
	Target		Target Range	
U.S. Large Cap Equities	25	%	15-40	%
U.S. Small Cap Equities	5	%	0-10	%
Global Equities	10	%	5-20	%
Non-U.S. Equities	10	%	5-20	%
Alternative Equity Investments	10	%	0-20	%
Total Equities	60	%	50-70	%
Fixed Income	30	%	20-40	%
Alternative Fixed Income Investments	10	%	0-20	%
Total Fixed Income	40	%	30-50	%
Total Target Allocation	100	%	100	%

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The pension plan's assets are actively managed using a multi-asset, multi-style, multi-manager investment approach. Portfolio risk is controlled through this diversification process and monitoring of money managers. Consideration of such factors as differing rates of return, volatility and correlation are utilized in the asset and manager selection process. Diversification reduces the impact of losses in single investments. Performance results and fund accounting are provided to the Company by Russell on a monthly basis. Periodic reviews of the portfolio are performed by the investment committee with Russell. These reviews typically consist of a market and economic review, a performance review, an allocation review and a strategy review. Performance is judged by investment type against market indexes. Allocation adjustments or fund changes may occur after these reviews. Performance is reported to the Company's Board of Directors at quarterly board meetings.

Fair Value Measurements

The values of the fund trusts are calculated using systems and procedures widely used across the investment industry. Generally, investments are valued based on information in financial publications of general circulation, statistical and valuation services, discounted cash flow methodology, records of security exchanges, appraisal by qualified persons, transactions and bona fide offers.

The table below provides the fair values of the Company's pension plan assets at December 31, 2013 and 2012, by asset category. The table also identifies the level of inputs used to determine the fair value of assets in each category. The Company's pension plan assets are mainly held in commingled employee benefit fund trusts. Assets were allocated between Loral and SS/L at September 30, 2012 based upon a plan accounting by company maintained by Russell. Subsequent to the closing of the Sale, our actuary performed a review to determine the amount of qualified plan assets that proportionately relate to the benefit liabilities of the SS/L pension participants in accordance with the asset priorities of Section 4044 of ERISA. This review resulted in a true-up of the initial asset transfer between plans. As a result, Loral contributed $10.7 million to its qualified pension plan, which transferred $11.9 million to SS/L's plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Asset Category	Fair Value Measurements Total	Percentage		Quoted Prices In Active Markets For Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In thousands)					
At December 31, 2013:						
Equity securities:						
U.S. large-cap[1]	$5,965	24	%		$ 5,965	
U.S. small-cap[2]	1,688	7	%		1,688	
Global [3]	1,956	8	%		1,956	
Non-U.S.[4]	3,103	13	%		3,103	
Alternative investments:						
Equity long/short fund[5]	842	3	%			$ 842
Real Estate Securities[6]	482	2	%		482	
Private equity fund[7]	287	1	%			287
	14,323	58	%	—	13,194	1,129
Fixed income securities:						
Commingled funds[8]	8,650	35	%		8,650	
Alternative investments:						
Distressed opportunity limited partnership[9]	364	2	%			364
Multi-strategy limited partnerships[10]	1,291	5	%			1,291
	10,305	42	%	—	8,650	1,655
	$24,628	100	%	—	$ 21,844	$ 2,784
At December 31, 2012:						
Equity securities:						
U.S. large-cap[1]	$4,580	23	%		$ 4,580	
U.S. small-cap[2]	1,257	6	%		1,257	
Global [3]	1,475	7	%		1,475	
Non-U.S.[4]	2,427	12	%		2,427	
Alternative investments:						
Equity long/short fund[5]	682	3	%			$ 682
Real Estate Securities[6]	411	2	%		411	
Receivable from sale of real estate[6]	748	4	%	$ 748		
Private equity fund[7]	283	2	%			283
	11,863	59	%	748	10,150	965
Fixed income securities:						
Commingled funds[8]	6,821	34	%		6,821	
Alternative investments:						

Distressed opportunity limited partnership[9]	299	1	%			299
Multi-strategy limited partnerships[10]	1,191	6	%			1,191
Other limited partnerships[11]	33	0	%			33
	8,344	41	%	—	6,821	1,523
	$20,207	100	%	$ 748	$ 16,971	$ 2,488

(1) Investments in common stocks that rank among the largest 1,000 companies in the U.S. stock market.

(2) Investments in common stocks that rank among the small capitalization stocks in the U.S. stock market.

(3) Investments in common stocks across the world without being limited by national borders or to specific regions.

(4) Investments in common stocks of companies from developed and emerging countries outside the United States.

(5) Investments primarily in long and short positions in equity securities of U.S. and non-U.S. companies. The fund has semi-annual tender offer redemption periods on June 30 and December 31 and is reported on a one month lag.

(6) As of December 31, 2013, the pension plan was invested in real estate through a fund of funds which invests in global public real estate securities (REITs). As of December 31, 2012, the pension plan also had a receivable from a fund that invests in private real estate investments. During 2012, we decided to end the pension plan's investment in the fund. Settlement of the receivable occurred in 2013 with the proceeds reinvested per our allocation guidelines.

(7) Fund invests in portfolios of secondary interest in established venture capital, buyout, mezzanine and special situation funds on a global basis. Fund is valued on a quarterly lag with adjustment for subsequent cash activity.

(8) Investments in bonds representing many sectors of the broad bond market with both short-term and intermediate-term maturities.

(9) Investments mainly in discounted debt securities, bank loans, trade claims and other debt and equity securities of financially troubled companies. This partnership has semi-annual withdrawal rights on June 30 and December 31. This fund is reported on a one month lag.

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(10) Investments mainly in partnerships that have multi-strategy investment programs and do not rely on a single investment model. One partnership has quarterly liquidation rights with notice of 65 days while the second partnership has monthly liquidation rights with notice of 33 days. Both funds are reported on a one month lag.

(11) As of December 31, 2012, the pension plan invested in other partnerships that had reached their end of life and had closed and were unwinding their holdings, mainly partnerships that provided mezzanine financing.

The significant amount of Level 2 investments in the table results from including in this category investments in commingled funds that contain investments with values based on quoted market prices, but for which the funds are not valued on a quoted market basis. These commingled funds are valued at their net asset values (NAVs) that are calculated by the investment manager or sponsor. Equity investments in both U.S and non-U.S. stocks as well as public real estate investment trusts are primarily valued using a market approach based on the quoted market prices of identical securities. Fixed income investments are primarily valued using a market approach with inputs that include broker quotes, benchmark yields, base spreads and reported trades.

Additional information pertaining to the changes in the fair value of the pension plan assets classified as Level 3 for the years ended December 31, 2013 and 2012 is presented below:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Private Equity Fund	Equity Long/Short Fund	Distressed Opportunity Ltd. Partnership	Other Limited Partnership	Multi Strategy Funds	Real Estate Fund	Total
	(In thousands)						
Balance at January 1, 2012	$6,870	$ 10,557	$ 5,217	$ 36	$19,916	$11,835	$54,431
Unrealized gain/(loss)	(441)	(1,027)	(241)	2	335	—	(1,372)
Realized gain/(loss)	413	2,221	211	—	142	838	3,825
Purchases	400	—	—	23	—	—	423
Sales	(1,600)	—	—	(28)	—	(748)	(2,376)
Asset transfer due to Sale	(5,359)	(11,069)	(4,888)	—	(19,202)	(11,925)	(52,443)
Balance at December 31, 2012	283	682	299	33	1,191	—	2,488
Unrealized gain/(loss)	62	160	65	(10)	100	—	377
Purchases	9	—	—	—	—	—	9
Sales	(67)	—	—	(23)	—	—	(90)
	$287	$ 842	$ 364	$ —	$1,291	$—	$2,784

Balance at December 31,
2013

Both the Equity Long/Short Fund and the Distressed Opportunity Limited Partnership are valued at each month-end based upon quoted market prices by the investment managers. They are included in Level 3 due to their restrictions on redemption to semi-annual periods on June 30 and December 31.

The Multi-Strategy Funds invest in various underlying securities. Each fund’s net asset value is calculated by the fund manager and is not publicly available. The fund managers accumulate all the underlying security values and use them in determining the funds’ net asset values.

The private equity fund and limited partnership valuations are primarily based on cost/price of recent investments, earnings/performance multiples, net assets, discounted cash flows, comparable transactions and industry benchmarks.

The annual audited financial statements of all funds are reviewed by the Company.

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Benefit Payments

The following benefit payments, which reflect future services, as appropriate, are expected to be paid (in thousands):

	Pension Benefits	Other Benefits Gross Benefit Payments	Other Benefits Medicare Subsidy Receipts
2014	1,616	132	5
2015	1,611	127	6
2016	1,624	119	8
2017	1,620	105	9
2018	1,809	106	10
2019 to 2023	10,788	519	58

Employee Savings (401k) Plan

We have an employee savings (401k) plan, to which the Company provides contributions which match up to 6% of a participant's base salary at a rate of 66 %. The Company also makes retirement contributions to the savings (401k) plan, which provide added retirement benefits to employees hired on or after July 1, 2006, as they are not eligible to participate in our defined benefit pension plan. Retirement contributions are provided regardless of an employee's contribution to the savings (401k) plan. Matching contributions and retirement contributions are collectively known as Company contributions. Company contributions are made in cash and placed in each participant's age appropriate "life cycle" fund. For each of the years ended December 31, 2013, 2012 and 2011, Company contributions were $0.2 million. Participants of the savings (401k) plan are able to redirect Company contributions to any available fund within the plan. Participants are also able to direct their contributions to any available fund.

14. Financial Instruments, Derivative Instruments and Hedging

Financial Instruments

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments. The carrying amount of the Land Note approximates fair value because the stated interest rate is consistent with current market rates.

Foreign Currency

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

Derivatives and Hedging Transactions

There were no derivative instruments as of December 31, 2013 and December 31, 2012.

Foreign Exchange Contracts

In March 2012, Telesat declared a special cash distribution denominated in Canadian dollars to be paid in two tranches (see Note 6). Loral entered into a foreign exchange forward contract to hedge foreign exchange risk associated with the payment of the second tranche in July 2012. This foreign exchange forward contract was not designated as a hedging instrument. Other expense for the year ended December 31, 2012 was net of a gain of $1.3 million related to this foreign exchange forward contract.

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15. Commitments and Contingencies

Financial Matters

In the fourth quarter of 2012, we sold our former subsidiary, SS/L, to MDA pursuant to the Purchase Agreement. Under the terms of the Purchase Agreement, we are obligated to indemnify MDA from (1) liabilities with respect to certain pre-closing taxes; and (2) certain litigation costs and litigation damages relating to the ViaSat lawsuit, subject to certain sharing formulas and caps. Other than with respect to the ViaSat lawsuit (see *Legal Proceedings*, below), MDA has submitted one unresolved claim for indemnification which relates to pre-closing taxes. The amount of this claim has not yet been determined. We intend vigorously to contest the underlying tax assessment, but there can be no assurance that we will be successful. Although no assurance can be provided, we do not believe that this matter will have a material adverse effect on our financial position or results of operations. Our consolidated balance sheets include liabilities of $10.9 million and $16.5 million as of December 31, 2013 and December 31, 2012, respectively, representing the estimated fair value of all potential indemnification liabilities relating to the Sale.

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.

In connection with the sale in 2008 by Loral and certain of its subsidiaries and DASA Globalstar LLC to Globalstar Inc. of their respective interests in GdB, the Globalstar Brazilian service provider, Loral agreed to indemnify Globalstar Inc. and GdB for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. As a result of an April 2013 adverse court decision in Brazil relating to a potential tax liability, an adverse outcome for which was previously believed to be remote, Loral recorded a loss contingency and made a payment of $3.7 million in 2013. Our consolidated balance sheets include liabilities of $1.3 million and $1.5 million as of December 31, 2013 and 2012, respectively, representing the estimated fair value of all potential indemnification liabilities relating to the sale of GdB.

See Note 16— Related Party Transactions — *Transactions with Affiliates — Telesat* for commitments and contingencies relating to our agreement to indemnify Telesat for certain liabilities and our arrangements with ViaSat, Inc. and Telesat.

Lease Arrangements

We lease certain facilities and equipment under agreements expiring at various dates. Certain leases covering facilities contain renewal and/or purchase options which may be exercised by us. We have no sublease income in any of the periods presented. Rent expense, is as follows (in thousands):

	Rent Expense
Year ended December 31, 2013	$ 876
Year ended December 31, 2012	$ 1,062
Year ended December 31, 2011	$ 1,124

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The following is a schedule of future minimum payments, by year and in the aggregate, under leases with initial or remaining terms of one year or more as of December 31, 2013 (in thousands):

	Operating Leases
2014	$ 616
2015	$ 308

Legal Proceedings

ViaSat

ViaSat has sued SS/L and Loral in the United States District Court for the Southern District of California. ViaSat's amended complaint alleges, among other things, that SS/L and Loral directly and indirectly infringed, that SS/L and Loral induced infringement, and that SS/L contributed to the infringement of, certain ViaSat patents in connection with the manufacture of satellites by SS/L for customers other than ViaSat. The amended complaint also alleges that each of SS/L and Loral breached non-disclosure obligations in certain contracts with ViaSat. ViaSat's amended complaint seeks, among other things, damages (including treble damages with respect to the patent infringement claims) in amounts to be determined at trial and to enjoin SS/L and Loral from further infringement of the ViaSat patents and breach of contract.

SS/L and Loral have answered ViaSat's complaint and asserted defenses to ViaSat's claims and counterclaims seeking a declaratory judgment that neither SS/L nor Loral has infringed and that they are not infringing the ViaSat patents, that ViaSat's patents are invalid and that at least certain of ViaSat's patents are unenforceable due to inequitable conduct. SS/L has also asserted counterclaims against ViaSat for patent infringement, breach of contract and correction of the inventorship of one of ViaSat's patents and its assignment to SS/L, alleging, among other things, that ViaSat infringed certain SS/L patents in connection with its manufacture and sale of certain satellite communication products and services, that ViaSat misappropriated certain of SS/L's proprietary information and that SS/L employees conceived or contributed to the conception of one of ViaSat's patents. SS/L's counterclaims seek, among other things, damages (including treble damages with respect to at least one of the patent infringement claims) in amounts to be determined at trial, to enjoin ViaSat from further infringement of the SS/L patents and further misappropriation of SS/L's proprietary information and to correct the inventorship of one ViaSat's patents and have it assigned to SS/L.

Trial of the litigation with ViaSat is scheduled for March 2014. We believe that each of SS/L and Loral has, and we intend vigorously to pursue, meritorious defenses and counterclaims to ViaSat’s claims. There can be no assurance, however, that SS/L’s and Loral’s defenses and counterclaims will be successful with respect to all or some of ViaSat’s claims or that SS/L will prevail with respect to its assertion that ViaSat has infringed SS/L patents. We believe that SS/L’s and Loral’s conduct was consistent with, and in due regard for, any applicable and valid intellectual property rights of ViaSat. Although no assurance can be provided, we do not believe that this matter will have a material adverse effect on our financial position or results of operations.

In September 2013, ViaSat filed a new complaint against SS/L in the United States District Court for the Southern District of California alleging, among other things, that SS/L directly infringed, and induced and encouraged infringement of, certain newly issued ViaSat patents not asserted in the original lawsuit in connection with the manufacture of satellites by SS/L for customers other than ViaSat. ViaSat’s new complaint seeks, among other things, damages (including treble damages) in amounts to be determined at trial and to enjoin SS/L from further infringement of the ViaSat patents. The complaint did not name Loral as a defendant. MDA has asserted that Loral is obligated to defend and indemnify SS/L with respect to the newly-brought litigation under the Purchase Agreement on the same terms and conditions as Loral’s defense and indemnification of SS/L in the existing pending litigation. Loral has 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 its defense and indemnification obligations under the Purchase Agreement. SS/L is defending the new lawsuit. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other Litigation

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

16. Related Party Transactions

MHR Fund Management LLC

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

Various funds affiliated with MHR and Dr. Rachesky held, as of December 31, 2013 and December 31, 2012, approximately 38.0% and 38.3%, respectively, of the outstanding voting common stock and as of December 31, 2013 and December 31, 2012 had a combined ownership of outstanding voting and non-voting common stock of Loral of 57.1% and 57.4%, respectively.

Transactions with Affiliates

Telesat

As described in Note 6, we own 62.8% of Telesat and account for our ownership interest under the equity method of accounting.

In connection with the acquisition of our ownership interest in Telesat (which we refer to as the Telesat transaction), Loral and certain of its subsidiaries, our Canadian co-owner, Public Sector Pension Investment Board ("PSP") and one of its subsidiaries, Telesat Holdco and certain of its subsidiaries, including Telesat, and MHR entered into a Shareholders Agreement (the "Shareholders Agreement"). The Shareholders Agreement provides for, among other things, the manner in which the affairs of Telesat Holdco and its subsidiaries will be conducted and the relationships among the parties thereto and future shareholders of Telesat Holdco. The Shareholders Agreement also contains an agreement by Loral not to engage in a competing satellite communications business and agreements by the parties to the Shareholders Agreement not to solicit employees of Telesat Holdco or any of its subsidiaries. Additionally, the Shareholders Agreement details the matters requiring the approval of the shareholders of Telesat Holdco (including veto rights for Loral over certain extraordinary actions) and provides for preemptive rights for certain shareholders upon the issuance of certain capital shares of Telesat Holdco. The Shareholders Agreement also restricts the ability of holders of certain shares of Telesat Holdco to transfer such shares unless certain conditions are met or approval of the transfer is granted by the directors of Telesat Holdco, provides for a right of first offer to certain Telesat Holdco shareholders if a holder of equity shares of Telesat Holdco wishes to sell any such shares to a third party and provides for, in certain circumstances, tag-along rights in favor of shareholders that are not affiliated with Loral if Loral sells equity shares and drag-along rights in favor of Loral in case Loral or its affiliate enters into an agreement to sell all of its Telesat Holdco equity securities. In addition, the Shareholders Agreement provides for either PSP or Loral to initiate the process of conducting an initial public offering of the equity shares of Telesat Holdco. There can be no assurance as to whether, when or on what terms an initial public offering of Telesat Holdco equity may occur.

Under the Shareholders Agreement, in the event that, except in certain limited circumstances, either (i) ownership or control, directly or indirectly, by Dr. Rachesky of Loral's voting stock falls below certain levels other than in connection with certain specified circumstances, including an acquisition by a Strategic Competitor (as defined in the Shareholders Agreement) or (ii) there is a change in the composition of a majority of the members of the Loral Board of Directors over a consecutive two-year period without the approval of the incumbent directors, Loral will lose its veto rights relating to certain extraordinary actions by Telesat Holdco and its subsidiaries. In addition, after either of these events, PSP will have certain rights to enable it to exit from its investment in Telesat Holdco, including a right to cause Telesat Holdco to conduct an initial public offering in which PSP's shares would be the first shares offered or, if no such offering has occurred within one year due to a lack of cooperation from Loral or Telesat Holdco, to cause the sale of Telesat Holdco and to drag along the other shareholders in such sale, subject to Loral's right to call PSP's shares at fair market value.

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

Information related to satellite construction contracts between SS/L and Telesat for the period when we owned SS/L is as follows (in thousands):

	For Year Ended December 31,	
	2012	2011
Revenues (included in income from discontinued operations) from Telesat satellite construction contracts	$ 57,745	$ 139,911
Milestone payments received from Telesat	54,153	126,579

On October 31, 2007, Loral and Telesat entered into a consulting services agreement (the "Consulting Agreement"). Pursuant to the terms of the Consulting Agreement, Loral provides to Telesat certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat as part of the Telesat transaction as well as with respect to certain aspects of the satellite communications business of Telesat. The Consulting Agreement has a term of seven years with an automatic renewal for an additional seven year term if certain conditions are met. In exchange for Loral's services under the Consulting Agreement, Telesat pays Loral an annual fee of $5.0 million, payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. If the terms of Telesat's bank or bridge facilities or certain other debt obligations prevent Telesat from paying such fees in cash, Telesat may issue junior subordinated promissory notes to Loral in the amount of such payment, with interest on such promissory notes payable at the rate of 7% per annum, compounded quarterly, from the date of issue of such promissory note to the date of payment thereof. Our general and administrative expenses for each of the years ended December 31, 2013, 2012 and 2011, are net of income of $5.0 million related to the Consulting Agreement. For the years ended December 31, 2013, 2012 and 2011, Loral received payments in cash from Telesat of $3.8 million, $1.6 million and $3.2 million, respectively, for consulting fees and interest and payments in promissory notes of $1.3 million, $4.5 million and $3.1 million, respectively, for consulting fees and interest. We had notes receivable from Telesat of nil and $1.3 million as of December 31, 2013 and December 31, 2012, respectively, related to the Consulting Agreement. During 2013 and 2012, Loral received cash of

$2.6 million and $24.1 million, respectively, from Telesat to pay off outstanding promissory notes.

In connection with the Telesat transaction, Loral has retained the benefit of tax recoveries related to the transferred assets and has indemnified Telesat (“Telesat Indemnification”) for certain liabilities including Loral Skynet’s tax liabilities arising prior to January 1, 2007. The Telesat Indemnification includes certain tax disputes currently under review in Brazil and Hong Kong. The Brazilian tax authorities challenged Loral Skynet’s historical characterization of its revenue generated in Brazil for the years 2003 to 2006. Telesat received and challenged, on Loral Skynet’s behalf, tax assessments from Brazil totaling approximately $7 million. The Company believes that its filing position will ultimately be sustained requiring no payment under the Telesat Indemnification. In Hong Kong, the tax authority challenged Loral Skynet’s and Telesat’s offshore claim for exempt income for the years 1999 to 2009, issuing assessments requiring Loral Skynet to deposit approximately $6.5 million of taxes in 2006 and 2007 in order to retain its right to appeal. Based upon a proposal received in January 2014, subject to final review, the Company believes that the tax authority is willing to settle Loral’s portion of this liability for approximately $1.3 million, potentially entitling the Company to an additional tax recovery from Telesat. As of December 31, 2013 and December 31, 2012, we had recognized a net receivable from Telesat of $0.5 million, representing our estimate of the probable outcome of all tax matters under the Telesat Indemnification, which is included as other assets of $2.6 million and long-term liabilities of $2.1 million in the consolidated balance sheets as of December 31, 2013 and December 31, 2012. There can be no assurance, however, that these tax matters will be ultimately settled for the net amount recorded.

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

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

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

Loral received special cash distributions from Telesat of $376 million on March 28, 2012 and $44 million on July 5, 2012. The distributions were the result of a Telesat refinancing and recapitalization transaction (see Note 6).

ViaSat/Telesat

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

A Beam Sharing Agreement between us and ViaSat provided for, among other things, (i) the purchase by us of a portion of the ViaSat-1 satellite payload providing coverage into Canada (the “Loral Payload”) and (ii) payment by us of 15% of the actual costs of launch and associated services, launch insurance and telemetry, tracking and control services for the ViaSat-1 satellite. SS/L commenced construction of the ViaSat-1 satellite in January 2008. SS/L recorded sales to ViaSat under this contract of $0.4 million and $17.7 million for the years ended December 31, 2012 and 2011, respectively. SS/L’s sales to ViaSat have been included in income from discontinued operations in our statements of operations for the years ended December 31, 2012 and 2011.

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On April 11, 2011, Loral assigned to Telesat and Telesat assumed from Loral all of Loral’s rights and obligations with respect to the Loral Payload and all related agreements. In consideration for the assignment, Loral received $13 million from Telesat and was reimbursed by Telesat for approximately $48.2 million of net costs incurred through closing of the sale, including costs for the satellite, launch and insurance, and costs of the gateways and related equipment. Also, in connection with the assignment, Loral is entitled to receive one-half of any net revenue earned by Telesat in connection with the leasing of certain supplemental capacity on the payload to its customers during the first four years after the commencement of service using the supplemental capacity. For the years ended December 31, 2013 and 2012, we earned approximately $1.3 million and $1.0 million, respectively, under this arrangement. We had a receivable from Telesat of $0.3 million and $1.0 million as of December 31, 2013 and December 31, 2012, respectively, related to this arrangement. In connection with the sale, Loral also assigned to Telesat and Telesat assumed Loral’s 15-year contract with Xplornet Communications, Inc. (“Xplornet”) (formerly known as Barrett Xplore Inc.) for delivery of high throughput satellite Ka-band capacity and gateway services for broadband services in Canada. Our consolidated statements of operations for the year ended December 31, 2011 included a $6.9 million gain on this transaction, including the portion classified as discontinued operations of $1.8 million, representing the $13 million in proceeds in excess of costs adjusted for cumulative intercompany profit eliminations and our retained ownership interest in Telesat.

Other

Costs of satellite manufacturing for sales to related parties included in income from discontinued operations were $30.7 million and $124.5 million for the years ended December 31, 2012 and 2011, respectively.

In connection with an agreement reached in 1999 and an overall settlement reached in February 2005 with ChinaSat relating to the delayed delivery of ChinaSat 8, SS/L has provided ChinaSat with usage rights to two Ku-band transponders on Telesat’s Telstar 10 for the life of such transponders (subject to certain restoration rights) and to one Ku-band transponder on Telesat’s Telstar 18 for the life of the Telstar 10 satellite plus two years, or the life of such transponder (subject to certain restoration rights), whichever is shorter. Pursuant to an amendment to the agreement executed in June 2009, in lieu of rights to one of the Ku-band transponders on Telstar 10, ChinaSat has rights to an equivalent amount of Ku-band capacity on Telstar 18 (the “Alternative Capacity”). The Alternative Capacity may be utilized by ChinaSat until April 30, 2019 subject to certain conditions. Under the agreement, SS/L makes monthly payments to Telesat for the transponders allocated to ChinaSat. Effective with the termination of Telesat’s leasehold interest in Telstar 10 in July 2009, SS/L makes monthly payments with respect to capacity used by ChinaSat on Telstar 10 directly to APT, the owner of the satellite. Interest expense on this liability included in income from discontinued operations was $0.2 million and $0.5 million for the years ended December 31, 2012 and 2011, respectively. For the year ended December 31, 2012, SS/L made payments of $2.2 million to Telesat pursuant to the agreement. The liability for the future use of these transponders was retained by SS/L in connection with the Sale.

As described in Note 6, we own 56% of XTAR, a joint venture between Loral and Hisdesat and account for our investment in XTAR under the equity method of accounting. SS/L constructed XTAR's satellite, which was successfully launched in February 2005. XTAR and Loral have entered into a management agreement whereby Loral provides general and specific services of a technical, financial and administrative nature to XTAR. For the services provided by Loral, XTAR is charged a quarterly management fee equal to 3.7% of XTAR's quarterly gross revenues. Amounts due to Loral primarily due to the management agreement as of December 31, 2013 and December 31, 2012 were $6.9 million and $5.5 million, respectively. Beginning in 2008, Loral and XTAR agreed to defer amounts owed to Loral under this agreement, and XTAR has agreed that its excess cash balance (as defined), will be applied at least quarterly towards repayment of receivables owed to Loral, as well as to Hisdesat and Telesat. No cash was received under this agreement for the years ended December 31, 2013 and 2012, and we had a full allowance against these receivables as of December 31, 2013 and 2012. Loral and Hisdesat have agreed to waive future management fees for an indefinite period starting January 1, 2014.

Consulting Agreement

On December 14, 2012, Loral entered into a consulting agreement with Michael B. Targoff, Vice Chairman of the Company and former Chief Executive Officer and President. Pursuant to this agreement, Mr. Targoff is engaged as a part-time consultant to the Board to assist the Board with respect to the oversight of strategic matters relating to Telesat and XTAR and the ViaSat lawsuit. Under the agreement, Mr. Targoff receives consulting fees of $120,000 per month before deduction of certain expenses of $17,000 per month for which he reimburses the Company. For the years ended December 31, 2013 and 2012, Mr. Targoff earned $1,440,000 (before his expense reimbursement to Loral of $204,000) and $60,000 (before his expense reimbursement to Loral of $8,500), respectively.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

17. Selected Quarterly Financial Information (unaudited, in thousands, except per share amounts)

Year ended December 31, 2013 [1]	Quarter Ended March 31,	June 30,	September 30,	December 31,
Operating loss	$(3,747)	$(3,361)	$ (3,452)	$ (5,478)
Loss from continuing operations before income taxes and equity in net income (loss) of affiliates	(3,491)	(3,364)	(3,365)	(5,310)
Equity in net income (loss) of affiliates	(7,281)	132	33,358	12,618
Income (loss) from continuing operations	(13,587)	(5,402)	37,582	2,863
Income (loss) from discontinued operations, net of tax	123	(2,488)	(1,987)	(525)
Net income (loss)	(13,464)	(7,890)	35,595	2,338
Net income (loss) attributable to Loral common shareholders	(13,464)	(7,890)	35,595	2,338
Basic and diluted income (loss) per share[2]:				
Basic income (loss) per share from continuing operations	$(0.44)	$(0.18)	$ 1.22	$ 0.09
Basic loss per share from discontinued operations, net of tax	—	(0.08)	(0.06)	(0.02)
Basic income (loss) per share	$(0.44)	$(0.26)	$ 1.16	$ 0.07
Diluted income (loss) per share from continuing operations	$(0.44)	$(0.18)	$ 1.19	$ 0.09
Diluted loss per share from discontinued operations, net of tax	—	(0.08)	(0.06)	(0.02)
Diluted income (loss) per share	$(0.44)	$(0.26)	$ 1.13	$ 0.07

Year ended December 31, 2012 [1]	Quarter Ended March 31,	June 30,	September 30,	December 31,
Operating loss	$(4,611)	$(4,264)	$ (10,316)	$ (9,583)
Loss from continuing operations before income taxes and equity in net income (loss) of affiliates	(4,537)	(4,128)	(12,798)	(5,750)
Equity in net income (loss) of affiliates	6,869	(11,353)	41,586	(2,762)
Income (loss) from continuing operations	(890)	(9,718)	65,404	45,646
Income from discontinued operations, net of tax	8,508	4,937	4,271	302,933
Net income (loss)	7,618	(4,781)	69,675	348,579
Net income (loss) attributable to Loral common shareholders	7,631	(4,778)	69,889	348,580
Basic and diluted income (loss) per share[2]:				
Basic income (loss) per share from continuing operations	$(0.03)	$(0.32)	$ 2.13	$ 1.48
Basic income per share from discontinued operations, net of tax	0.28	0.16	0.14	9.85
Basic income (loss) per share	$0.25	$(0.16)	$ 2.27	$ 11.33
Diluted income (loss) per share from continuing operations	$(0.03)	$(0.32)	$ 2.05	$ 1.46
Diluted income per share from discontinued operations, net of tax	0.28	0.16	0.14	9.76
Diluted income (loss) per share	$0.25	$(0.16)	$ 2.19	$ 11.22

(1) The quarterly earnings per share information is computed separately for each period. Therefore, the sum of such quarterly per share amounts may differ from the total for the year.

(2) Variations in income from continuing operations among quarters in 2013 and 2012 are primarily the result of (i) the effect of changes in foreign exchange rates between the Canadian dollar and the U.S. dollar on our equity in net income (loss) of Telesat and (ii) the limitation on recording our portion of Telesat's net income or loss due to the reduction of the carrying amount of our investment in Telesat to zero as a result of the excess of cash dividends received from Telesat in 2012. In addition, equity in net income (loss) of affiliates for the quarter ended March 31, 2012 included expense related to special payments to executives and certain employees of Telesat in connection with the cash distribution to shareholders and expense related to refinancing. Equity in net income (loss) of affiliates for the quarters ended March 31, 2013 and June 30, 2012 included expense related to refinancing.

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SCHEDULE II

LORAL SPACE & COMMUNICATIONS INC.

VALUATION AND QUALIFYING ACCOUNTS

For the Year Ended December 31, 2013, 2012 and 2011

(In thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and **Expenses**[1]	Charged to Other **Accounts**[1]	Balance at End of Period
Year ended 2011				
Allowance for affiliate receivables	$ 2,666	$ 1,371	$ —	$ 4,037
Deferred tax valuation allowance	$ 11,229	$ (375)	$ 33	$ 10,887
Year ended 2012				
Allowance for affiliate receivables	$ 4,037	$ 1,209	$ —	$ 5,246
Deferred tax valuation allowance	$ 10,887	$ (3,779)	$ —	$ 7,108
Year ended 2013				
Allowance for affiliate receivables	$ 5,246	$ 1,446	$ —	$ 6,692
Deferred tax valuation allowance	$ 7,108	$ 120	$ —	$ 7,228

(1) Changes in the deferred tax valuation allowance which have been charged to other accounts have been recorded in accumulated other comprehensive loss.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Telesat Holdings Inc.

We have audited the accompanying consolidated financial statements of Telesat Holdings Inc. and subsidiaries (the “Company”), which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Telesat Holdings Inc. and subsidiaries as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
February 21, 2014

Toronto, Canada

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Telesat Holdings Inc.

Consolidated Statements of Income

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2013	2012 Restated (Note 3)	2011 Restated (Note 3)
Revenue	6	$896,896	$845,810	$808,361
Operating expenses	7	(201,062)	(245,879)	(187,968)
		695,834	599,931	620,393
Depreciation		(211,151)	(208,685)	(198,626)
Amortization		(32,659)	(35,965)	(41,021)
Other operating gains, net	8	25,335	5,890	114,068
Operating income		477,359	361,171	494,814
Interest expense	9	(224,099)	(245,421)	(228,759)
Loss on financing		(18,487)	(77,278)	—
Interest and other income		11,668	1,361	1,554
Gain (loss) on changes in fair value of financial instruments		80,928	(58,984)	98,585
(Loss) gain on foreign exchange		(194,909)	78,854	(78,844)
Income before tax		132,460	59,703	287,350
Tax expense	10	(64,367)	(35,344)	(51,505)
Net income		$68,093	$24,359	$235,845

See accompanying notes to the consolidated financial statements

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Telesat Holdings Inc.

Consolidated Statements of Comprehensive Income
For the year ended December 31

(in thousands of Canadian dollars)	2013	2012 Restated (Note 3)	2011 Restated (Note 3)
Net income	$68,093	$24,359	$235,845
Other comprehensive income (loss)			
Items that may be reclassified into profit or loss			
Foreign currency translation adjustments	(1,281)	(1,509)	(3,541)
Items that will not be reclassified into profit or loss			
Actuarial gains (losses) on employee benefit plans	21,230	5,696	(39,652)
Tax (expense) recovery	(5,280)	(1,366)	10,005
Other comprehensive income (loss)	14,669	2,821	(33,188)
Total comprehensive income	$82,762	$27,180	$202,657

See accompanying notes to the consolidated financial statements

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Telesat Holdings Inc.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)	Notes	Common shares	Preferred shares	Total share capital	Accumulated earnings	Equity-settled employee benefits reserve	Foreign currency translation reserve	Total reserves	Total shareholders' equity
Balance at January 1, 2011		$756,414	$541,764	$1,298,178	$163,804	$24,573	$(1,692)	$22,881	$1,484,863
Net income for the year	3	—	—	—	235,845	—	—	—	235,845
Dividends declared on preferred shares		—	—	—	(10)	—	—	—	(10)
Other comprehensive loss, net of tax recovery of $10,005	3	—	—	—	(29,647)	—	(3,541)	(3,541)	(33,188)
Share-based payments	23	—	—	—	—	2,654	—	2,654	2,654
Balance at December 31, 2011		$756,414	$541,764	$1,298,178	$369,992	$27,227	$(5,233)	$21,994	$1,690,164
Balance at January 1, 2012		$756,414	$541,764	$1,298,178	$369,992	$27,227	$(5,233)	$21,994	$1,690,164
Net income for the year	3	—	—	—	24,359	—	—	—	24,359
Issuance of share capital	20	—	14,762	14,762	—	—	—	—	14,762
Return of capital	20	(415,812)	(240,734)	(656,546)	—	—	—	—	(656,546)
Other comprehensive income, net of tax expense of $1,366	3	—	—	—	4,330	—	(1,509)	(1,509)	2,821
Share-based payments	23	—	—	—	(25,639)	(23,189)	—	(23,189)	(48,828)
Balance at December 31, 2012		$340,602	$315,792	$656,394	$373,042	$4,038	$(6,742)	$(2,704)	$1,026,732

Balance at January 1, 2013		$340,602	$315,792	$656,394	$373,042	$4,038	$(6,742)	$(2,704)	$1,026,732
Net income for the year		—	—	—	68,093	—	—	—	68,093
Dividends declared on preferred shares		—	—	—	(10)	—	—	—	(10)
Issuance of share capital	20	—	266	266	—	—	—	—	266
Other comprehensive income, net of tax expense of $5,280		—	—	—	15,950	—	(1,281)	(1,281)	14,669
Share-based payments	23	—	—	—	(1,062)	13,215	—	13,215	12,153
Balance at December 31, 2013		$340,602	$316,058	$656,660	$456,013	$17,253	$(8,023)	$9,230	$1,121,903

See accompanying notes to the consolidated financial statements

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Telesat Holdings Inc.

Consolidated Balance Sheets

(in thousands of Canadian dollars)	Notes	December 31, 2013	December 31, 2012
Assets			
Cash and cash equivalents	25	$ 298,713	$ 180,961
Trade and other receivables	11	50,266	63,762
Other current financial assets		7,174	6,799
Prepaid expenses and other current assets	12	18,665	22,946
Total current assets		374,818	274,468
Satellites, property and other equipment	6, 14	1,962,759	2,090,754
Deferred tax assets	10	10,024	—
Other long-term financial assets	6	76,006	131,535
Other long-term assets	6, 13	2,765	4,692
Intangible assets	6, 15	845,286	858,697
Goodwill	16	2,446,603	2,446,603
Total assets		$ 5,718,261	$ 5,806,749
Liabilities			
Trade and other payables		$ 34,484	$ 35,709
Other current financial liabilities		164,755	90,591
Other current liabilities	17	122,058	77,930
Current indebtedness	19	57,364	31,953
Total current liabilities		378,661	236,183
Long-term indebtedness	19	3,284,502	3,374,977
Deferred tax liabilities	10	515,207	485,163
Other long-term financial liabilities		72,803	281,462
Other long-term liabilities	18	345,185	402,232
Total liabilities		4,596,358	4,780,017
Shareholders' Equity			
Share capital	20	656,660	656,394
Accumulated earnings		456,013	373,042
Reserves		9,230	(2,704)
Total shareholders' equity		1,121,903	1,026,732
Total liabilities and shareholders' equity		$ 5,718,261	$ 5,806,749

See accompanying notes to the consolidated financial statements

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Telesat Holdings Inc.

Consolidated Statements of Cash Flows
For the year ended December 31

(in thousands of Canadian dollars)	Notes	2013	2012 Restated (Note 3)	2011 Restated (Note 3)
Cash flows from operating activities				
Net income	3	$68,093	$24,359	$235,845
Adjustments to reconcile net income to cash flows from operating activities:				
Depreciation		211,151	208,685	198,626
Amortization		32,659	35,965	41,021
Deferred tax expense	10	14,328	36,909	51,373
Interest expense		224,099	245,421	228,759
Interest income		(1,288)	(1,090)	(1,961)
Unrealized foreign exchange loss (gain)		202,416	(83,371)	67,706
(Gain) loss on derivatives		(80,928)	58,984	(87,914)
Dividends on senior preferred shares		—	—	1,650
Share-based compensation	23	13,517	1,202	2,654
Insurance proceeds	8	—	—	(135,019)
Impairment (reversal) loss on intangible assets	8	(17,274)	(1,194)	19,468
Gain on other post-employment benefit plan amendment	8	(9,786)	—	—
Loss on disposal of assets	8	1,725	778	1,483
Loss on financing		18,487	77,278	—
Other		(49,755)	(62,646)	(44,562)
Income taxes paid		(12,569)	(3,764)	(2,329)
Interest paid, net of capitalized interest		(212,313)	(239,519)	(210,883)
Interest received		1,172	1,127	2,121
Customer prepayments on future satellite services		32,305	40,345	57,768
Insurance proceeds		—	314	11,228
Repurchase of stock options and exercise of share appreciation rights		(1,196)	(35,266)	—
Operating assets and liabilities	25	51,843	(11,165)	(13,148)
Net cash from operating activities		$486,686	$293,352	$423,886
Cash flows used in investing activities				
Satellite programs, including capitalized interest		$(71,178)	$(162,549)	$(356,199)
Purchase of other property and equipment		(8,772)	(7,611)	(17,566)
Purchase of intangible assets		(6)	(166)	(12,618)
Insurance proceeds	8	—	—	135,019
Proceeds from sale of assets		1,081	72	148
Net cash used in investing activities		$(78,875)	$(170,254)	$(251,216)

Cash flows used in financing activities				
Proceeds from indebtedness		$—	$3,306,865	$—
Proceeds from issue of promissory note	28	—	145,466	—
Repayment of indebtedness		(271,448)	(2,777,507)	(108,741)
Repayment of senior preferred shares	28	—	(141,435)	—
Payment of premium on early retirement of indebtedness		(13,793)	(39,444)	—
Payment of debt issue costs		(810)	(52,030)	—
Return of capital to shareholders	20	—	(656,546)	—
Proceeds from exercise of stock options		99	—	—
Dividends paid on preferred shares		(10)	—	(10)
Satellite performance incentive payments		(4,770)	(4,582)	(5,928)
Net cash used in financing activities		$(290,732)	$(219,213)	$(114,679)
Effect of changes in exchange rates on cash and cash equivalents		$673	$(886)	$(324)
Increase (decrease) in cash and cash equivalents		$117,752	$(97,001)	$57,667
Cash and cash equivalents, beginning of year		180,961	277,962	220,295
Cash and cash equivalents, end of year	25	$298,713	$180,961	$277,962

See accompanying notes to the consolidated financial statements

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

1. BACKGROUND OF THE COMPANY

Telesat Holdings Inc. (the "Company" or "Telesat") is a Canadian corporation. Telesat is a leading global satellite operator providing reliable and secure satellite-delivered communications solutions worldwide to broadcast, telecom, corporate and government customers. The fleet today consists of 14 satellites and the Canadian payload on ViaSat-1 with another satellite under construction. Telesat also manages the operations of additional satellites for third parties. Telesat is headquartered in Ottawa at 1601 Telesat Court, Ontario, Canada, K1B 5P4, with offices and facilities around the world.

As at December 31, 2013, Loral Space and Communications Inc. ("Loral") and Canada's Public Sector Pension Investment Board ("PSP Investments") indirectly hold an economic interest in Telesat of 62.8% and 35.3%, respectively, with the remaining 1.9% economic interests held by various individuals. Loral indirectly holds a voting interest of 32.7% on all matters including the election of directors. PSP Investments indirectly holds a voting interest of 67.3% on all matters except for the election of directors, and a 29.4% voting interest for the election of directors. The remaining voting interest of 37.9% for the election of directors is held by shareholders of the Company's Director Voting Preferred Shares.

These financial statements were approved by the Audit Committee of the Board of Directors and authorized for issue on February 21, 2014.

2. BASIS OF PRESENTATION

Statement *of Compliance*

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies described in Note 4 were consistently applied to all the periods presented.

Basis of Consolidation

These consolidated financial statements include the results of the Company and subsidiaries controlled by the Company. Control is achieved when the Company has power over an entity, has exposure, or rights to variable returns from its involvement with an entity, and has the ability to use the power over an entity to affect the amount of its return. The most significant wholly-owned subsidiaries are listed in Note 27.

3. CHANGE IN ACCOUNTING POLICIES

IAS 1,* Presentation *of Financial Statements

The Company adopted the amendments to IAS 1 with a date of initial adoption of January 1, 2013.

The adoption resulted in a change to the presentation of the components of other comprehensive income (loss) in the statement of comprehensive income.

As a result of the change, the components of other comprehensive income (loss) are segregated between:

- Items that may be reclassified into profit or loss; and
- Items that will not be reclassified into profit or loss

with the components of other comprehensive income (loss) shown before tax with the tax impact allocated on the same basis as their related component of other comprehensive income (loss).

The change in the presentation of the statement of comprehensive income has been adopted retrospectively.

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. CHANGE IN ACCOUNTING POLICIES – (continued)

IFRS 10, Consolidated Financial Statements

The Company adopted IFRS 10 with a date of initial adoption of January 1, 2013.

The adoption resulted in a change to the definition of control, as set out in Note 2, used in the determination of consolidation.

The change had no impact on the entities consolidated in the financial statements of the Company.

The change in the definition has been adopted retrospectively.

IFRS 13, Fair Value Measurements

The Company adopted IFRS 13 with a date of initial adoption of January 1, 2013.

The adoption resulted in a change to the definition of fair value, as set out in Note 22. The change had no impact on the measurement of the Company's assets and liabilities, however, the change resulted in additional note disclosure.

The change in the definition has been adopted prospectively.

IAS 19R, Employee Benefits

The Company adopted *IAS 19R, Employee Benefits* with a date of initial adoption of January 1, 2013.

The adoption of this policy resulted in the following:

- A change in the basis for determining and classifying income or expenses related to its employee benefit plans;
- A change to the treatment of administrative fees not related to asset management; and
- Additional note disclosures.

The change in accounting policy has been adopted retrospectively.

Determination and classification of employee benefit plans income or expenses

The Company now determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period. Previously, the Company determined interest income on plan assets based on their long-term rate of expected return.

The net interest on defined benefit liability comprises:

- Interest cost on the defined benefit obligation; and
- Interest income on plan assets.

The Company elected to recognize the net interest expense within interest expense in the statement of income.

Treatment of administrative fees not related to asset management

The Company now includes administrative fees not related to asset management as a component of service cost. Previously, the Company included administrative fees not related to asset management as a part of the actuarial gains (losses) and recorded the balance in the statement of comprehensive income.

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. CHANGE IN ACCOUNTING POLICIES – (continued)

The following table summarizes the increases (decreases) resulting from the adoption of the new accounting policy for the years ended December 31, 2012 and 2011.

	Year ended December 31, 2012	Year ended December 31, 2011
Statements of income		
Operating expenses	$ 518	$ 203
Interest expense	$ 3,215	$ 1,708
Tax expense	$ (990)	$ (481)
Net income	$ (2,743)	$ (1,430)
Statements of comprehensive income		
Net income	$ (2,743)	$ (1,430)
Actuarial gains on employee benefit plans	$ 3,733	$ 1,911
Tax related to other comprehensive income that will not be reclassified to profit or loss	$ 990	$ 481
Total comprehensive income	$ —	$ —

There are no impacts on the balance sheets as at January 1, 2011, December 31, 2011 and December 31, 2012.

IAS 1, Presentation of the Consolidated Statements of Cash Flows

The Company incorporated the interest received, interest paid and income taxes paid into the consolidated statements of cash flows instead of including these amounts as supplementary note disclosure. This has resulted in certain comparative figures being reclassified on the statements of cash flows to conform with the financial statement presentation adopted in the current year.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair value of the consideration given or received in exchange for assets or liabilities.

Segment Reporting

The Company’s operating segments are organized around the group’s service lines, which represent the group’s business activities. The operating segments are reported in a manner consistent with the internal reporting provided to the Company’s Chief Operating Decision Maker, who is the Company’s Chief Executive Officer. To be reported, a segment is usually based on quantitative thresholds but can also encompass qualitative factors management deems significant. The Company operates in a single industry segment, in which it provides satellite-based services to its broadcast, enterprise and consulting customers around the world.

Foreign Currency Translation

Unless otherwise specified, all figures reported in the consolidated financial statements and associated note disclosures are presented in Canadian dollars, which is the functional and presentation currency of the Company. Each of the subsidiaries of the Company determines its own functional currency and uses that currency to measure items on its separate financial statements.

Upon consolidation of the Company’s foreign operations having a functional currency other than the Canadian dollar, assets and liabilities are translated at the year end exchange rate, and revenue and expenses are translated at average exchange rates for the year. Gains or losses on the translation of foreign subsidiaries are recognized in other comprehensive income.

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Telesat Holdings Inc.

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(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

On the financial statements of the Company and its subsidiaries, foreign currency non-monetary assets and liabilities are translated at their historical exchange rates, foreign currency monetary assets and liabilities are translated at the year end exchange rates, and foreign denominated revenue and expenses are translated at average exchange rates for the year. Gains or losses on translation of these items are recognized as a component of net income.

Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less are classified as cash and cash equivalents. Cash and cash equivalents are comprised of cash on hand, demand deposits, short-term investments, and restricted cash expected to be used within the next twelve months.

Revenue Recognition

Telesat recognizes revenue from satellite services when earned, as services are rendered or delivered to customers. Revenue is measured at the fair value of the consideration received or receivable. There must be clear evidence that an arrangement exists, the amount of revenue must be known or determinable and collectability must be reasonably assured.

Revenue from a contract to sell consulting services is recognized as follows:

- Consulting revenue for cost plus contracts are recognized after the work has been completed and accepted by the customer.

- The percentage of completion method is used for fixed price consulting revenue contracts. Percentage of completion is measured by comparing actual cost incurred to total cost expected.

Equipment sales revenue is recognized when the equipment is delivered to and accepted by the customer. Only equipment sales are subject to warranty or return and there is no general right of return. Historically Telesat has not incurred significant expense for warranties and consequently no provision for warranties are recorded.

When a transaction involves more than one product or service, revenue is allocated to each deliverable based on its relative fair value; otherwise, revenue is recognized as products are delivered or as services are provided over the term of the customer contract. Transactions are evaluated to determine whether Telesat is the principal and if the transactions should be recorded on a gross or net basis.

Deferred Revenue

Deferred revenue represents the Company's liability for the provision of future services and is classified on the balance sheet in other current liabilities and other long-term liabilities. Deferred revenue consists of remuneration received in advance of the provision of service and is recognized in income on a straight-line basis over the term of the related customer contract.

Borrowing Costs

Borrowing costs are incurred on the Company's debt financing. Borrowing costs attributable to the acquisition, production or construction of a qualifying asset are added to the cost of that asset. The Company has defined a qualifying asset as an asset that takes longer than twelve months to get ready for its intended use or sale. Capitalization of borrowing costs continues until such time as the asset is substantially ready for its intended use or ready for sale. Borrowing costs are determined based on specific financing related to the asset or in the absence of specific financing, the borrowing costs are calculated on the basis of a capitalization rate which is equal to the Company's weighted average cost of debt. All other borrowing costs are expensed in the period in which they are incurred.

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4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Satellites, Property and Other Equipment

Satellites, property and other equipment, which are carried at cost, less accumulated depreciation and any accumulated impairment losses, include the contractual cost of equipment, capitalized engineering costs, and with respect to satellites, the cost of launch services, launch insurance and capitalized borrowing costs during construction.

Depreciation is calculated using the straight-line method over the respective estimated useful lives of the assets.

Below are the estimated useful lives in years of satellites, property and other equipment as of December 31, 2013.

	Years
Satellites	12 to 15
Property and other equipment	1 to 30

Construction in progress is not depreciated as depreciation only commences when the asset is ready for its intended use. For satellites, depreciation commences on the day the satellite becomes available for service and continues until the accumulated depreciation equals the amount of the cost or until the satellite is retired.

The investment in each satellite will be removed from the property accounts when the satellite has been fully depreciated and is no longer in service. When other property is retired from operations at the end of its useful life, the amount of the asset and accumulated depreciation are removed from the accounts. Earnings are credited with the amount of any net salvage value and charged with any net cost of removal. When an asset is sold prior to the end of its useful life, the gain or loss is recognized immediately in other operating gains, net.

In the event of an unsuccessful launch or total in-orbit satellite failure, all unamortized costs that are not recoverable under launch or in-orbit insurance are recorded in other operating gains, net.

Liabilities related to decommissioning and restoration of retiring property and equipment are measured at fair value with a corresponding increase to the carrying amount of the related asset. The liability is accreted over the period of expected cash flows with a corresponding charge to interest expense. The liabilities recorded to date have not been significant and are reassessed at the end of each reporting period. There are no decommissioning or restoration obligations for satellites.

Deferred Satellite Performance Incentive Payments

Deferred satellite performance incentive payments are obligations payable to satellite manufacturers over the lives of certain satellites. The present value of the payments are capitalized as part of the cost of the satellite and recognized as part of the depreciation of the satellite.

Impairment of Long-Lived Assets

Tangible fixed assets and finite life intangible assets are assessed for impairment on an annual basis or more frequently when events or changes in circumstances indicate that the carrying value of an asset exceeds the recoverable amount. Tangible fixed assets and finite life intangible assets are also assessed for indicators of impairment at each reporting period.

An impairment test consists of assessing the recoverable amount of an asset, which is the higher of its fair value less cost of disposal and its value in use. If it is not practicable to measure the recoverable amount for a particular asset, the Company determines the recoverable amount of the cash generating unit (“CGU”) with which it is associated. A CGU is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

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Telesat Holdings Inc.

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4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

The Company measures value in use on the basis of the estimated future cash flows to be generated by an asset or CGU. These future cash flows are based on the Company's latest business plan information approved by senior management and are discounted using rates that best reflect the time value of money and the specific risks associated with the underlying asset or assets in the CGU.

The fair value less cost of disposal is the price that would be received to sell an asset or CGU in an orderly transaction between market participants at the measurement date, less costs of disposal. For the impairment assessment, the fair value is calculated on a recurring basis and is calculated using level 3 of the fair value hierarchy.

An impairment loss is the amount by which the carrying amount of an asset or CGU exceeds its recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised measure of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. Impairment losses and reversals of impairment losses are recognized in other operating gains, net.

Goodwill and Intangible Assets

The Company accounts for business combinations using the acquisition method of accounting, which establishes specific criteria for the recognition of intangible assets separately from goodwill. Goodwill represents the excess between the total of the consideration transferred over the fair value of net assets acquired. After initial recognition at cost, goodwill is measured at cost less any cumulative impairment charge.

The Company distinguishes intangible assets between assets with finite and indefinite useful lives. Intangible assets with indefinite useful lives are comprised of the Company's trade name and orbital slots. Finite life intangible assets, which are carried at cost less accumulated amortization, consist of revenue backlog, customer relationships, customer contracts, concession rights, transponder rights and patents. Intangible assets with finite lives are amortized over their estimated useful lives using the straight-line method of amortization, except for revenue backlog which is based on the expected period of recognition of the related revenue.

Below are the estimated useful lives in years of the finite life intangible assets as of December 31, 2013.

	Years
Revenue backlog	4 to 17
Customer relationships	11 to 21
Customer contracts	3 to 15
Concession rights	8 to 15
Transponder rights	14
Patents	18

Impairment of Goodwill and Indefinite Life Intangible Assets

An assessment for impairment of goodwill and indefinite life intangible assets is performed annually, or more frequently whenever events or changes in circumstances indicate that the carrying amounts of these assets are likely to exceed their recoverable amount. Goodwill is tested for impairment at the entity level as this represents the lowest level within the Company at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment. Indefinite life intangibles have not been allocated to any CGU and are tested for impairment at the asset level. Goodwill and indefinite life intangible assets are also assessed for indicators of impairment at each reporting period.

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Telesat Holdings Inc.

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4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

An impairment test consists of assessing the recoverable amount of an asset, which is the higher of its fair value less disposal costs and its value in use. For the impairment assessment, fair value is calculated on a recurring basis and is calculated using level 3 of the fair value hierarchy.

Orbital Slots

In performing the orbital slot impairment analysis, the Company determines, for each orbital slot, its fair value less disposal costs, known as the market approach or income approach, and its value in use on an annual basis. The higher of these two amounts is determined to be the recoverable amount. To the extent that the recoverable amount is less than the carrying value of the asset, an impairment exists and the asset is written down to its recoverable amount.

The key assumptions used in estimating the recoverable amounts of the orbital slots include:

i) the market penetration leading to revenue growth;

ii) the profit margin;

iii) the duration and profile of the build-up period;

iv) the estimated start-up costs and losses incurred during the build-up period; and

v) the discount rate.

Fair value less disposal costs is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In order to determine this amount, the Company measures what an independent third party would pay to purchase the orbital slot by looking to actual market transactions for similar assets.

The value in use amount is the present value of the future cash flows expected to be derived from the asset. The determination of this amount includes projections of cash inflows from the continuing use of the asset and cash outflows that are required to generate the associated cash inflows. These cash inflows are discounted at an appropriate discount rate.

Goodwill

In performing the goodwill impairment analysis, the Company assesses the recoverable amount of the asset using the income approach as well as the market approach in the determination of the fair value of goodwill at the entity level.

Under the income approach, the sum of the projected discounted cash flows for the next five years, or a longer period if justified by the most recent financial plan approved by management, in addition to a terminal value are used to determine the fair value at the entity level. In this model, significant assumptions used include: revenue, expenses, capital expenditures, working capital, disposal costs, terminal growth rate and discount rate.

Under the market approach, the fair value at the entity level is determined based on market multiples derived from comparable public companies. As part of that analysis, assumptions are made regarding the comparability of selected companies including revenue, earnings before interest, taxes, depreciation and amortization multiples for valuation purposes, growth rates, size and overall profitability.

Under both approaches, all assumptions used in the model are based on management’s best estimates. The discount rates are consistent with external sources of information.

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4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Trade Name

For the purposes of impairment testing, the fair value of the trade name was determined using an income approach, specifically the relief from royalties method.

The relief from royalties method is comprised of two major steps:

i) a determination of the hypothetical royalty rate; and

ii) the subsequent application of the royalty rate to projected revenue.

In determining the hypothetical royalty rate in the relief from royalties method, the Company considered comparable license agreements, operating earnings benchmark rule of thumb, an excess earnings analysis to determine aggregate intangible asset earnings, and other qualitative factors. The key assumptions used include the tax and discount rates.

Financial Instruments

Telesat uses derivative financial instruments to manage its exposure to foreign exchange rate risk associated with debt denominated in foreign currencies, as well as to reduce its exposure to interest rate risk associated with debt. Currently, Telesat does not designate any of its derivative financial instruments as hedging instruments for accounting purposes. All realized and unrealized gains and losses on these derivative financial instruments are recorded in the consolidated statement of income and included as part of gain (loss) on changes in fair value of financial instruments.

Financial assets and financial liabilities that are classified as held-for-trading (“HFT”) are measured at fair value. The unrealized gains and losses relating to the HFT assets and liabilities are recorded in the consolidated statement of income in the gain (loss) on changes in fair value of financial instruments. Loans and receivables and other liabilities are recorded at amortized cost in accordance with the effective interest method.

Derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value on the consolidated balance sheet at inception and marked to market at each reporting period thereafter. Derivatives embedded in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is measured separately according to its characteristics. The Company accounts for embedded foreign currency derivatives and the related host contract as a single instrument where the contract requires payments denominated in the currency that is commonly used in contracts to procure non-financial items in the economic environment in which Telesat transacts.

Transaction costs for financial instruments classified as HFT are expensed as incurred. Transaction costs that are directly attributable to the acquisition of the financial assets and financial liabilities (other than HFT) are added or deducted from the fair value of the financial asset and financial liability on initial recognition.

Financing Costs

The debt issuance costs related to the Revolving Credit Facility and the Canadian Term Loan Facility are accounted for as short-term and long-term deferred charges and included in prepaid expenses and other current assets and other long-term assets. The deferred charges are amortized to interest expense on a straight-line basis. All other debt issuance costs are amortized to interest expense using the effective interest method.

Telesat Holdings Inc.

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4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Employee Benefit Plans

Telesat maintains one contributory and three non-contributory defined benefit pension plans which provide benefits based on length of service and rate of pay. Telesat is responsible for adequately funding these defined benefit pension plans. Contributions are made based on actuarial cost methods that are permitted by pension regulatory bodies and reflect assumptions about future investment returns, salary projections and future service benefits. Telesat also provides other post-employment and retirement benefits, including health care and life insurance benefits on retirement and various disability plans, workers compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement, under certain circumstances. In addition, Telesat provides defined contribution pension plans, under certain circumstances, for employees who are not eligible for the defined benefit pension plans.

The Company accrues the present value of its obligations under employee benefit plans and the related costs reduced by the fair value of plan assets. Pension costs and other retirement benefits are determined using the projected unit credit method prorated on service and management's best estimate of expected investment performance, salary escalation, retirement ages of employees and expected health care costs.

Pension plan assets are valued at fair value. The discount rate is based on the market interest rate of high quality bonds and is consistent with guidance described by the Canadian Institute of Actuaries in an Educational note dated September 2011. Past service costs arising from plan amendments are recognized immediately to the extent that the benefits are already vested, and otherwise are amortized on a straight-line basis over the average remaining vesting period. A valuation is performed at least every three years to determine the present value of the accrued pension and other retirement benefits.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets (excluding interest). Telesat recognizes them immediately in other comprehensive income, which is included in the accumulated earnings, in the period in which they occur.

The current service costs and administration fees not related to asset management are included in operating expenses. The net interest expense (income) on the net defined benefit liability (asset) for the period is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period while taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. The net interest expense (income) is included in interest expense.

The pension expense for 2013 was determined based on membership data as at December 31, 2011. The accrued benefit obligation as at December 31, 2013 was determined based on the membership data as at December 31, 2012, extrapolated one year, and based on December 31, 2013 assumptions. For certain Canadian post-retirement benefits, the expense for 2013 was based on membership data as at September 30, 2012. For certain American post-retirement benefits, the expense for 2013 was based on membership data as at January 1, 2013. The accrued benefit obligation as at December 31, 2013 was determined based on membership data as at September 30, 2013, extrapolated three months, and based on December 31, 2013 assumptions. The most recent valuation of the pension plans for funding purposes was as of January 1, 2013. The next required valuation for the employee pension plan is as of January 1, 2014 while the pension plan for designated employees is due as of January 1, 2016. Valuations will be performed for both pension plans as of January 1, 2014.

In addition, employees who are not eligible for defined benefit pension plans may be eligible to participate in defined contribution pension plans. Payments to defined contribution pension plans are recognized as an expense when employees have rendered service entitling them to the Company contributions.

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4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Telesat also provides health care and life insurance benefits for certain retired employees. These benefits are funded primarily on a pay-as-go basis, with the retiree paying a portion of the cost through contributions, deductibles and co-insurance provisions. Commencing in 2015, as a result of an amendment to one of the plans, Telesat will contribute to a health reimbursement account instead of providing the health care and life insurance benefits directly to certain retired employees.

Share-Based Compensation Plan

The Company offers an equity-settled share-based incentive plan for certain key employees under which it receives services from employees in exchange for equity instruments of the Company. The expense is based on the fair value of the awards granted using the Black-Scholes option pricing model. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied, with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over the respective vesting period.

Inventory

Inventories are valued at the lower of cost and net realizable value and consist of finished goods and work in process. Cost for substantially all network equipment inventories is determined on a weighted average cost basis. Cost for work in process and certain one-of-a-kind finished goods are determined using the specific identification method.

Income Taxes

Income tax expense, comprised of current and deferred income tax, is recognized in income except to the extent it relates to items recognized in other comprehensive income or equity, in which case the income tax expense is recognized in other comprehensive income or equity, respectively.

Current income tax is measured at the amount expected to be paid to the taxation authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred taxes are the result of temporary differences arising between the tax bases of assets and liabilities and their carrying amount. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the deferred tax assets will be realized. Unrecognized deferred tax assets are reassessed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets are netted against the deferred tax liabilities when they relate to income taxes levied by the same taxation authority on either:

i) the same taxable entity; or

ii) different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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Telesat Holdings Inc.

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4. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Deferred tax liabilities are recognized for all taxable temporary differences except when the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination. For taxable temporary differences associated with investments in subsidiaries, a deferred tax liability is recognized unless the parent can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Future Changes in Accounting Policies

The IASB periodically issues new accounting standards. The new standards determined to be applicable to the Company are disclosed below. The remaining standards have been excluded as they are not applicable.

Recoverable amount disclosures for non-financial assets

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) was issued by the IASB on May 29, 2013. These amendments expand the disclosure requirements about the recoverable amount of impaired assets if the recoverable amount is based on fair value less costs of disposal. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of the amendments to IAS 36 on its consolidated financial statements.

Financial instruments

IFRS 9, *Financial Instruments* ("IFRS 9") was issued by the IASB on October 28, 2010, and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of this standard. The effective date for this standard has not been announced by the IASB. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Levies

IFRIC 21, *Levies* was issued by the IASB on May 20, 2013. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* . The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. This interpretation is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. The Company is currently evaluating the impact of the interpretation on its consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Critical judgments in applying accounting policies

The following are the critical judgments made in applying the Company's accounting policies which have the most significant effect on the amounts reported in the financial statements:

Revenue recognition

The Company's accounting policy relating to revenue recognition is described in Note 4. The percentage of completion method is used for fixed price consulting revenue contracts and requires judgment by management to accurately determine costs incurred and costs required to complete contracts.

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5. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES – (continued)

Uncertain income tax positions

The Company operates in numerous jurisdictions and is subject to country-specific tax laws. Management uses significant judgment when determining the worldwide provision for tax, and estimates provisions for uncertain tax positions as the amounts expected to be paid based on a qualitative assessment of all relevant factors. In the assessment, management considers risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. Management reviews the provisions at each balance sheet date.

Determining whether an arrangement contains a lease

Management uses significant judgment in assessing whether each new arrangement contains a lease based on IFRIC 4. The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. If contracts contain a lease arrangement, the leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Critical accounting estimates and assumptions

The Company makes accounting estimates and assumptions that affect the carrying value of assets and liabilities, reported net income and disclosure of contingent assets and liabilities. Estimates and assumptions are based on historical experience, current events and other relevant factors, therefore, actual results may differ and differences could be material. The accounting estimates and assumptions critical to the determination of the amounts reported in the financial statements are as follows:

Derivative financial instruments measured at fair value

Derivative financial assets and liabilities measured at fair value were $51.6 million and $154.3 million, respectively, at December 31, 2013 (December 31, 2012 — $109.3 million and $282.9 million, respectively). Quoted market values are unavailable for the Company's financial instruments and, in the absence of an active market, the Company determines fair value for financial instruments based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs. The determination of fair value is affected significantly by the assumptions used for the amount and timing of estimated future cash flows and discount rates. As a result, the fair value of financial assets and liabilities and the amount of gains (losses) on changes in fair value of financial instruments recorded to net income could vary.

Impairment of goodwill

Goodwill represents $2,446.6 million of total assets at December 31, 2013 and December 31, 2012. Determining whether goodwill is impaired requires an estimation of the Company's value. The Company's value requires management to estimate the future cash flows expected to arise from operations and to make assumptions regarding economic factors, tax rates and annual growth rates. Actual operating results and the related cash flows of the Company could differ from the estimates used for the impairment analysis.

Impairment of intangible assets

Intangible assets represent $845.3 million of total assets at December 31, 2013 (December 31, 2012 — $858.7 million). Impairment of intangible assets is tested annually or more frequently if indicators of impairment exist. The impairment analysis requires the Company to estimate the future cash flows expected to arise from operations and to make assumptions regarding economic factors, discount rates, tax rates and annual growth rates. Actual operating results and the related cash flows of the Company could differ from the estimates used for the impairment analysis.

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5. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES – (continued)

Where an impairment loss subsequently reverses, the carrying amount of the CGU or individual asset is increased to the revised estimate of its recoverable amount, so long as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU or individual asset in prior years.

The reversal of an impairment requires management to re-assess several indicators that led to the impairment. It requires the valuation of the recoverable amount by estimating the future cash flows expected to arise from the CGU or individual asset and the determination of a suitable discount rate in order to calculate its present value. Significant judgments are made in establishing these assumptions.

Employee benefits

The cost of defined benefit pension plans and other post-employment benefits, and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, future pension increases and return on plan assets. Due to the complexity of the valuation, the underlying assumptions, and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed annually.

Determination of useful life of satellites and finite life intangible assets

The estimated useful life and depreciation method for satellites and finite life intangible assets are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis. Any change in these estimates may have a significant impact on the amounts reported.

Income taxes

Management assesses the recoverability of deferred tax assets based upon an estimation of the Company's projected taxable income using enacted or substantially enacted tax laws, and its ability to utilize future tax deductions before they expire. Actual results could differ from expectations.

6. SEGMENT INFORMATION

Telesat operates in a single reportable industry segment, in which it provides satellite-based services to its broadcast, enterprise and consulting customers around the world.

The Company derives revenue from the following services:

- **Broadcast** — distribution or collection of video and audio signals which include satellite transmission services, uplinking and downlinking services, occasional use services, and bundled and value added services such as digital encoding.
- **Enterprise** — provision of satellite transmission services and ground network services for voice, data, image transmission and internet services around the world.
- **Consulting and other** — all consulting services related to space and earth segments, government studies, satellite control services and research and development.

Revenue derived from the above service lines were as follows:

Year ended December 31,	2013	2012	2011
Broadcast	$471,006	$439,410	$436,676
Enterprise	402,377	380,496	341,884
Consulting and other	23,513	25,904	29,801
Revenue	$896,896	$845,810	$808,361

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6. SEGMENT INFORMATION – (continued)

Geographic Information

Revenue by geographic region was based on the point of origin of the revenue (destination of the billing invoice), allocated as follows:

Year ended December 31,	2013	2012	2011
Canada	$446,567	$417,383	$411,185
United States	276,983	268,434	247,924
Europe, Middle East & Africa	81,143	74,952	75,887
Asia & Australia	18,022	17,297	19,254
Latin America & Caribbean	74,181	67,744	54,111
Revenue	$896,896	$845,810	$808,361

Telesat's satellites are in geosynchronous orbit. For disclosure purposes, the satellites have been classified based on ownership. Satellites, property and other equipment and intangible assets by geographic region are allocated as follows:

As at December 31,	2013	2012
Canada	$1,657,350	$1,796,850
United States	208,821	236,605
All others	96,588	57,299
Satellites, property and other equipment	$1,962,759	$2,090,754

As at December 31,	2013	2012
Canada	$798,802	$813,976
United States	33,416	31,736
All others	13,068	12,985

Intangible assets	$845,286	$858,697

Other long-term financial assets and other long-term assets by geographic region are allocated as follows:

As at December 31,	2013	2012
Canada	$68,055	$125,136
All others	7,951	6,399
Other long-term financial assets	$76,006	$131,535

As at December 31	2013	2012
Canada	$2,757	$4,184
United States	8	508
Other long-term assets	$2,765	$4,692

Goodwill was not allocated to geographic regions in any of the years.

Major Customers

For the year ended December 31, 2013, there were three significant customers each representing more than 10% of consolidated revenue (December 31, 2012 and 2011 — two customers).

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Telesat Holdings Inc.

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7. OPERATING EXPENSES

The Company's operating expenses are comprised of the following:

Year ended December 31,	2013	2012 Restated (Note 3)	2011 Restated (Note 3)
Compensation and employee benefits [(a)]	$79,051	$116,414	$61,958
Other operating expenses [(b)]	43,960	47,555	48,110
Cost of sales [(c)]	78,051	81,910	77,900
Operating expenses	$201,062	$245,879	$187,968

(a) Compensation and employee benefits include salaries, bonuses, commissions, post-employment benefits and charges arising from share-based payments. The expense for the year ended December 31, 2013, includes $1.5 million of compensation and benefit expense related to payments to certain employees in conjunction with a special cash distribution paid to the Company's shareholders (December 31, 2012 — $52.5 million, December 31, 2011 — $nil).

(b) Other operating expenses include general and administrative expenses, marketing expenses, in-orbit insurance expense, professional fees and facility costs.

(c) Cost of sales includes the cost of third-party capacity, the cost of equipment sales and costs directly attributable to the facilitation of customer contracts.

8. OTHER OPERATING GAINS, NET

Year ended December 31,	2013	2012	2011
Insurance proceeds [(a)]	$—	$—	$135,019
Impairment reversal (loss) on intangible assets (Note 15)	17,274	1,194	(19,468)
Gain on other post-employment benefit plan amendment (Note 24)	9,786	—	—

Gain on forgiveness of satellite performance incentive payments	—	5,474	—
Loss on disposal of assets	(1,725)	(778)	(1,483)
Other operating gains, net	$25,335	$5,890	$114,068

(a) The Company had insurance policies that provided coverage for a total, constructive total, or partial loss of Telstar 14R/Estrela do Sul 2. Following the launch of the satellite in May 2011, the Company determined that the north solar array failed to fully deploy and promptly filed a notice of loss with its insurers. During the third quarter of 2011, the Company filed a claim under its policies to its insurers. In December 2011, the Company received insurance proceeds of USD $132.7 million ($135.0 million) from its insurers with respect to the claim.

9. INTEREST EXPENSE

The components of interest expense are as follows:

Year ended December 31,	2013	2012 Restated (Note 3)	2011 Restated (Note 3)
Interest on indebtedness	$173,522	$197,389	$181,428
Interest on derivative instruments	46,349	45,877	62,124
Interest on performance incentive payments	4,453	4,142	4,361
Interest on Senior Preferred Shares	—	2,380	9,869
Interest on promissory notes	66	9,884	1,291
Interest on employee benefit plans	3,070	3,215	1,708
Capitalized interest	(3,361)	(17,466)	(32,022)
Interest expense	$224,099	$245,421	$228,759

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10. INCOME TAXES

Year ended December 31,	2013	2012 Restated (Note 3)	2011 Restated (Note 3)
Current tax expense (recovery)	$50,039	$(1,565)	$132
Deferred tax expense	14,328	36,909	51,373
Tax expense	$64,367	$35,344	$51,505

A reconciliation of the statutory income tax rate, which is a composite of Canadian federal and provincial rates, to the effective income tax rate is as follows:

Year ended December 31,	2013	2012 Restated (Note 3)	2011 Restated (Note 3)
Income before tax	$132,460	$59,703	$287,350
Multiplied by the statutory income tax rates	26.50 %	26.51 %	28.11 %
	35,102	15,827	80,774
Income tax recorded at rates different from the Canadian tax rate	1,125	(2,391)	(408)
Permanent differences	24,388	2,849	(9,316)
Effect on deferred tax balances due to change in income tax rates	196	25,420	—
Effect of temporary differences not recognized as deferred tax assets	14,121	(3,942)	(10,145)
Previously unrecognized tax losses and credits	(8,443)	—	(8,977)
Reversal of tax reserve	(2,045)	(2,224)	—
Other	(77)	(195)	(423)
Tax expense	$64,367	$35,344	$51,505
Effective income tax rate	48.59 %	59.20 %	17.92 %

The tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes are presented below:

As at December 31,	2013	2012
Deferred tax assets		
Investment tax credit	$—	$4,063
Foreign tax credit	18,513	14,977
Financing charges	12,731	11,461
Deferred revenue	2,229	3,298
Loss carry forwards	19,829	22,807
Employee benefits	7,581	14,180
Other	1,156	766
Total deferred tax assets	$62,039	$71,552
Deferred tax liabilities		
Capital assets	$(300,640)	$(297,661)
Intangibles	(235,449)	(235,223)
Finance charges	(4,576)	(4,941)
Reserves	(2,346)	(3,428)
Derivative liabilities	(24,211)	(15,462)
Total deferred tax liabilities	$(567,222)	$(556,715)
Deferred tax liabilities, net	$(505,183)	$(485,163)

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10. INCOME TAXES – (continued)

Deferred tax assets of $10.0 million on the balance sheet relates to the U.S. tax jurisdiction.

Losses and tax credits

At December 31, 2013, the Company had no Canadian non-capital losses to carry forward as it utilized the remaining balance during the year. Also during the year, the Company utilized $24.2 million of its capital losses carried forward to offset the capital gains recognized in the year. At December 31, 2013, the Company had $96.6 million of capital losses remaining which may be only used against future capital gains. The deferred tax asset recognized in respect of the remaining losses carried forward was $12.8 million as the Company expects to utilize our losses in the following year. These losses may be carried forward indefinitely.

The Company had $21.4 million of foreign tax credits which may only be used to offset taxes payable. The deferred tax asset not recognized in respect of these credits was $2.9 million. The credits will begin to expire in 2014.

The Company had U.S. tax losses carried forward of $20.6 million which will expire between 2028 and 2031. A deferred tax asset of $7.0 million with respect to these losses was recognized during the year as it is probable that the deferred tax assets related to the tax losses will be realized through a combination of future reversals of temporary differences and taxable income.

In addition, the Company had $7.3 million of Brazil tax losses which may be carried forward indefinitely. The deferred tax asset not recognized in respect of these losses was $2.5 million.

Investments in subsidiaries

As at December 31, 2013, the Company had temporary differences of $38.8 million associated with investments in subsidiaries for which no deferred tax liabilities have been recognized, as the Company is able to control the timing of the reversal of these temporary differences and it is not probable that these differences will reverse in the foreseeable future.

11. TRADE AND OTHER RECEIVABLES

As at December 31,	2013	2012
Trade receivables	$43,697	$63,808
Trade receivables due from related parties (Note 28)	870	21
Less: Allowance for doubtful accounts	(2,887)	(2,951)
Net trade receivables	41,680	60,878
Other receivables	8,247	2,884
Other receivables due from related parties (Note 28)	339	—
Trade and other receivables	$50,266	$63,762

Allowance for doubtful accounts

The movement in the allowance for doubtful accounts was as follows:

Year ended December 31,	2013	2012
Allowance for doubtful accounts, beginning of year	$2,951	$3,740
Provisions for impaired receivables	344	158
Receivables written off during the year	(300)	(671)
Foreign currency exchange differences	(108)	(276)
Allowance for doubtful accounts, end of year	$2,887	$2,951

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12. PREPAID EXPENSES AND OTHER CURRENT ASSETS

As at December 31,	2013	2012
Prepaid expenses [(a)]	$12,775	$16,400
Income tax recoverable	1,183	1,233
Inventory [(b)]	4,407	5,013
Deferred charges [(c)]	300	300
Prepaid expenses and other current assets	$18,665	$22,946

(a) Prepaid expenses are primarily comprised of prepaid satellite in-orbit insurance, prepaid interest on long-term indebtedness and prepaid license fees.

(b) At December 31, 2013, inventory consists of $4.2 million of finished goods (December 31, 2012 — $4.9 million) and $0.2 million of work in process (December 31, 2012 — $0.1 million). During the year, $20.7 million was recognized as cost of equipment sales and recorded as an operating expense (December 31, 2012 — $21.1 million, December 31, 2011 — $18.3 million).

(c) Deferred charges include deferred financing charges relating to the Revolving Credit Facility (see Note 19).

13. OTHER LONG-TERM ASSETS

As at December 31,	2013	2012
Prepaid satellite in-orbit insurance	$—	$1,325
Deferred charges	673	1,061
Income tax recoverable	1,779	1,779
Other	313	527
Other long-term assets	$2,765	$4,692

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14. SATELLITES, PROPERTY AND OTHER EQUIPMENT

	Satellites	Property and other equipment	Assets under construction	Total
Cost at January 1, 2012	$2,314,113	$193,463	$380,205	$2,887,781
Additions	—	2,098	146,633	148,731
Disposals/retirements	—	(6,917)	—	(6,917)
Reclassifications and transfers from assets under construction	267,834	12,856	(280,690)	—
Impact of currency translation	—	(610)	(20)	(630)
Cost at December 31, 2012 and January 1, 2013	$2,581,947	$200,890	$246,128	$3,028,965
Additions	—	2,732	81,186	83,918
Disposals/retirements	—	(4,753)	—	(4,753)
Reclassifications and transfers from assets under construction	266,982	14,822	(281,804)	—
Impact of currency translation	—	751	668	1,419
Cost at December 31, 2013	$2,848,929	$214,442	$46,178	$3,109,549
Accumulated depreciation and impairment at January 1, 2012	$(660,764)	$(75,102)	$—	$(735,866)
Depreciation	(191,471)	(17,214)	—	(208,685)
Disposals/retirements	—	6,003	—	6,003
Impact of currency translation	—	337	—	337
Accumulated depreciation and impairment at December 31, 2012 and January 1, 2013	$(852,235)	$(85,976)	$—	$(938,211)
Depreciation	(194,310)	(16,841)	—	(211,151)
Disposals/retirements	—	3,042	—	3,042
Impact of currency translation	—	(470)	—	(470)
Accumulated depreciation and impairment at December 31, 2013	$(1,046,545)	$(100,245)	$—	$(1,146,790)
Net carrying values				
At December 31, 2012	$1,729,712	$114,914	$246,128	$2,090,754
At December 31, 2013	$1,802,384	$114,197	$46,178	$1,962,759

Substantially all of the Company's satellites, property and other equipment have been pledged as security as a requirement of the Company's Senior Secured Credit Facilities (Note 19).

Borrowing costs of $3.4 million arising on financing were capitalized for the year ended December 31, 2013 (December 31, 2012 — $17.5 million, December 31, 2011 — $32.0 million). The average capitalization rate was 6% (7% in 2012, 8% in 2011), representing the Company's weighted average cost of debt.

No impairment was recognized for the years ended December 31, 2011, 2012 and 2013.

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15. INTANGIBLE ASSETS

The intangible assets are split between assets with finite and indefinite lives.

The indefinite life intangible assets are summarized below.

	Orbital slots	Trade name	Total indefinite life intangibles
Cost at January 1, 2012	$ 598,453	$ 17,000	$ 615,453
Additions	—	—	—
Impact of currency translation	(861)	—	(861)
Cost at December 31, 2012 and January 1, 2013	$ 597,592	$ 17,000	$ 614,592
Additions	1,061	—	1,061
Disposals	—	—	—
Impact of currency translation	2,072	—	2,072
Cost at December 31, 2013	$ 600,725	$ 17,000	$ 617,725
Accumulated impairment at January 1, 2012	$ (19,568)	$ —	$ (19,568)
Impairment reversal	1,194	—	1,194
Accumulated impairment at December 31, 2012 and January 1, 2013	$ (18,374)	$ —	$ (18,374)
Impairment reversal	17,274	—	17,274
Accumulated impairment at December 31, 2013	$ (1,100)	$ —	$ (1,100)
Net carrying values			
At December 31, 2012	$ 579,218	$ 17,000	$ 596,218
At December 31, 2013	$ 599,625	$ 17,000	$ 616,625

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15. INTANGIBLE ASSETS – (continued)

The finite life intangible assets are summarized below.

	Revenue backlog	Customer relationships	Customer contracts	Transponder rights	Other	Total finite life intangibles
Cost at January 1, 2012	$ 268,337	$ 198,077	$ 12,618	$ 28,497	$ 1,335	$ 508,864
Additions	—	—	63	—	103	166
Impact of currency translation	(88)	(63)	—	—	(157)	(308)
Cost at December 31, 2012 and January 1, 2013	$ 268,249	$ 198,014	$ 12,681	$ 28,497	$ 1,281	$ 508,722
Additions	—	—	7	—	—	7
Disposals	—	(2,375)	—	(11,779)	—	(14,154)
Impact of currency translation	211	155	—	—	(85)	281
Cost at December 31, 2013	$ 268,460	$ 195,794	$ 12,688	$ 16,718	$ 1,196	$ 494,856
Accumulated amortization and impairment at January 1, 2012	$ (138,212)	$ (55,198)	$ (39)	$ (14,952)	$ (270)	$ (208,671)
Amortization	(22,564)	(11,005)	(845)	(3,147)	(92)	(37,653)
Impairment	—	—	—	—	—	—
Impact of currency translation	35	8	—	—	38	81
Accumulated amortization and impairment at December 31, 2012 and January 1, 2013	$ (160,741)	$ (66,195)	$ (884)	$ (18,099)	$ (324)	$ (246,243)
Amortization	(19,983)	(10,859)	(857)	(924)	(98)	(32,721)
Impairment	—	—	—	—	—	—
Retirements	—	1,206	—	11,779	—	12,985
Impact of currency translation	(194)	(58)	—	—	36	(216)
Accumulated amortization and impairment at December 31, 2013	$ (180,918)	$ (75,906)	$ (1,741)	$ (7,244)	$ (386)	$ (266,195)
Net carrying values						
At December 31, 2012	$ 107,508	$ 131,819	$ 11,797	$ 10,398	$ 957	$ 262,479
At December 31, 2013	$ 87,542	$ 119,888	$ 10,947	$ 9,474	$ 810	$ 228,661

The total combined indefinite and finite life intangible assets are summarized below.

	December 31, 2013			December 31, 2012		
	Cost	Accumulated amortization and impairment	Net carrying value	Cost	Accumulated amortization and impairment	Net carrying value
Indefinite life intangibles	$617,725	$ (1,100)	$ 616,625	$614,592	$ (18,374)	$ 596,218
Finite life intangibles	494,856	(266,195)	228,661	508,722	(246,243)	262,479
Total intangibles	$1,112,581	$ (267,295)	$ 845,286	$1,123,314	$ (264,617)	$ 858,697

The orbital slots represent a right to operate satellites in a given longitudinal coordinate in space, where geostationary orbit may be achieved. They are limited in availability and represent a scarce resource. Usage of orbital slots is licensed through the International Telecommunications Union. Satellite operators can generally expect, with a relatively high level of certainty, continued occupancy of an assigned orbital slot either during the operational life of an existing orbiting satellite or upon replacement by a new satellite once the operational life of the existing orbiting satellite is over. As a result of the expectancy right to maintain the once awarded orbital slots, an indefinite life is typically associated with orbital slots.

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15. INTANGIBLE ASSETS – (continued)

The Company's trade name has a long and established history, a strong reputation and has been synonymous with quality and growth within the satellite industry. It has been assigned an indefinite life because of expected ongoing future use.

The following are the remaining useful lives of the intangible assets:

	Years
Revenue backlog	2 to 11
Customer relationships	5 to 15
Transponder rights	8
Customer contracts	2 to 13
Concession rights	7 to 10
Patent	12

All of the Company's intangible assets have been pledged as security as a requirement of the Company's Senior Secured Credit Facilities (Note 19).

Impairment

Finite life intangible assets are assessed at the Company's CGU level. Indefinite life intangible assets are tested for impairment at the individual asset level. The annual impairment tests for these assets were performed in the fourth quarter of 2011, 2012 and 2013 in accordance with the policy described in Note 4.

In 2011, an impairment of $19.5 million was recognized on orbital slots mainly due to an increase in discount rates.

In 2012 and 2013, $1.2 million and $17.3 million, respectively, of the impairment were reversed due to a decrease in the discount rate.

No impairment loss was recognized in 2012 or 2013.

The recoverable amount for indefinite life intangible assets, which is equal to the fair value less disposal costs, was calculated using the following assumptions:

	2013	2012	2011
Discount rate	10.00%	10.50%	10.75%

Some of the more sensitive assumptions used, including the forecasted cash flows and the discount rate, could have yielded different estimates of the recoverable amount. Actual operating results and the related cash flows of the Company could differ from the estimated operating results and related cash flows used in the impairment analysis. Had different estimates been used, it could have resulted in a different fair value.

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16. GOODWILL

The Company carries goodwill at its cost of $2,446.6 million with no accumulated impairment losses since acquisition.

Impairment

Goodwill is tested for impairment at the entity level because that represents the lowest level at which goodwill supports the Company's operations and is monitored internally. The annual impairment test on goodwill was performed in the fourth quarter of 2011, 2012, and 2013 in accordance with the policy described in Note 4. The Company's recoverable amount exceeded the carrying value therefore, no impairment was recognized. The most significant assumptions used in the impairment test were as follows:

	2013	2012	2011
Discount rate	10.00%	10.50%	10.75%
Terminal year growth rate	3.00 %	3.00 %	3.00 %

Some of the more sensitive assumptions used, including the forecasted cash flows and the discount rate, could have yielded different estimates of the recoverable amount. Actual operating results and the related cash flows of the Company could differ from the estimated operating results and related cash flows used in the impairment analysis. Had different estimates been used, it could have resulted in a different fair value.

17. OTHER CURRENT LIABILITIES

As at December 31,	2013	2012
Deferred revenue	$79,606	$74,613

Decommissioning liabilities	124	133
Uncertain tax positions	2,023	2,023
Income taxes payable	39,261	251
Other	1,044	910
Other current liabilities	$122,058	$77,930

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18. OTHER LONG-TERM LIABILITIES

As at December 31,	2013	2012
Deferred revenue	$313,746	$336,488
Net defined benefit plan obligations (see Note 24)	27,375	59,589
Uncertain tax positions	175	2,220
Unfavorable backlog	—	61
Decommissioning liabilities [a]	1,528	1,468
Other	2,361	2,406
Other long-term liabilities	$345,185	$402,232

(a) The current and long-term decommissioning liabilities on property and equipment was $1.7 million (December 31, 2012 — $1.6 million). The decommissioning liabilities are for the restoration of leased buildings and teleports. During the year, $0.1 million (December 31, 2012 — $0.1 million) was recorded as interest expense with no decommissioning liabilities derecognized (December 31, 2012 — $0.1 million derecognized). It is expected that the decommissioning liabilities will come to maturity between December 2014 and April 2062.

19. INDEBTEDNESS

As at December 31,	2013	2012
Senior Secured Credit Facilities [a]		
Revolving Credit Facility	$—	$—
Term Loan A	475,000	500,000
Term Loan B – U.S. Facility (December 31, 2013 – USD $1,732,657, December 31, 2012 – USD $1,716,375)	1,840,601	1,702,816
Term Loan B – Canadian Facility	138,950	174,125
6.0% Senior Notes (USD $900,000) [b]	956,070	892,890
12.5% Senior Subordinated Notes (December 31, 2012 – USD $217,175) [c]	—	215,460
	3,410,621	3,485,291
Less: deferred financing costs, interest rate floors, prepayment options and premiums [d]	(68,755)	(78,361)
	3,341,866	3,406,930
Less: current indebtedness	(57,364)	(31,953)
Long-term indebtedness	$3,284,502	$3,374,977

On March 28, 2012, Telesat Canada entered into a new Credit Agreement with a syndicate of banks which provides for the extension of credit under the Senior Secured Credit Facilities as described below. All obligations under the Credit Agreement are guaranteed by the Company and certain of Telesat Canada's existing subsidiaries (the "Guarantors"). The obligations under the Credit Agreement and the guarantees of those obligations are secured, subject to certain exceptions, by first priority liens and security interest in the assets of Telesat Canada and the Guarantors. The Credit Agreement contains covenants that restrict the ability of Telesat Canada and certain of its subsidiaries to take specified actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends, entering into sales-leaseback transactions, creating subsidiaries, repaying subordinated debt or amending organizational documents. The Credit Agreement requires Telesat Canada to comply with a maximum senior secured leverage ratio. The Credit Agreement also contains customary affirmative covenants and events of default.

Also on March 28, 2012, the Company terminated and paid all outstanding amounts under its previously existing credit facilities dated October 31, 2007, which included the Canadian Term Loan, U.S. Term Loan and U.S. Term Loan II Facilities. The deferred financing costs which were capitalized with the carrying value of the previous Senior Secured Credit Facilities, were expensed resulting in a loss on refinancing of $21.9 million.

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19. INDEBTEDNESS – (continued)

On May 14, 2012, Telesat Canada issued, through a private placement, USD $700 million of 6.0% Senior Notes which mature on May 15, 2017. On October 29, 2012, an additional USD $200 million of 6.0% Senior Notes were issued through a private placement. The additional USD $200 million of Senior Notes were priced at 103.5% of the principal amount and held the same terms and conditions as those issued on May 14, 2012. The 6.0% Senior Notes are subordinated to Telesat Canada's existing and future secured indebtedness, including obligations under its Senior Secured Credit Facilities, and are governed under the 6.0% Senior Notes Indenture. The net proceeds of the offering, along with available cash on hand, were used to pay all holders of the 11.0% Senior Notes due November 1, 2015, issued under an indenture dated as of June 30, 2008, and to pay certain financing costs and redemption premiums as well as to pay certain indebtedness owed to principal shareholders. The tender and redemption premiums, along with the deferred financing costs which were capitalized with the carrying value of the previous 11.0% Senior Notes, were expensed resulting in a loss on refinancing of $54.3 million.

On April 2, 2013, Telesat amended its Senior Secured Credit Facilities. The amendment to the Senior Secured Credit Facilities converted $34 million from Canadian to U.S. dollars and decreased the interest rate on the Term Loan B — Canadian Facility ("Canadian TLB Facility") and the Term Loan B — U.S. Facility ("U.S. TLB Facility") by 0.50%. The amendment also decreased the interest rate floors on the debt to 0.75% and 1.00% for the U.S. TLB Facility and the Canadian TLB Facility, respectively. The permitted leverage ratio to incur first lien debt is now 4.25:1.00 which represents a change from the prior 4.00:1.00 senior secured leverage ratio test in the Credit Agreement. Additional debt issue costs of $6.7 million and $0.5 million were incurred with the amendment of the U.S. TLB Facility and Canadian TLB Facility, respectively.

On May 1, 2013, Telesat redeemed all outstanding 12.5% Senior Subordinated Notes at a price equal to 106.25% of the principal amount from cash on-hand. The redemption premiums, along with the deferred financing costs which were capitalized in the carrying value, were expensed resulting in a net loss on financing of $18.5 million.

(a) The Senior Secured Credit Facilities are secured by substantially all of Telesat's assets. The Credit Agreement requires Telesat Canada to comply with a maximum senior secured leverage ratio. At December 31, 2012 and December 31, 2013, Telesat was in compliance with this covenant.

Each tranche of the Senior Secured Credit Facilities is subject to mandatory principal repayment requirements, which, in the initial years, are generally an annual amount representing ¼ of 1% of the initial aggregate principal amount, payable quarterly. The maturity of the Senior Secured Credit Facilities will be accelerated if Telesat Canada's existing 6.0% Senior Notes due in 2017 or certain refinancing thereof are not repurchased, redeemed, refinanced or deferred before the date that is 91 days prior to the maturity date of such notes. In 2012, the terms included that the maturity of the Senior Secured Credit Facilities would accelerate if the 12.5% Senior Subordinated Notes due in 2017 were not repurchased, redeemed, refinanced or deferred before the date that is 91 days prior to the maturity date of such notes. As the 12.5% Senior Subordinated Notes were repurchased in May 2013, this term has been eliminated.

The Senior Secured Credit Facilities have several tranches which are described below:

(i) A Revolving Credit Facility (the "Revolving Facility") of up to $140 million in Canadian or U.S. dollars is available to Telesat. This Revolving Facility matures on March 28, 2017 and is available to be drawn at any time. Loans under the Revolving Facility bear interest at a floating rate plus an applicable margin of 2.00% for prime rate and Alternative Base Rate ("ABR") loans and 3.00% for Bankers Acceptance ("BA") and Eurodollar loans. The Revolving Facility has an unused commitment fee of 50 basis points. As of December 31, 2013, other than $0.2 million (December 31, 2012 — $0.2 million) in drawings related to letters of credit, there were no borrowings under this facility.

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19. INDEBTEDNESS – (continued)

(ii) The Term Loan A Facility ("TLA Facility") is a $500 million loan maturing on March 28, 2017. Loans under this facility bear interest at a floating rate of the BA plus an applicable margin of 3.00%. Mandatory principal repayments of $25.0 million were made in 2013. The weighted average effective interest rate was 4.61% (nine-month period ended December 31, 2012 — 4.62%).

(iii) The U.S. TLB Facility is a USD $1,746 million (December 31, 2012 — USD $1,725 million) loan maturing on March 28, 2019. The outstanding borrowings under the U.S. TLB Facility currently bear interest at a floating rate of LIBOR, but not less than 0.75% (December 31, 2012 — 1.00%), plus an applicable margin of 2.75% (December 31, 2012 — 3.25%). Mandatory principal repayments of $18.2 million were made in 2013. The weighted average effective interest rate was 4.54% (nine-month period ended December 31, 2012 — 4.97%).

(iv) The Canadian TLB Facility is a $140 million (December 31, 2012 — $175 million) loan maturing on March 28, 2019. The outstanding borrowings under the Canadian TLB Facility currently bear interest at a floating rate of the BA borrowing, but not less than 1.00% (December 31, 2012 — 1.25%), plus an applicable margin of 3.25% (December 31, 2012 — 3.75%). Mandatory principal repayments of $1.5 million were made in 2013. The weighted average effective interest rate was 5.51% (nine-month period ended December 31, 2012 — 5.61%).

(b) The Senior Notes bear interest at an annual rate of 6.0% and are due May 15, 2017. The total balance of the Senior Notes is USD $900 million, with USD $700 million issued on May 14, 2012, and an additional USD $200 million issued on October 29, 2012. The Senior Notes include covenants or terms that restrict the Company's ability to, among other things: (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the Senior Notes prior to May 15, 2014, in each case subject to exceptions provided for in the Senior Notes indenture. The weighted average effective interest rate was 5.99% (seven-month period ended December 31, 2012 — 6.13%).

(c) The Senior Subordinated Notes bore an interest at a rate of 12.5% and were redeemed on May 1, 2013. The Senior Subordinated Notes included covenants or terms that restricted Telesat's ability to, among other things: (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel the Company's satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the Senior Subordinated Notes prior to May 1, 2013, in each case subject to exceptions provided in the Senior Subordinated Notes indenture. The weighted average effective interest rate was 12.66% for the year ended December 31, 2012.

(d) The TLA Facility, U.S. TLB Facility, Canadian TLB Facility, Senior Notes and Senior Subordinated Notes are presented on the balance sheet net of related deferred financing costs of $43.7 million (December 31, 2012 — $51.6 million). The indenture agreements for the Senior Notes and Senior Subordinated Notes contain provisions for certain prepayment options (Note 22) and premiums which were fair valued at the time of debt issuance.

The fair value of the prepayment options related to the 6.0% Senior Notes was allocated to indebtedness at their inception date. The aggregate impact of the prepayment options related to the 6.0% Senior Notes issued on May 14, 2012 and October 29, 2012 was a $5.6 million increase to the indebtedness. The prepayment option fair value initially allocated to indebtedness is subsequently amortized using the effective interest method and had a carrying amount of $4.1 million at December 31, 2013 (December 31, 2012 — $5.2 million).

The initial fair value impact, in June 2008, on the prepayment options on the 12.5% Senior Subordinated Notes was an increase to the indebtedness of $2.7 million. This liability was subsequently amortized using the effective interest method with a carrying amount of $1.8 million at December 31, 2012. The unamortized amount was derecognized in May 2013 upon the repayment of the 12.5% Senior Subordinated Notes.

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19. INDEBTEDNESS – (continued)

The fair value impact of the premiums on the 6.0% Senior Notes was an increase to indebtedness of $7.0 million. This liability is subsequently amortized using the effective interest method with a carrying amount of $5.4 million at December 31, 2013 (December 31, 2012 — $6.8 million).

The initial fair value impact, in March 2012, of the interest rate floors on the U.S. TLB Facility was a decrease to the indebtedness of $44.3 million. This asset is subsequently amortized using the effective interest method with a carrying amount of $33.3 million at December 31, 2013 (December 31, 2012 — $39.0 million).

The initial fair value impact, in March 2012, of the interest rate floors on the Canadian TLB Facility was a decrease to the indebtedness of $1.7 million. This asset is subsequently amortized using the effective interest method with a carrying amount of $1.3 million at December 31, 2013 (December 31, 2012 — $1.6 million).

The short-term and long-term portions of deferred financing costs, prepayment options, interest rate floors and premiums are as follows:

As at December 31,	2013	2012
Short-term deferred financing costs	$9,104	$8,795
Long-term deferred financing costs	34,561	42,785
	$43,665	$51,580
Short-term interest rate floors	$6,059	$5,867
Long-term interest rate floors	28,535	34,683
	$34,594	$40,550
Short-term prepayment option – Senior Notes	$(1,121)	$(1,071)
Short-term prepayment option – Senior Subordinated Notes	—	(283)
Long-term prepayment option – Senior Notes	(3,004)	(4,125)
Long-term prepayment option – Senior Subordinated Notes	—	(1,515)
	$(4,125)	$(6,994)

Short-term premiums – Senior Notes	$(1,461)	$(1,396)
Long-term premiums – Senior Notes	(3,918)	(5,379)
	$(5,379)	$(6,775)
Deferred financing costs, interest rate floors, prepayment options and premiums	$68,755	$78,361

The outstanding balance of indebtedness, excluding deferred financing costs, interest rate floors, prepayment options and premiums will be repaid as follows (in millions of Canadian dollars):

2014	2015	2016	2017	2018	Thereafter	Total
$69.9	$69.9	$94.9	$1,276.0	$19.9	$ 1,880.0	$3,410.6

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Telesat Holdings Inc.

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20. SHARE CAPITAL

The number of shares and stated value of the outstanding shares were as follows:

	December 31, 2013		December 31, 2012	
	Number of shares	Stated value	Number of shares	Stated value
Common Shares	74,252,460	$340,602	74,252,460	$340,602
Voting Participating Preferred Shares	7,034,444	77,995	7,034,444	77,995
Non-Voting Participating Preferred Shares	38,237,157	238,053	38,203,571	237,787
Director Voting Preferred Shares	1,000	10	1,000	10
Share capital		$656,660		$656,394

With the closing of the new Senior Secured Credit Facilities on March 28, 2012, as described in Note 19, the Company declared and paid a special cash distribution to its Common, Voting Participating Preferred, and Non-Voting Participating Preferred shareholders, as a return of capital, in the amount of $656.5 million.

In December 2012, certain members of senior management exercised their stock options granted under the Company's stock incentive plan in exchange for 2,249,747 Non-Voting Preferred Shares with a stated value of $14.8 million.

In January 2013, dividends were declared on the Director Voting Preferred Shares.

In April 2013, 83,204 share appreciation rights ("SARs") were exercised in relation to the stock options granted under the Company's stock incentive plan for 24,638 Non-Voting Participating Preferred Shares with a stated value of $0.2 million.

In July 2013, 8,948 stock options granted under the Company's stock incentive plan were exercised for 8,948 Non-Voting Participating Preferred Shares in exchange for $0.1 million.

There were no changes to the rights, privileges or conditions associated to each class of shares.

There were no changes in the number of shares issued in any class of shares in 2012 or 2013, with the exception of the changes noted above for the Non-Voting Participating Preferred Shares.

The authorized share capital of the Company is comprised of: (i) an unlimited number of Common Shares, of Voting Participating Preferred Shares, of Non-Voting Participating Preferred Shares, of Redeemable Common Shares, and of Redeemable Non-Voting Participating Preferred Shares, and (ii) 1,000 Director Voting Preferred Shares. None of the Redeemable Common Shares or Redeemable Non-Voting Participating Preferred Shares has been issued as at December 31, 2013. The Company's share-based compensation plans have authorized the grant of up to 12,861,375 options (December 31, 2012 — 8,824,646 options) to purchase Non-Voting Participating Preferred Shares (see Note 23).

Common Shares

The holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one vote in respect of each common share held on all matters at all such meetings, except in respect of a class vote applicable only to the shares of any other class, in respect of which the common shareholders shall have no right to vote. The holders of the Common Shares are entitled to receive dividends as may be declared by the Board of Directors of the Company, and are entitled to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in order of priority. The Common Shares are convertible at the holders' option, at any time, into Voting Participating Preferred Shares or Non-Voting Participating Preferred Shares, on a one-for-one basis. The Common Shares have no par value.

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20. SHARE CAPITAL – (continued)

Voting Participating Preferred Shares

The rights, privileges and conditions of the Voting Participating Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Voting Participating Preferred Shares are not entitled to vote at meetings of the shareholders of the Company on resolutions electing directors.
- For all other meetings of the shareholders of the Company, the holders of Voting Participating Preferred Shares are entitled to a variable number of votes per Voting Participating Preferred Share based on the number of Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares and Redeemable Non-Voting Participating Preferred Shares outstanding on the record date of the given meeting of the shareholders of the Company.
- The Voting Participating Preferred Shares are convertible, at any time, at the holders' option into Common Shares or Non-Voting Participating Preferred Shares on a one-for-one basis as long as the result of such conversion does not cause the Company to cease to be a "qualified corporation" within the meaning of the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act (Canada).

The Voting Participating Preferred Shares have no par value.

Non-Voting Participating Preferred Shares

The rights, privileges and conditions of the Non-Voting Participating Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Non-Voting Participating Preferred Shares are not entitled to vote on any matter at meetings of the shareholders of the Company, except in respect of a class vote applicable only to the Non-Voting Participating Preferred Shares.

- The Non-Voting Participating Preferred Shares are convertible, at any time, at the holders' option into Common Shares or Voting Participating Preferred Shares on a one-for-one basis as long as the result of such conversion does not cause the Company to cease to be a "qualified corporation" within the meaning of the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act (Canada).

The Non-Voting Participating Preferred Shares have no par value.

Director Voting Preferred Shares

The rights, privileges and conditions of the Director Voting Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Director Voting Preferred Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company at which directors of the Company are to be elected. The holders of the Director Voting Preferred Shares are not entitled to attend meetings of the shareholders of the Company and have no right to vote on any matter other than the election of directors of the Company.

- The holders of Director Voting Preferred Shares are entitled to receive annual non-cumulative dividends of $10 per share if declared by the Board of Directors of the Company, in priority to the payment of dividends on the Common Shares, Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares, Redeemable Common Shares, and Redeemable Non-Voting Participating Preferred Shares, but after payment of any accrued dividends on the Senior Preferred Shares.

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20. SHARE CAPITAL – (continued)

- In the event of liquidation, wind-up or dissolution, the holders of Director Voting Preferred Shares are entitled to receive $10 per share in priority to the payment of dividends on the Common Shares, Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares, Redeemable Common Shares, and Redeemable Non-Voting Participating Preferred Shares, but after payment of any accrued dividends on the Senior Preferred Shares.

- The Director Voting Preferred Shares are redeemable at the option of the Company, at any time, at a redemption price of $10 per share.

The Director Voting Preferred Shares have a nominal stated value.

21. CAPITAL DISCLOSURES

Telesat is a privately held company. The Company's financial strategy is designed to maintain compliance with the financial covenant under its Senior Secured Credit Facilities (see Note 19), and to maximize returns to its shareholders and other stakeholders. Telesat meets these objectives through regular monitoring of the financial covenant and operating results on a quarterly basis. The Company's overall financial strategy remains unchanged from 2012.

Telesat defines its capital as shareholders' equity (comprising issued share capital, accumulated earnings and excluding reserves) and debt financing (comprising indebtedness and excluding deferred financing costs, prepayment options, interest rate floors and premiums as detailed in Note 19).

The Company's capital at the end of the year was as follows:

As at December 31,	2013	2012
Shareholders’ equity (excluding reserves)	$1,112,673	$1,029,436
Debt financing (excluding deferred financing costs, prepayment options, interest rate floors and premiums)	$3,410,621	$3,485,291

The Company entered into new Senior Secured Credit Facilities on March 28, 2012. The Senior Secured Credit Facilities are secured by substantially all of the Company’s assets, excluding the assets of non-restricted subsidiaries. Under the terms of the Senior Secured Credit Facilities, the Company is required to comply with a senior secured leverage ratio covenant. The covenant is based on a Consolidated Total Secured Debt to Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) for covenant purposes ratio test. At December 31, 2013, the Company’s Consolidated Total Secured Debt to Consolidated EBITDA ratio was 3.57:1 (December 31, 2012 — 3.86:1), which was less than the maximum test ratio of 5.25:1.

As part of the on-going monitoring of Telesat’s compliance with its financial covenants, interest rate risk due to variable interest rate debt is managed through the use of interest rate swaps (Note 22), and foreign exchange risk exposure arising from principal and interest payments on Telesat’s debt is partially managed through cross-currency basis swaps (Note 22). In addition, the Company’s operating results are tracked against budget on a monthly basis, and this analysis is reviewed by senior management.

22. FINANCIAL INSTRUMENTS

Measurement of Risks

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of December 31, 2013.

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22. FINANCIAL INSTRUMENTS – (continued)

Credit risk

Credit risk is the risk that a counterparty to a financial asset will default, resulting in the Company incurring a financial loss. At December 31, 2013, the maximum exposure to credit risk is equal to the carrying value of the financial assets, $432.2 million (December 31, 2012 — $383.1 million).

Cash and cash equivalents are invested with high quality investment grade financial institutions and are governed by the Company's corporate investment policy, which aims to reduce credit risk by restricting investments to high-grade U.S. dollar and Canadian dollar denominated investments.

The Company has entered into various cross-currency basis swaps and interest rate swaps. The Company mitigates the credit risk associated with these swaps by entering into swaps with only high quality financial institutions.

Telesat has a number of diverse customers, which limits the concentration of credit risk with respect to trade receivables. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Telesat's standard payment terms are 30 days. Interest at a rate of 1.5% per month, compounded monthly, is typically charged on balances remaining unpaid at the end of the standard payment terms. Telesat's historical experience with customer defaults has been minimal. As a result, Telesat considers the credit quality of its North American customers to be high, however due to the additional complexities of collecting from its International customers, the Company considers the credit quality of its International customers to be lower than the North American customers. At December 31, 2013, North American and International customers made up 46% and 54% of the outstanding trade receivable balance, respectively (December 31, 2012 — 61% and 39%, respectively). Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts at December 31, 2013 was $2.9 million (December 31, 2012 — $3.0 million).

Foreign exchange risk

The Company’s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The Company’s main currency exposures lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables and indebtedness. The most significant impact being on the U.S. dollar denominated debt financing. At December 31, 2013, $2,796.7 million of the $3,410.6 million total debt financing (December 31, 2012 — $2,811.2 million of the $3,485.3 million) was the Canadian dollar equivalent of the U.S. dollar denominated portion of the debt (before netting of deferred financing costs, premiums, interest rate floors and prepayment options).

The Company has entered into cross-currency basis swaps to economically hedge the foreign currency risk on a portion of its U.S. dollar denominated debt. As at December 31, 2013, the Company had cross-currency basis swaps which required the Company to pay $1,150.8 million (December 31, 2012 — $1,163.0 million) Canadian dollars to receive USD $990.8 million (December 31, 2012 — USD $1,001.3 million). These derivative contracts are to be settled on October 31, 2014. The non-cash losses will remain unrealized until the contracts are settled. As at December 31, 2013, the fair value of the derivative contracts was a liability of $109.7 million (December 31, 2012 — liability of $192.2 million).

As at December 31, 2013, a 5 percent increase (decrease) in the Canadian dollar against the U.S. dollar would have increased (decreased) the Company’s net income by $140.3 million (December 31, 2012 — $145.1 million) and increased (decreased) other comprehensive income by $0.7 million (December 31, 2012 — $0.7 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

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22. FINANCIAL INSTRUMENTS – (continued)

Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents and its long-term debt. The interest rate risk on the long-term debt is from the debt having variable rate financing. Changes in the interest rates could impact the amount of interest that the Company is required to pay or receive. The Company has entered into interest rate swaps to hedge the interest rate risk associated with the variable rate financing on a portion of the long-term debt. As at December 31, 2013, the Company had a series of five interest rate swaps to fix interest on $1,480.0 million of debt at a weighted average fixed rate of 2.63% (excluding applicable margin) and one interest rate swap to pay a fixed rate of 1.46% (excluding applicable margin) on $300.0 million of U.S. denominated debt (December 31, 2012 — five interest rate swaps to fix interest on $1,480.0 million of debt at a weighted average fixed rate of 2.63% (excluding applicable margin) and one interest rate swap to pay a fixed rate of 1.46% (excluding applicable margin) on $300 million of U.S. denominated debt). These contracts mature between October 31, 2014 and September 30, 2016. As at December 31, 2013, the fair value of these derivative contracts was a liability of $21.6 million (December 31, 2012 — liability of $36.7 million).

If the interest rates on the unhedged variable rate debt change by 0.25% this would result in a change in the net income of $2.8 million for the year ended December 31, 2013 (December 31, 2012 — $3.4 million).

Liquidity risk

The Company maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements. The following are the contractual maturities of financial liabilities as at December 31, 2013:

	Carrying amount	Contractual cash flows	2014	2015	2016	2017	2018	Thereafter

		(undiscounted)						
Trade and other payables	$34,484	$ 34,484	$34,484	$—	$—	$—	$—	$—
Customer and other deposits	3,646	3,646	3,197	289	61	16	83	—
Deferred satellites performance incentive payments	58,479	79,306	10,564	8,775	8,824	8,798	8,743	33,602
Tax indemnification payable to Loral (Note 28)	7,397	7,397	—	7,397	—	—	—	—
Other financial liabilities	3,267	3,267	3,267	—	—	—	—	—
Long-term indebtedness	3,421,072	4,026,722	217,965	215,139	236,584	1,373,974	88,449	1,894,611
Interest rate swaps	21,574	22,541	18,393	2,602	1,546	—	—	—
Cross-currency basis swaps	109,700	119,632	119,632	—	—	—	—	—
	$3,659,619	$ 4,296,995	$407,502	$234,202	$247,015	$1,382,788	$97,275	$1,928,213

The carrying value of the deferred satellites performance incentive payments includes $1.0 million interest payable. The carrying value of the long-term indebtedness includes $10.5 million of interest payable.

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22. FINANCIAL INSTRUMENTS – (continued)

Financial assets and liabilities recorded in the balance sheet and the fair value hierarchy levels used to calculate those values were as follows:

December 31, 2013	Loans and receivables	FVTPL	Other financial liabilities	Total	Fair value	Fair value hierarchy
Cash and cash equivalents	$ 298,713	$—	$ —	$ 298,713	$ 298,713	Level 1
Trade and other receivables	50,266	—	—	50,266	50,266	(3)
Other financial assets – current	7,174	—	—	7,174	7,174	Level 1
Other financial assets – long-term (2)	24,412	51,594	—	76,006	76,006	Level 1, Level 2
Trade and other payables	—	—	(34,484)	(34,484)	(34,484)	(3)
Other financial liabilities – current	—	(140,910)	(23,845)	(164,755)	(166,947)	Level 2
Other financial liabilities – long-term	—	(13,408)	(59,395)	(72,803)	(73,971)	Level 2
Indebtedness (1)	—	—	(3,410,621)	(3,410,621)	(3,457,048)	Level 2
	$ 380,565	$ (102,724)	$ (3,528,345)	$ (3,250,504)	$ (3,300,291)	

December 31, 2012	Loans and receivables	FVTPL	Other financial liabilities	Total	Fair value	Fair value hierarchy
Cash and cash equivalents	$ 180,961	$—	$ —	$ 180,961	$ 180,961	Level 1
Trade and other receivables	63,762	—	—	63,762	63,762	(3)
Other financial assets – current	6,799	—	—	6,799	6,799	Level 1
Other financial assets – long-term (2)	22,251	109,284	—	131,535	131,535	Level 1, Level 2
Trade and other payables	—	—	(35,709)	(35,709)	(35,709)	(3)
Other financial liabilities – current	—	(61,255)	(29,336)	(90,591)	(92,694)	Level 2
Other financial liabilities – long-term	—	(221,599)	(59,863)	(281,462)	(281,583)	Level 2
Indebtedness (1)	—	—	(3,451,735)	(3,451,735)	(3,549,339)	Level 2
	$ 273,773	$ (173,570)	$ (3,576,643)	$ (3,476,440)	$ (3,576,268)	

(1) Excludes deferred financing costs and premiums.

(2) The other financial assets — long-term classified as fair value through profit or loss were calculated using the level 2 of the fair value hierarchy. All other balances were calculated using the level 1 of the fair value hierarchy.

(3) Trade and other receivables and trade and other payables are carried at amortized cost.

The fair value of the deferred satellites performance incentive payments included in the other financial liabilities — current and long-term is determined using a discounted cash flow methodology. The calculation was performed on a recurring basis. The discount rate used was 5.8% (December 31, 2012 — 6.5%).

The fair value of the indebtedness is based on transactions and quotations from third parties considering market interest rates and excluding deferred financing costs, interest rate floors, prepayment options and premiums. The calculation of the fair value of the indebtedness was performed on a recurring basis. The rates used are summarized below:

As at December 31,	2013	2012
Canadian Term Loan A Facility	100.13%	97.00 %
Canadian Term Loan B Facility	100.00%	99.56 %
U.S. Term Loan B Facility	100.25%	100.75%
6.0% Senior Notes	104.31%	105.13%
12.5% Senior Subordinated Notes	—	109.88%

Assets pledged as security

The Senior Secured Credit Facilities are secured by substantially all of Telesat’s assets which exclude the assets of non-restricted subsidiaries.

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22. FINANCIAL INSTRUMENTS – (continued)

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market under current market conditions at the measurement date. Where possible, fair values are based on the quoted market values in an active market. In the absence of an active market, we determine fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs. The fair value hierarchy is as follows:

Level 1 based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially all of the full term of the assets or liabilities.

Level 3 unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Estimates of fair values are affected significantly by the assumptions for the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate fair value due to the short-term maturity of these instruments. Included in cash and cash equivalents are $234.9 million (December 31, 2012 — $127.6 million) of short-term investments. The fair value of the indebtedness was based on transactions and quotations from third parties considering market interest rates and excluding deferred financing costs, interest rate floors, prepayment options, and premiums.

Fair value of derivative financial instruments

Derivatives were valued using a discounted cash flow methodology. All derivatives were valued based on recurring measurements.

Interest and cross-currency basis swaps future cash flows were determined based on current yield curves and exchange rates and then discounted based on discount curves obtained from Bloomberg.

Prepayment option cash flows were calculated with a Bloomberg option valuation model which is based on the current price of the debt instrument and discounted based on a discount curve obtained from Bloomberg.

Interest rate floor cash flows were calculated using the Black Scholes option valuation model in Bloomberg and discounted based on discount curves obtained from Bloomberg.

The discount rates used to discount U.S. cash flows ranged from 0.17% to 1.88% (December 31, 2012 — 0.21% to 1.31%). The discount rates used to discount Canadian cash flows ranged from 1.22% to 2.34% (December 31, 2012 — 1.23% to 1.93%).

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22. FINANCIAL INSTRUMENTS – (continued)

On March 28, 2012, the Company recorded embedded derivatives as a result of the refinancing of the Senior Secured Credit Facilities and the new subordinated promissory note to Red Isle ("PSP Note"). The embedded derivatives are related to interest rate floors and prepayment options included in the Canadian TLB Facility (Note 19), the U.S. TLB Facility (Note 19) and the PSP Note. At March 28, 2012, the fair value of the embedded derivatives was a liability of $46.1 million. On October 31, 2012, the PSP Note was repaid which resulted in the recognition of a loss of $1.9 million on the write-off of the interest rate floor.

On May 14, 2012 and October 29, 2012, a prepayment option embedded derivative was recognized in connection with the 6.0% Senior Notes. At May 14, 2012 and October 29, 2012, the fair value of the new prepayment option embedded derivative was an asset of $2.7 million and $2.9 million, respectively. In connection with the Company's redemption of its 11.0% Senior Notes, in May 2012, a loss of $165.4 million was recognized on the write-off of the previous prepayment option embedded derivative asset.

On June 20, 2012, the Company entered into three new interest rate swaps to economically hedge its exposure to floating interest rates on the Senior Secured Credit Facilities. At June 20, 2012, the fair value of the interest rate swaps was a liability of $2.1 million.

The changes in fair value of these derivatives are recorded on the Company's consolidated statement of income as gains or losses on changes in fair value of financial instruments, are non-cash, and will expire on their respective maturity dates.

The current and long-term portions of the fair value of the Company's derivative assets and liabilities, at each of the balance sheet dates, and the fair value hierarchy levels used to calculate those values were as follows:

December 31, 2013	Long-term assets	Current liabilities	Long-term liabilities	Total	Fair value hierarchy

Cross-currency basis swaps	$ —	$ (109,700)	$ —	$ (109,700)	Level 2
Interest rate swaps	—	(21,490)	(84)	(21,574)	Level 2
Interest rate floors	—	(9,720)	(13,324)	(23,044)	Level 2
Prepayment option	51,594	—	—	51,594	Level 2
	$ 51,594	$ (140,910)	$ (13,408)	$ (102,724)	

December 31, 2012	Long-term assets	Current liabilities	Long-term liabilities	Total	Fair value hierarchy
Cross-currency basis swaps	$ —	$ (28,962)	$ (163,200)	$ (192,162)	Level 2
Interest rate swaps	—	(18,948)	(17,704)	(36,652)	Level 2
Interest rate floors	—	(13,345)	(40,695)	(54,040)	Level 2
Prepayment options	109,284	—	—	109,284	Level 2
	$ 109,284	$ (61,255)	$ (221,599)	$ (173,570)	

Telesat Holdings Inc.

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22. FINANCIAL INSTRUMENTS – (continued)

The reconciliation of the fair value of derivative assets and liabilities are as follows:

Fair value, January 1, 2012	$(79,043)
Derivatives recognized at inception	
Interest rate floors	(46,052)
Prepayment options	5,588
Unrealized gains on derivatives	
Interest rate floors	(10,533)
Prepayment options	137,028
Cross-currency basis swaps	(38,663)
Interest rate swaps	14,928
Realized gains (losses) on derivatives	
Interest rate floor	1,928
Cross-currency basis swaps	1,688
Prepayment option	(165,360)
Impact of foreign exchange	4,921
Fair value, December 31, 2012 and January 1, 2013	$(173,570)
Unrealized gains on derivatives	
Interest rate floors	33,500
Prepayment options	13,547
Cross-currency basis swaps	91,266
Interest rate swaps	17,006
Realized gains (losses) on derivatives	
Cross-currency basis swaps	1,211
Prepayment option	(75,602)
Impact of foreign exchange	(10,082)
Fair value, December 31, 2013	$(102,724)

23. SHARE-BASED COMPENSATION PLANS

Telesat Holdings Stock Incentive Plans

In September 2008 and April 2013, Telesat adopted share-based compensation plans (the "stock incentive plans") for certain key employees of the Company and its subsidiaries. The stock incentive plans provide for the grant of up to 12,861,375 options, 8,824,646 authorized in 2008 and an additional 4,036,729 authorized in 2013, to purchase Non-Voting Participating Preferred Shares of Telesat Holdings Inc., convertible into Common Shares.

Under the stock incentive plans, two different types of stock options can be granted: time-vesting options and performance-vesting options. The time-vesting options generally become vested and exercisable over a five-year period by 20% annual increments. The performance-vesting options become vested and exercisable over a five-year period, provided that the Company has achieved or exceeded an annual or cumulative target consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") established by the Board of Directors. The exercise period of the stock options expire 10 years from the grant date. The exercise price of each share underlying the options will be the higher of a fixed price, established by the Board of Directors on the grant date, and the fair market value of a non-voting participating preferred share on the grant date. Both plans authorize the Board of Directors to grant tandem Share Appreciation Rights ("SARs"), at their discretion.

The Company expenses the fair value of stock options that are expected to vest over the vesting period using the Black-Scholes option pricing model. The share-based compensation expense is included in operating expenses.

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23. SHARE-BASED COMPENSATION PLANS – (continued)

In 2013, a total of 22,372 stock options, authorized from September 2008, were granted to certain employees pursuant to the stock incentive plans. The newly issued stock options are comprised of 10,067 time vesting options and 12,305 performance vesting options.

In 2013, a total of 3,977,027 stock options, authorized from April 2013, were granted to certain employees pursuant to the stock incentive plans. The newly issued stock options are comprised of 2,958,427 time vesting options and 1,018,600 performance vesting options.

The stock options granted in the current and prior years, and their weighted average fair value were as follows:

	2013	2012	2011
Number of stock options granted	3,999,399	—	—
Weighted average fair value of options granted	$8.93	$ —	$ —

The movement in the number of stock options outstanding and their weighted average exercise price were as follows:

	Time vesting option plans		Performance vesting option plans	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1, 2012	7,265,952	$ 11.08	1,407,672	$ 11.12
Granted	—		—	
Forfeited	(32,718)		(39,991)	
Exercised	(5,109,219)		(202,349)	
Repurchased for cash consideration	(1,415,974)		(244,645)	
Expired	—		—	

Outstanding at December 31, 2012 and January 1, 2013	708,041	$ 11.14	920,687	$ 11.13
Granted	2,968,494		1,030,905	
Forfeited	(8,053)		(9,844)	
Exercised (Note 20)	(4,027)		(88,125)	
Expired	—		—	
Outstanding at December 31, 2013	3,664,455	$ 21.72	1,853,623	$ 18.40

The amounts of stock options exercisable and the weighted average remaining life at the end of the years were as follows:

As at December 31,	2013	2012
Time vesting option plans	1,159,274	554,629
Performance vesting option plans	690,494	471,511
Weighted-average remaining life	8 years	6 years

In December 2012, the Board approved the repurchase for cash consideration of 20% of all vested stock options. A total of 1,660,619 options were repurchased. Also in December 2012, certain members of senior management exercised SARs in relation to a total of 5,311,568 of their stock options and received 2,249,747 Non-Voting Participating Preferred Shares. The Company paid $35.3 million in cash consideration for the stock option repurchase.

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23. SHARE-BASED COMPENSATION PLANS – (continued)

The share-based compensation expense recognized in the operating expenses in the consolidated statements of income is as follows:

Year ended December 31,	2013	2012	2011
Consolidated statements of income			
Operating expenses	$13,517	$1,202	$2,654

The weighted-average assumptions used to determine the share-based compensation expense for stock options using the Black-Scholes option pricing model were as follows:

	2013	2012	2011
Dividend yield	— %	—%	—%
Expected volatility	25.0%	—%	—%
Risk-free interest rate	1.74%	—%	—%
Expected life (years)	10	—	—

The expected volatility is based on the historical volatility.

24. EMPLOYEE BENEFIT PLANS

The Company’s net defined benefit plan expenses included on the consolidated statements of income and the costs included in the consolidated statements of comprehensive income were as follows:

Defined benefit pension plans

				Other post-employment benefit plans		
Year ended December 31,	2013	2012 Restated (Note 3)	2011 Restated (Note 3)	2013	2012 Restated (Note 3)	2011 Restated (Note 3)
Consolidated statements of income						
Operating expenses	$6,104	$ 5,885	$4,209	$372	$ 392	$ 299
Interest expense	$1,603	$ 2,064	$525	$1,467	$ 1,151	$ 1,183
Other operating gains, net	$—	$ —	$—	$9,786	$ —	$ —
Consolidated statements of comprehensive income						
Actuarial (gains) losses on employee benefit plans	$(24,942)	$ (6,574)	$ 37,430	$3,712	$ 878	$ 2,222

In October 2013, the Company ceased allowing new employees to join the defined benefit plans and commenced a defined contribution pension plan for new employees. As at December 31, 2013, no employees have joined the defined contribution plan.

The Company’s funding policy is to make contributions to its defined benefit pension funds based on actuarial cost methods as permitted by pension regulatory bodies. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equity securities, fixed income instruments and short-term investments.

The Company provides certain health care and life insurance benefits for some of its retired employees and their dependents. Participants are eligible for these benefits generally when they retire from active service and meet the eligibility requirements for the pension plan. These benefits are funded primarily on a pay-as-you-go basis, with the retiree generally paying a portion of the cost through contributions, deductibles and coinsurance provisions.

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24. EMPLOYEE BENEFIT PLANS – (continued)

In January 2013, the Company changed its funding strategy for other post-employment benefits provided to certain retired employees. As a result of this change, the Company recognized a $5.2 million loss in actuarial (gains) losses on employee benefit plans in the statement of comprehensive income.

In 2013, there was a change in how certain retired employees would have their health care benefits coordinated with Medicare. As a result of this change, the Company recognized a $2.4 million loss in operating gains, net in the statement of income.

In 2013, the Company also announced that effective January 2015 it would cease paying health care and life insurance benefits to certain retired employees and would commence paying an amount into a health reimbursement account for the affected retired employees. As a result of this change in benefits, the Company recognized a $12.2 million gain in other operating gains, net in the statement of income.

The balance sheet obligation is divided as follows between pension and other post-employment benefits:

As at December 31,	2013	2012
Pension benefits	$5,749	$33,662
Other post-employment benefits	21,626	26,096
	$27,375	$59,758

The obligations were included on the balance sheets as follows:

As at December 31,	2013	2012
Trade and other payables	$—	$169
Other long-term liabilities	27,375	59,589

$27,375	$59,758

The amounts recognized in the balance sheets are determined as follows:

As at December 31,	2013		2012	
	Pension	Other	Pension	Other
Present value of funded obligations	$217,281	$—	$221,461	$—
Fair value of plan assets	212,623	—	188,944	—
	$4,658	$—	$32,517	$—
Present value of unfunded obligations	1,091	21,626	1,145	26,096
Liability in the balance sheet	$5,749	$21,626	$33,662	$26,096

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24. EMPLOYEE BENEFIT PLANS – (continued)

The changes in the defined benefit obligations and in the fair value of plan assets and the funded status of the defined benefit plans were as follows:

Pension and other benefits	December 31, 2013		
	Pension	Other	Total
Change in benefit obligations			
Defined benefit obligation, January 1, 2013	$222,606	$26,096	$248,702
Current service cost	5,666	372	6,038
Interest expense	10,175	1,467	11,642
Remeasurements			
Actuarial (gains) losses arising from plan experience	(13,517)	5,125	(8,392)
Actuarial losses from change in demographics assumptions	—	610	610
Actuarial gains from changes in financial assumptions	—	(2,023)	(2,023)
Benefits paid	(8,985)	(1,205)	(10,190)
Contributions by plan participants	2,427	32	2,459
Plan amendments	—	(9,786)	(9,786)
Other	—	938	938
Defined benefit obligation, December 31, 2013	$218,372	$21,626	$239,998

Pension and other benefits	December 31, 2013		
	Pension	Other	Total
Change in fair value of plan assets			
Fair value of plan assets, January 1, 2013	$188,944	$—	$188,944
Contributions by plan participants	2,427	32	2,459
Contributions by employer	10,678	1,173	11,851
Interest income	8,572	—	8,572
Benefits paid	(8,985)	(1,205)	(10,190)
Remeasurements			
Return on plan assets, excluding interest income	11,425	—	11,425
Administrative costs	(438)	—	(438)
Fair value of plan assets, December 31, 2013	$212,623	$—	$212,623
Funded status			
Plan deficit	$(5,749)	$(21,626)	$(27,375)

Accrued benefit liability, December 31, 2013	$(5,749)	$(21,626)	$(27,375)

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24. EMPLOYEE BENEFIT PLANS – (continued)

Pension and other benefits	December 31, 2012 (Note 3)		
	Pension	Other	Total
Change in benefit obligations			
Defined benefit obligation, January 1, 2012	$213,074	$24,339	$237,413
Current service cost	5,447	392	5,839
Interest expense	9,735	1,151	10,886
Remeasurements			
Actuarial (gains) losses arising from plan experience	(222)	878	656
Benefits paid	(7,182)	(698)	(7,880)
Contributions by plan participants	1,416	32	1,448
Other	338	2	340
Defined benefit obligation, December 31, 2012	$222,606	$26,096	$248,702

Pension and other benefits	December 31, 2012 (Note 3)		
	Pension	Other	Total
Change in fair value of plan assets			
Fair value of plan assets, January 1, 2012	$169,808	$—	$169,808
Contributions by plan participants	1,416	32	1,448
Contributions by employer	9,839	666	10,505
Interest income	7,671	—	7,671
Benefits paid	(7,182)	(698)	(7,880)
Remeasurements			
Return on plan assets, excluding interest income	6,980	—	6,980
Administrative costs	(438)	—	(438)
Other	850	—	850
Fair value of plan assets, December 31, 2012	$188,944	$—	$188,944
Funded status			
Plan deficit	$(33,662)	$(26,096)	$(59,758)
Accrued benefit liability, December 31, 2012	$(33,662)	$(26,096)	$(59,758)

The weighted average duration of the defined benefit obligation as at December 31, 2013 is 15 years for the defined benefit pension plans and 14 years for the other post-employment benefit plans.

The estimated future benefit payments for the defined benefit pension plans and other post-employment benefit plans until 2023 were as follows:

	Pension	Other
2014	$7,925	$1,310
2015	$8,588	$850
2016	$9,131	$885
2017	$9,662	$922
2018	$10,362	$961
2019 to 2023	$62,627	$6,743

Benefit payments include obligations to 2023 only as obligations beyond this date are not quantifiable.

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24. EMPLOYEE BENEFIT PLANS – (continued)

The fair value of the plan assets are allocated as follows between the various types of investments:

As at December 31,	2013	2012
Equity securities		
Canada	22.5 %	24.1 %
United States	14.7 %	14.5 %
International (other than United States)	19.1 %	18.6 %
Fixed income instruments		
Canada	40.8 %	39.8 %
Cash and cash equivalents		
Canada	2.9 %	3.0 %

Plan assets are valued at the measurement date of December 31 each year.

The investments are made in accordance with the Statement of Investment Policies and Procedures. The Statement of Investment Policies and Procedures is reviewed on an annual basis by the Management Level Pension Fund Investment Committee with approval of the policy being provided by the Audit Committee.

The following are the significant assumptions adopted in measuring the Company's pension and other benefit obligations:

As at December 31,	Pension 2013	Other 2013	Pension 2012	Other 2012
Actuarial benefit obligation				
Discount rate	5.00 %	4.50% to 5.00 %	4.50 %	4.50% to 4.75 %
Benefit costs for the year ended				
Discount rate	4.50 %	4.00% to 4.50 %	4.50 %	4.00% to 4.50 %

Future salary growth	3.00 %	N/A	3.00 %	N/A
Health care cost trend rate	N/A	4.50 %	N/A	4.50 %
Other medical trend rates	N/A	3.00% to 5.00 %	N/A	4.50 %

For certain Canadian post-retirement benefits, the medical trend rate for drugs was assumed to be 8.0% in 2013, decreasing by 0.2% per annum, to a rate of 4.5% in 2028 and thereafter. For certain American post-retirement benefits, the health care trend rate was assumed to be 9.0% in 2012 decreasing to a rate of 5.0% in 2021 and thereafter.

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24. EMPLOYEE BENEFIT PLANS – (continued)

Sensitivity of assumptions

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarizes how the impact on the defined benefit obligation as at December 31, 2013 would have increased (decreased) as a result of the change in the respective assumptions by one percent.

	Pension		Other	
	1% increase	1% decrease	1% increase	1% decrease
Discount rate	$(28,358)	$ 35,649	$(2,478)	$ 3,022
Future salary growth	$7,277	$ (6,474)	N/A	N/A
Medical and dental trend rates	N/A	N/A	$1,713	$ (1,419)

The above sensitivities are hypothetical and should be used with caution. Changes in amounts based on a 1% point variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. The sensitivities have been calculated independently of changes in other key variables. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

The Company expects to make contributions of $11.3 million to the defined benefit plans and $0.1 million to the defined contribution plan during the next fiscal year.

25. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents are comprised of the following:

As at December 31,	2013	2012	2011
Cash	$63,816	$53,344	$86,500
Short-term investments, original maturity three months or less	234,897	127,617	66,547
Restricted cash [(a)]	—	—	124,915
Cash and cash equivalents	$298,713	$180,961	$277,962

(a) In 2011, the insurance proceeds received for the settlement of the T14R/Estrela do Sul 2 claim were restricted in use for the purpose of repaying a portion of the Company's Senior Secured Credit Facilities or to be reinvested in satellite procurements in accordance with the terms and conditions of the Senior Secured Credit Facilities. The insurance proceeds were given as the satellite's north solar array anomaly has diminished the amount of power available for the satellite's transponders and reduced the operational life expectancy of the satellite. As a result of the termination of the Company's previous Senior Secured Credit Facilities on March 28, 2012, the restrictions over the use of the insurance proceeds received for the settlement of the Telstar 14R/Estrela do Sul 2 claim were no longer applicable.

The net change in operating assets and liabilities shown in the consolidated statements of cash flows is comprised of the following:

As at December 31,	2013	2012	2011
Trade and other receivables	$14,648	$(21,862)	$(1,828)
Financial assets	(1,688)	(13,333)	(1,604)
Other assets	15,058	(95)	(5,237)
Trade and other payables	(3,676)	11,527	(196)
Financial liabilities	(2,931)	(504)	(3,348)
Other liabilities	30,432	13,102	(935)
	$51,843	$(11,165)	$(13,148)

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25. SUPPLEMENTAL CASH FLOW INFORMATION – (continued)

Non-cash investing and financing activities are comprised of:

As at December 31,	2013	2012	2011
Satellites, property and other equipment	$4,069	$101	$24,441
Orbital slot	$1,061	$—	$—
Investment tax credit	$—	$(1,023)	$—
Forgiveness of satellite performance incentive payments	$—	$5,474	$—

26. COMMITMENTS AND CONTINGENT LIABILITIES

Off balance sheet commitments include operating leases and other future purchases and were comprised of the following:

	2014	2015	2016	2017	2018	Thereafter	Total
Operating property lease commitments	$6,890	$6,350	$5,694	$4,986	$4,650	$ 24,893	$53,463
Capital commitments	79,618	102,726	—	—	—	—	182,344
Other operating commitments	16,946	12,964	7,040	1,590	1,098	1,156	40,794
	$103,454	$122,040	$12,734	$6,576	$5,748	$ 26,049	$276,601

Certain of the Company’s offices, warehouses, earth stations, and office equipment are leased under various terms. The aggregate expense related to operating lease commitments for the year ended December 31, 2013 was $7.2 million (December 31, 2012 — $6.8 million, December 31, 2011 — $7.0 million). The expiry terms range from January 2014 to January 2043.

Telesat has entered into contracts for the construction and launch of Telstar 12 VANTAGE (targeted for launch in late 2015). The total outstanding commitments at December 31, 2013 are in U.S. dollars and are equal to $182.3 million.

Telesat has agreements with various customers for prepaid revenue on several service agreements which take effect when the spacecraft is placed in service. Telesat is responsible for operating and controlling these satellites. Customer prepayments of $393.4 million (December 31, 2012 — $410.6 million), refundable under certain circumstances, are reflected in other financial liabilities, both current and long-term.

In the normal course of business, the Company has executed agreements that provide for indemnification and guarantees to counterparties in various transactions. These indemnification undertakings and guarantees may require the Company to compensate the counterparties for costs and losses incurred as a result of certain events including, without limitation, loss or damage to property, change in the interpretation of laws and regulations (including tax legislation), claims that may arise while providing services, or as a result of litigation that may be suffered by the counterparties. The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount the Company could be required to pay counterparties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments under such indemnifications.

Telesat and Loral have entered into an indemnification agreement whereby Loral will indemnify Telesat for any tax liabilities for taxation years prior to 2007 related to Loral Skynet operations. Likewise, Telesat will indemnify Loral for the settlement of any tax receivables for taxation years prior to 2007.

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26. COMMITMENTS AND CONTINGENT LIABILITIES – (continued)

Legal Proceedings

The Company frequently participates in proceedings before national telecommunications regulatory authorities. In addition, the Company may also become involved from time to time in other legal proceedings arising in the normal course of its business.

The Company is subject to audits by taxing authorities in the various jurisdictions in which it operates, including Brazil and Hong Kong. In Brazil, the Company is currently involved in a number of disputes with the Brazilian tax authorities who have alleged that additional taxes are owing on revenue earned by the Company for the period 2003 to 2012. The disputes relate to the Brazilian tax authorities' characterization of the Company's revenue. Additional taxes of approximately $28 million have been assessed by Brazilian tax authorities and the Company has challenged those assessments. The Company believes the likelihood of an unfavorable outcome in these disputes is remote and, as such, no reserve has been established. In Hong Kong, the tax authority has challenged the Company's offshore claim for exempt income for the years 1999 to 2009 and issued assessments totaling $39 million. On January 29, 2014, the Hong Kong tax authority issued revised assessments for the years 1999 to 2009, which reduced the amount claimed to $1.5 million, including interest of $0.2 million. Loral has agreed to indemnify the Company with respect to the Hong Kong exposure and for certain of the assessments issued in Brazil.

Other than the above, the Company is not aware of any proceedings outstanding or threatened as of the date hereof by or against it or relating to its business which may have, or have had in the recent past, significant effects on the Company's financial position or profitability.

27. SUBSIDIARIES

The list of significant companies included in the scope of consolidation as at December 31, 2013 is as follows:

Company	**Country**	**Method of Consolidation**	**% voting rights**
Telesat Canada	Canada	Fully consolidated	100
Infosat Communications LP	Canada	Fully consolidated	100
Skynet Satellite Corporation	United States	Fully consolidated	100
Telesat Network Services, Inc.	United States	Fully consolidated	100
The SpaceConnection Inc.	United States	Fully consolidated	100
Telesat Satellite LP	United States	Fully consolidated	100
Infosat Able Holdings Inc.	United States	Fully consolidated	100
Able Infosat Communications, Inc.	United States	Fully consolidated	100
Telesat Brasil Capacidade de Satélites Ltda.	Brazil	Fully consolidated	100
Telesat (IOM) Limited	Isle of Man	Fully consolidated	100

The percentage of voting rights and interest were the same as at December 31, 2012.

28. RELATED PARTY TRANSACTIONS

The Company's immediate shareholders are Red Isle Private Investment Inc. ("Red Isle"), a company incorporated in Canada, Loral Holdings Corporation ("Loral Holdings"), a company incorporated in the United States and various individuals. Red Isle is wholly-owned by PSP Investments, a Canadian Crown corporation. Loral Holdings is a wholly-owned subsidiary of Loral, a United States publically listed company.

Transactions with subsidiaries

The Company and its subsidiaries regularly engage in inter-group transactions. These transactions include the purchase and sale of satellite services and communication equipment, providing and receiving network and call centre services, access to orbital slots and management services. The transactions have been entered into over the normal course of operations. Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and therefore have not been disclosed.

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28. RELATED PARTY TRANSACTIONS – (continued)

Redemption of the Senior Preferred Shares and Issuance and Payment of a Promissory Note

On March 28, 2012, the Company redeemed all of its outstanding Senior Preferred Shares, previously held by Red Isle, for $145.5 million in cash, which included $141.4 million of principal and $4.1 million of accrued dividends on the Senior Preferred Shares.

The Company issued a subordinated promissory note to Red Isle (“PSP Note”) for cash consideration on March 28, 2012 in the amount of $145.5 million. The promissory note of $145.5 million together with $8.4 million of accrued interest was repaid on October 29, 2012. The PSP Note included embedded interest rate floors and deferred financing costs which, as of March 2012, was a decrease to the PSP Note of $1.2 million and $0.2 million, respectively. The assets were subsequently amortized using the effective interest method. The unamortized amounts were derecognized in October 2012 upon the repayment of the PSP Note with a loss on financing of $1.2 million recognized.

Distributions to Loral Holdings and Red Isle

On March 28, 2012, the Company declared a special cash distribution to its shareholders, Loral Holdings and Red Isle, as a reduction in stated value, in the amount of $656.5 million. The special cash distribution was split $420.2 million and $236.3 million to Loral Holdings and Red Isle, respectively.

Key Management Personnel — Special Payments

In connection with the special cash distribution made to the Company’s shareholders, the Board authorized $48.6 million in special payments to certain employees. At December 31, 2013, $48.3 million of the special payments were cumulatively expensed and $47.2 million were cumulatively paid. The remaining amounts are expected to be paid over the next two years, subject to the applicable employees' continued employment with the Company on the payment date and other conditions.

Key Management Personnel — Stock Options

During the second quarter of 2013, the Board authorized the grant of 3,999,399 stock options to certain employees pursuant to the stock incentive plan. An expense of $13.3 million was recorded in 2013 in connection with the stock option grants.

Independent Board of Directors Special Payment

In 2012, the Company's four independent directors received a special payment for the assistance they provided in the assessment of various strategic alternatives explored by the Company in 2011. The amount paid to the four independent directors was, in aggregate, $0.9 million.

Compensation of executives and Board level directors

Year ended December 31,	2013	2012	2011
Short-term benefits (including salary)	$7,293	$10,470	$7,309
Special payment	2,162	42,867	—
Post-employment benefits (1)	1,814	1,615	1,192
Share-based payments	12,705	1,152	2,572
	$23,974	$56,104	$11,073

(1) A change in accounting policy has resulted in a change to 2012 and 2011 comparative figures. For more on the impact of the change, refer to Note 3.

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

28. RELATED PARTY TRANSACTIONS – (continued)

Transactions with related parties

The Company and certain of its subsidiaries regularly engage in transactions with related parties. The Company's related parties include Loral, Red Isle, and Loral Canadian Gateway Corporation ("LCGC"), a wholly-owned subsidiary of Loral.

During the year, the Company and its subsidiaries entered into the following transactions with related parties.

	Sale of goods and services, interest income			Purchase of goods and services, interest expense		
Year ended December 31,	2013	2012	2011	2013	2012	2011
Loral						
Revenue	$ —	$ —	$ 1	$ —	$ —	$ —
Operating expenses	—	—	—	6,267	6,252	4,990
Interest expense	—	—	—	66	1,255	1,291
Intangible assets	—	—	—	—	—	12,618
Red Isle						
Interest expense	—	—	—	—	10,812	9,869
SSL (1)						
Revenue	—	1,468	1,942	—	—	—
Interest expenses	—	—	—	—	973	995
Satellite, property and other equipment	—	—	—	—	49,537	180,853
LCGC						
Revenue	—	—	324	—	—	—
Satellite, property and other equipment	—	—	—	—	—	4,586

(1) As of November 2, 2012, Space System/Loral ("SSL") is no longer a related party.

The following balances were outstanding at the end of the year:

	Amounts owed by related parties		Amounts owed to related parties	
At December 31,	2013	2012	2013	2012
Loral				
Trade receivables/payables	$ 1,209	$ —	$ 290	$ 2,486
Other long-term financial assets/liabilities	2,482	2,318	7,397	6,908
Red Isle	—	—	—	—
SSL [(1)]				
Trade receivables/payables	—	21	—	—
Other current financial liabilities	—	—	—	1,320
Other long-term financial liabilities	—	—	—	16,927

(1) Amounts owed by/to SSL are the amounts outstanding as at December 31, 2012, which related to transactions entered into prior to November 2, 2012.

The amounts outstanding are unsecured and will be settled in cash.

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

28. RELATED PARTY TRANSACTIONS – (continued)

Stock Option Repurchase and Exercise of Share Appreciation Rights

In December 2012, the Board approved the repurchase for cash consideration of 20% of all vested stock options. A total of 1,660,619 options were repurchased by the Company. Also in December 2012, certain members of senior management exercised their share appreciation rights ("SARs") granted under the Company's share-based compensation plan and received 2,249,747 Non-Voting Participating Preferred Shares.

In April 2013, a member of senior management exercised 83,204 SARs in relation to the stock options granted under the Company's stock incentive plan and received 24,638 Non-Voting Participating Preferred Shares.

Other related party transactions

The Company funds certain defined benefit pension plans. Contributions made to the plans for the year ended December 31, 2013 were $10.7 million (December 31, 2012 — $10.7 million).

29. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The 6.0% Senior Notes and 12.5% Senior Subordinated Notes, which were fully redeemed on May 1, 2013, were co-issued by Telesat LLC and Telesat Canada, ("the Issuers") which are 100% owned subsidiaries of Telesat, and were guaranteed fully and unconditionally, on a joint and several basis, by Telesat and certain of its subsidiaries.

The condensed consolidating financial information reflects the investments of Telesat Holdings Inc. in the Issuers, of the Issuers in their respective Guarantor and Non-Guarantor subsidiaries and of the Guarantors in their Non-Guarantor subsidiaries using the equity method.

A change in accounting policies has resulted in a restatement to the 2012 and 2011 comparative figures. For more on the impacts of the changes, refer to Note 3.

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the year ended December 31, 2013

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non-guarantor subsidiaries	Adjustments	Consolidated
Revenue	$—	$ —	$ 837,358	$ 152,306	$ 16,879	$ (109,647)	$ 896,896
Operating expenses	—	—	(170,865)	(121,312)	(18,532)	109,647	(201,062)
	—	—	666,493	30,994	(1,653)	—	695,834
Depreciation	—	—	(179,442)	(31,498)	(211)	—	(211,151)
Amortization	—	—	(31,262)	(1,358)	(39)	—	(32,659)
Other operating gains (losses), net	—	—	15,721	9,733	(119)	—	25,335
Operating income (loss)	—	—	471,510	7,871	(2,022)	—	477,359
Income (loss) from equity investments	68,094	—	8,638	(1,962)	—	(74,770)	—
Interest expense	—	—	(223,424)	(670)	(5)	—	(224,099)
Loss on financing	—	—	(18,487)	—	—	—	(18,487)
Interest and other income (expense)	—	—	11,708	(42)	2	—	11,668
Gain on changes in fair value of financial instruments	—	—	80,928	—	—	—	80,928
(Loss) gain on foreign exchange	(1)	—	(190,562)	(12,586)	8,240	—	(194,909)
Income (loss) before tax	68,093	—	140,311	(7,389)	6,215	(74,770)	132,460
Tax (expense) recovery	—	—	(72,217)	7,902	(52)	—	(64,367)
Net income	$ 68,093	$ —	$ 68,094	$ 513	$ 6,163	$ (74,770)	$ 68,093
Other comprehensive income (loss)	14,669	—	18,604	(3,553)	(382)	(14,669)	14,669
Total comprehensive income (loss)	$ 82,762	$ —	$ 86,698	$ (3,040)	$ 5,781	$ (89,439)	$ 82,762

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the year ended December 31, 2012

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non-guarantor subsidiaries	Adjustments	Consolidated
Revenue	$ —	$ —	$ 782,814	$ 149,277	$ 18,959	$ (105,240)	$ 845,810
Operating expenses	(15)	—	(202,050)	(127,670)	(21,384)	105,240	(245,879)
	(15)	—	580,764	21,607	(2,425)	—	599,931
Depreciation	—	—	(160,283)	(48,106)	(296)	—	(208,685)
Amortization	—	—	(36,168)	268	(65)	—	(35,965)
Other operating gains (losses), net	—	—	5,946	(56)	—	—	5,890
Operating (loss) income	(15)	—	390,259	(26,287)	(2,786)	—	361,171
Income (loss) from equity investments	26,754	—	(29,119)	(3,099)	—	5,464	—
Interest expense	(2,380)	—	(242,597)	(444)	—	—	(245,421)
Loss on financing	—	—	(77,278)	—	—	—	(77,278)
Interest and other income	—	—	839	521	1	—	1,361
Loss on changes in fair value of financial instruments	—	—	(58,984)	—	—	—	(58,984)
Gain (loss) on foreign exchange	—	—	78,466	3,903	(3,515)	—	78,854
Income (loss) before tax	24,359	—	61,586	(25,406)	(6,300)	5,464	59,703
Tax expense	—	—	(34,832)	(335)	(177)	—	(35,344)
Net income (loss)	$ 24,359	$ —	$ 26,754	$ (25,741)	$ (6,477)	$ 5,464	$ 24,359
Other comprehensive income (loss)	2,821	—	5,913	(2,894)	(198)	(2,821)	2,821
Total comprehensive income (loss)	$ 27,180	$ —	$ 32,667	$ (28,635)	$ (6,675)	$ 2,643	$ 27,180

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the year ended December 31, 2011

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non-guarantor subsidiaries	Adjustments	Consolidated
Revenue	$—	$ —	$ 742,728	$ 110,203	$ 20,286	$ (64,856)	$ 808,361
Operating expenses	—	—	(134,740)	(95,427)	(22,657)	64,856	(187,968)
	—	—	607,988	14,776	(2,371)	—	620,393
Depreciation	—	—	(146,581)	(51,711)	(334)	—	(198,626)
Amortization	—	—	(42,480)	1,541	(82)	—	(41,021)
Other operating gains (losses), net	—	—	116,063	(1,989)	(6)	—	114,068
Operating income (loss)	—	—	534,990	(37,383)	(2,793)	—	494,814
Income (loss) from equity investments	245,714	—	(40,204)	(3,049)	—	(202,461)	—
Interest (expense) income	(9,869)	—	(220,898)	2,021	(13)	—	(228,759)
Interest and other income	—	—	86	1,465	3	—	1,554
Gain on changes in fair value of financial instruments	—	—	98,585	—	—	—	98,585
(Loss) gain on foreign exchange	—	—	(75,155)	(6,084)	2,395	—	(78,844)
Income (loss) before tax	235,845	—	297,404	(43,030)	(408)	(202,461)	287,350
Tax (expense) recovery	—	—	(51,690)	106	79	—	(51,505)
Net income (loss)	$ 235,845	$ —	$ 245,714	$ (42,924)	$ (329)	$ (202,461)	$ 235,845
Other comprehensive (loss) income	(33,188)	—	(29,647)	(3,780)	239	33,188	(33,188)
Total comprehensive income (loss)	$ 202,657	$ —	$ 216,067	$ (46,704)	$ (90)	$ (169,273)	$ 202,657

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Condensed Consolidating Balance Sheets
As at December 31, 2013

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non-guarantor subsidiaries	Adjustments	Consolidated
Assets							
Cash and cash equivalents	$—	$ —	$ 284,231	$ 13,008	$ 1,474	$—	$ 298,713
Trade and other receivables	—	—	31,588	17,093	1,585	—	50,266
Other current financial assets	—	—	35	118	7,021	—	7,174
Intercompany receivables	—	—	362,070	173,960	144,071	(680,101)	—
Prepaid expenses and other current assets	—	—	13,460	5,142	63	—	18,665
Total current assets	—	—	691,384	209,321	154,214	(680,101)	374,818
Satellites, property and other equipment	—	—	1,654,000	308,358	401	—	1,962,759
Deferred tax assets	—	—	—	10,024	—	—	10,024
Other long-term financial assets	—	—	68,056	7,505	445	—	76,006
Other long-term assets	—	—	2,466	299	—	—	2,765
Intangible assets	—	—	798,766	46,520	—	—	845,286
Investment in affiliates	1,167,517	—	1,164,562	661,102	261	(2,993,442)	—
Goodwill	—	—	2,078,056	343,876	24,671	—	2,446,603
Total assets	$ 1,167,517	$ —	$ 6,457,290	$ 1,587,005	$ 179,992	$ (3,673,543)	$ 5,718,261
Liabilities							
Trade and other payables	$—	$ —	$ 17,150	$ 15,956	$ 1,378	$—	$ 34,484
Other current financial liabilities	—	—	163,059	1,000	696	—	164,755
Intercompany payables	45,614	—	218,097	385,219	31,171	(680,101)	—
Other current liabilities	—	—	118,156	3,146	756	—	122,058
Current indebtedness	—	—	57,363	1	—	—	57,364
Total current liabilities	45,614	—	573,825	405,322	34,001	(680,101)	378,661
Long-term indebtedness	—	—	3,284,502	—	—	—	3,284,502
Deferred tax liabilities	—	—	515,745	(466)	(72)	—	515,207
Other long-term financial liabilities	—	—	68,911	3,892	—	—	72,803

Other long-term liabilities	—	—	339,269	5,910	6	—	345,185
Total liabilities	45,614	—	4,782,252	414,658	33,935	(680,101)	4,596,358
Shareholders' Equity							
Share capital	656,660	—	1,518,716	1,096,668	104,464	(2,719,848)	656,660
Accumulated earnings	456,013	—	79,934	143,002	41,378	(264,314)	456,013
Reserves	9,230	—	76,388	(67,323)	215	(9,280)	9,230
Total shareholders' equity	1,121,903	—	1,675,038	1,172,347	146,057	(2,993,442)	1,121,903
Total liabilities and shareholders' equity	$1,167,517	$ —	$6,457,290	$1,587,005	$179,992	$(3,673,543)	$5,718,261

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Condensed Consolidating Balance Sheets
As at December 31, 2012

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non-guarantor subsidiaries	Adjustments	Consolidated
Assets							
Cash and cash equivalents	$—	$ —	$ 158,516	$ 19,508	$ 2,937	$—	$ 180,961
Trade and other receivables	—	—	39,694	21,938	2,130	—	63,762
Other current financial assets	—	—	41	195	6,563	—	6,799
Intercompany receivables	—	—	392,051	179,338	140,267	(711,656)	—
Prepaid expenses and other current assets	—	—	15,660	7,217	69	—	22,946
Total current assets	—	—	605,962	228,196	151,966	(711,656)	274,468
Satellites, property and other equipment	—	—	1,794,447	294,628	1,679	—	2,090,754
Other long-term financial assets	—	—	125,135	5,992	408	—	131,535
Other long-term assets	—	—	3,807	885	—	—	4,692
Intangible assets	—	—	813,923	44,735	39	—	858,697
Investment in affiliates	1,072,435	—	1,126,642	695,607	261	(2,894,945)	—
Goodwill	—	—	2,078,056	343,876	24,671	—	2,446,603
Total assets	$ 1,072,435	$ —	$ 6,547,972	$ 1,613,919	$ 179,024	$ (3,606,601)	$ 5,806,749
Liabilities							
Trade and other payables	$—	$ —	$ 20,803	$ 13,284	$ 1,622	$—	$ 35,709
Other current financial liabilities	—	—	87,418	1,519	1,654	—	90,591
Intercompany payables	45,703	—	221,297	409,393	35,263	(711,656)	—
Other current liabilities	—	—	76,037	1,349	544	—	77,930
Current indebtedness	—	—	31,952	1	—	—	31,953
Total current liabilities	45,703	—	437,507	425,546	39,083	(711,656)	236,183
Long-term indebtedness	—	—	3,374,977	—	—	—	3,374,977
Deferred tax liabilities	—	—	485,541	(378)	—	—	485,163
	—	—	278,212	3,250	—	—	281,462

Other long-term financial liabilities							
Other long-term liabilities	—	—	391,614	10,525	93	—	402,232
Total liabilities	45,703	—	4,967,851	438,943	39,176	(711,656)	4,780,017
Shareholders' Equity							
Share capital	656,394	—	1,518,716	1,096,668	104,434	(2,719,818)	656,394
Accumulated earnings (deficit)	373,042	—	(2,924)	145,484	35,216	(177,776)	373,042
Reserves	(2,704)	—	64,329	(67,176)	198	2,649	(2,704)
Total shareholders' equity	1,026,732	—	1,580,121	1,174,976	139,848	(2,894,945)	1,026,732
Total liabilities and shareholders' equity	$ 1,072,435	$ —	$ 6,547,972	$ 1,613,919	$ 179,024	$ (3,606,601)	$ 5,806,749

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2013

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non-guarantor subsidiaries	Adjustments	Consolidated
Cash flows (used in) from operating activities							
Net income	$ 68,093	$ —	$ 68,094	$ 513	$ 6,163	$ (74,770)	$ 68,093
Adjustments to reconcile net income to cash flows (used in) from operating activities:							
Depreciation	—	—	179,442	31,498	211	—	211,151
Amortization	—	—	31,262	1,358	39	—	32,659
Deferred tax expense (recovery)	—	—	22,958	(8,630)	—	—	14,328
Interest expense	—	—	223,424	670	5	—	224,099
Interest income	—	—	(1,194)	(94)	—	—	(1,288)
Unrealized foreign exchange loss (gain)	1	—	198,450	12,819	(8,854)	—	202,416
Gain on derivatives	—	—	(80,928)	—	—	—	(80,928)
Share-based compensation	—	—	12,065	1,050	402	—	13,517
(Income) loss from equity investments	(68,094)	—	(8,638)	1,962	—	74,770	—
Impairment reversal on intangible assets	—	—	(17,274)	—	—	—	(17,274)
Gain on other post-employment benefit plan amendment	—	—	—	(9,786)	—	—	(9,786)
Loss on disposal of assets	—	—	1,553	53	119	—	1,725
Loss on financing	—	—	18,487	—	—	—	18,487
Other	—	—	(49,540)	(308)	93	—	(49,755)
Income taxes paid	—	—	(11,716)	(824)	(29)	—	(12,569)
Interest paid, net of capitalized interest	—	—	(212,052)	(257)	(4)	—	(212,313)
Interest received	—	—	1,046	122	4	—	1,172
Customer prepayments on future satellite services	—	—	31,778	527	—	—	32,305
Repurchase of stock options and exercise of share appreciation	—	—	(701)	(495)	—	—	(1,196)

rights							
Operating assets and liabilities	(89)	—	81,681	(28,981)	(768)	—	51,843
Net cash (used in) from operating activities	$(89)	$ —	$488,197	$1,197	$(2,619)	$—	$486,686
Cash flows (used in) from investing activities							
Satellite programs, including capitalized interest	$—	$ —	$(32,816)	$(38,362)	$—	$—	$(71,178)
Purchase of other property and equipment	—	—	(6,511)	(2,199)	(62)	—	(8,772)
Purchase of intangible assets	—	—	—	(6)	—	—	(6)
Proceeds from sale of assets	—	—	81	—	1,000	—	1,081
Dividends received	—	—	4,394	—	—	(4,394)	—
Investment in affiliates	—	—	(36,823)	—	—	36,823	—
Net cash (used in) from investing activities	$—	$ —	$(71,675)	$(40,567)	$ 938	$32,429	$(78,875)
Cash flows from (used in) financing activities							
Repayment of indebtedness	$—	$ —	$(271,448)	$—	$—	$—	$(271,448)
Payment of premium on early retirement of indebtedness	—	—	(13,793)	—	—	—	(13,793)
Payment of debt issue costs	—	—	(810)	—	—	—	(810)
Proceeds from exercise of stock options	99	—	—	—	—	—	99
Dividends paid on preferred shares	(10)	—	—	—	—	—	(10)
Satellite performance incentive payments	—	—	(4,756)	(14)	—	—	(4,770)
Dividends paid	—	—	—	(4,394)	—	4,394	—
Proceeds from issuance of share capital	—	—	—	36,823	—	(36,823)	—
Net cash from (used in) financing activities	$89	$ —	$(290,807)	$32,415	$—	$(32,429)	$(290,732)
Effect of changes in exchange rates on cash and cash equivalents	$—	$ —	$—	$455	$ 218	$—	$673
Increase (decrease) in cash and cash equivalents	$—	$ —	$125,715	$(6,500)	$(1,463)	$—	$117,752
Cash and cash equivalents, beginning of period	—	—	158,516	19,508	2,937	—	180,961
Cash and cash equivalents, end of period	$—	$ —	$284,231	$13,008	$ 1,474	$—	$298,713

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2012

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non-guarantor subsidiaries	Adjustments	Consolidated
Cash flows (used in) from operating activities							
Net income (loss)	$24,359	$ —	$26,754	$(25,741)	$(6,477)	$5,464	$24,359
Adjustments to reconcile net income (loss) to cash flows (used in) from operating activities:							
Depreciation	—	—	160,283	48,106	296	—	208,685
Amortization	—	—	36,168	(268)	65	—	35,965
Deferred tax expense (recovery)	—	—	36,983	(74)	—	—	36,909
Interest expense	2,380	—	242,597	444	—	—	245,421
Interest income	—	—	(820)	(269)	(1)	—	(1,090)
Unrealized foreign exchange (gain) loss	—	—	(81,459)	(5,293)	3,381	—	(83,371)
Loss on derivatives	—	—	58,984	—	—	—	58,984
Share-based compensation	—	—	868	211	123	—	1,202
(Income) loss from equity investments	(26,754)	—	29,119	3,099	—	(5,464)	—
Impairment reversal on intangible assets	—	—	(1,194)	—	—	—	(1,194)
Loss on disposal of assets	—	—	722	56	—	—	778
Loss on financing	—	—	77,278	—	—	—	77,278
Other	—	—	(51,652)	(10,784)	(210)	—	(62,646)
Income taxes paid	—	—	(3,718)	(40)	(6)	—	(3,764)
Interest paid, net of capitalized interest	(4,030)	—	(235,480)	(9)	—	—	(239,519)
Interest received	—	—	848	278	1	—	1,127
Customer prepayments on future satellite services	—	—	40,345	—	—	—	40,345
Insurance proceeds	—	—	314	—	—	—	314
	—	—	(32,393)	(2,367)	(506)	—	(35,266)

Repurchase of stock options and exercise of share appreciation rights							
Operating assets and liabilities	15	—	(20,171)	5,040	3,951	—	(11,165)
Net cash (used in) from operating activities	$(4,030)	$ —	$284,376	$12,389	$ 617	$—	$293,352
Cash flows from (used in) investing activities							
Satellite programs, including capitalized interest	$—	$ —	$(161,536)	$(1,013)	$ —	$—	$(162,549)
Purchase of other property and equipment	—	—	(5,252)	(2,240)	(119)	—	(7,611)
Purchase of intangible assets	—	—	—	(166)	—	—	(166)
Proceeds from sale of assets	—	—	34	38	—	—	72
Return of capital from subsidiaries	802,011	—	—	802,011	—	(1,604,022)	—
Dividends received	—	—	7,063	—	—	(7,063)	—
Net cash from (used in) investing activities	$802,011	$ —	$(159,691)	$798,630	$ (119)	$(1,611,085)	$(170,254)
Cash flows (used in) from financing activities							
Proceeds from indebtedness	$—	$ —	$3,306,865	$—	$ —	$—	$3,306,865
Proceeds from issue of promissory note	—	—	145,466	—	—	—	145,466
Repayment of indebtedness	—	—	(2,777,507)	—	—	—	(2,777,507)
Repayment of senior preferred shares	(141,435)	—	—	—	—	—	(141,435)
Payment of premium on early retirement of indebtedness	—	—	(39,444)	—	—	—	(39,444)
Payment of debt issue costs	—	—	(52,030)	—	—	—	(52,030)
Return of capital to shareholders	(656,546)	—	(802,011)	(802,011)	—	1,604,022	(656,546)
Satellite performance incentive payments	—	—	(4,345)	(237)	—	—	(4,582)
Dividends paid	—	—	—	(7,063)	—	7,063	—
Net cash (used in) from financing activities	$(797,981)	$ —	$(223,006)	$(809,311)	$ —	$1,611,085	$(219,213)
Effect of changes in exchange rates on cash and cash equivalents	$—	$ —	$—	$(854)	$ (32)	$—	$(886)
(Decrease) increase in cash and cash equivalents	$—	$ —	$(98,321)	$854	$ 466	$—	$(97,001)
	—	—	256,837	18,654	2,471	—	277,962

Cash and cash equivalents, beginning of year							
Cash and cash equivalents, end of year	$—	$ —	$ 158,516	$ 19,508	$ 2,937	$—	$ 180,961

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Telesat Holdings Inc.

Notes to the 2013 Consolidated Financial Statements
(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Condensed Consolidating Statement of Cash Flows
For the year ended December 31, 2011

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non-guarantor subsidiaries	Adjustments	Consolidated
Cash flows (used in) from operating activities							
Net income (loss)	$235,845	$ —	$245,714	$(42,924)	$(329)	$(202,461)	$235,845
Adjustments to reconcile net income (loss) to cash flows (used in) from operating activities:							
Depreciation	—	—	146,581	51,711	334	—	198,626
Amortization	—	—	42,480	(1,541)	82	—	41,021
Deferred tax expense (recovery)	—	—	51,618	(145)	(100)	—	51,373
Interest expense (income)	9,869	—	220,898	(2,021)	13	—	228,759
Interest income	—	—	(1,143)	(816)	(2)	—	(1,961)
Unrealized foreign exchange loss (gain)	—	—	66,375	4,045	(2,714)	—	67,706
Gain on derivatives	—	—	(87,914)	—	—	—	(87,914)
Dividends on senior preferred shares	1,650	—	—	—	—	—	1,650
Share-based compensation	—	—	2,073	383	198	—	2,654
(Income) loss from equity investments	(245,714)	—	40,204	3,049	—	202,461	—
Insurance proceeds	—	—	(135,019)	—	—	—	(135,019)
Impairment loss on intangible assets	—	—	18,368	1,100	—	—	19,468
Loss on disposal of assets	—	—	588	879	16	—	1,483
Other	—	—	(41,928)	(2,876)	242	—	(44,562)
Income taxes paid	—	—	(2,300)	—	(29)	—	(2,329)
Interest paid, net of capitalized interest	(10,294)	—	(200,589)	—	—	—	(210,883)
Interest received	—	—	1,300	819	2	—	2,121
Customer prepayments on future satellite services	—	—	55,268	2,500	—	—	57,768
Insurance proceeds	—	—	11,228	—	—	—	11,228

Operating assets and liabilities	(1,650)	—	(550)	(13,244)	2,296	—	(13,148)
Net cash (used in) from operating activities	$(10,294)	$ —	$433,252	$919	$ 9	$—	$423,886
Cash flows (used in) from investing activities							
Satellite programs, including capitalized interest	$—	$ —	$(302,193)	$(54,006)	$ —	$—	$(356,199)
Purchases of other property and equipment	—	—	(16,137)	(1,374)	(55)	—	(17,566)
Purchase of intangible assets	—	—	—	(12,618)	—	—	(12,618)
Insurance proceeds	—	—	135,019	—	—	—	135,019
Proceeds from sale of assets	—	—	148	—	—	—	148
Business acquisitions	—	—	(9,264)	9,264	—	—	—
Dividends received	—	—	8,633	—	—	(8,633)	—
Net cash (used in) from investing activities	$—	$ —	$(183,794)	$(58,734)	$ (55)	$(8,633)	$(251,216)
Cash flows from (used in) financing activities							
Repayment of indebtedness	$—	$ —	$(108,741)	$—	$ —	$—	$(108,741)
Dividends paid on preferred shares	(10)	—	—	—	—	—	(10)
Satellite performance incentive payments	—	—	(5,928)	—	—	—	(5,928)
Intercompany loan	10,304	—	(74,634)	64,330	—	—	—
Dividends paid	—	—	—	(8,633)	—	8,633	—
Net cash from (used in) financing activities	$10,294	$ —	$(189,303)	$55,697	$ —	$8,633	$(114,679)
Effect of changes in exchange rates on cash and cash equivalents	—	—	—	(363)	39	—	(324)
Increase (decrease) in cash and cash equivalents	—	—	60,155	(2,481)	(7)	—	57,667
Cash and cash equivalents, beginning of year	—	—	196,682	21,135	2,478	—	220,295
Cash and cash equivalents, end of year	$—	$ —	$256,837	$18,654	$ 2,471	$—	$277,962