AERIE PHARMACEUTICALS INC
Form DEF 14A
February 27, 2015

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

SCHEDULE 14A
(Rule 14a-101)
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 ¨
Check the appropriate box:
¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-12
Aerie Pharmaceuticals, Inc.
(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):
ý No fee required.
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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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February 27, 2015

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Aerie Pharmaceuticals, Inc., which will be held on April 10, 2015, at 8:00 a.m., Pacific Time, at the Four Seasons Hotel located at 757 Market Street, San Francisco, CA 94103.

The attached Notice of the Annual Meeting of Stockholders and proxy statement describes the formal business that we will transact at the Annual Meeting.

The Board of Directors of Aerie Pharmaceuticals, Inc. has determined that an affirmative vote on each matter that calls for an affirmative vote is in the best interest of Aerie Pharmaceuticals, Inc. and its stockholders and unanimously recommends a vote "FOR" all such matters considered at the Annual Meeting.

Please promptly complete, sign and return the enclosed proxy card by mail or submit your voting instructions by Internet, whether or not you plan to attend the Annual Meeting. Your vote is important regardless of the number of shares you own. Voting by proxy will not prevent you from voting in person at the Annual Meeting, but will assure that your vote is counted if you cannot attend.

On behalf of the Board of Directors and the employees of Aerie Pharmaceuticals, Inc., we thank you for your continued support and look forward to seeing you at the Annual Meeting.

Sincerely yours,

Vicente Anido, Jr., PhD

Chief Executive Officer and Chairman of the Board

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AERIE PHARMACEUTICALS, INC.
2030 Main Street, Suite 1500
Irvine, California 92614
(949) 526-8700

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

DATE	Friday, April 10, 2015
TIME	8:00 A.M. Pacific Time
PLACE	Four Seasons Hotel 757 Market Street, San Francisco, California 94103

ITEMS OF BUSINESS

(1) Election of the two nominees named in the attached proxy statement as Directors to serve on the Board of Directors for a three-year term;
(2) Approval of the Aerie Pharmaceuticals, Inc. Amended and Restated Omnibus Incentive Plan;
(3) Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015; and
(4) Consideration of any other business properly brought before the meeting and any adjournment or postponement thereof.

RECORD DATE

The record date for the Annual Meeting is February 13, 2015. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

PROXY VOTING

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please submit the enclosed proxy or voting instructions by mail, telephone or Internet. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Submitting a proxy or voting instructions will not prevent you from attending the Annual Meeting and voting in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

By Order of the Board of Directors

Richard J. Rubino
Chief Financial Officer and Secretary

Irvine, California
February 27, 2015

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PROXY STATEMENT FOR THE
2015 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 10, 2015
QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING
Why am I receiving these materials?
We have sent you this proxy statement and the enclosed proxy card because the Board of Directors, or the Board, of Aerie Pharmaceuticals, Inc. is soliciting your proxy to vote at the 2015 Annual Meeting of Stockholders. This proxy statement and proxy card is being mailed to stockholders on or about February 27, 2015. As used in this proxy statement, the "Company," "we," "us" and "our" refer to Aerie Pharmaceuticals, Inc. The term "Annual Meeting," as used in th proxy statement, includes any adjournment or postponement of such meeting.
Who can vote at the Annual Meeting?
Only stockholders of record as of the close of business on February 13, 2015, will be entitled to vote at the Annual Meeting. On this date, there were 24,038,664 shares of common stock issued and outstanding and entitled to vote.
Stockholder of Record: Shares Registered in Your Name
If on February 13, 2015, your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card by mail or vote by proxy over the telephone or the Internet as instructed below to ensure your vote is counted.
Beneficial Owner: Shares Registered in the Name of a Broker or Bank
If on February 13, 2015, your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in "street name" and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting.
As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. Simply complete and mail the proxy card and voting instructions to ensure that your vote is counted. Alternatively, you may vote by telephone or over the Internet as instructed by your broker or bank, if applicable. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.
What is the quorum requirement?
A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of our outstanding shares entitled to vote at the Annual Meeting are present at the Annual Meeting in person or represented by proxy.
Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the meeting or vote by proxy over the telephone or the Internet as instructed below. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the chairperson of the meeting or the holders of a majority of shares present at the meeting in person or represented by proxy may adjourn the meeting to another date.
What am I voting on and how many votes are needed to approve each proposal?
Proposal 1: Election of Directors. Directors will be elected by a plurality of the votes cast at the Annual Meeting by the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. Plurality means that the individuals who receive the largest number of "FOR" votes cast are elected as directors up to the maximum number of directors to be chosen at the meeting. Accordingly, the two nominees receiving the most "FOR" votes will be elected as directors.
Proposal 2: Approval of the Aerie Pharmaceuticals, Inc. Amended and Restated Omnibus Incentive Plan. The approval of the Aerie Pharmaceuticals, Inc. Amended and Restated Omnibus Incentive Plan (the "Omnibus Plan") will require "FOR" votes from a majority of the votes cast at the Annual Meeting by the holders of shares present in person

or represented by proxy and entitled to vote on this proposal.

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Proposal 3: Ratification of Appointment of Independent Registered Public Accounting Firm. The ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015, will require "FOR" votes from a majority of the votes cast at the Annual Meeting by the holders of shares present in person or represented by proxy and entitled to vote on this proposal.

Abstentions and "broker non-votes" will not be counted as votes cast and will have no effect on the voting on the proposals referenced above.

What are broker non-votes?

Broker non-votes occur when a beneficial owner of shares held in "street name" does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed "non-routine." Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee may vote the shares with respect to matters that are considered to be "routine," but may not vote the shares with respect to "non-routine" matters. The election of directors (Proposal 1) and approval of the Omnibus Plan (Proposal 2) are matters considered "non-routine" under applicable rules. The ratification of the appointment of our independent registered public accounting firm (Proposal 3) is a matter considered "routine" under applicable rules.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of February 13, 2015.

What does it mean if I receive more than one proxy card?

You may receive more than one proxy card if your shares are registered in more than one name or are registered in different accounts. Please vote in the manner described below under "How do I vote?" for each proxy card to ensure that all of your shares are voted.

How does the Board recommend that I vote my shares?

Unless you give other instructions on your proxy card, the persons named as proxies on the card will vote in accordance with the recommendations of the Board. The Board's recommendation is set forth together with the description of each item in this proxy statement. The Board recommends a vote:

- "FOR" the election of the two nominees to the Board;
- "FOR" the approval of the Omnibus Plan; and
- "FOR" the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015.

With respect to any other matter that properly comes before the Annual Meeting, the proxies will vote as recommended by the Board or, if no recommendation is given, in their own discretion in the best interest of the Company and its stockholders. As of the date of this proxy statement, the Board had no knowledge of any business other than that described herein that would be presented for consideration at the Annual Meeting.

How do I vote?

You may vote (1) "FOR ALL," to vote for all of the nominees to the Board; (2) "WITHHOLD ALL," to withhold your vote from all of the nominees to the Board; or (3) "FOR ALL EXCEPT," to vote for all of the nominees to the Board except for any nominee that you specify in the space provided. An instruction to withhold authority to vote for one or more of the nominees will result in those nominees receiving fewer votes, but will not count as a vote against the nominees. For the other matters to be voted on, you may vote "FOR" or "AGAINST," or you may "ABSTAIN" from voting. The procedures for voting are as follows:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may (a) vote in person at the Annual Meeting or (b) vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card by mail or vote by proxy over the

telephone or the Internet as instructed below to ensure your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy, as described under “May I change my vote after submitting my proxy card?” below.

- To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.
- To vote by proxy, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, the designated proxy holders will vote your shares as you direct.
- To vote over the telephone, dial toll-free 1-800-690-6903 using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and account number from the enclosed proxy card. Your vote must be received by 11:59 P.M., Eastern Time on April 9, 2015, to be counted.
- To vote on the Internet, go to www.proxyvote.com to complete an electronic proxy card. You will be asked to provide the company number and account number from the enclosed proxy card. Your vote must be received by 11:59 P.M., Eastern Time on April 9, 2015, to be counted.

If you sign the proxy card but do not make specific choices, your proxy will vote your shares “FOR” each of the nominees to the Board, “FOR” the approval of the Omnibus Plan and “FOR” the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm.

If any other matter is presented, the proxies will vote as recommended by the Board or, if no recommendation is given, in their own discretion in the best interest of the Company and its stockholders. As of the date of this proxy statement, we know of no other matters that may be presented at the Annual Meeting, other than that listed in the Notice of Annual Meeting of Stockholders.

Beneficial Owner: Shares Registered in the Name of a Broker, Bank or Other Agent

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply complete and mail the proxy card and voting instructions to ensure that your vote is counted. Alternatively, you may vote by telephone or over the Internet as instructed by your broker, bank or other agent, if applicable. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker, bank or other agent included with these proxy materials, or contact your broker, bank or other agent to request a proxy form.

May I change my vote after submitting my proxy card?

Yes. You can revoke your proxy at any time before the final vote at the Annual Meeting. If you are the stockholder of record of your shares, you may revoke your proxy in any one of the following four ways:

- send a timely written revocation of the proxy to our Secretary;
- submit a signed proxy card bearing a later date;
- enter a new vote over the Internet or by telephone; or
- attend and vote in person at the Annual Meeting.

If your shares are not registered in your own name, you will need the appropriate documentation from the stockholder of record to vote personally at the Annual Meeting. If your shares are held by your broker, bank or another party as a nominee or agent, you should follow the instructions provided by such party.

Your personal attendance at the Annual Meeting does not revoke your proxy. Your last vote, prior to or at the Annual Meeting, is the vote that will be counted.

Who will bear the expense of soliciting proxies?

We will bear the cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of our common stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of our common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by solicitation by telephone, via the Internet or in person by our directors, officers or other regular employees. No additional compensation will be paid to directors, officers or other regular employees for such services.

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How can I find the voting results from the Annual Meeting?

Preliminary voting results will be announced at our Annual Meeting. Final voting results will be published in a Current Report on Form 8-K that we expect to file no later than four business days after the Annual Meeting. If final voting results are not available by the time we file the Form 8-K, we will disclose the preliminary results in the Form 8-K and, within four business days after the final voting results are known to us, file an amended Form 8-K to disclose the final voting results.

Obtaining an Annual Report on Form 10-K

We will provide a copy of our 2014 Annual Report on Form 10-K without charge, upon written request, to any registered or beneficial owner of common stock entitled to vote at the Annual Meeting. Requests can be made by email, sendmaterial@proxyvote.com, or in writing addressed to Richard J. Rubino, Secretary, Aerie Pharmaceuticals, Inc., 2030 Main Street, Suite 1500, Irvine, CA 92614. Please include your control number with your request. The Securities and Exchange Commission, or the SEC, also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants, including our company.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON APRIL 10, 2015

This Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (including amendments thereto), are available free of charge for viewing, printing and downloading at http://investors.aeriepharma.com/sec.cfm and http://investors.aeriepharma.com/annuals.cfm, respectively.

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PROPOSAL 1

ELECTION OF DIRECTORS

Our Board currently comprises seven directors. Our amended and restated certificate of incorporation provides for a classified Board consisting of three classes of directors, each of which shall consist, as nearly as may be possible, of one-third of the total number of directors. Currently, two classes consist of two directors and one class consists of three directors. Each class serves a staggered three-year term. At each annual meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following their election. The terms of our Class II directors, Geoffrey Duyk, MD, PhD and Murray A. Goldberg, will expire at the Annual Meeting, and the terms of our Class III directors and Class I directors will expire at the annual meeting of stockholders to be held in 2016 and 2017, respectively.

Upon the recommendation of the nominating and corporate governance committee, our Board has nominated Dr. Duyk and Mr. Goldberg for re-election as Class II directors at the Annual Meeting.

There are no arrangements or understanding between any director, or nominee for directorship, pursuant to which such director or nominee was selected as a director or nominee. We know of no reason why any nominee may be unable to serve as a director. If any nominee is unable to serve, your proxy may vote for another nominee proposed by the Board. If for any reason these nominees prove unable or unwilling to stand for election, the Board will nominate alternates or reduce the size of the Board to eliminate the vacancy. The Board has no reason to believe that its nominees would prove unable to serve if elected. Proxies cannot be voted for a greater number of persons than the number of nominees named in this proxy statement.

Nominees for Election as Directors

Set forth below are the names, ages, principal occupations, and business experience, as well as their prior service on the Board, if any, for the nominees for election as directors at the Annual Meeting. Unless otherwise indicated, principal occupations shown for each director have extended for five or more years. If the nominees listed below are elected, they will hold office until the annual meeting of stockholders to be held in 2018 or until their successors have been duly elected and qualified.

Name	Age (1)	Position(s) Held	Director Since
Geoffrey Duyk, MD, PhD	55	Director	2005
Murray A. Goldberg	69	Director	2013

(1) Age as of January 31, 2015.

Geoffrey Duyk, MD, PhD has served as a member of our Board since 2005. Dr. Duyk is a Managing Director of TPG Biotech and TPG Alternative and Renewable Technologies. Dr. Duyk is a member of the Scientific Advisory Board for Jackson Laboratories and has been a member of numerous NIH panels and oversight committees focused on the planning and execution of the Human Genome Project. Previously, he served on the board of directors and was President of Research and Development at Exelixis, Inc., a biopharmaceutical company focusing on drug discovery, from 1996 to 2003. Prior to Exelixis, Dr. Duyk was Vice President of Genomics and one of the founding scientific staff at Millennium Pharmaceuticals, from 1993 to 1996. Before that, Dr. Duyk was an Assistant Professor at Harvard Medical School in the Department of Genetics and Assistant Investigator of the Howard Hughes Medical Institute. Dr. Duyk currently serves as a member of the board of directors of several private companies and the non-profit Case Western Reserve University Board of Trustees as well as the board for the American Society of Human Genetics. Dr. Duyk also currently serves as a member of the board of directors of Amyris, Inc, and Epirus BioPharmaceuticals, Inc., both public companies. Dr. Duyk holds a BA in Biology from Wesleyan University and a PhD and an MD from Case Western Reserve University. We believe that Dr. Duyk’s experience with the pharmaceutical industry provides him with the qualifications and skills to serve as a member of our board of directors.

Murray A. Goldberg has served as a member of our Board since August 2013. Mr. Goldberg has been Senior Vice President, Administration, of Regeneron Pharmaceuticals, Inc. since October 2013 and Assistant Secretary since

January 2000. He also served as Chief Financial Officer and Senior Vice President, Finance and Administration from March 1995 to October 2013 and as Treasurer from March 1995 to October 2012. Mr. Goldberg will be resigning as an officer of Regeneron Pharmaceuticals, Inc. effective March 31, 2015. Prior to joining Regeneron Pharmaceuticals Inc., Mr. Goldberg was Vice President, Finance, Treasurer, and Chief Financial Officer of PharmaGenics Inc., a biotechnology company, from February 1991 and a Director of that company from May 1991. From 1987 to 1990, Mr. Goldberg was Managing Director, Structured Finance Group at the

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Chase Manhattan Bank, N.A. and from 1973 to 1987 he served in various managerial positions in finance and corporate development at American Cyanimid Company, a diversified industrial company. Mr. Goldberg received his MBA from the University of Chicago and an MSc in Economics from the London School of Economics. We believe that Mr. Goldberg's business and finance experience at various companies in the pharmaceutical industry provides him with the qualifications and skills to serve as a member of our Board.

Vote Required

Directors are elected by a plurality of the votes cast at the meeting by the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. The two nominees receiving the highest number of "For" votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the two nominees named above. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute nominee proposed by our Board.

Our Recommendation

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" EACH OF THE NOMINEES SET FORTH ABOVE.

Directors Continuing in Office

Set forth below are the names, ages, principal occupations, and business experience, as well as their prior service on the Board, for the remaining members of our Board whose terms continue beyond the Annual Meeting. Unless otherwise indicated, principal occupations shown for each director have extended for five or more years.

Name	Age (1)	Term Expires (2)	Position(s) Held	Director Since
Vicente Anido, Jr., PhD	62	2017	Chief Executive Officer and Chairman of the Board	2013
Gerald D. Cagle, PhD	70	2016	Director	2013
David W. Gryska	58	2017	Lead Independent Director	2012
Benjamin F. McGraw, III, Pharm.D	65	2016	Director	2014
Anand Mehra, MD	39	2016	Director	2010

(1) Age as of January 31, 2015.

(2) Represents date of annual meeting for that year.

Vicente Anido, Jr., PhD has served as our Chief Executive Officer since July 2013 and as a Chairman and member of our Board since April 2013. Dr. Anido is the former President, Chief Executive Officer and Director of ISTA Pharmaceuticals, Inc., which was acquired by Bausch + Lomb, Inc. in 2012. Prior to joining ISTA Pharmaceuticals, Dr. Anido served as general partner of Windamere Venture Partners from 2000 to 2001. From 1996 to 1999, Dr. Anido served as President and Chief Executive Officer of CombiChem, Inc., a drug discovery company. From 1993 to 1996, Dr. Anido served as President of the Americas Region of Allergan, Inc., where he was responsible for Allergan's commercial operations for North and South America. Prior to joining Allergan, Dr. Anido spent 17 years at Marion Laboratories and Marion Merrell Dow, Inc., including as Vice President, Business Management of Marion's U.S. Prescription Products Division. Dr. Anido currently serves as a member of the boards of directors of Depomed, Inc. and the West Virginia University Foundation. Dr. Anido previously served as a member of the board of directors of Nicox S.A. from 2013 to 2014 and as a member of the board of directors of QLT Inc. from 2012 to 2013. In addition, from 2002 to 2008, Dr. Anido served as a member of the boards of directors of Apria Healthcare, Inc. Dr. Anido holds a BS and a MS from West Virginia University and a PhD from the University of Missouri, Kansas City. We believe Dr. Anido's experience in the pharmaceutical industry, sales and marketing, business development and pharmaceutical product launch and his experience serving as a director of other public companies provide him with the qualifications and skills to serve as a member of our Board.

Gerald D. Cagle, PhD has served as a member of our Board since September 2013. Dr. Cagle previously served as Chief Operating Officer at Cognoptix, lnc., a company focused on the diagnosis of Alzheimer’s disease. Dr. Cagle also is Senior Advisor and Head of Business Development for GrayBug, LLC, a platform drug delivery company.
Dr. Cagle served as Senior Vice President of Research & Development at Alcon Laboratories lnc. from 1997 to 2008, assuming the responsibility of Chief

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Scientific Officer in 2006. Dr. Cagle currently serves as a member of the board of directors of Clearside Biomedical, a company delivering anti-inflammatory therapies in the suprachoroidal space for uveitis and AB2 Bio, a Swiss company researching novel therapies. Dr. Cagle has served on the Wilmer Eye Institute Advisory Council and is a member of the ARVO Foundation Board of Governors. Dr. Cagle received his BS degree from Wayland College and earned both his MS and PhD degrees from the University of North Texas. We believe that Dr. Cagle's scientific background and experience provides him with the qualifications and skills to serve as a member of our Board.

David W. Gryska has served as a member of our Board since March 2012. Mr. Gryska is currently Executive Vice President and Chief Financial Officer of Incyte Corporation. From May 2012 until December 2012, Mr. Gryska served as Chief Operating Officer and a director of Myrexis Inc., a biotechnology company. From August 2012 until December 2012, Mr. Gryska also served as interim Chief Executive Officer of Myrexis, Inc. From December 2006 to October 2010, he served as Senior Vice President and Chief Financial Officer of Celgene Corporation, a biopharmaceutical company. From October 2004 to December 2006, he was a principal at Strategic Consulting Group, where he provided strategic consulting to early-stage biotechnology companies. Prior to the Strategic Consulting Group, Mr. Gryska was employed by Scios, Inc., a biopharmaceutical company, as Senior Vice President and Chief Financial Officer from November 2000 to October 2004 and as Vice President of Finance and Chief Financial Officer from December 1998 to November 2000. Scios was acquired by Johnson & Johnson in 2003. From 1993 to December 1998, he served as Vice President, Finance and Chief Financial Officer at Cardiac Pathways Corporation, a medical device company, which was later acquired by Boston Scientific Corporation. Prior to joining Cardiac Pathways, Mr. Gryska served as a partner at Ernst & Young LLP, an accounting firm, with an emphasis on biotechnology and healthcare companies. In addition to Aerie Pharmaceuticals, Inc., Mr. Gryska currently serves as a member of the boards of directors of PDL BioPharma, Inc. and Seattle Genetics Inc. Mr. Gryska previously served as a member of the board of directors of Argos Therapeutics, Inc. from 2012 to 2014 and Hyperion Therapeutics, Inc. from 2010 to 2014. Mr. Gryska is a Certified Public Accountant and received a BA in accounting and finance from Loyola University and an MBA from Golden Gate University. We believe that Mr. Gryska's business experience as a senior financial executive at a life sciences and biotechnology company and his experience serving as a director of other public companies provide him with the qualifications and skills to serve as a member of our Board.

Benjamin F. McGraw, III, Pharm.D has served as a member of our Board since September 2014. Dr. McGraw is currently Executive Chairman and Chief Executive Officer of TheraVida, Inc., a specialty pharmaceutical company. He also serves as Chief Executive Officer of Auration Biotech, Inc., a private biotechnology company. Previously, Dr. McGraw was Chairman, President, and CEO of Valentis, Inc., Corporate Vice President, Corporate Development at Allergan, Inc., and VP, Development at Marion Laboratories, Inc. and Marion Merrell Dow Inc. (now Sanofi US). Dr. McGraw received his B.S. degree and his Doctor of Pharmacy degree from the University of Tennessee Health Science Center, where he also completed a clinical practice residency.

Anand Mehra, MD has served as a member of our Board since August 2010. Dr. Mehra has twelve years of experience as a management consultant and biotechnology investor and currently serves as a General Partner at Sofinnova Ventures, which he joined in 2007 as a principal, a biotechnology focused investment firm specializing in clinical-stage pharmaceutical companies. Prior to joining Sofinnova Ventures, Dr. Mehra was employed at JP Morgan Partners, and consulted at McKinsey and Company. Dr. Mehra currently serves as a member of the boards of directors of several private companies and two public companies, Marinus Pharmaceuticals, Inc. and Spark Therapeutics, Inc. Dr. Mehra graduated Phi Beta Kappa from the University of Virginia with a BA in government and foreign affairs and received his MD from Columbia University's College of Physicians and Surgeons. We believe that Dr. Mehra's directorship experience and scientific background provides him with the qualifications and skills to serve as a member of our Board.

Information about Our Executive Officers

The following table sets forth certain information about our executive officers who are not also directors.

Name	Age (1)	Position(s) Held
Casey C. Kopczynski, PhD	53	Chief Scientific Officer

Brian Levy, OD, MSc	63	Chief Medical Officer
Thomas A. Mitro	57	President and Chief Operating Officer
Richard J. Rubino	57	Chief Financial Officer and Secretary

(1) Age as of January 31, 2015.

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Casey C. Kopczynski, PhD has served as our Chief Scientific Officer since co-founding our company in 2005. From 2002 to 2005, he was the Managing Partner at Biotech Initiative, LLC, a consulting practice dedicated to emerging biotech companies. He was also previously the Vice President of Research at Ercole Biotech, Inc. from 2003 to 2004, a company developing drugs for the treatment of cancer, inflammation and orphan genetic diseases. Prior to Ercole Biotech, Inc., Dr. Kopczynski was Director of Research and a founding member of the scientific staff at Exelixis, Inc. from 1996 to 2002. Dr. Kopczynski received his PhD in Molecular, Cellular and Developmental Biology from Indiana University and was a Jane Coffin Childs Research Fellow at the University of California, Berkeley.

Brian Levy, OD, MSc has served as our Chief Medical Officer since January 2012. Dr. Levy served as Chief Scientific Officer at Nexis Vision from 2010 to 2011 and as Chief Operating Officer at Danube Pharmaceuticals, Inc. from 2008 to 2010, both small venture-backed companies developing products in ophthalmology. In addition, from 1994 to 2008, Dr. Levy was employed by Bausch + Lomb, Inc. where he served in various roles including Vice President of Research & Development, Corporate Vice President of Research & Development and Chief Medical Officer. Prior to joining Bausch + Lomb, Inc., Dr. Levy served as an Associate Professor in the Department of Ophthalmology at California Pacific Medical Center in San Francisco from 1989 to 1994 and was in private clinical practice in Toronto, Ontario from 1980 to 1989. Dr. Levy currently holds an appointment as Clinical Professor in the Department of Ophthalmology at the University of Rochester’s School of Medicine. Dr. Levy received his Doctor of Optometry degree from the University of California at Berkeley and did his post-graduate work in comparative anatomy and physiology of the eye at the University of Waterloo in Canada, where he received an MS degree.

Thomas A. Mitro has served as our President and Chief Operating Officer since August 2013. From November 2012 to August 2013, Mr. Mitro served as Vice President, Sales and Marketing at Omeros Corporation, a clinical-stage biopharmaceutical company. Prior to this, Mr. Mitro was Vice President, Sales and Marketing at ISTA Pharmaceuticals from July 2002 to July 2012, where he was instrumental in building ISTA’s commercial operations and launching several eye-care products, including Bromday (bromfenac ophthalmic solution) 0.09% and Bepreve (bepotastine besilate ophthalmic solution) 1.5%. Previously, Mr. Mitro held various positions at Allergan, Inc., including Vice President, Skin Care; Vice President, Business Development; and Vice President, e-Business. Mr. Mitro received his B.S. degree from Miami University.

Richard J. Rubino has served as our Chief Financial Officer since October 2012. From March 2008 to April 2012, Mr. Rubino served as Senior Vice President, Finance and Chief Financial Officer of Medco Health Solutions, Inc. and from May 1993 to March 2008 served as Controller and Vice President of Planning, with responsibilities for financial, business and strategic planning. Previously, Mr. Rubino held various positions at International Business Machines Corporation from 1983 to May 1993 and PricewaterhouseCoopers LLP (formerly Price Waterhouse & Co.) from 1979 to 1983. Mr. Rubino is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. Mr. Rubino received his BS in Accounting from Manhattan College. He has been a director of the Northside Center for Child Development since 2009, the Treasurer since 2012 and also currently serves as a member of the Finance Committee and Executive Committee.

Information about the Board of Directors and Corporate Governance

Board of Directors

The Board oversees our business and monitors the performance of our management. In accordance with our corporate governance procedures, the Board does not involve itself in the day-to-day operations of the Company. Our executive officers and management oversee the day-to-day operations. Our directors fulfill their duties and responsibilities by attending meetings of the Board, which are held from time to time.

The Board held 10 meetings during the year ended December 31, 2014. Each incumbent director attended at least 75% of the total of (i) the meetings of the Board held during the period for which he or she has been a director and (ii) the meetings of the committee(s) on which that director served during such period.

It is our policy to encourage our directors to attend the Annual Meeting. All nominees for election as Directors and all Directors continuing in office attended our 2014 Annual Meeting.

Board of Directors Independence

Under the listing requirements and rules of the NASDAQ Global Market, or NASDAQ, independent directors must compose a majority of a listed company's board of directors. In addition, applicable NASDAQ rules require that, subject to specified exceptions, each member of a listed company's audit, compensation and nominating committees must be independent within the meaning of applicable NASDAQ rules. Audit committee members must also satisfy the independence criteria set forth in

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Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our Board has undertaken a review of the independence of each director and considered whether any director has a material relationship with us that could compromise his or her ability to exercise independent judgment in carrying out his or her responsibilities. In making this determination, our Board considered the current and prior relationships that each non-employee director has with our company and all other facts and circumstances our Board deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director. As a result of this review, our Board determined that Dr. Cagle, Dr. Duyk, Mr. Goldberg, Mr. Gryska, Dr. McGraw and Dr. Mehra qualify as "independent" directors within the meaning of the NASDAQ rules. The Board also determined that Dr. Conway, who served on our Board until the 2014 Annual Meeting of Stockholders, was independent, James V. Mazzo, who resigned from the Board in September 2014, was independent and Dr. Henner, who resigned from the Board in February 2015, was independent. As required under applicable NASDAQ rules, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present. The lead independent director may call an executive session. The purpose of these executive sessions is to promote open and candid discussion among the non-employee directors.

Committees of the Board of Directors

The Board has three committees: an audit committee, a compensation committee and a nominating and corporate governance committee. The following table provides membership information at December 31, 2014 and lists the number of meetings held during 2014, for each committee:

Name	Audit	Nominating and Corporate Governance	Compensation
Gerald D. Cagle, PhD		X	X
Murray A. Goldberg **	X*		
David W. Gryska **	X		X*
Dennis Henner, PhD ***		X*	
Benjamin F. McGraw, III, Pharm.D	X		
Anand Mehra, MD			X
Total meetings in 2014 (not including actions taken by written consent)	7	2	6

* Committee Chairman
** Financial Expert
*** Dr. Henner resigned from our Board in February 2015.

Changes in the Board and Committee Composition

Between December 31, 2014 and the date of this proxy statement, the following changes in the composition of the Board and its committees occurred:

- Effective February 5, 2015, Dr. Henner resigned from the Board. The Board determined not to fill the resulting vacancy at that time. The nominating and corporate governance committee is currently in the process of identifying potential candidates to fill the vacancy created by Dr. Henner's resignation from the Board.
- On February 6, 2015, following a recommendation from the nominating and corporate governance committee, the Board (i) designated Dr. Cagle as the chairman of the nominating and corporate governance committee, (ii) appointed Dr. Duyk to serve as a member of the nominating and corporate governance committee, (iii) appointed Dr. McGraw to serve as a member of the compensation committee, designating Dr. McGraw as the chairman of the compensation committee and (iv) removed Mr. Gryska without cause from the compensation committee.

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The following table provides membership information for each committee as of the date of this proxy statement and after giving effect to the changes listed above:

Name	Audit	Nominating and Corporate Governance	Compensation
Gerald D. Cagle, PhD		X*	X
Geoffrey Duyk, MD, PhD		X	
Murray A. Goldberg **	X*		
David W. Gryska **	X		
Benjamin F. McGraw, III, Pharm.D	X		X*
Anand Mehra, MD			X

* Committee Chairman
** Financial Expert

Audit Committee

The members of our audit committee include Mr. Goldberg, Mr. Gryska and Dr. McGraw. Mr. Goldberg serves as chair of the audit committee. Dr. Duyk served on our audit committee through June 2014. The audit committee operates under a written charter that satisfies the applicable standards of the SEC and NASDAQ and which is available on our website at www.aeriepharma.com. The inclusion of our website address here and elsewhere in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement. Our Board has determined that Mr. Goldberg, Mr. Gryska and Dr. McGraw are independent as independence is currently defined in Rule 5605 of the NASDAQ listing standards and Rule 10A-3 under the Exchange Act. In addition, our Board has determined that each member of the audit committee is financially literate and that Mr. Goldberg and Mr. Gryska each qualifies as an “audit committee financial expert” as defined in applicable SEC rules. In making this determination, our Board has considered the formal education and nature and scope of their previous experience, coupled with past and present service on various audit committees.

The responsibilities of our audit committee include, among other things:

- reviewing our annual and quarterly financial statements and reports, discussing the statements and reports with our independent registered public accounting firm and management and recommending to the Board whether to include the financial statements in the annual reports filed with the SEC;
- discussing the type of information to be disclosed and the type of presentation to be made regarding financial information and guidance to analysts and ratings agencies;
- overseeing our disclosure controls and procedures, including internal controls over our financial reporting, and reviewing and discussing our management’s periodic review of the effectiveness of our internal control over financial reporting;
- reviewing with our independent registered public accounting firm and management significant issues that arise regarding accounting principles and financial statement presentation, matters concerning the scope, adequacy and effectiveness of our financial controls and any other matters, correspondence or reports that raise issues with or could have a material effect on our financial statements;
- retaining, appointing, setting compensation of and evaluating the performance, independence, internal quality control procedures and qualifications of our independent auditors;
- reviewing and approving in advance the engagement of our independent registered public accounting firm to perform audit services and any permissible non-audit services;
- reviewing with our independent registered public accounting firm the planning and staffing of the audit, including the rotation requirements and other independence rules;
- reviewing and, if acceptable, approving any related person transactions;

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- overseeing and discussing with management our policies with respect to risk assessment and risk management, and our significant financial and operational risk exposures;
- setting policies for our hiring of employees or former employees of our independent registered public accounting firm;
- reviewing and assessing the adequacy of our audit committee charter periodically; and
- establishing procedures for receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters, and for confidential, anonymous submissions of accounting and auditing concerns by employees.

AUDIT COMMITTEE REPORT(1)

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2014, with management and our independent registered public accounting firm, PricewaterhouseCoopers LLP. The Audit Committee has discussed with PricewaterhouseCoopers LLP the matters required by Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 16, Communications with Audit Committees. The Audit Committee has also received the written disclosures and the letter from PricewaterhouseCoopers LLP required by applicable requirements of the PCAOB regarding PricewaterhouseCoopers LLP's communication with the Audit Committee concerning independence, and has discussed with PricewaterhouseCoopers LLP the firm's independence. Based on the foregoing, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, for filing with the Securities and Exchange Commission.

Aerie Pharmaceuticals, Inc.
Audit Committee
Murray A. Goldberg, Chair
David W. Gryska
Benjamin F. McGraw, III , Pharm.D

(1) The material in this report is not "soliciting material," is not deemed "filed" with the SEC and is not to be incorporated by reference in any filing we make under either the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Nominating and Corporate Governance Committee

The members of our nominating and corporate governance committee are Dr. Cagle and Dr. Duyk. Dr. Cagle serves as chair of the nominating and corporate governance committee. Dr. Conway served as a member of our nominating and corporate governance committee until the 2014 Annual Meeting of Stockholders. Dr. Henner served as chair of this committee throughout 2014 and until his resignation in February 2015. Our Board has determined that all members of our nominating and corporate governance committee are independent as independence is currently defined in Section 5605 of the NASDAQ listing standards. The nominating and corporate governance committee operates under a written charter that satisfies the applicable standards of NASDAQ and which is available on our website at www.aeriepharma.com. The inclusion of our website address here and elsewhere in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement.

The responsibilities of our nominating and corporate governance committee include, among other things:

- identifying, considering and nominating candidates to serve on our Board;
- developing and recommending the minimum qualifications for service on our Board;
- overseeing the evaluation of the Board and management on an annual basis;
- considering nominations by stockholders of candidates for election to the Board;
- reviewing annually the independence of the non-employee directors and members of the independent committees of the Board;

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- developing and recommending to our Board a set of corporate governance guidelines, and reviewing and recommending to our Board any changes to such principles;
- developing and recommending to our Board a code of business conduct and ethics, and reviewing and recommending to our Board any changes to the code; and
- reviewing the adequacy of its charter, our corporate governance guidelines and our code of business conduct and ethics on an annual basis.

The nominating and corporate governance committee periodically determines the qualifications, qualities, skills and other expertise required to be a director and develops, subject to approval by the full Board, criteria to be considered in selecting nominees for director. Among other things, the nominating and corporate governance committee considers whether the Board reflects the balance of knowledge, experience, skills, expertise, integrity, ability to make analytical inquiries, and diversity as a whole that the committee deems appropriate. The nominating and corporate governance committee has not adopted a policy regarding the consideration of diversity in identifying director nominees. The process followed by the nominating and corporate governance committee to identify and evaluate director candidates includes requests to current directors and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the committee and the Board. The nominating and corporate governance committee may use outside consultants to assist in identifying or evaluating candidates. Final approval of director candidates is determined by the full Board.

The nominating and corporate governance committee will consider qualified nominations for directors recommended by stockholders. In general, stockholder recommendations are evaluated on the same basis as any recommendation from members of the Board or management of the Company. Recommendations should be sent to our Secretary, c/o Aerie Pharmaceuticals, Inc., 2030 Main Street, Suite 1500, Irvine, CA 92614. For additional information about our director nomination requirements, please see “Stockholder Proposals and Nominations” and our amended and restated bylaws.

Compensation Committee

The members of our compensation committee are Dr. Cagle, Dr. McGraw and Dr. Mehra. Dr McGraw serves as chair of the compensation committee. Mr. Gryska served as chair of the compensation committee until February 2015. All members of our compensation committee are independent as independence is currently defined in Section 5605 of the NASDAQ listing standards and qualify as outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. The compensation committee operates under a written charter that satisfies the applicable standards of NASDAQ and which is available on our website at www.aeriepharma.com. The inclusion of our website address here and elsewhere in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement.

The responsibilities of our compensation committee include, among other things:

- approving the compensation and other terms of employment of our chief executive officer, which are then reviewed and ratified by our Board;
- approving or recommending to our Board the compensation and other terms of employment of our senior executives;
- approving annually the corporate goals and objectives relevant to the compensation of our chief executive officer and assessing at least annually our chief executive officer’s performance against these goals and objectives;
- reviewing annually our compensation strategy, including base salary, incentive compensation and equity-based grants, as well as adoption, modification or termination of this compensation;
- evaluating at least annually and recommending to our Board the type and amount of compensation to be paid or awarded to non-employee Board members;
- reviewing the competitiveness of our executive compensation programs and evaluating the effectiveness of our compensation policy and strategy in achieving expected benefits to us;
-

approving the terms of any employment agreements, severance arrangements, change in control protections and any other compensatory arrangements for our executive officers;

- reviewing at least annually the adequacy of our compensation committee charter; and

- reviewing and evaluating, at least annually, the performance of the compensation committee.

As part of its process for approving or recommending to the Board the compensation for our senior executives other than our chief executive officer, the compensation committee reviews and considers the recommendations made by our chief executive officer.

In fulfilling its responsibilities, the compensation committee may delegate any or all of its responsibilities to a subcommittee of the compensation committee, but only to the extent consistent with our amended and restated certificate of incorporation, amended and restated bylaws, Section 162(m) of the Code, NASDAQ rules, and other applicable law.

In addition, pursuant to its charter, the compensation committee has the sole authority to retain compensation consultants to assist in its evaluation of executive and director compensation. The compensation committee engaged Pearl Meyer & Partners LLC as compensation advisors in 2014.

Compensation Committee Interlocks and Insider Participation.

Our compensation committee currently consists of Dr. Cagle, Dr. McGraw and Dr. Mehra. No member of our compensation committee has ever been an officer or employee of the Company. None of our executive officers serves as a member of the board of directors or compensation committee of any other entity that has one or more of its officers serving on our Board or compensation committee.

Board Leadership

Dr. Anido, our chief executive officer, serves as chairman of our Board. Our Board believes that this leadership structure is appropriate for us, given Dr. Anido’s extensive experience with and knowledge of the pharmaceutical industry and his ability to effectively identify strategic priorities for the Company. Furthermore, our Board believes that Dr. Anido’s combined role of chief executive officer and chairman promotes effective execution of strategic goals and facilitates information flow between management and our Board. Dr. Anido chairs all Board meetings, except for executive sessions at which only independent directors are present and which are chaired by Mr. Gryska, our lead independent director.

Risk Oversight

Risk assessment and oversight are an integral part of our governance and management processes. Our Board encourages management to promote a culture that incorporates risk management into the Company’s corporate strategy and day-to-day business operations. Management discusses strategic and operational risks at regular management meetings, and conducts specific strategic planning and review sessions during the year that include a focused discussion and analysis of the risks facing the Company. Throughout the year, senior management reviews these risks with the Board at regular Board meetings as part of management presentations that focus on particular business functions, operations or strategies, and presents the steps taken by management to mitigate or eliminate such risks.

Our Board does not have a standing risk management committee, but rather administers this oversight function directly through our Board as a whole, as well as through various standing committees of our Board that address risks inherent in their respective areas of oversight. In particular, our Board is responsible for monitoring and assessing strategic risk exposure, and our audit committee is responsible for overseeing our significant financial and operational risk exposures and the steps our management has taken to monitor and control these exposures.

The audit committee also monitors compliance with legal and regulatory requirements. Our nominating and corporate governance committee monitors the effectiveness of our corporate governance guidelines and considers and approves or disapproves any related-persons transactions. Our compensation committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. The code of business conduct and ethics is available on our website at www.aeriepharma.com. We intend to satisfy applicable disclosure requirements regarding an amendment to, or a waiver from, a provision of our code of business conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions, by posting such information on our website at the internet

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address set forth above. The inclusion of our website address here and elsewhere in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement.

Stockholder Communications with Our Board of Directors

Stockholders wishing to communicate directly with our Board may send correspondence to our Secretary, c/o Aerie Pharmaceuticals, Inc., 2030 Main Street, Suite 1500, Irvine, CA 92614. Stockholders may also visit our website at www.aeriepharma.com and select “Contact Us” to communicate online with us.

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PROPOSAL 2
APPROVAL OF THE AERIE PHARMACEUTICALS, INC. AMENDED AND RESTATED OMNIBUS INCENTIVE PLAN

Purpose of the Omnibus Plan

Our Board has approved and unanimously recommends that our stockholders approve the Aerie Pharmaceuticals, Inc. Amended and Restated Omnibus Incentive Plan (the “Omnibus Plan”). The Omnibus Plan is a critical tool for attracting qualified employee talent as we continue to build the company, as well as for retaining, incentivizing and motivating our existing employees, consultants, and non-employee directors to drive the success of our business. Equity awards granted under the Omnibus Plan provide participating individuals with a proprietary interest in our long-term success in a manner fully aligned with Aerie stockholders. All executive officers, employees and non-employee directors (approximately 53 in total, as of February 25, 2015) are currently eligible to receive stock-based incentive awards. Without our stockholders’ approval of the Omnibus Plan, Aerie will not have adequate ability to grant equity awards to accommodate the growth we expect over the next several years. The Omnibus Plan does not have a provision for an annual evergreen replenishment of shares. Aeries believe that it has consistently been excellent stewards of our equity pool and the additional shares requested herein are consistent with industry norms for annual equity grants. Based on our current growth strategy, we expect the additional shares requested by this Omnibus Plan will fund grants for the next four years.

The closing price of a share of our common stock (a “Share”) on February 25, 2015 was $28.03.

Vote Required

Stock-based incentive awards are a key component of our compensation program for our executive officers and other senior management employees, in large part, due to our Board’s belief that stock-based awards incentivize the creation of long-term stockholder value. In approving the amended Omnibus Plan, the Board approved an increase in the number of shares that may be issued pursuant to Awards granted under the Omnibus Plan of 2,500,000 shares. Without approval by the stockholders of this increase in shares under the Omnibus Plan, our ability to provide stock-based awards will be extremely limited, thus restricting our ability to continue to retain and incentivize key employees and to attract new talent. Our Board believes the Omnibus Plan contains a number of features that are consistent with stockholder protection and sound corporate governance practices and is in the best interests of our Company and our stockholders.

The proposal to adopt the Omnibus Plan requires an affirmative vote of the majority of the shares represented in person or by proxy at the Annual Meeting and entitled to vote on the proposal.

Shares Available Under the Omnibus Plan

As originally adopted, the Omnibus Plan provided for the issuance of up to 3,229,068 Shares pursuant to awards granted under the plan. As of February 25, 2015, 1,206,403 Shares remain available for issuance pursuant to new awards under the Omnibus Plan. If this Proposal is approved, the aggregate number of Shares issuable under the plan will be increased to 5,729,068, of which 3,706,403 will be available for future awards.

Our Recommendation

THE BOARD APPROVES AND UNANIMUOUSLY RECOMMENDS A VOTE “FOR” THE APPROVAL OF AERIE PHARMACEUTICALS, INC. AMENDED AND RESTATED OMNIBUS PLAN.

General Information

The following is a summary of the other material features of the Omnibus Plan. This summary is subject to and qualified by reference to the actual text of the Omnibus Plan, a complete copy of which is attached as an appendix to this proxy statement.

Administration. A committee of our Board (for purposes of this Proposal, the “Committee”) will administer the Omnibus Plan. The Committee will consist of at least two directors and may consist of the entire Board. To the extent that an award is intended to qualify as “performance-based compensation” under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), the Committee will consist of at least two directors considered to be “outside directors” under Section 162(m) of the Code and non-employee directors for purposes of Section 162(m) of the Code.

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Plan Term. The Omnibus Plan became effective on October 22, 2013 when it was initially adopted by our Board. The Amended and Restated Omnibus Plan became effective on February 25, 2015, subject to stockholder approval, and will terminate on the tenth (10th) anniversary thereof, unless earlier terminated by the board.
Eligibility. Under the Omnibus Plan, the “Eligible Individuals” includes officers, employees, consultants and non-employee directors providing services to the Company and its subsidiaries and affiliates. The Committee will determine which Eligible Individuals will receive grants of stock options or other awards.
Incentives Available. Under the Omnibus Plan, the Committee may grant any of the following types of awards to an Eligible Individual: incentive stock options (“ISOs”) and nonqualified stock options (“NQSO” and together with ISOs, “Options”); stock appreciation rights (“SARs”); Restricted Stock; restricted stock units (“RSUs”); Performance Awards; Dividend Equivalent Rights; and Share Awards (each type of grant, considered an “Award”).
Shares Available. Subject to any adjustment as provided in the Omnibus Plan, the maximum number of Shares that may be issued pursuant to Awards granted under the Plan from its inception shall not exceed 5,729,068, no more than 5,729,068 of which may be issued upon the exercise of ISOs. The aggregate number of Shares that may be the subject of Options, SARs, Performance-Based Restricted Stock and Performance Share Units, as defined below, granted to an Eligible Individual in any calendar year may not exceed 1,200,000 and the maximum dollar amount of cash or the fair market value of Shares that any individual may receive in any calendar year in respect of Performance Units may not exceed $5,000,000. If an Award or any portion thereof (i) expires or otherwise terminates without all of the Shares covered by such Award having been issued or (ii) is settled in cash, such expiration, termination or settlement will not reduce (or otherwise offset) the number of Shares that may be available for issuance under the Omnibus Plan. If any Shares issued pursuant to an Award are forfeited and returned back to or reacquired by the Company because of the failure to meet a contingency or condition required to vest such Shares in the participant, then the Shares that are forfeited or reacquired will again become available for issuance under the Omnibus Plan. Any Shares tendered or withheld (i) to pay the option price of an Option granted under this Omnibus Plan or (ii) to satisfy tax withholding obligations associated with an Award granted under this Omnibus Plan shall become available again for issuance under this Omnibus Plan.
Stock Options
The Committee may grant Options (which may be ISOs or NQSOs) to Eligible Individuals. An ISO is an Option intended to qualify for tax treatment applicable to ISOs under Section 422 of the Code. An ISO may only be granted to Eligible Individuals that are employees of the Company or any of its subsidiaries. A NQSO is an Option that is not subject to statutory requirements and limitations required for certain tax advantages allowed under Section 422 of the Code.
Vesting and Exercise Periods. Each Option granted under the Omnibus Plan may be subject to certain vesting requirements and will become exercisable in accordance with the specific terms and conditions of the Option, as determined by the Committee at the time of grant and set forth in an award agreement. The term of an Option generally may not exceed ten years from the date it is granted (five years in the case of an ISO granted to a ten-percent stockholder); provided, however, that unless the Committee provides otherwise (i) upon the death of a participant prior to the expiration of an Option (other than an ISO), the Option may be exercised for up to one year following the date of the participant’s death, even if such period extends beyond ten years and (ii) if, at the time an Option (other than an ISO) would otherwise expire at the end of its term, the exercise of the Option is prohibited by applicable law or the Company’s insider trading policy, the term shall be extended until thirty (30) days after the prohibition no longer applies. Each Option, to the extent it becomes exercisable, may be exercised at any time in whole or in part until its expiration or termination, unless otherwise provided in applicable award agreement.

Exercise Price. The purchase price per Share with respect to any Option granted under the Omnibus Plan may be not less than 100 percent (100%) of the fair market value of a Share on the date the Option is granted (110 percent (110%) in the case of an ISO granted to a ten-percent stockholder). The option price for any Shares purchased pursuant to the exercise of an Option shall be paid in any of, or any combination of, the following forms: (a) cash or its equivalent (e.g., a check) or (b) if permitted by the Committee, the transfer, either actually or by attestation, to the

Company of Shares that have been held by the Participant for at least six (6) months (or such lesser period as may be permitted by the Committee) prior to the exercise of the Option, such transfer to be upon such terms and conditions as determined by the Committee or (c) in the form of other property as determined by the Committee. In addition, (a) the Committee may provide for the payment of the option price through Share withholding as a result of which the number of Shares issued upon exercise of an Option would be reduced by a number of Shares having a fair market value equal to the option price and (b) an Option may be exercised through a registered broker-dealer pursuant to such cashless exercise procedures that are, from time to time, deemed acceptable by the Committee.

Prohibition on Repricings. The Committee will have no authority to make any adjustment or amendment (other than in connection with certain changes in capitalization or certain corporate transactions in accordance with the terms of the Omnibus Plan, as generally described below) that reduces, or would have the effect of reducing, the exercise price of an Option or SAR previously granted under the Omnibus Plan, unless the Company's stockholders approve such adjustment or amendment.

Limits on Incentive Stock Options. In order to comply with the requirements for ISOs in the Code, no person may receive a grant of an ISO for stock that would have an aggregate fair market value in excess of $100,000, determined when the ISO is granted, that would be exercisable for the first time during any calendar year. If any grant of an ISO is made in excess of such limit, the portion that is over the $100,000 limit would be a NQSO.

SARs

The Committee may grant SARs to Eligible Individuals on terms and conditions determined by the Committee at the time of grant and set forth in an award agreement. An SAR may be granted (a) at any time if unrelated to an Option or (b) if related to an Option, either at the time of grant or at any time thereafter during the term of the Option.

Amount and Form of Payment. An SAR is a right granted to a participant to receive an amount equal to the excess of the fair market value of a Share on the last business day preceding the date of exercise of such SAR over the fair market value of a Share on the date the SAR was granted (the "base price"). A SAR may be settled or paid in cash, Shares, or a combination of each, as determined by the Committee.

Vesting and Exercise Periods. Each SAR granted under the Omnibus Plan may be subject to certain vesting requirements and will become exercisable in accordance with the specific terms and conditions of the SAR, as determined by the Committee at the time of grant and set forth in an award agreement. The term of a SAR generally may not exceed ten years from the date it is granted; provided, however, that unless the Committee provides otherwise (i) upon the death of a participant prior to the expiration of the SAR, the SAR may be exercised for up to one year following the date of the participant's death, even if such period extends beyond ten years and (ii) if, at the time a SAR would otherwise expire at the end of its term, the exercise of the SAR is prohibited by applicable law or the Company's insider trading policy, the term shall be extended until thirty (30) days after the prohibition no longer applies. Each SAR, to the extent it becomes exercisable, may be exercised at any time in whole or in part until its expiration or termination, unless otherwise provided in applicable award agreement.

Dividend Equivalent Rights

The Committee may grant dividend equivalent rights ("Dividend Equivalent Rights"), either in tandem with an Award or as a separate Award, to Eligible Individuals on terms and conditions determined by the Committee at the time of grant and set forth in an award agreement. A Dividend Equivalent Right is a right to receive cash or Shares based on the value of dividends that are paid with respect to the Shares. Amounts payable in respect of Dividend Equivalent Rights may be payable currently or, if applicable, deferred until the lapsing of restrictions on such dividend equivalent rights or until the vesting, exercise, payment, settlement or other lapse of restrictions on the Award to which the Dividend Equivalent Rights relate, subject to compliance with Section 409A of the Code. Dividend Equivalent Rights may be settled in cash or Shares or a combination thereof, in a single installment or multiple installments, as determined by the Committee.

Restricted Stock; RSUs

The Committee may grant Restricted Stock or RSUs, in each case subject to such vesting requirements and other terms and conditions as determined by the Committee at the time of grant and set forth in an award agreement.

Restricted Stock. Unless the Committee determines otherwise, upon the issuance of shares of Restricted Stock, the participant shall have all of the rights of a stockholder with respect to such Shares, including the right to vote the Shares and to receive all dividends or other distributions made with respect to the Shares. The Committee may determine that the payment to the participant of dividends, or a specified portion thereof, declared or paid on such Shares shall be deferred until the lapsing of the restrictions imposed upon such Shares and held by the Company for the account of the participant until such time. Payment of deferred dividends in respect of shares of Restricted Stock shall be made upon the lapsing of restrictions imposed on the shares of Restricted Stock in respect of which the deferred dividends were paid, and any dividends deferred in respect of any shares of Restricted Stock shall be forfeited upon the forfeiture of such shares of Restricted Stock.

RSUs. Each RSU shall represent the right of the participant to receive a payment upon vesting of the RSU, or on any later date specified by the Committee, of an amount equal to the fair market value of a Share as of the date the RSU becomes vested, or such later date as determined by the Committee at the time the RSU is granted (and which will be set forth in the applicable grant agreement). An RSU may be settled or paid in cash, Shares, or a combination of each, as determined by the Committee.

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Performance Awards

Performance awards (“Performance Awards”) (including performance units (“Performance Units”), performance share units (“Performance Share Units”) and performance-based restricted stock (“Performance-Based Restricted Stock”)) may be granted to Eligible Individuals on terms and conditions determined by the Committee and set forth in an award agreement.

Performance Units and Performance Share Units. Performance Units shall be denominated in a specified dollar amount and, contingent upon the attainment of specified performance objectives within a performance cycle and such other vesting conditions as may be determined by the Committee (including without limitation, a continued employment requirement following the end of the applicable performance period), represent the right to receive payment of the specified dollar amount or a percentage of the specified dollar amount depending on the level of performance objective attained; provided, however, that the Committee may at the time a Performance Unit is granted specify a maximum amount payable in respect of a vested Performance Unit. Performance Share Units shall be denominated in Shares and, contingent upon the attainment of specified performance objectives within a performance cycle and such other vesting conditions as may be determined by the Committee (including without limitation, a continued employment requirement following the end of the applicable performance period), represent the right to receive payment of the fair market value of a Share on the date the Performance Share Unit was granted, the date the Performance Share Unit became vested or any other date specified by the Committee or a percentage of such amount depending on the level of performance objective attained; provided, however, that the Committee may at the time a Performance Share Unit is granted specify a maximum amount payable in respect of a vested Performance Share Unit. The award agreement for each Performance Unit and Performance Share Unit shall specify the number of Performance Units or Performance Share Units to which it relates, the performance objectives and other conditions which must be satisfied in order for the Performance Unit or Performance Share Unit to vest and the performance cycle within which such performance objectives must be satisfied (which will not be less than one (1) year) and the circumstances under which the award will be forfeited. Performance Units and Performance Share Units may be settled or paid in cash, Shares, or a combination of each, as determined by the Committee.

Performance-Based Restricted Stock. Performance-Based Restricted Stock shall consist of an award of shares of Restricted Stock, issued in the participant’s name and subject to appropriate restrictions and transfer limitations. Unless the Committee determines otherwise and as set forth in the applicable award agreement, upon issuance of shares of Performance-Based Restricted Stock, the participant shall have all of the rights of a shareholder with respect to such Shares, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to Shares. The award agreement for each award of Performance-Based Restricted Stock will specify the number of shares of Performance-Based Restricted Stock to which it relates, the performance objectives and other conditions that must be satisfied in order for the Performance-Based Restricted Stock to vest, the performance cycle within which the performance objectives must be satisfied (which will not be less than one (1) year) and the circumstances under which the award will be forfeited. At the time the Award of Performance-Based Restricted Stock is granted, the Committee may determine that the payment to the participant of dividends, or a specified portion thereof, declared or paid on Shares represented by such Award which have been issued by the Company to the participant shall be deferred until the lapsing of the restrictions imposed upon such Performance-Based Restricted Stock and held by the Company for the account of the participant until such time. Payment of deferred dividends in respect of shares of Performance-Based Restricted Stock shall be made upon the lapsing of restrictions imposed on the Performance-Based Restricted Stock in respect of which the deferred dividends were paid, and any dividends deferred in respect of any Performance-Based Restricted Stock shall be forfeited upon the forfeiture of such Performance-Based Restricted Stock.

Performance Objectives. Performance objectives (“Performance Objectives”) will be designed to support our business strategy and align the interests of participants with the interests of our stockholders. With respect to any Performance Awards intended to constitute “performance-based compensation” within the meaning of Section 162(m) of the Code, Performance Objectives may be expressed in terms of: (i) earnings per share, (ii) operating income, (iii) return on equity or assets, (iv) cash flow, (v) net cash flow, (vi) cash flow from operations, (vii) EBITDA, (viii) increased revenues, (ix) revenue ratios, (x) cost reductions, (xi) cost ratios, (xii) overall revenue or sales growth, (xiii) expense reduction or management, (xiv) market position, (xv) total stockholder return, (xvi) return on investment, (xvii) earnings before interest and taxes (EBIT), (xviii) net income, (xix) return on net assets, (xx) economic value added, (xxi) stockholder value added, (xxii) cash flow return on investment, (xxiii) net operating profit, (xxiv) net operating profit after tax, (xxv) return on capital, (xxvi) return on invested capital or (xxvii) any combination of the foregoing. With respect to Performance Awards not intended to constitute "performance-based compensation," under Section 162(m) of the Code, Performance Objectives may be based on any of the foregoing or any other performance criteria as may be established by the Committee. In either event, Performance Objectives may be based on our performance, one or more of our subsidiaries or divisions, or any combination thereof. In addition, Performance Objectives may be either absolute or relative (to our prior performance or to the performance of one or more other entities or external indices) and may be expressed in terms of a progression within a specified range. For Performance Awards intended to constitute "performance-based compensation," within the meaning of Section 162(m) of the Code, the Performance Objectives with respect to a particular performance cycle will be established in writing by the Committee by the earlier of (1) the date on which a quarter of the performance cycle has elapsed and

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(2) the date which is 90 days after the commencement of the performance cycle and in any event while the performance relating to the Performance Objectives remain substantially uncertain.

Effect of Certain Events. The Committee may, at the time the Performance Objectives in respect of a Performance Award are established, provide for the manner in which performance will be measured against the Performance Objectives to reflect the impact of specified events on the Company as a whole or any part of our business or operations, including, generally, (1) changes in accounting principles or tax laws that become effective during the applicable performance period; (2) events that are extraordinary or unusual in nature or infrequent in occurrence; (3) the disposition of a business, or the sale of investments or non-core assets; (4) settlements or recoveries related to claims or litigation; or (5) investments or acquisitions made during the year or, to the extent provided by the Committee, any prior year. Any adjustments based on the effect of this type of event are to be determined in accordance with generally accepted accounting principles and standards, unless another objective method of measurement is designated by the Committee and, in respect of Performance Awards intended to constitute "performance-based compensation" under Section 162(m) of the Code, such adjustments shall be permitted only to the extent permitted under Section 162(m) of the Code and the regulations promulgated thereunder.

Determination of Performance. Prior to the vesting, payment, settlement or lapsing of any restrictions with respect to any Performance Award, the Committee shall certify in writing that the applicable Performance Objectives have been satisfied to the extent necessary for such Award to qualify as "performance-based compensation" under Section 162(m) of the Code. In respect of a Performance Award, the Committee may, in its sole discretion, reduce the amount of cash paid or number of Shares to be issued or that have been issued and that become vested or on which restrictions lapse. The Committee shall not be entitled to exercise any discretion if doing so would cause the compensation attributable to such Awards to fail to qualify as "performance-based compensation" under Section 162(m) of the Code.

Share Awards

The Committee may grant an award of Shares ("Share Awards") to an Eligible Individual on such terms and conditions as the Committee may determine at the time of grant. A Share Award may be made as additional compensation for services rendered by the Eligible Individual or may be in lieu of cash or other compensation to which the Eligible Individual is entitled from the Company.

Adjustments

In the event of a Change in Capitalization (as defined in the Omnibus Plan) the Committee shall conclusively determine the appropriate adjustments, if any, to (a) the maximum number and class of shares or other stock or securities with respect to which Awards may be granted under the Omnibus Plan (including the limits on the individual awards that may be made in any calendar year (as described above)), (b) the maximum number and class of shares or other stock or securities that may be issued upon exercise of ISOs, (c) the number and kind of Shares or other securities covered by any or all outstanding Awards that have been granted under the Omnibus Plan, (d) the option price of outstanding Options and the base price of outstanding SARs, and (e) the Performance Objectives applicable to outstanding Performance Awards.

Amendment or Termination of the Omnibus Plan

The Omnibus Plan may be amended or terminated by the Board without shareholder approval unless shareholder approval of the amendment or termination is required under applicable law, regulation or exchange requirement. No amendment may impair or adversely impact any Awards that had been granted under the Omnibus Plan prior to the amendment without the impacted participant's consent. The Omnibus Plan will terminate on the tenth anniversary of its effective date; however, when the Omnibus Plan terminates, any applicable terms will remain in effect for administration of any Awards outstanding at the time of the Omnibus Plan's termination.

Effect of Certain Transactions

Generally, the award agreement evidencing each Award will provide any specific terms applicable to that award in the event of a Change in Control (as defined in the Omnibus Plan). Unless otherwise provided in an award agreement, in connection with a merger, consolidation, reorganization, recapitalization or other similar change in the capital stock of the Company, or a liquidation or dissolution of the Company or a Change in Control (each a "Corporate Transaction"), Awards shall either: (a) continue following such Corporate Transaction, which may include, in the discretion of the

Committee or the parties to the Corporate Transaction, the assumption, continuation or substitution of the Awards, in each case with appropriate adjustments to the number, kind of shares, and exercise prices of the awards; or
(b) terminate.
Options and SARs. If Options or SARs are to terminate in the event of a Corporate Transaction, the holders of vested Options or SARs must be provided either (a) fifteen days to exercise their Options or SARs or (b) payment (in cash or other consideration) in respect of each Share covered by the Option of SAR being cancelled in an amount equal to the excess of the per share price to

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be paid to stockholders in the Corporate Transaction over the price of the Option or the SAR. If the per share price to be paid to stockholders in the Corporate Transaction is less than the exercise price of the Option or SAR, the Option or SAR may be terminated without payment of any kind. The holders of unvested Options or SARs may also receive payment, at the discretion of the Committee, in the same manner as described above for vested Options and SARs. The Committee may also accelerate the vesting on any unvested Option or SAR and provide holders of such Options or SARS a reasonable opportunity to exercise the award.

Other Awards. If Awards other than Options and SARs are to terminate in connection with a Corporate Transaction, the holders of vested Awards will be provided, and holders of unvested Awards may be provided, at the discretion of the Committee, payment (in cash or other consideration upon or immediately following the Corporate Transaction, or, to the extent permitted by Section 409A of the Code, on a deferred basis) in respect of each Share covered by the Award being cancelled in an amount equal to the per share price to be paid to stockholders in the Corporate Transaction, where the value of any non-cash consideration will be determined by the Committee in good faith. The Committee may, in its sole discretion, provide for different treatment for different Awards or Awards held by different parties, and where alternative treatment is available for a participant's Awards, may allow the participant to choose which treatment will apply to his or her Awards.

Transferability

The Omnibus Plan generally prohibits the transfer of any Award, except (a) transfers by will or the laws of descent and distribution or (b) to a beneficiary designated by the participant, to whom any benefit under the Omnibus Plan is to be paid or who may exercise any rights of the participant in the event of the participant's death before he or she receives any or all of such benefit or exercises an award.

Federal Income Tax Consequences

The following is only a brief summary of the U.S. federal income tax consequences to a recipient and the Company of a stock incentive award, and does not discuss the effect of income tax law of any other jurisdiction (such as state income tax law) in which the recipient may reside.

Options. Options may be granted in the form of ISOs or NSOs. ISOs granted to employees are eligible for favorable federal income tax treatment that is provided under Section 422 of the Code if certain requirements are satisfied. An ISO must have an option price that is not less than the fair market value of the stock at the time the Option is granted, and must be exercisable within ten years from the date of grant. An employee granted an ISO or NSO generally does not realize compensation income for federal income tax purposes upon the grant of the Option. At the time of exercise of an ISO, no compensation income is realized by the holder of the Option other than tax preference income for purposes of the federal alternative minimum tax on individual income. If the Shares acquired on exercise of an ISO are held for at least two years after grant of the Option and one year after exercise, the excess of the amount realized on sale over the exercise price will be taxed as capital gain. If the Shares acquired on exercise of an ISO are disposed of within less than two years after grant or one year of exercise, the holder will realize taxable compensation income equal to the excess of the fair market value of the Shares on the date of exercise or the date of sale, whichever is less, over the option exercise price. Any additional amount realized will be taxed as capital gain. At the time of exercise of an NSO the holder of the Option will realize taxable compensation income in an amount of the spread between the exercise price of the Option and the fair market value of the Shares acquired on the date of exercise. The Company will be entitled to a federal income tax deduction at the time of exercise equal to the amount of compensation income that is realized by the holder of an Option.

SARs. At the time of exercise of a SAR the holder of the SAR will realize taxable compensation income in an amount of the spread between the base price of the SAR and the fair market value of the Shares acquired on the date of exercise. The Company will be entitled to a federal income tax deduction at the time of exercise equal to the amount of compensation income that is realized by the holder of the SAR.

Restricted Stock and Performance-Based Restricted Stock. Employees granted Restricted Stock or Performance-Based Restricted Stock under the Omnibus Plan generally recognize as taxable compensation income the fair market value of the Restricted Stock or Performance-Based Restricted Stock on the date the restrictions lapse unless the employee has elected to include the restricted award in income at the time of grant under Section 83(b) of the Code. The Company will be entitled to a federal income tax deduction at the time and in the amount equal to the compensation income that is recognized by the holder of the Restricted Stock or Performance-Based Restricted Stock. The Company will also be entitled to a federal income tax deduction with respect to any dividends paid to an employee during the restricted period equal to the amount of compensation income realized by the holder of the Restricted Stock or Performance-Based Restricted Stock in respect of such dividends (unless the employee has elected to include the restricted award in income when granted under Section 83(b) of the Code).

Restricted Stock Units, Performance Units and Performance Share Units. Employees granted RSUs, Performance Units or Performance Share Units under the Omnibus Plan generally recognize as taxable compensation income the cash or the fair market value the Shares or other property paid upon settlement of the RSUs, Performance Units and Performance Awards . The Company will be entitled to a federal income tax deduction at the time of payment equal to the amount of compensation income realized by the holder of the RSUs, Performance Units or Performance Share Units. The Company will also be entitled to a federal income tax deduction with respect to any dividend equivalents paid to an employee during the restricted period equal to the amount of compensation income realized by the holder of the RSUs, Performance Units or Performance Share Units.

Share Awards. Share Awards are in the nature of Shares of the Company (as opposed to phantom stock). Employees granted Share Awards under the Omnibus Plan generally recognize as taxable compensation income the aggregate of fair market value of the Share Award on the date the Share Award is no longer subject to a substantial risk of forfeiture. The Company will be entitled to a federal income tax deduction at the time a Share Award is not subject to a substantial risk of forfeiture equal to the amount of compensation income realized by the holder of the Share Award.

Code Section 162(m). Subject to stockholder approval of the Omnibus Plan, compensation deemed paid by us to Eligible Individuals who are granted Awards or Options under the Omnibus Plan may qualify as “performance-based compensation” for purposes of Section 162(m) of the Code and may not have to be taken into account for purposes of the $1.0 million limitation per covered individual on the federal income tax deduction by us of compensation paid by us to certain executive officers. The $1.0 million limitation does not apply to compensation deemed paid with respect to those Awards or Options that qualify as performance-based compensation.

Excise Taxes. The effect of a Corporate Transaction on Options or other Awards, if any, may include accelerated vesting or lapse of restrictions with respect to Options or other Awards. Under certain circumstances, the accelerated vesting or lapse of restrictions with respect to Options or other Awards in connection with a Corporate Transaction may be deemed an “excess parachute payment” for purposes of the golden parachute tax provisions of Section 280G of the Code. To the extent it is so considered, a participant may be subject to a 20% excise tax and we may be denied a tax deduction.

Section 409A. Section 409A of the Code generally imposes an additional 20% income tax, as well as interest and penalties, on recipients of deferred compensation that does not comply with Section 409A of the Code. “Deferred compensation” for this purpose generally consists of compensation to which an individual has a legally binding right in a taxable year and which is to be paid in a later taxable year. In addition to the taxes, interest and penalties, deferred compensation that does not comply with Section 409A of the Code may be required to be taken into income earlier than is intended. Awards under the Omnibus Plan are intended either not to be subject to Section 409A of the Code or to comply with Section 409A of the Code. If Awards under the Omnibus Plan are subject to Section 409A of the Code and do not comply with Section 409A of the Code, participants may be liable for the tax, interest and penalties imposed by the statute.

Plan Benefits

No determination has been made as to which of the individuals eligible to participate in the Omnibus Plan will receive awards under the Omnibus Plan in the future and, therefore, the future benefits to be allocated to any individual or to various groups of eligible participants are not presently determinable. However, please refer to the “Executive Compensation” section in this proxy statement, which provides information on the grants made in the last fiscal year, and the “Director Compensation” section in this proxy statement, which provides a description of grants made to our non-employee directors in the last fiscal year.

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Set forth below is information on equity awards granted on February 25, 2015 under the Company's Omnibus Incentive Plan (without giving effect to the amendment and restatement described herein) to the Named Executive Officers, all current executive officers as a group, director nominees, all current directors who are not executive officers as a group, and all employees who are not executive officers as a group.

Name & Position	Number of Shares Subject to Option Awards	Number of Shares Subject to Restricted Stock Awards
Vicente Anido, Jr., PhD, Chief Executive Officer & Chairman of the Board	133,125	22,188
Thomas A. Mitro, President and Chief Operating Officer	71,250	11,875
Brian Levy, OD, MSc, Chief Medical Officer	61,875	10,313
Richard J. Rubino, Chief Financial Officer	54,375	9,063
Executive Group	363,750	60,627
Geoffrey Duyk, MD, PhD (Director Nominee)*	—	—
Murray A. Goldberg (Director Nominee)*	—	—
Non-Executive Director Group*	—	—
Non-Executive Officer Employee Group	—	—

* For a description of equity awards to be made to directors effective as of the date of the Annual Meeting, please refer to the "Director Compensation" section in this proxy statement, which provides a description of the director grant policy in effect as of February 25, 2015.

We are committed to delivering value to our stockholders and we firmly believe in long-term, stock-based incentives for our executives, key employees and non-employee directors. Stock-based incentives align the interests of our employees with the interests of our stockholders and help us to attract and retain qualified and talented employees.

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PROPOSAL 3
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Company's stockholders are being asked by the audit committee of the Board to ratify the appointment of PricewaterhouseCoopers LLP to serve as the Company's independent registered public accounting firm. The audit committee is solely responsible for selecting the Company's independent registered public accounting firm, and stockholder approval is not required to appoint PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015. However, the Board believes that submitting the appointment of PricewaterhouseCoopers LLP to the stockholders for ratification is good corporate governance. If the stockholders do not ratify this appointment, the audit committee will reconsider whether to retain PricewaterhouseCoopers LLP. If the selection of PricewaterhouseCoopers LLP is ratified, the audit committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time it decides that such a change would be in the best interest of the Company and its stockholders.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting. These representatives will be provided an opportunity to make a statement at the Annual Meeting if they desire to do so and will be available to respond to appropriate questions from stockholders.

Vote Required

The proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015, requires an affirmative vote of the majority of the shares represented in person or by proxy at the Annual Meeting and entitled to vote on the proposal.

Our Recommendation

THE BOARD RECOMMENDS A VOTE "FOR" THE RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Pre-Approval Policies and Procedures

Our audit committee pre-approves all audit and permissible non-audit services provided by PricewaterhouseCoopers LLP. These services may include audit services, audit-related services, tax services and other services. Pre-approval may be given as part of the audit committee's approval of the scope of the engagement of the independent registered public accounting firm or on an individual case-by-case basis. All of the services described below were approved by our audit committee.

During the fiscal years ended December 31, 2014 and December 31, 2013, respectively, we retained PricewaterhouseCoopers LLP to provide audit services. The following table represents aggregate fees billed or to be billed to us by PricewaterhouseCoopers LLP for services performed for the fiscal years ended December 31, 2014 and 2013:

	2014	2013
Audit Fees (1)	$705,000	$1,039,214
Audit-Related Fees	—	—
Tax Fees	13,500	—
All Other Fees	5,400	—
Total	$723,900	$1,039,214

(1) This category consists of fees for professional services rendered for the audit of our financial statements, review of interim financial statements, assistance with registration statements filed with the SEC and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements. For the year ended December 31, 2013, fees of $491,150, were billed in connection with our IPO.

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EXECUTIVE COMPENSATION

The discussion and tabular disclosure that follows describes our executive compensation program during the fiscal years ended December 31, 2014 and 2013, relating to the following individuals: Vicente Anido, Jr., Thomas A. Mitro, Brian Levy, and Richard J. Rubino (our "named executive officers").

Summary Compensation Table

The following table sets forth the portion of compensation paid to the named executive officers that is attributable to services performed during the fiscal year ended December 31, 2014 and 2013.

NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($) (1)	STOCK AWARDS ($) (2)	OPTION AWARDS ($) (2)	ALL OTHER COMPENSATION	TOTAL ($)
Vicente Anido, Jr., PhD	2014	$507,000	$386,250	$—	$4,358,866	$—	$5,252,116
Chief Executive Officer & Chairman of the Board	2013	$205,309(3)	$163,281	$—	$7,763,955	$40,000(4)	$8,172,545
Thomas A. Mitro	2014	$380,000	$237,500	$—	$1,831,168	$—	$2,448,668
President & Chief Operating Officer	2013	$140,279(5)	$30,686	$—	$3,098,654	$40,000(4)	$3,309,619
Brian Levy, OD, MSc	2014	$365,000	$213,000	$—	$1,673,758	$—	$2,251,758
Chief Medical Officer	2013	$294,862	$58,140	$—	$407,200	$—	$760,202
Richard J. Rubino	2014	$365,000	$205,313	$—	$1,293,924	$—	$1,864,237
Chief Financial Officer	2013	$303,849	$75,000	$1,075,999	$558,639	$—	$2,013,487

(1) Amounts reflected in this column are bonus amounts awarded at the discretion of the Board after its assessment of our and the executive's performance in the fiscal year.

(2) The amounts included in the "Stock Awards" and "Option Awards" columns represent the grant date fair value computed in accordance with FASB ASC Topic 718. The valuation assumptions used in determining such amounts are described in Note 13 to our audited financial statements included in our Annual Report on Form 10-K filed with the SEC on February 27, 2015.

(3) For Dr. Anido, represents solely the pro-rated amount of his annual base salary earned commencing July 25, 2013, his employment start date.

(4) This amount represents the transaction bonus paid to the executive following the completion of our IPO in October 2013.

(5) For Mr. Mitro, represents solely the pro-rated amount of his annual base salary earned commencing August 5, 2013, his employment start date.

Executive Agreements

Vicente Anido, Jr. On September 20, 2013, we entered into an employment agreement with Vicente Anido, Jr. (the "Anido Employment Agreement") to memorialize his appointment as our Chief Executive Officer, which appointment was effective as of July 25, 2013. The Anido Employment Agreement provides for a four-year term during which Dr. Anido will receive an annual base salary of $475,000, which may be increased annually at the Board's discretion, and may be decreased only in connection with an overall reduction in executive officer salaries. Dr. Anido is eligible to receive an annual performance bonus of up to 50% of his base salary for the relevant calendar year. After an overall review of Dr. Anido's compensation package, on March 13, 2014 our Board approved an increase in Dr. Anido's base salary to $515,000 and an increase in his target bonus opportunity to 60% of his base salary. The Anido Employment Agreement also provides that Dr. Anido will be granted an option to purchase 922,468 shares of common stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, 25% on July 25, 2014, and thereafter will vest ratably on each of the 36 monthly anniversaries of July 25, 2014. After an overall review of Dr. Anido's compensation package, on February 25, 2015 our Board approved an increase in Dr. Anido's base salary to $530,450. Additionally, Dr. Anido was granted an option to purchase 133,125 shares of common stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, ratably on each of the 48 monthly anniversaries of February 25, 2015. Dr. Anido was also granted 22,188 shares of restricted stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, in four equal annual installments on the anniversary of February 25, 2015. For the four-year period commencing on September 20, 2013, in the event that any of the payments or benefits provided by us to Dr. Anido would constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code

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of 1986, as amended (the "Code"), and would be subject to the excise tax imposed under Section 4999 of the Code, Dr. Anido will entitled to a "gross-up" payment equal to the sum of such excise tax and related interest or penalties plus the amount necessary to put him in the same after-tax position that he would have been in had he not incurred any tax liability under Section 4999 of the Code.

The Anido Employment Agreement also provides that he shall not (and shall not assist any person to), directly or indirectly, without our prior written consent (a) during the employment term and for a period of 6 months thereafter contact, induce or solicit for employment any person who is, or within three months prior to such hiring, contacting, inducing or soliciting, was an employee of us or any of our affiliates, or (b) during the employment term and for a period of 12 months thereafter, (x) induce or solicit any customer, client or vendor of, or other person having a business relationship with us or any of our affiliates to terminate its relationship or otherwise cease doing business in whole or in part with us or any of our affiliates, or (y) interfere with any relationship between us or any of our affiliates and any of our respective customers, clients, vendors or any other business contacts.

Thomas A. Mitro. On July 31, 2013, we entered into an employment agreement with Thomas A. Mitro (the "Mitro Employment Agreement"), which was amended and restated and effective as of December 18, 2013 (the "Restated Mitro Employment Agreement"), pursuant to which Mr. Mitro continues to serve as our President and Chief Operating Officer. The Mitro Employment Agreement had provided for an annual base salary of $335,000 and an annual performance bonus opportunity of up to 20% of his base salary then in effect. Pursuant to the Restated Mitro Employment Agreement, Mr. Mitro is entitled to an annual base salary of $380,000 and is eligible to earn an annual performance bonus of up to 50% of his base salary. After an overall review of Mr. Mitro's compensation package, on February 25, 2015 our Board approved an increase in Mr. Mitro's base salary to $391,400. Additionally, Mr. Mitro was granted an option to purchase 71,250 shares of common stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, ratably on each of the 48 monthly anniversaries of February 25, 2015. Mr. Mitro was also granted 11,875 shares of restricted stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, in four equal annual installments on the anniversary of February 25, 2015. The Restated Mitro Employment Agreement provides for an initial term beginning on December 18, 2013 and ending on the fourth anniversary thereof, which term shall automatically be renewed for successive one-year periods unless either party provides 90 days' notice of non-renewal (the initial term and any renewal term, collectively, the "Mitro Agreement Term"). Mr. Mitro's base salary may be increased annually at the discretion of the Board, and may be decreased only in connection with an overall reduction in executive officer salaries.

The Restated Mitro Employment Agreement provides that if, during the four-year period commencing on December 18, 2013, any of the payments or benefits provided by the Company to Mr. Mitro would constitute a "parachute payment" within the meaning of Section 280G of the Code that would be subject to the excise tax imposed under Section 4999 of the Code or any interest or penalties with respect to such excise tax, Mr. Mitro will be entitled to an additional payment equal to the sum of such excise tax and related interest or penalties plus the amount necessary to put him in the same after-tax position that he would have been in had he not incurred any tax liability under Section 4999 of the Code.

The Restated Mitro Employment Agreement also provides that during the Mitro Agreement Term and for a period of 12 months thereafter, Mr. Mitro shall not, directly or indirectly, without the Company's prior written consent (a) hire, contact, induce or solicit for employment any person who is, or within six months prior to the date of such hiring, contacting, inducing or soliciting was, an employee of the Company or any of its affiliates, or (b) induce or solicit any customer, client or vendor of, or other person having a business relationship with, the Company or any of its affiliates to terminate its relationship or otherwise cease doing business in whole or in part with the Company or any of its affiliates, or interfere with any relationship between the Company or any of its affiliates and any of their respective customers, clients, vendors or any other business contacts.

Brian Levy. On January 2, 2012, we entered into a letter agreement with Dr. Levy (the "Levy Letter Agreement"), which was amended and restated effective as of December 18, 2013 (the "Restated Levy Employment Agreement"), pursuant to which Dr. Levy continues to serve as our Chief Medical Officer. The Levy Letter Agreement had provided for a base salary of $285,000 per annum and an annual performance bonus of up to 20% of his base salary for the relevant calendar year. The Restated Levy Employment Agreement provides that Dr. Levy will receive an annual base salary of $365,000 and, beginning with the 2014 calendar year, be eligible to receive an annual performance bonus of up to 45% of his base salary for the relevant calendar year. After an overall review of Dr. Levy's compensation package, on February 25, 2015 our Board approved an increase in Dr. Levy's base salary to $375,038. Additionally, Dr. Levy was granted an option to purchase 61,875 shares of common stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, ratably on each of the 48 monthly anniversaries of February 25, 2015. Dr. Levy was also granted 10,313 shares of restricted stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, in four equal annual installments on the anniversary of February 25, 2015. The Restated Levy Employment Agreement provides for an initial term beginning on December 18, 2013 and ending on the third anniversary thereof, which term shall

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automatically be renewed for successive one-year periods unless either party provides 90 days' notice of non-renewal (the initial term and any renewal term, collectively, the "Levy Agreement Term"). Dr. Levy's base salary may be increased annually at the discretion of the Board, and may be decreased only in connection with an overall reduction in executive officer salaries.

The Restated Levy Employment Agreement provides that to the extent any of the payments or benefits provided by the Company to Dr. Levy would constitute a "parachute payment" within the meaning of Section 280G of the Code that would be subject to Section 4999 of Code, then such payments will be payable either (i) in full or (ii) as to such lesser amount which would result in no portion of such payment being subject to Section 4999 of the Code; whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in Dr. Levy's receipt on an aftertax basis, of the greatest amount of economic benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code.

The Restated Levy Employment Agreement also provides that during the Levy Agreement Term and for a period of 12 months thereafter, Dr. Levy shall not, directly or indirectly, without the Company's prior written consent (a) hire, contact, induce or solicit for employment any person who is, or within six months prior to the date of such hiring, contacting, inducing or soliciting was, an employee of the Company or any of its affiliates, or (b) induce or solicit any customer, client or vendor of, or other person having a business relationship with, the Company or any of its affiliates to terminate its relationship or otherwise cease doing business in whole or in part with the Company or any of its affiliates, or interfere with any relationship between the Company or any of its affiliates and any of their respective customers, clients, vendors or any other business contacts.

Richard J. Rubino. On September 24, 2012, we entered into a letter agreement with Mr. Rubino (the "Rubino Letter Agreement"), which was amended and restated effective as of December 18, 2013 (the "Restated Rubino Employment Agreement"), pursuant to which Mr. Rubino continues to serve as our Chief Financial Officer. The Rubino Letter Agreement had provided for a base salary of $300,000 per annum and an annual performance bonus of up to 20% of his base salary for the relevant calendar year. The Restated Rubino Employment Agreement provides that Mr. Rubino will receive an annual base salary of $365,000 and, beginning with the 2014 calendar year, be eligible to receive an annual performance bonus of up to 45% of his base salary for the relevant calendar year. After an overall review of Mr. Rubino's compensation package, on February 25, 2015 our Board approved an increase in Mr. Rubino's base salary to $375,950. Additionally, Mr. Rubino was granted an option to purchase 54,375 shares of common stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, ratably on each of the 48 monthly anniversaries of February 25, 2015. Mr. Rubino was also granted 9,063 shares of restricted stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, in four annual installments on the anniversary of February 25, 2015. The Restated Rubino Employment Agreement provides for an initial term beginning on December 18, 2013 and ending on the third anniversary thereof, which term shall automatically be renewed for successive one-year periods unless either party provides 90 days' notice of non-renewal (the initial term and any renewal term, collectively, the "Rubino Agreement Term"). Mr. Rubino's base salary may be increased annually at the discretion of the Board, and may be decreased only in connection with an overall reduction in executive officer salaries.

The Restated Rubino Employment Agreement provides that to the extent any of the payments or benefits provided by the Company to Mr. Rubino would constitute a "parachute payment" within the meaning of Section 280G of the Code that would be subject to Section 4999 of Code, then such payments will be payable either (i) in full or (ii) as to such lesser amount which would result in no portion of such payment being subject to Section 4999 of the Code; whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in Mr. Rubino's receipt on an after-tax basis, of the greatest amount of economic benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code.

The Restated Rubino Employment Agreement also provides that during the Rubino Agreement Term and for a period of 12 months thereafter, Mr. Rubino shall not, directly or indirectly, without the Company's prior written consent (a) hire, contact, induce or solicit for employment any person who is, or within six months prior to the date of such hiring, contacting, inducing or soliciting was, an employee of the Company or any of its affiliates, or (b) induce or solicit any customer, client or vendor of, or other person having a business relationship with, the Company or any of its affiliates to terminate its relationship or otherwise cease doing business in whole or in part with the Company or any of its affiliates, or interfere with any relationship between the Company or any of its affiliates and any of their respective customers, clients, vendors or any other business contacts.

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Equity Incentive Awards

Our named executive officers have historically been eligible to receive long-term equity-based incentive awards under the Aerie Pharmaceuticals, Inc. 2005 Stock Option Plan (the “2005 Plan”) and are currently eligible to receive long-term equity-based incentive awards under the Aerie Pharmaceuticals, Inc. 2013 Omnibus Incentive Plan (the “2013 Equity Plan”). While we believe that long-term equity awards are an important element of the “mix” of compensation paid to our named executive officers, we do not maintain any formal grant-making policy. Instead, the Board (or the compensation committee) periodically reviews the total level and mix of compensation paid to each of our named executive officers in order to determine the appropriate timing and amounts of long-term equity awards so as to continue to promote the alignment of our executive officers’ interests with those of our stockholders.

Vicente Anido, Jr. Pursuant to the terms of an incentive stock option agreement, on March 21, 2013, we granted Dr. Anido an option to purchase 123,861 shares of common stock scheduled to vest 8.37% on or after March 21, 2013, and 8.33% in equal monthly installments on the corresponding day of each successive quarter thereafter. The option terminates on the earliest to occur of (i) March 21, 2023, (ii) the expiration of the post-termination exercise period or (iii) upon a Transfer of Control. On September 12, 2013, we granted Dr. Anido an option to purchase 922,468 shares of common stock scheduled to vest 25% on or after July 25, 2014, and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. On March 13, 2014, we granted Dr. Anido an option under the 2013 Equity Plan to purchase 300,000 shares of common stock scheduled to vest 25% on March 14, 2015, and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. On February 25, 2015, we granted Dr. Anido an option under the 2013 Equity Plan to purchase 133,125 shares of common stock scheduled to vest 48 equal monthly installments on the corresponding day of each successive month thereafter. Dr. Anido was granted an option to purchase 133,125 shares of common stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, ratably on each of the 48 monthly anniversaries of February 25, 2015. Dr. Anido was also granted 22,188 shares of unvested restricted stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, in four equal annual installments on the anniversary of February 25, 2015.

Thomas A. Mitro. Pursuant to the terms of an incentive stock option agreement, on August 26, 2013, we granted Mr. Mitro an option to purchase 309,652 shares of common stock scheduled to vest 25% on or after August 26, 2014, and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. The option terminates on the earliest to occur of (i) August 26, 2023, (ii) the expiration of the post-termination exercise period or (iii) upon a Transfer of Control. On September 12, 2013, we granted Mr. Mitro an option to purchase 70,831 shares of common stock scheduled to vest 25% on or after September 12, 2014 and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. On March 13, 2014, we granted Mr. Mitro an option under the 2013 Equity Plan to purchase 126,000 shares of common stock scheduled to vest 25% on March 14, 2015, and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. On February 25, 2015, we granted Mr. Mitro an option under the 2013 Equity Plan to purchase 71,250 shares of common stock scheduled to vest in 48 equal monthly installments on the corresponding day of each successive month thereafter. We also granted Mr. Mitro 11,875 shares of restricted stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, in equal annual installments on the anniversary of February 25, 2015.

Brian Levy. Pursuant to the terms of an incentive stock option agreement, on January 1, 2012, we granted Dr. Levy an option to purchase 154,000 shares of common stock scheduled to vest 25% on or after January 1, 2013, and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. The option terminates on the earliest to occur of (i) January 1, 2022, (ii) the expiration of the post-termination exercise period or (iii) upon a Transfer of Control. On September 12, 2013, we granted Dr. Levy an option to purchase 50,000 shares of common stock scheduled to vest 25% on or after September 12, 2014 and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. On March 13, 2014, we granted Dr. Levy an option under the 2013 Equity Plan to purchase 115,000 shares of common stock scheduled to vest 25% on March 14, 2015, and 75% in

36 equal monthly installments on the corresponding day of each successive month thereafter. On February 25, 2015, we granted Dr. Levy an option under the 2013 Equity Plan to purchase 61,875 shares of common stock scheduled to vest in 48 equal monthly installments on the corresponding day of each successive month thereafter. We also granted Dr. Levy 10,313 shares of restricted stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, in equal annual installments on the anniversary of February 25, 2015.

Richard J. Rubino. Pursuant to the terms of an incentive stock option agreement, on October 15, 2012, we granted Mr. Rubino an option to purchase 345,000 shares of common stock scheduled to vest over a period of four years beginning on the anniversary of the date of grant, which option agreement was subsequently amended on March 21, 2013 to provide that (i) the option would no longer be an incentive stock option as described in Section 422 of the Code, (ii) the option would be fully

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vested and (iii) Mr. Rubino may elect to net exercise his option such that the number of shares delivered would reflect the total number of shares underlying the option reduced by the number of shares of common stock having a fair market value on the date of exercise equal to the aggregate exercise price for the total number of shares underlying the option ("net exercise"). As described in greater detail in footnote 8 to the "Outstanding Equity Awards at Fiscal Year-End" table, this option was exercised in full by Mr. Rubino in March 2013. We also made an additional option grant to purchase 174,939 shares of common stock, which was the equivalent number of shares he surrendered to us in connection with the cashless exercise of his October 2012 option. On September 12, 2013, we granted Mr. Rubino an option to purchase 25,000 shares of common stock scheduled to vest 25% on or after September 12, 2014 and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. On March 13, 2014, we granted Mr. Rubino an option under the 2013 Equity Plan to purchase 89,000 shares of common stock scheduled to vest 25% on March 13, 2015, and 75% in 36 equal monthly installments on the corresponding day of each successive month thereafter. On February 25, 2015, we granted Mr. Rubino an option under the 2013 Equity Plan to purchase 54,375 shares of common stock scheduled to vest in 48 equal monthly installments on the corresponding day of each successive month thereafter. We also granted Mr. Rubino 9,063 shares of restricted stock which will vest, subject to his continued employment with (or provision of services to) us through the applicable vesting date, in equal annual installments on the anniversary of February 25, 2015.

The treatment of Dr. Anido's, Mr. Mitro's, Dr. Levy's and Mr. Rubino's equity awards upon a termination of employment (as applicable) or a Transfer of Control is described below in the section entitled "—Potential Payments Upon Termination or Change in Control."

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Outstanding Equity Awards at Fiscal Year-End

The following table provides information concerning outstanding equity awards for each of our named executive officers as of December 31, 2014.

NAME	OPTION AWARDS					STOCK AWARDS		
	NUMBER OF SECURITIES UNDERLYING UNEXERCISED EQUITY AWARDS EXERCISABLE (#)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED EQUITY AWARDS UNEXERCISABLE (#)		OPTION EXERCISE PRICE ($)	OPTION EXPIRATION DATE	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED (#)		MARKET VALUE OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED ($)
Vicente Anido, Jr.	82,593	41,268	(1)	$ 2.90	3/21/2023	—		$ —
	326,701	595,767	(2)	$ 3.15	9/12/2023	—		$ —
	—	300,000	(3)	$ 20.70	3/13/2024	—		$ —
Thomas A. Mitro	109,669	199,983	(4)	$ 3.15	8/26/2023	—		$ —
	26,561	44,270	(5)	$ 3.15	9/12/2023	—		$ —
	—	126,000	(3)	$ 20.70	3/13/2024	—		$ —
Brian Levy	112,291	41,709	(6)	$ 1.44	1/1/2022	—		$ —
	15,626	34,374	(5)	$ 3.15	9/12/2023	—		$ —
	—	115,000	(3)	$ 20.70	3/13/2024	—		$ —
Richard J. Rubino	94,765	80,174	(7)	$ 2.90	10/15/2022	103,064	(8)	$ 3,008,438
	7,813	17,187	(5)	$ 3.15	9/12/2023	—		$ —
	—	89,000	(3)	$ 20.70	3/13/2024	—		$ —

(1) This option was granted on March 21, 2013. The option was 8.37% vested on the date of grant, and vests 8.33% on a quarterly basis thereafter.

(2) This option was granted on September 12, 2013. The option was 25% vested on July 25, 2014 and vests in 36 equal monthly installments thereafter.

(3) This option was granted on March 13, 2014. The option is scheduled to vest 25% on March 13, 2015 and thereafter in 36 equal monthly installments.

(4) This option was granted on August 26, 2013. The option was 25% vested on August 26, 2014 and vests in 36 equal monthly installments thereafter.

(5) This option was granted on September 12, 2013. The option was 25% vested on September 12, 2014 and vests in 36 equal monthly installments thereafter.

(6) This option was granted on January 1, 2012. The option was 25% vested on January 1, 2013 and vests in 36 equal monthly installments thereafter.

(7) This option was granted on March 21, 2013. The option was 25% vested on October 14, 2013 and vests thereafter in 36 equal monthly installments.

(8) On October 15, 2012, Mr. Rubino was granted an option to purchase 345,000 shares of common stock, which option was amended in March 2013. Pursuant to the amendment, the option was fully exercisable and Mr. Rubino exercised the option in full on a net exercise basis such that he acquired 170,061 shares of common stock. The resulting 170,061 shares are considered restricted stock until vesting occurs, and are subject to the original vesting terms such that 25% of the shares vested on October 14, 2013, and the remaining shares thereafter vest in 36 monthly installments. As of December 31, 2014, 92,116 shares were vested under this grant. In order to cover Mr.

Rubino's out-of-pocket tax costs associated with the exercise of his option, on March 21, 2013 we made an additional grant of 200,973 shares of restricted stock which is scheduled to vest over a two-year period in equal monthly installments. As of December 31, 2014, 175,854 shares were vested under this grant. As of December 31, 2014, the fair market value of a share of common stock was $29.19.

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Pension Benefits

We did not maintain any plan providing for payments or other benefits at, following, or in connection with retirement, during the fiscal year ended December 31, 2014.

Nonqualified Deferred Compensation

We did not maintain any deferred compensation plans for any named executive officer for the year ended December 31, 2014.

Potential Payments Upon Termination or Change in Control

Vicente Anido, Jr. In the event of a termination of Dr. Anido's employment by us without Cause (as such term is defined in the Anido Employment Agreement) or by Dr. Anido for Good Reason (as such term is defined in the Anido Employment Agreement), Dr. Anido will be entitled to (i) a lump sum severance payment equal to six months of base salary, (ii) commencing on the date that is six months following the termination date, continued payment of Dr. Anido's base salary at the rate in effect at the time of termination for a period of six months, (iii) 12 months of Company-paid COBRA continuation coverage less the amount payable by an active employee for such coverage, and (iv) payment of the greater of (x) the target annual performance bonus for the year in which termination occurs and (y) the average of the annual performance bonus received by Dr. Anido for the three years immediately preceding the year in which termination occurs (together with the payments provided under (i), (ii) and (ii), the "Anido Severance Payments"). In the event Dr. Anido's employment is terminated by us with or without Cause, or he resigns for or without Good Reason, he will have a post-termination exercise period of 90 days during which he may exercise the portion of the options that was vested as of the termination date. In the event of a termination by us without Cause or by Dr. Anido for Good Reason at any time during the 12 months following a Transfer of Control, he will be entitled to (i) the Anido Severance Payments (provided that the base salary continuation and COBRA continuation coverage shall continue for a period of 18 months following termination if we are a publicly reporting company at the time of the Transfer of Control) and (ii) full vesting of all options and other equity incentive awards which were unvested immediately prior to such termination. In the event that the Board approves a decision to liquidate, dissolve, or terminate our business or operations (other than in connection with the sale of the assets or merger of our company), Dr. Anido will immediately resign from all then-held employment, officer and director positions, and will not be required to oversee, participate or assist in any in such liquidation, provided, however, that in the event of such resignation, Dr. Anido would not be entitled to any severance benefits or payments.

Under the terms of each Employment Agreement for Messrs. Mitro, Levy and Rubino, in the event of a termination by the Company without Cause (as such term is defined in the applicable Employment Agreement) or by the executive for Good Reason (as such term is defined in the applicable Employment Agreement), the executive is entitled to (i) base salary continuation for a period of 12 months following the date of termination and (ii) COBRA continuation coverage for himself and his dependents for a period of 12 months (or, if earlier, such time as the executive obtains new employment) (collectively, the "Severance Benefits"). In the event of a termination by the Company with or without Cause, or by the executive for any reason, the vesting applicable to equity awards then held by the executive shall cease and the executive will have a period of 90 days following such termination during which he may exercise the portion of such equity awards that was vested as of the termination date. If, following a Change in Control (as defined in the Company's 2013 Equity Plan) during the Term, either (a) the successor corporation (or a parent or subsidiary of the successor corporation) does not offer the executive employment on terms comparable to the executive's then existing terms of employment with the Company and in connection therewith, the executive terminates employment or (b) the executive's employment is terminated by the successor corporation without Cause or by the executive for Good Reason within the one-year period following the Change in Control, the executive shall be entitled to (i) the Severance Benefits; (ii) a performance bonus equal to the greater of (x) the target bonus for the applicable calendar year and (y) the average of the performance bonus received by the executive for the two years immediately preceding termination; and (iii) immediate vesting of all of his then unvested equity awards. The executive will have a period of 90 days following such termination during which he may exercise such equity awards.

Treatment of Equity in the Event of a Transfer of Control. The 2005 Plan provides that in the event of a Transfer of Control (as defined in the 2005 plan), each outstanding option shall be assumed or an equivalent option substituted by the successor corporation (or a parent or subsidiary of the successor corporation). If the successor corporation in a Transfer of Control refuses to assume or substitute for any outstanding option, the option shall fully vest and become exercisable. An option shall be considered assumed if, following the Transfer of Control, the option confers upon the holder the right to receive, in respect of each share underlying such option, the per share consideration (whether in the form of stock, cash or other securities or property) received by holders of our common stock (as of the effective date of the transaction) in the Transfer of Control, provided, however, that if such consideration received in the Transfer of Control is not solely capital stock of the successor corporation (or parent thereof), the Board may, with the consent of the successor corporation, provide for the consideration to

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be received upon the exercise of the option, for each share subject to the option, to be solely capital stock of the successor corporation (or parent thereof) equal in fair market value to the per share consideration received by holders of our common stock in the Transfer of Control. Upon occurrence of a Transfer of Control, each outstanding option, to the extent not exercised prior to or concurrently with the Transfer of Control, shall terminate as of the effective time of the Transfer of Control, unless such option is assumed or replaced with an option to purchase shares of capital stock in the successor corporation. Notwithstanding the foregoing, if the successor corporation (or a parent or subsidiary of the successor corporation), either (A) does not offer employment to the executive on terms comparable to his then existing terms of employment (as determined by the Board) or (B) terminates the executive’s employment without cause (as such term is defined in the executive’s agreement or 2005 Plan, as applicable) within one year after the Transfer of Control, then the entire unexercisable portion of the outstanding option that would become exercisable during the twelve months following the occurrence of either of the events set forth in clauses (A) or (B) above, shall become immediately exercisable.

Treatment of Equity in the Event of a Corporate Transaction. The 2013 Equity Plan provides that in the event of a Corporate Transaction (as defined in the 2013 Equity Plan), each outstanding option may (a) continue following such Corporate Transaction, which may include, in the discretion of the compensation committee, the assumption, continuation or substitution of the options, in each case with appropriate adjustments to the number, kind of shares, and exercise prices; or (b) terminate. If the outstanding options are terminated in the event of a Corporate Transaction, the holders of vested options must be provided either (a) fifteen days to exercise their options or (b) payment (in cash or other consideration) in respect of each share covered by the option being cancelled in an amount equal to the excess of the per share price to be paid to stockholders in the Corporate Transaction over the price of the option. If the per share price to be paid to stockholders in the Corporate Transaction is less than the exercise price of the option, the options may be terminated without payment of any kind. Unvested options may be treated, at the discretion of the Committee, in the same manner as described above for vested options. The Committee may also accelerate the vesting on any unvested options and provide holders of such options a reasonable opportunity to exercise the award. Notwithstanding the foregoing, in connection with a Corporate Transaction, the Committee may, in its sole and absolute discretion, cause any of the following actions to be taken effective upon or at any time prior to the Corporate Transaction (and such action may be made contingent upon the occurrence of the Corporate Transaction): (a) cause and or all unvested options to become fully vested and immediately exercisable and/or provide holders of options a reasonable period of time prior to the Corporate Transaction to exercise their options; or (b) with respect to unvested options that are terminated in connection with the Corporate Transaction, provide to holders a payment (in cash or other consideration) in respect of each share underlying the options equal to all or a portion of the excess, if any, of the per share price to be paid or distributed to stockholders in the Corporate Transaction over the exercise price of the option, which may be paid in accordance with the vesting schedule of the options as set forth in the applicable award agreement.

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DIRECTOR COMPENSATION

Following our IPO in October 2013, we established a non-employee director compensation policy, pursuant to which each non-employee director was eligible to receive a pro-rated annual base retainer of $35,000. In addition, our non-employee directors were eligible to receive the following cash compensation for board services, as applicable:

- Each member of our audit, compensation and nominating and corporate governance committees, other than the chairperson, was eligible to receive a committee fee of $1,500, $1,000 and $1,000, respectively per meeting; and
- Each chairperson of our audit, compensation and nominating and corporate governance committees was eligible to receive an additional annual retainer of $15,000, $10,000 and $7,000, respectively.

Beginning in March 2014, in addition to an annual base retainer of $35,000, our non-employee directors are eligible to receive the following cash compensation for board services, as applicable:

- The lead independent director is eligible to receive an additional annual retainer of $15,000;
- Each member of our audit, compensation and nominating and corporate governance committees, other than the chairperson, is eligible to receive an additional annual retainer of $9,000, $6,000 and $4,500, respectively; and
- Each chairperson of our audit, compensation and nominating and corporate governance committees is eligible to receive an additional annual retainer of $18,000, $12,000 and $9,000, respectively.

All amounts will be paid in quarterly installments. We will also reimburse each of our directors for their travel expenses incurred in connection with their attendance at Board and committee meetings.

In addition, newly appointed non-employee directors shall be eligible to receive a one-time initial option award to purchase 25,000 shares of common stock, which will vest quarterly over a three-year period subject to the director's continued service on the Board. Beginning on February 25, 2015, each non-employee director shall be eligible to receive on the date of each annual meeting of stockholders an annual option award to purchase 10,000 shares of common stock and 1,700 shares of restricted stock, each of which will vest on the one-year anniversary of the date of grant, subject to the director's continued service on the Board.

Director Compensation Table

The following table sets forth the compensation paid to our non-employee directors for the year ended December 31, 2014, for their service on our Board. Directors who are also our employees receive no additional compensation for their services as directors and are not set forth in the table below.

NAME	FEES EARNED OR PAID IN CASH	OPTION AWARDS (1)		TOTAL
Gerald D. Cagle, PhD	$43,625	$152,550	(3)	$196,175
Janet L. Conway, PhD (2)	$19,515	$—		$19,515
Geoffrey Duyk, MD, PhD	$39,030	$152,550	(3)	$191,580
Murray A. Goldberg	$53,000	$152,550	(3)	$205,550
David W. Gryska	$71,000	$152,550	(3)	$223,550
Dennis Henner, PhD (4)	$44,000	$152,550	(3)	$196,550
James V. Mazzo	$14,667	$295,000	(5)	$309,667
Benjamin F. McGraw, III, Pharm.D	$11,000	$333,750	(6)	$344,750
Anand Mehra, MD	$41,000	$152,550	(3)	$193,550

(1) The amounts included in the "Option Awards" column represent the grant date fair value computed in accordance with FASB ASC Topic 718. The valuation assumptions used in determining such amounts are described in Note 11 to our financial statements incorporated herein by reference to our Form 10-K filed with the SEC on February 27, 2015.

(2) Dr. Conway served on our Board until the 2014 Annual Meeting of Stockholders.

(3) This option was granted on June 11, 2014 and is scheduled to fully vest on June 11, 2015.

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(4) Dr. Henner resigned from the Board in February 2015 and all unvested options were forfeited.

(5) This option was granted on June 11, 2014 and was scheduled to vest in 12 equal quarterly installments. In September 2014, Mr. Mazzo resigned from the Board and all unvested options were forfeited.

(6) This option was granted on September 30, 2014. The option was 9.09% vested on December 31, 2014, and vests 9.09% on a quarterly basis thereafter.

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TRANSACTIONS WITH RELATED PERSONS

Policies and Procedures for Related Person Transactions

All related person transactions are reviewed and approved by our audit committee. This review covers any material transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, in which we were or are to be a participant, and a related person had or will have a direct or indirect material interest, including, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related person. A “related person” is any person who is or was one of our executive officers, directors or director nominees or is a holder of more than 5% of our common stock, or their immediate family members or any entity owned or controlled by any of the foregoing persons.

Certain Related-Person Transactions

Other than compensation arrangements with directors and executive officers, which are described where required under “Executive Compensation—Executive Agreements” and “Director Compensation,” we have no other related-party transactions that are subject to disclosure in accordance with our policies and procedures for related party transactions.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us regarding beneficial ownership of our common stock as of January 31, 2015 by:

- our named executive officers;
- our directors;
- all of our executive officers and directors as a group; and
- each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of our common stock.

We have based our calculation of beneficial ownership on 24,038,664 shares of common stock outstanding as of January 31, 2015.

Information with respect to beneficial ownership is based upon information furnished to us by each director, executive officer or 5% or more stockholder, and Schedules 13D or 13G filed with the SEC, as the case may be. Beneficial ownership is determined in accordance with SEC rules. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include shares of common stock issuable upon the exercise of stock options or warrants that are immediately exercisable or exercisable within 60 days after January 31, 2015. Common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of January 31, 2015 are deemed to be outstanding and beneficially owned by the person holding the options or warrants. These shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person.

Except as otherwise indicated, all of the shares reflected in the table are shares of common stock and all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them. The information is not necessarily indicative of beneficial ownership for any other purpose. Except as otherwise indicated in the table below, addresses of named beneficial owners are in care of Aerie Pharmaceuticals, Inc., 2030 Main Street, Suite 1500, Irvine CA 92614.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED NUMBER	PERCENT	
5% Stockholders			
Entities affiliated with Deerfield Management, L.P. (1)	3,270,208	9.98	%
Jennison Associates, LLC (2)	2,749,588	11.44	%
TPG Funds, L.P. (3)	2,087,466	8.68	%
Wellington Management Company, LLP (4)	3,324,170	13.83	%
Executive Officers and Directors			
Vicente Anido, Jr., PhD (5)	580,267	2.36%	
Brian Levy, OD, MSc (6)	175,418	*	
Thomas A. Mitro (7)	185,633	*	
Richard J. Rubino (8)	451,044	1.86	%
Gerald D. Cagle, PhD (9)	13,999	*	
Geoffrey Duyk, MD, PhD (10)	13,999	*	
Murray A. Goldberg (11)	13,999	*	
David W. Gryska (12)	32,000	*	
Benjamin F. McGraw, III, Pharm.D (13)	4,619	*	
Anand Mehra, MD (14)	930,656	3.85	%
All executive officers and directors as a group (11 persons)	2,804,094	10.48	%

* Represents beneficial ownership of less than 1% of our outstanding common stock.

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(1) Consists of (a) 1,858,917 shares of common stock and (b) 1,411,291 shares of common stock underlying convertible notes held by Deerfield Partners, L.P., Deerfield International Master Fund, L.P., Deerfield Special Situations Fund, L.P. and Deerfield Special Situations International Master Fund, L.P., of which Deerfield Mgmt, L.P. is the general partner. The provisions of the convertible notes beneficially owned by the reporting person restrict the conversion of such securities to the extent that, upon such exercise or conversion, the number of shares then beneficially owned by the holder and any other person or entities with which such holder would constitute a Section 13(d) “group” would exceed 9.98% of the total number of shares of the Issuer then outstanding (the “Ownership Cap”). Accordingly, notwithstanding the number of shares reported, the reporting person disclaims beneficial ownership of the shares underlying such convertible notes to the extent beneficial ownership of such shares would cause all reporting persons hereunder, in the aggregate, to exceed the Ownership Cap. The information concerning entities affiliated with Deerfield Management, L.P. is based solely upon a Schedule 13G/A filed by Deerfield Management, L.P. with the SEC on February 17, 2015. The address of Deerfield Management, L.P. is 780 Third Avenue, 37th Floor, New York, New York, 10017.

(2) The information concerning Jennison Associates, LLC is based solely upon a Schedule 13G/A filed by Jennison Associates, LLC with the SEC on February 10, 2015. The address of Jennison Associates, LLC is 466 Lexington Avenue, New York, New York, 10017.

(3) Consists of 2,087,466 shares of common stock all of which are held by TPG Biotechnology Partners, L.P., or TPG Biotechnology, TPG Biotech Reinvest AIV, L.P., or TPG Biotech Reinvest and, together with TPG Biotechnology, the TPG Funds. The general partner of each of the TPG Funds is TPG Biotechnology GenPar, L.P., whose general partner is TPG Biotechnology GenPar Advisors, LLC, whose sole member is TPG Holdings I, L.P., whose general partner is TPG Holdings I-A, LLC, whose sole member is TPG Group Holdings (SBS), L.P., whose general partner is TPG Group Holdings (SBS) Advisors, Inc., or Group Advisors. David Bonderman and James G. Coulter are officers and sole shareholders of Group Advisors and therefore may be deemed to be the beneficial owners of the securities held by the TPG Funds, or the TPG Shares. Messrs. Bonderman and Coulter disclaim beneficial ownership of the TPG Shares except to the extent of their pecuniary interest therein. The address of each of TPG Biotech Reinvest, TPG Biotechnology, Group Advisors and Messrs. Bonderman and Coulter is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(4) The information concerning Wellington Management Company, LLP is based solely upon a Schedule 13G/A filed by Wellington Management Company, LLP with the SEC on February 12, 2015. The address of Wellington Management Company, LLP is 280 Congress Street, Boston, Massachusetts 02210.

(5) Consists of (a) 28,000 shares of common stock and (b) 552,267 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015.

(6) Consists of (a) 6,000 shares of common stock and (b) 169,418 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015.

(7) Consists of (a) 5,000 shares of common stock and (b) 180,633 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015.

(8) Consists of (a) 289,874 shares of common stock, (b) 137,326 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015 and (c) 23,844 shares of common stock issuable for vested restricted stock within 60 days after January 31, 2015.

(9) Consists of 13,999 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015.

(10) Consists of 13,999 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015.

(11) Consists of 13,999 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015.

(12) Consists of 32,000 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015.

(13)

Consists of 4,619 shares of common stock issuable upon exercise of options exercisable within 60 days after January 31, 2015.

(14) Consists of (a) 481,657 shares of common stock, (b) 150,000 shares of common stock issuable upon the exercise of warrants exercisable within 60 days after January 31, 2015 and (c) 13,999 shares of common stock issuable upon exercise of options granted to Dr. Mehra exercisable within 60 days after January 31, 2015. The voting and dispositive decisions with respect to the shares held by Sofinnova Venture Partners VII, L.P. are made by the following managing members of its general partner, Sofinnova Management VII, L.L.C.: James Healy, Michael Powell and Eric Buatois, each of whom disclaims beneficial ownership of such shares, except to the extent of his actual pecuniary interest therein. The address for the funds affiliated with Sofinnova Venture Partners VII, L.P., Sofinnova Management VII, L.L.C. and its managing members is c/o Sofinnova Ventures, Inc., 2800 Sand Hill Road, Suite 150, Menlo Park, CA 94025. Dr. Mehra expressly disclaims beneficial ownership of the securities listed in note (a) and (b) above except to the extent of any pecuniary interest therein.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of our common stock, to report to the SEC their initial ownership of our common stock and any subsequent changes in that ownership. Specific due dates for these reports have been established by the SEC and we are required to disclose in this proxy statement any late filings or failures to file.

Based solely on our review of the copies of such reports furnished to us and written representations that no other reports were required during the fiscal year ended December 31, 2014, all Section 16(a) filing requirements during that fiscal year were met except for (1) the Form 4 for Dennis Henner, PhD reporting one transaction filed on June 16, 2014, which was due on June 13, 2014, (2) the Form 4 for Anand Mehra, MD reporting one transaction filed on June 16, 2014, which was due on June 13, 2014, and (3) the Form 4 for Benjamin F. McGraw, III, Pharm.D reporting one transaction filed on October 10, 2014, which was due on October 2, 2014.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following sets forth the aggregate information of our equity compensation plans in effect as of December 31, 2014:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2005 Equity Incentive Plan (1)	2,694,523	$ 2.47	—
2013 Omnibus Incentive Plan	1,235,000	$ 20.44	1,991,975
Employee Stock Purchase Plan (2)	—	—	634,873
Equity compensation plans not approved by security holders	—	—	—
Total	3,929,523	$ 8.12	2,626,848

(1) No additional awards will be made under the 2005 Equity Incentive Plan, and any shares remaining available for future grants have been allocated to the 2013 Omnibus Incentive Plan.

(2) As of December 31, 2014, the Company was obligated to issue 3,266 shares of common stock under the Employee Stock Purchase Plan at a purchase price of $21.30 per share.

STOCKHOLDER PROPOSALS AND NOMINATIONS

Stockholder proposals should be addressed to our Secretary, c/o Aerie Pharmaceuticals, Inc., 2030 Main Street, Suite 1500, Irvine, CA 92614.

If you wish to submit a proposal to be considered for inclusion in our proxy statement for the 2016 Annual Meeting of Stockholders, we must receive the proposal on or before October 30, 2015 pursuant to the proxy soliciting regulations of the SEC. However, if the date of the 2016 Annual Meeting of Stockholders is changed by more than 30 days from the date of the previous year's meeting, then the deadline is a reasonable time before we begin to print and send our proxy statement for the 2016 Annual Meeting of Stockholders. Nothing in this paragraph shall be deemed to require us to include in our proxy statement and proxy card for such meeting any stockholder proposal which does not meet the requirements of the SEC in effect at the time. Any such proposal will be subject to Rule 14a-8 of the Exchange

Act.

Our amended and restated bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of persons for election to the Board. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the Board or by a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has delivered timely notice in proper form to our corporate secretary of the stockholder's intention to bring such business before the meeting, which notice must contain specific information required by Article I of our amended and restated bylaws.

The required notice must be in writing and received by our corporate secretary at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. However, in event that the date of the annual meeting is advanced by more than 30 days, or delayed by more than 60 days, from the first anniversary of the preceding year's annual meeting, a stockholder's notice must be so received no earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of (A) the 90th day prior to such annual meeting and (B) the tenth day following the day on which notice of the date of such annual meeting was mailed or public disclosure of the date of such annual meeting was made, whichever first occurs. Notwithstanding that the date of the 2015 Annual Meeting of Stockholders has been advanced by more than 30 days from the first anniversary of the preceding year's annual meeting, as previously disclosed in the proxy statement for our 2014 Annual Meeting of Stockholders, for stockholder proposals to be brought before the 2015 Annual Meeting of Stockholders, the required notice must be received by our corporate secretary at the address set forth above no later than March 13, 2015. For stockholder proposals to be brought before the 2016 Annual Meeting of Stockholders, the required notice must be received by our corporate secretary at the address set forth above no earlier than December 12, 2015 and no later than January 11, 2016.

OTHER MATTERS

As of the time of preparation of this proxy statement, neither the Board nor management intends to bring before the meeting any business other than the matters referred to in the Notice of Annual Meeting and this proxy statement. If any other business should properly come before the meeting, or any adjournment thereof, the persons named in the proxy will vote on such matters according to their best judgment.

AVAILABILITY OF CERTAIN DOCUMENTS

Accompanying this proxy statement and posted on the investor relations portion of our website at www.aeriepharma.com with this proxy statement, is our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The inclusion of our website address here and elsewhere in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement. We will also mail without charge, upon written request, a copy of that Annual Report excluding exhibits. Requests can be made by email, sendmaterial@proxyvote.com, or by a written request addressed to our Secretary, c/o Aerie Pharmaceuticals, Inc., 2030 Main Street, Suite 1500, Irvine, CA 92614. Please include your control number with your request.

Stockholders residing in the same household who hold their stock through a bank or broker may receive only one set of proxy materials in accordance with a notice sent earlier by their bank or broker. This practice will continue unless instructions to the contrary are received by your bank or broker from one or more of the stockholders within the household. We will promptly deliver a separate copy of the proxy materials to such stockholders if you make a written or oral request to our corporate secretary at the address above, or by calling (949) 526-8700.

If you hold your shares in "street name" and reside in a household that received only one copy of the proxy materials, you can request to receive a separate copy in the future by following the instructions sent by your bank or broker. If your household is receiving multiple copies of the proxy materials, you may request that only a single set of materials be sent by following the instructions sent by your bank or broker.

By Order of the Board of Directors

Richard J. Rubino
Chief Financial Officer and Secretary

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VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

AERIE PHARMACEUTICALS, INC.
135 US HIGHWAY 206, SUITE 15
BEDMINSTER, NJ 07921

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:
KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

DETACH AND RETURN THIS PORTION ONLY

The Board of Directors recommends you vote FOR the following:	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark “For All Except” and write the number(s) of the nominee(s) on the line below.
1. Election of Directors	¨	¨	¨	

Nominees

01 Murray A. Goldberg	02 Geoffrey Duyk, MD, PhD

The Board of Directors recommends you vote FOR the following proposals 2. and 3. :	For	Against	Abstain
2. Approval of the Aerie Pharmaceuticals, Inc. Amended and Restated Omnibus Incentive Plan	..	..	..
3. Ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015.	..	..	..

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Annual Report (including the Form 10-K), Notice & Proxy Statement is/are available at www.proxyvote.com.

AERIE PHARMACEUTICALS, INC.
Annual Meeting of Stockholders
April 10, 2015 8:00 AM PT
This proxy is solicited by the Board of Directors

The undersigned appoints Vicente Anido, Jr. and Richard J. Rubino, or either of them, as Proxy holders, with full power of substitution, to represent the undersigned at the Annual Meeting of Stockholders of Aerie Pharmaceuticals, Inc. (the “Company”), to be held on April 10, 2015, at 8:00 a.m. Pacific Time at the Four Seasons, located at 757 Market Street, San Francisco, CA 94103, and at any adjournments or postponements of the Annual Meeting, and to vote on behalf of the undersigned as specified in this Proxy all the shares of common stock of the Company that the undersigned would be entitled to vote if personally present, upon the matters referred to on the reverse side hereof, and, in their sole discretion, upon any other business as may properly come before the Annual Meeting. The undersigned acknowledges receipt of the Notice of the Annual Meeting of Stockholders and of the accompanying Proxy Statement and revokes any proxy heretofore given with respect to such Annual Meeting.

This Proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this Proxy will be voted in accordance with the Board of Directors' recommendations, which are set forth on the reverse side hereof.

The votes entitled to be cast by the undersigned will be cast in the discretion of the Proxy holders on any other matter that may properly come before the Annual Meeting and any adjournment or postponement thereof.

Continued and to be signed on reverse side

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A copy of the Aerie Pharmaceuticals, Inc. Amended & Restated Omnibus Incentive Plan is furnished herein this Appendix.

AERIE PHARMACEUTICALS, INC.
AMENDED & RESTATED
OMNIBUS INCENTIVE PLAN
(Effective as of February 25, 2015)

1. Purpose.

The purpose of the Plan is to assist the Company with attracting, retaining, incentivizing and motivating officers and employees of, consultants to, and non-employee directors providing services to, the Company and its Subsidiaries and Affiliates and to promote the success of the Company's business by providing such participating individuals with a proprietary interest in the performance of the Company. The Company believes that this incentive program will cause participating officers, employees, consultants and non-employee directors to increase their interest in the welfare of the Company, its Subsidiaries and Affiliates and to align those interests with those of the stockholders of the Company, its Subsidiaries and Affiliates.

2. Definitions. For purposes of the Plan:

1. "Adjustment Event" shall have the meaning ascribed to such term in Section 12.1.
2. "Affiliate" shall mean with respect to any entity, any entity that the Company, either directly or indirectly through one or more intermediaries, is in common control with, is controlled by or controls, each within the meaning of the Securities Act.
3. "Award" means, individually or collectively, a grant of an Option, Restricted Stock, a Restricted Stock Unit, a Stock Appreciation Right, a Performance Award, a Dividend Equivalent Right, a Share Award or any or all of them.
4. "Award Agreement" means a written or electronic agreement between the Company and a Participant evidencing the grant of an Award and setting forth the terms and conditions thereof.
5. "Board" means the Board of Directors of the Company.
6. "Cause" means, with respect to the Termination of a Participant by the Company or any Subsidiary of the Company that employs such individual or to which the Participant performs services (or by the Company on behalf of any such Subsidiary), such Participant's (i) indictment for, conviction of or entering a plea of guilty or nolo contendere to a crime constituting a felony or his or her willful violation of any applicable law (other than a traffic violation or other offense or violation outside of the course of employment or services to the Company or its Subsidiaries which does not adversely affect the Company and its Subsidiaries or its reputation or the ability of the Participant to perform his or her employment-related duties or services or to represent the Company or any Subsidiary of the Company that employs such Participant or to which the Participant performs services), (ii) being or having been engaged in conduct constituting breach of fiduciary duty, willful misconduct or negligence relating to the Company or any of its Subsidiaries or the performance of the Participant's duties, (iii) willful failure to (A) follow a reasonable and lawful directive of the Company or of the Subsidiary at which the Participant is employed or provides services, or of the Board, or (B) comply with any written rules, regulations, policies or procedures of the Company or a Subsidiary at which the Participant is employed or to which the Participant provides services which, if not complied with, would reasonably be expected to have more than a de minimis adverse effect on the business or financial condition of the Company or any of its Subsidiaries, (iv) failure to reasonably cooperate, following a request to do so by the Company, in any internal or governmental investigation of the Company or any of its Subsidiaries or (v) material breach of any written covenant or agreement with the Company or any of its Subsidiaries not to disclose any information pertaining to the Company or such Subsidiary or not to compete or interfere with the Company or such Subsidiary; provided, that, in the case of any Participant who, as of the date of determination, is party to an effective services, severance or employment agreement with the Company or any Subsidiary, "Cause" shall have the meaning, if any, specified in such agreement.
7. "Change in Control" means the occurrence of any of the following:

(a)An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any Person, immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company's then-outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred pursuant to this Section 2.7(a), the acquisition of Voting Securities in a Non-Control Acquisition (as hereinafter defined) shall not constitute a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Company or (B) any corporation or other Person the majority of the voting power, voting equity securities or equity interest of which is owned, directly or indirectly, by the Company (for purposes of this definition, a "Related Entity"), (ii) the Company or any Related Entity or (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined);

(b)The individuals who, as of the Effective Date are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least a majority of the members of the Board; provided, however, that if the election, or

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nomination for election by the Company's common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Proxy Contest;
(c)The consummation of:
(i)A merger, consolidation or reorganization (x) with or into the Company or (y) in which securities of the Company are issued (a "Merger"), unless such Merger is a Non-Control Transaction. A "Non-Control Transaction" shall mean a Merger in which:
(A)the stockholders of the Company immediately before such Merger own directly or indirectly immediately following such Merger at least a majority of the combined voting power of the outstanding voting securities of (1) the corporation resulting from such Merger (the "Surviving Corporation"), if fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of the Surviving Corporation is not Beneficially Owned, directly or indirectly, by another Person (a "Parent Corporation"), or (2) if there is one or more than one Parent Corporation, the ultimate Parent Corporation;
(B)the individuals who were members of the Board immediately prior to the execution of the agreement providing for such Merger constitute at least a majority of the members of the board of directors of (1) the Surviving Corporation, if there is no Parent Corporation, or (2) if there is one or more than one Parent Corporation, the ultimate Parent Corporation; and
(C)no Person other than (1) the Company or another corporation that is a party to the agreement of Merger, (2) any Related Entity, (3) any employee benefit plan (or any trust forming a part thereof) that, immediately prior to the Merger, was maintained by the Company or any Related Entity or (4) any Person who, immediately prior to the Merger, had Beneficial Ownership of Voting Securities representing more than fifty percent (50%) of the combined voting power of the Company's then-outstanding Voting Securities, has Beneficial Ownership, directly or indirectly, of fifty percent (50%) or more of the combined voting power of the outstanding voting securities of (x) the Surviving Corporation, if there is no Parent Corporation, or (y) if there is one or more than one Parent Corporation, the ultimate Parent Corporation;
(ii)A complete liquidation or dissolution of the Company; or
(iii)The sale or other disposition of all or substantially all of the assets of the Company and its Subsidiaries taken as a whole to any Person (other than (x) a transfer to a Related Entity or (y) the distribution to the Company's stockholders of the stock of a Related Entity or any other assets).
Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the then outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities then outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person; provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company and, after such acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities and such Beneficial Ownership increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.
8."Code" means the Internal Revenue Code of 1986, as amended.
9. "Committee" means the Committee which administers the Plan as provided in Section 3.
10."Company" means Aerie Pharmaceuticals, Inc., a Delaware corporation, or any successor thereto.
11."Consultant" means any consultant or advisor, other than an Employee or Director, who is a natural person and who renders services to the Company or a Subsidiary that (a) are not in connection with the offer and sale of the Company's securities in a capital raising transaction and (b) do not directly or indirectly promote or maintain a market for the Company's securities.

12.“Corporate Transaction” means (a) a merger, consolidation, reorganization, recapitalization or other transaction or event having a similar effect on the Company’s capital stock or (b) a liquidation or dissolution of the Company. For the avoidance of doubt, a Corporate Transaction may be a transaction that is also a Change in Control.

13.“Covered Employee” means, for any Performance Cycle:

(a)an Employee who

(i)as of the beginning of the Performance Cycle is an officer subject to Section 16 of the Exchange Act, and

(ii)prior to determining Performance Objectives for the Performance Cycle pursuant to Section 9, the Committee designates as a Covered Employee for that Performance Cycle; provided that, if the Committee does not make the designation in clause (ii) for a Performance Cycle, all Employees described in clause (i) shall be deemed to be Covered Employees for purposes of this Plan, and

(b) any other Employee that the Committee designates as a Covered Employee for that Performance Cycle.

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14.“Director” means a member of the Board.

15.“Disability” means, with respect to a Participant, a permanent and total disability as defined in Code Section 22(e)(3). A determination of Disability may be made by a physician selected or approved by the Committee and, in this respect, the Participant shall submit to any reasonable examination(s) required by such physician upon request. Notwithstanding the foregoing provisions of this Section 2.15, in the event any Award is considered to be “deferred compensation” as that term is defined under Section 409A and the terms of the Award are such that the definition of “disability” is required to comply with the requirements of Section 409A then, in lieu of the foregoing definition, the definition of “Disability” for purposes of such Award shall mean, with respect to a Participant, that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

16.“Division” means any of the operating units or divisions of the Company designated as a Division by the Committee.

17.“Dividend Equivalent Right” means a right to receive cash or Shares based on the value of dividends that are paid with respect to Shares.

18.“Effective Date” shall have the meaning ascribed to such term in Section 15.

19.“Eligible Individual” means any Employee, Director or Consultant.

20.“Employee” means any individual performing services for the Company or a Subsidiary and designated as an employee of the Company or the Subsidiary on its payroll records. An Employee shall not include any individual during any period he or she is classified or treated by the Company or Subsidiary as an independent contractor, a consultant or an employee of an employment, consulting or temporary agency or any other entity other than the Company or Subsidiary, without regard to whether such individual is subsequently determined to have been, or is subsequently retroactively reclassified, as a common-law employee of the Company or Subsidiary during such period. An individual shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or any Subsidiary, or between the Company and any Subsidiaries.

21.“Exchange Act” means the Securities Exchange Act of 1934, as amended.

22.“Fair Market Value” on any date means:

(a)if the Shares are listed for trading on a national securities exchange, the closing price at the close of the primary trading session of the Shares on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as officially quoted in the consolidated tape of transactions on such exchange or such other source as the Committee deems reliable for the applicable date, or if there has been no such closing price of the Shares on such date, on the next preceding date on which there was such a closing price;

(b)if the Shares are not listed for trading on a national securities exchange, the fair market value of the Shares as determined in good faith by the Committee, and, if applicable, in accordance with Sections 409 and 422 of the Code. Notwithstanding the foregoing, with respect to Awards granted in connection with an Initial Public Offering, if any, unless the Committee determines otherwise, Fair Market Value shall mean the price at which Shares are offered to the public by the underwriters in the Initial Public Offering.

23. “Incentive Stock Option” means an Option satisfying the requirements of Section 422 of the Code and designated by the Committee as an Incentive Stock Option.

24. “Initial Public Offering” means the consummation of the first public offering of Shares pursuant to a registration statement (other than a Form S-8 or successor forms) filed with, and declared effective by, the United States Securities and Exchange Commission

25. “Nonemployee Director” means a Director of the Board who is a “nonemployee director” within the meaning of Rule 16b-3 promulgated under the Exchange Act.

26.“Nonqualified Stock Option” means an Option which is not an Incentive Stock Option.

27.“Option” means a Nonqualified Stock Option or an Incentive Stock Option.

28.“Option Price” means the price at which a Share may be purchased pursuant to an Option.

29.“Outside Director” means a Director of the Board who is an “outside director” within the meaning of Section 162(m).

30.“Parent” means any corporation which is a “parent corporation” (within the meaning of Section 424(e) of the Code) with respect to the Company.

31.“Participant” means an Eligible Individual to whom an Award has been granted under the Plan.

32.“Performance Awards” means Performance Share Units, Performance Units, Performance-Based Restricted Stock or any or all of them.

33.“Performance-Based Compensation” means any Award that, pursuant to Section 14.3, is intended to constitute “performance based compensation” within the meaning of Section 162(m).

34.“Performance-Based Restricted Stock” means Shares issued or transferred to an Eligible Individual under Section 9.2.

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35.“Performance Cycle” means the time period specified by the Committee at the time Performance Awards are granted during which the performance of the Company, a Subsidiary or a Division will be measured.
36.“Performance Objectives” means the objectives set forth in Section 9.3 for the purpose of determining, either alone or together with other conditions, the degree of payout and/or vesting of Performance Awards.
37.“Performance Share Units” means Performance Share Units granted to an Eligible Individual under Section 9.1(b).
38.“Performance Units” means Performance Units granted to an Eligible Individual under Section 9.1(a).
39.“Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) of the Exchange Act.
40.“Plan” means this Aerie Pharmaceuticals, Inc. 2013 Equity Incentive Plan, as amended from time to time.
41.“Plan Termination Date” means the date that is ten (10) years after the Effective Date, unless the Plan is earlier terminated by the Board pursuant to Section 16 hereof.
42.“Restatement Effective Date” shall have the meaning ascribed to such term in Section 15.
43. “Restricted Stock” means Shares issued or transferred to an Eligible Individual pursuant to Section 8.1.
44.“Restricted Stock Units” means rights granted to an Eligible Individual under Section 8.2 representing a number of hypothetical Shares.
45.“Section 162(m)” means Section 162(m) of Code, and all regulations, guidance, and other interpretative authority issued thereunder.
46.“Section 409A” means Section 409A of Code, and all regulations, guidance, and other interpretative authority issued thereunder.
47.“Securities Act” means the Securities Act of 1933, as amended.
48.“Share Award” means an Award of Shares granted pursuant to Section 10.
49.“Shares” means the common stock, par value $0.01 per share, of the Company and any other securities into which such shares are changed or for which such shares are exchanged.
50.“Stock Appreciation Right” means a right to receive all or some portion of the increase, if any, in the value of the Shares as provided in Section 6 hereof.
51.“Subsidiary” means (a) except as provided in subsection (b) below, any corporation which is a subsidiary corporation within the meaning of Section 424(f) of the Code with respect to the Company and (b) in relation to the eligibility to receive Awards other than Incentive Stock Options and continued employment or the provision of services for purposes of Awards (unless the Committee determines otherwise), any entity, whether or not incorporated, in which the Company directly or indirectly owns at least twenty-five percent (25%) of the outstanding equity or other ownership interests.
52.“Ten-Percent Shareholder” means an Eligible Individual who, at the time an Incentive Stock Option is to be granted to him or her, owns (within the meaning of Section 422(b)(6) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, a Parent or a Subsidiary.
53.“Termination”, “Terminated” or “Terminates” shall mean (a) with respect to a Participant who is an Employee, the date such Participant ceases to be employed by the Company and its Subsidiaries, (b) with respect to a Participant who is a Consultant, the date such Participant ceases to provide services to the Company and its Subsidiaries or (c) with respect to a Participant who is a Director, the date such Participant ceases to be a Director, in each case, for any reason whatsoever (including by reason of death, Disability or adjudicated incompetency). Unless otherwise set forth in an Award Agreement, (a) if a Participant is both an Employee and a Director and terminates as an Employee but remains as a Director, the Participant will be deemed to have continued in employment without interruption and shall be deemed to have Terminated upon ceasing to be a Director and (b) if a Participant who is an Employee or a Director ceases to provide services in such capacity and becomes a Consultant, the Participant will thereupon be deemed to have been Terminated.
3. Administration.
1.Committee. The Plan shall be administered by a Committee appointed by the Board. The Committee shall consist of at least two (2) Directors of the Board and may consist of the entire Board; provided, however, that (a) if the Committee consists of less than the entire Board, then, with respect to any Award granted to an Eligible Individual

who is subject to Section 16 of the Exchange Act, the Committee shall consist of at least two (2) Directors of the Board, each of whom shall be a Nonemployee Director and (b) to the extent necessary for any Award intended to qualify as Performance-Based Compensation to so qualify, the Committee shall consist of at least two (2) Directors of the Board, each of whom shall be an Outside Director. For purposes of the preceding sentence, if one or more members of the Committee is not a Nonemployee Director or an Outside Director but recuses himself or herself or abstains from voting with respect to a particular action taken by the Committee, then the Committee, with respect to that action, shall be deemed to consist only of the members of the Committee who have not recused themselves or abstained from voting.

2.Meetings; Procedure. The Committee shall hold meetings when it deems necessary and shall keep minutes of its meetings. The acts of a majority of the total membership of the Committee at any meeting, or the acts approved in writing by all of its members, shall be the acts of the Committee. All decisions and determinations by the Committee in the exercise of its powers hereunder shall be final, binding and conclusive upon the Company, its Subsidiaries, the Participants and all other Persons having any interest therein.

3.Board Reservation and Delegation.

(a)Except to the extent necessary for any Award intended to qualify as Performance-Based Compensation to so qualify, the Board may, in its discretion, reserve to itself or exercise any or all of the authority and responsibility of the Committee hereunder. To the extent the Board has reserved to itself or exercises the authority and responsibility of the Committee, the Board shall be deemed to be acting as the Committee for purposes of the Plan and references to the Committee in the Plan shall be to the Board.

(b)Subject to applicable law, the Board or the Committee may delegate, in whole or in part, any of the authority of the Committee hereunder (subject to such limits as may be determined by the Board) to any individual or committee of individuals (who need not be Directors), including without limitation the authority to make Awards to Eligible Individuals who are not officers or directors of the Company or any of its Subsidiaries and who are not subject to Section 16 of the Exchange Act. To the extent that the Board or Committee delegates any such authority to make Awards as provided by this Section 3.2(b), all references in the Plan to the Committee's authority to make Awards and determinations with respect thereto shall be deemed to include the Board's or Committee's delegate, as applicable.

4.Committee Powers. Subject to the express terms and conditions set forth herein, the Committee shall have all of the powers necessary to enable it to carry out its duties under the Plan, including, without limitation, the power from time to time to:

(a)determine those Eligible Individuals to whom Awards shall be granted under the Plan and determine the number of Shares or amount of cash in respect of which each Award is granted, prescribe the terms and conditions (which need not be identical) of each such Award, including, (i) in the case of Options, the exercise price per Share and the duration of the Option and (ii) in the case of Stock Appreciation Rights, the Base Price per Share and the duration of the Stock Appreciation Right, and make any amendment or modification to any Agreement consistent with the terms of the Plan;

(b)construe and interpret the Plan and the Awards granted hereunder, establish, amend and revoke rules, regulations and guidelines as it deems are necessary or appropriate for the administration of the Plan, including, but not limited to, correcting any defect, supplying any omission or reconciling any inconsistency in the Plan or in any Award Agreement in the manner and to the extent it shall deem necessary or advisable, including so that the Plan and the operation of the Plan comply with Rule 16b-3 under the Exchange Act, the Code to the extent applicable and other applicable law, and otherwise make the Plan fully effective;

(c)determine the duration and purposes for leaves of absence which may be granted to a Participant on an individual basis without constituting a Termination for purposes of the Plan;

(d)cancel, with the consent of the Participant, outstanding Awards or as otherwise permitted under the terms of the Plan;

(e)exercise its discretion with respect to the powers and rights granted to it as set forth in the Plan; and

(f)generally, exercise such powers and perform such acts as are deemed necessary or advisable to promote the best interests of the Company with respect to the Plan.

5.Non-Uniform Determinations. The Committee's determinations under the Plan need not be uniform and may be made by it selectively among Persons who receive, or are eligible to receive, Awards (whether or not such Persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, and to enter into non-uniform and selective Award Agreements, as to the Eligible Individuals to receive Awards under the Plan and the terms and provision of Awards under the Plan.

6.Non-U.S. Employees. Notwithstanding anything herein to the contrary, with respect to Participants working outside the United States, the Committee may determine the terms and conditions of Awards and make such adjustments to the terms thereof as are necessary or advisable to fulfill the purposes of the Plan taking into account matters of local law or practice, including tax and securities laws of jurisdictions outside the United States.

7.Indemnification. No member of the Committee shall be liable for any action, failure to act, determination or interpretation made in good faith with respect to the Plan or any transaction hereunder. The Company hereby agrees to indemnify each member of the Committee for all costs and expenses and, to the extent permitted by applicable law, any liability incurred in connection with defending against, responding to, negotiating for the settlement of or otherwise dealing with any claim, cause of action or dispute of any kind arising in connection with any actions in administering the Plan or in authorizing or denying authorization to any transaction hereunder.

8.No Repricing of Options or Stock Appreciation Rights. The Committee shall have no authority to (i) make any adjustment (other than in connection with an Adjustment Event, a Corporate Transaction or other transaction where an adjustment is permitted or required under the terms of the Plan) or amendment, and no such adjustment or amendment shall be made, that reduces or would have the effect of reducing the exercise price of an Option or Stock Appreciation Right previously granted under the Plan, whether through amendment, cancellation or replacement grants or other means, or (ii) cancel for cash or other consideration any Option whose Option Price is greater than the then Fair Market Value of a Share or Stock Appreciation Right whose Base Price is greater than the then Fair Market Value of a Share unless, in either case the Company's stockholders shall have approved such adjustment, amendment or cancellation.

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4. Stock Subject to the Plan; Grant Limitations.

1.Aggregate Number of Shares Authorized for Issuance. Subject to any adjustment as provided in the Plan, the maximum number of Shares that may issued pursuant to Awards granted under the Plan shall not exceed 5,729,068, no more than 5,729,068 of which may be issued upon the exercise of Incentive Stock Options. The Shares to be issued under the Plan may be, in whole or in part, authorized but unissued Shares or issued Shares which shall have been reacquired by the Company and held by it as treasury shares.

2.Individual Participant Limit. With respect to Awards granted on or after the Restatement Effective Date, (a) the aggregate number of Shares that may be the subject of Options, Stock Appreciation Rights, Performance-Based Restricted Stock and Performance Share Units granted to an Eligible Individual in any calendar year may not exceed 1,200,000 and (b) the maximum dollar amount of cash or the Fair Market Value of Shares that any individual may receive in any calendar year in respect of Performance Units may not exceed $5,000,000.

3.Calculating Shares Available. If an Award or any portion thereof (i) expires or otherwise terminates without all of the Shares covered by such Award having been issued or (ii) is settled in cash (i.e., the Participant receives cash rather than Shares), such expiration, termination or settlement will not reduce (or otherwise offset) the number of Shares that may be available for issuance under the Plan. If any Shares issued pursuant to an Award are forfeited and returned back to or reacquired by the Company because of the failure to meet a contingency or condition required to vest such Shares in the Participant, then the Shares that are forfeited or reacquired will again become available for issuance under the Plan. Any Shares tendered or withheld (i) to pay the Option Price of an Option granted under this Plan or (ii) to satisfy tax withholding obligations associated with an Award granted under this Plan, shall become available again for issuance under this Plan.

5. Stock Options.

1.Authority of Committee. The Committee may grant Options to Eligible Individuals in accordance with the Plan, the terms and conditions of the grant of which shall be set forth in an Award Agreement. Incentive Stock Options may be granted only to Eligible Individuals who are employees of the Company or any of its Subsidiaries on the date the Incentive Stock Option is granted. Options shall be subject to the following terms and provisions:

2.Option Price. The Option Price or the manner in which the exercise price is to be determined for Shares under each Option shall be determined by the Committee and set forth in the Award Agreement; provided, however, that the exercise price per Share under each Option shall not be less than the greater of (i) the par value of a Share and (ii) 100% of the Fair Market Value of a Share on the date the Option is granted (110% in the case of an Incentive Stock Option granted to a Ten-Percent Shareholder).

3.Maximum Duration. Options granted hereunder shall be for such term as the Committee shall determine; provided, however, that an Incentive Stock Option shall not be exercisable after the expiration of ten (10) years from the date it is granted (five (5) years in the case of an Incentive Stock Option granted to a Ten-Percent Shareholder) and a Nonqualified Stock Option shall not be exercisable after the expiration of ten (10) years from the date it is granted; provided, further, however, that unless the Committee provides otherwise (i) an Option (other than an Incentive Stock Option) may, upon the death of the Participant prior to the expiration of the Option, be exercised for up to one (1) year following the date of the Participant’s death, even if such period extends beyond ten (10) years from the date the Option is granted and (ii) if, at the time an Option (other than an Incentive Stock Option) would otherwise expire at the end of its term, the exercise of the Option is prohibited by applicable law or the Company’s insider trading policy, the term shall be extended until thirty (30) days after the prohibition no longer applies. The Committee may, subsequent to the granting of any Option, extend the period within which the Option may be exercised (including following a Participant’s Termination), but in no event shall the period be extended to a date that is later than the earlier of the latest date on which the Option could have been exercised and the 10th anniversary of the date of grant of the Option, except as otherwise provided herein in this Section 5.3.

4.Vesting. The Committee shall determine and set forth in the applicable Award Agreement the time or times at which an Option shall become vested and exercisable. To the extent not exercised, vested installments shall accumulate and be exercisable, in whole or in part, at any time after becoming exercisable, but not later than the date the Option expires. The Committee may accelerate the exercisability of any Option or portion thereof at any time.

5.Limitations on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date of the grant) of Shares with respect to which Incentive Stock Options granted under the Plan and “incentive stock options” (within the meaning of Section 422 of the Code) granted under all other plans of the Company or its Subsidiaries (in either case determined without regard to this Section 5.5) are exercisable by a Participant for the first time during any calendar year exceeds $100,000, such Incentive Stock Options shall be treated as Nonqualified Stock Options. In applying the limitation in the preceding sentence in the case of multiple Option grants, unless otherwise required by applicable law, Options which were intended to be Incentive Stock Options shall be treated as Nonqualified Stock Options according to the order in which they were granted such that the most recently granted Options are first treated as Nonqualified Stock Options.

6.Method of Exercise. The exercise of an Option shall be made only by giving notice in the form and to the Person designated by the Company, specifying the number of Shares to be exercised and, to the extent applicable, accompanied by payment therefor and otherwise in accordance with the Award Agreement pursuant to which the Option was granted. The Option Price for any Shares purchased pursuant to the exercise of an Option shall be paid in any of, or any combination of, the following forms: (a) cash or its equivalent (e.g., a check) or (b) if permitted by the Committee, the transfer, either actually or by attestation, to the Company of Shares that have been held by the Participant for at least six (6) months (or such lesser period as may be permitted by the Committee) prior to the exercise of the Option, such transfer to be upon such terms and conditions as determined by the Committee or (c) in the form of other property as determined by the Committee. In addition, (a) the Committee may provide for the payment of the Option Price through Share withholding as a result of which the number of Shares issued upon exercise of an Option would be reduced by a number of Shares having a Fair Market Value equal to the Option Price and (b) an Option may be exercised through a registered broker-dealer pursuant to such cashless exercise procedures that are, from time to time, deemed acceptable by the Committee. No fractional Shares (or cash in lieu thereof) shall be issued upon exercise of an Option and the number of Shares that may be purchased upon exercise shall be rounded down to the nearest number of whole Shares.

7.Rights of Participants. No Participant shall be deemed for any purpose to be the owner of any Shares subject to any Option unless and until (a) the Option shall have been exercised pursuant to the terms thereof, (b) the Company shall have issued and delivered Shares (whether or not certificated) to the Participant, a securities broker acting on behalf of the Participant or such other nominee of the Participant and (c) the Participant's name, or the name of his or her broker or other nominee, shall have been entered as a shareholder of record on the books of the Company. Thereupon, the Participant shall have full voting, dividend and other ownership rights with respect to such Shares, subject to such terms and conditions as may be set forth in the applicable Award Agreement.

8.Effect of Change in Control. Any specific terms applicable to an Option in the event of a Change in Control and not otherwise provided in the Plan shall be set forth in the applicable Award Agreement.

6. Stock Appreciation Rights.

1.Grant. The Committee may grant Stock Appreciation Rights to Eligible Individuals in accordance with the Plan, the terms and conditions of which shall be set forth in an Award Agreement. A Stock Appreciation Right may be granted (a) at any time if unrelated to an Option or (b) if related to an Option, either at the time of grant or at any time thereafter during the term of the Option. Awards of Stock Appreciation Rights shall be subject to the following terms and provisions.

2.Terms; Duration. Stock Appreciation Rights shall contain such terms and conditions as to exercisability, vesting and duration as the Committee shall determine, but in no event shall they have a term of greater than ten (10) years; provided, however, that unless the Committee provides otherwise (i) a Stock Appreciation Right may, upon the death of the Participant prior to the expiration of the Award, be exercised for up to one (1) year following the date of the Participant's death even if such period extends beyond ten (10) years from the date the Stock Appreciation Right is granted and (ii) if, at the time a Stock Appreciation Right would otherwise expire at the end of its term, the exercise of the Stock Appreciation Right is prohibited by applicable law or the Company's insider trading policy, the term shall be extended until thirty (30) days after the prohibition no longer applies. The Committee may, subsequent to the granting of any Stock Appreciation Right, extend the period within which the Stock Appreciation Right may be exercised (including following a Participant's Termination), but in no event shall the period be extended to a date that is later than the earlier of the latest date on which the Stock Appreciation Right could have been exercised and the 10th anniversary of the date of grant of the Stock Appreciation Right, except as otherwise provided herein in this Section 6.2.

3.Vesting. The Committee shall determine and set forth in the applicable Award Agreement the time or times at which a Stock Appreciation Right shall become vested and exercisable. To the extent not exercised, vested installments shall accumulate and be exercisable, in whole or in part, at any time after becoming exercisable, but not later than the date the Stock Appreciation Right expires. The Committee may accelerate the exercisability of any Stock Appreciation Right or portion thereof at any time.

4.Amount Payable. Upon exercise of a Stock Appreciation Right, the Participant shall be entitled to receive an amount determined by multiplying (i) the excess of the Fair Market Value of a Share on the last business day preceding the date of exercise of such Stock Appreciation Right over the Fair Market Value of a Share on the date the Stock Appreciation Right was granted (the "Base Price") by (ii) the number of Shares as to which the Stock Appreciation Right is being exercised (the "SAR Payment Amount"). Notwithstanding the foregoing, the Committee may limit in any manner the amount payable with respect to any Stock Appreciation Right by including such a limit in the Award

Agreement evidencing the Stock Appreciation Right at the time it is granted.

5.Method of Exercise. Stock Appreciation Rights shall be exercised by a Participant only by giving notice in the form and to the Person designated by the Company, specifying the number of Shares with respect to which the Stock Appreciation Right is being exercised.

6.Form of Payment. Payment of the SAR Payment Amount may be made in the discretion of the Committee solely in whole Shares having an aggregate Fair Market Value equal to the SAR Payment Amount, solely in cash or in a combination of cash and Shares. If the Committee decides to make full payment in Shares and the amount payable results in a fractional Share, payment for the fractional Share will be made in cash.

7.Effect of Change in Control. Any specific terms applicable to a Stock Appreciation Right in the event of a Change in Control and not otherwise provided in the Plan shall be set forth in the applicable Award Agreement.

7. Dividend Equivalent Rights.

The Committee may grant Dividend Equivalent Rights, either in tandem with an Award or as a separate Award, to Eligible Individuals in accordance with the Plan. The terms and conditions applicable to each Dividend Equivalent Right shall be specified in the Award Agreement evidencing the Award. Amounts payable in respect of Dividend Equivalent Rights may be payable currently or, may be, deferred until the lapsing of restrictions on such Dividend Equivalent Rights or until the vesting, exercise, payment, settlement or other lapse of restrictions on the Award to which the Dividend Equivalent Rights relate; provided, however, that a Dividend Equivalent Right granted in tandem with another Award that vests based on the achievement of performance goals shall be subject to restrictions and risk of forfeiture to the same extent as the Awards with respect to which such dividends are payable. In the event that the amount payable in respect of Dividend Equivalent Rights is to be deferred, the Committee shall determine whether such amount is to be held in cash or reinvested in Shares or deemed (notionally) to be reinvested in Shares. Dividend Equivalent Rights may be settled in cash or Shares or a combination thereof, in a single installment or multiple installments, as determined by the Committee.

8. Restricted Stock; Restricted Stock Units.

1.Restricted Stock. The Committee may grant Awards of Restricted Stock to Eligible Individuals in accordance with the Plan, the terms and conditions of which shall be set forth in an Award Agreement. Each Award Agreement shall contain such restrictions, terms and conditions as the Committee may, in its discretion, determine and (without limiting the generality of the foregoing) such Award Agreements may require that an appropriate legend be placed on Share certificates. With respect to Shares in a book entry account in a Participant’s name, the Committee may cause appropriate stop transfer instructions to be delivered to the account custodian, administrator or the Company’s corporate secretary as determined by the Committee in its sole discretion. Awards of Restricted Stock shall be subject to the following terms and provisions:

(a)Rights of Participant. Shares of Restricted Stock granted pursuant to an Award hereunder shall be issued in the name of the Participant as soon as reasonably practicable after the Award is granted provided that the Participant has executed an Award Agreement evidencing the Award (which, in the case of an electronically distributed Award Agreement, shall be deemed to have been executed by an acknowledgement of receipt or in such other manner as the Committee may prescribe) and any other documents which the Committee may require as a condition to the issuance of such Shares. At the discretion of the Committee, Shares issued in connection with an Award of Restricted Stock may be held in escrow by an agent (which may be the Company) designated by the Committee. Unless the Committee determines otherwise and as set forth in the Award Agreement, upon the issuance of the Shares, the Participant shall have all of the rights of a shareholder with respect to such Shares, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares.

(b)Terms and Conditions. Each Award Agreement shall specify the number of Shares of Restricted Stock to which it relates, the conditions which must be satisfied in order for the Restricted Stock to vest and the circumstances under which the Award will be forfeited.

(c)Delivery of Shares. Upon the lapse of the restrictions on Shares of Restricted Stock, the Committee shall cause a stock certificate or evidence of book entry Shares to be delivered to the Participant with respect to such Shares of Restricted Stock, free of all restrictions hereunder.

(d)Treatment of Dividends. At the time an Award of Restricted Stock is granted, the Committee may, in its discretion, determine that the payment to the Participant of dividends, or a specified portion thereof, declared or paid on such Shares by the Company shall be (i) deferred until the lapsing of the restrictions imposed upon such Shares and (ii) held by the Company for the account of the Participant until such time; provided, however, that a dividend payable in respect of Restricted Stock that vests based on the achievement of performance goals shall be subject to restrictions and risk of forfeiture to the same extent as the Restricted Stock with respect to which such dividends are payable. In the event that dividends are to be deferred, the Committee shall determine whether such dividends are to be reinvested in Shares (which shall be held as additional Shares of Restricted Stock) or held in cash. Payment of deferred dividends in respect of Shares of Restricted Stock (whether held in cash or as additional Shares of Restricted Stock), shall be made upon the lapsing of restrictions imposed on the Shares in respect of which the deferred dividends were paid, and any dividends deferred in respect of any Shares of Restricted Stock shall be forfeited upon the forfeiture of such Shares.

(e)Effect of Change in Control. Any specific terms applicable to Restricted Stock in the event of a Change in Control and not otherwise provided in the Plan shall be set forth in the applicable Award Agreement.

2.Restricted Stock Unit Awards. The Committee may grant Awards of Restricted Stock Units to Eligible Individuals in accordance with the Plan, the terms and conditions of which shall be set forth in an Award Agreement. Each such Award Agreement shall contain such restrictions, terms and conditions as the Committee may, in its discretion, determine. Awards of Restricted Stock Units shall be subject to the following terms and provisions:

(a)Payment of Awards. Each Restricted Stock Unit shall represent the right of the Participant to receive one Share upon vesting of the Restricted Stock Unit or on any later date specified by the Committee; provided, however, that the Committee may provide for the settlement of Restricted Stock Units in cash equal to the Fair Market Value of the Shares that would otherwise be delivered to the Participant (determined as of the date of the Shares would have been delivered), or a combination of cash and Shares. The Committee may, at the time a Restricted Stock Unit is granted, provide a limitation on the amount payable in respect of each Restricted Stock Unit.

(b)Effect of Change in Control. Any specific terms applicable to Restricted Stock Units in the event of a Change in Control and not otherwise provided in the Plan shall be set forth in the applicable Award Agreement.

9. Performance Awards.
1.Performance Units and Performance Share Units. The Committee may grant Awards of Performance Units and/or Performance Share Units to Eligible Individuals in accordance with the Plan, the terms and conditions of which shall be set forth in an Award Agreement. Awards of Performance Units and Performance Share Units shall be subject to the following terms and provisions:
(a)Performance Units. Performance Units shall be denominated in a specified dollar amount and, contingent upon the attainment of specified Performance Objectives within the Performance Cycle and such other vesting conditions as may be determined by the Committee (including without limitation, a continued employment requirement following the end of the applicable Performance Cycle), represent the right to receive payment as provided in Sections 9.1(c) and (d) of the specified dollar amount or a percentage or multiple of the specified dollar amount depending on the level of Performance Objective attained. The Committee may at the time a Performance Unit is granted specify a maximum amount payable in respect of a vested Performance Unit.
(b)Performance Share Units. Performance Share Units shall be denominated in Shares and, contingent upon the attainment of specified Performance Objectives within the Performance Cycle and such other vesting conditions as may be determined by the Committee, (including without limitation, a continued employment requirement following the end of the applicable Performance Cycle), represent the right to receive payment as provided in Sections 9.1(c) and (d) of the Fair Market Value of a Share on the date the Performance Share Unit became vested or any other date specified by the Committee. The Committee may at the time a Performance Share Unit is granted specify a maximum amount payable in respect of a vested Performance Share Unit.
(c)Terms and Conditions; Vesting and Forfeiture. Each Award Agreement shall specify the number of Performance Units or Performance Share Units to which it relates, the Performance Objectives and other conditions which must be satisfied in order for the of Performance Units or Performance Share Units to vest and the Performance Cycle within which such Performance Objectives must be satisfied and the circumstances under which the Award will be forfeited; provided, however, that no Performance Cycle for Performance Units or Performance Share Units shall be less than one (1) year.
(d)Payment of Awards. Subject to Section 9.3(c), payment to Participants in respect of vested Performance Share Units and Performance Units shall be made as soon as practicable after the last day of the Performance Cycle to which such Award relates or at such other time or times as the Committee may determine that the Award has become vested. Such payments may be made entirely in Shares valued at their Fair Market Value, entirely in cash or in such combination of Shares and cash as the Committee in its discretion shall determine at any time prior to such payment.
2.Performance-Based Restricted Stock. The Committee, may grant Awards of Performance-Based Restricted Stock to Eligible Individuals in accordance with the Plan, the terms and conditions of which shall be set forth in an Award Agreement. Each Award Agreement may require that an appropriate legend be placed on Share certificates. With respect to Shares in a book entry account in a Participant’s name, the Committee may cause appropriate stop transfer instructions to be delivered to the account custodian, administrator or the Company’s corporate secretary as determined by the Committee in its sole discretion. Awards of Performance-Based Restricted Stock shall be subject to the following terms and provisions:
(a)Rights of Participant. Performance-Based Restricted Stock shall be issued in the name of the Participant as soon as reasonably practicable after the Award is granted or at such other time or times as the Committee may determine; provided, however, that no Performance-Based Restricted Stock shall be issued until the Participant has executed an Award Agreement evidencing the Award (which, in the case of an electronically distributed Award Agreement, shall be deemed to have been executed by an acknowledgement of receipt or in such other manner as the Committee may prescribe), and any other documents which the Committee may require as a condition to the issuance of such Performance-Based Restricted Stock. At the discretion of the Committee, Shares issued in connection with an Award of Performance-Based Restricted Stock may be held in escrow by an agent (which may be the Company) designated by the Committee. Unless the Committee determines otherwise and as set forth in the Award Agreement, upon issuance of the Shares, the Participant shall have all of the rights of a shareholder with respect to such Shares, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to

the Shares.

(b)Terms and Conditions. Each Award Agreement shall specify the number of Shares of Performance-Based Restricted Stock to which it relates, the Performance Objectives and other conditions which must be satisfied in order for the Performance-Based Restricted Stock to vest, the Performance Cycle within which such Performance Objectives must be satisfied and the circumstances under which the Award will be forfeited; provided, however, that no Performance Cycle for Performance-Based Restricted Stock shall be less than one (1) year.

(c)Treatment of Dividends. At the time the Award of Performance-Based Restricted Stock is granted, the Committee may, in its discretion, determine that the payment to the Participant of dividends, or a specified portion thereof, declared or paid on Shares represented by such Award which have been issued by the Company to the Participant shall be (i) deferred until the lapsing of the restrictions imposed upon such Performance-Based Restricted Stock and (ii) held by the Company for the account of the Participant until such time; provided, however, that a dividend payable in respect of Performance-Based Restricted Stock shall be subject to restrictions and risk of forfeiture to the same extent as the Performance-Based Restricted Stock with respect to which such dividends are payable. In the event that dividends are to be deferred, the Committee shall determine whether such dividends are to be reinvested in Shares (which shall be held as additional Shares of Performance-Based

Restricted Stock) or held in cash. Payment of deferred dividends in respect of Shares of Performance-Based Restricted Stock (whether held in cash or in additional Shares of Performance-Based Restricted Stock) shall be made upon the lapsing of restrictions imposed on the Performance-Based Restricted Stock in respect of which the deferred dividends were paid, and any dividends deferred in respect of any Performance-Based Restricted Stock shall be forfeited upon the forfeiture of such Performance-Based Restricted Stock.

(d)Delivery of Shares. Upon the lapse of the restrictions on Shares of Performance-Based Restricted Stock awarded hereunder, the Committee shall cause a stock certificate or evidence of book entry Shares to be delivered to the Participant with respect to such Shares, free of all restrictions hereunder.

3.Performance Objectives.

(a)Establishment. With respect to any Performance Awards intended to constitute Performance-Based Compensation, Performance Objectives for Performance Awards may be expressed in terms of (i) earnings per share; (ii) operating income; (iii) return on equity or assets; (iv) cash flow; (v) net cash flow; (vi) cash flow from operations; (vii) EBITDA; (viii) increased revenues; (ix) revenue ratios; (x) cost reductions; (xi) cost ratios; (xii) overall revenue or sales growth; (xiii) expense reduction or management; (xiv) market position; (xv) total shareholder return; (xvi) return on investment; (xvii) earnings before interest and taxes (EBIT); (xviii) net income; (xix) return on net assets; (xx) economic value added; (xxi) shareholder value added; (xxii) cash flow return on investment; (xxiii) net operating profit; (xxiv) net operating profit after tax; (xxv) return on capital; (xxvi) return on invested capital; (xxvii) entry into an agreement or arrangement with a third party for the development or commercialization of the Company’s product candidates; (xxviii) initiation or completion of a clinical trial; (xxiv) achievement of product development or commercialization milestone; (xxx) submission of regulatory filings or obtaining regulatory approval; or (xxxi) any combination of the foregoing. With respect to Performance Awards not intended to constitute Performance-Based Compensation, Performance Objectives may be based on any of the foregoing or any other performance criteria as may be established by the Committee. Performance Objectives may be in respect of the performance of the Company, any of its Subsidiaries, any of its Divisions or any combination thereof. Performance Objectives may be absolute or relative (to prior performance of the Company or to the performance of one or more other entities or external indices) and may be expressed in terms of a progression within a specified range. In the case of a Performance Award which is intended to constitute Performance-Based Compensation, the Performance Objectives with respect to a Performance Cycle shall be established in writing by the Committee by the earlier of (i) the date on which a quarter of the Performance Cycle has elapsed and (ii) the date which is ninety (90) days after the commencement of the Performance Cycle and in any event while the performance relating to the Performance Objectives remains substantially uncertain.

(b)Effect of Certain Events. The Committee may, at the time the Performance Objectives in respect of a Performance Award are established, provide for the manner in which performance will be measured against the Performance Objectives to reflect the impact of specified events, including any one or more of the following with respect to the Performance Period (i) the gain, loss, income or expense resulting from changes in accounting principles or tax laws that become effective during the Performance Period; (ii) the gain, loss, income or expense reported publicly by the Company with respect to the Performance Period that are extraordinary or unusual in nature or infrequent in occurrence; (iii) the gains or losses resulting from and the direct expenses incurred in connection with, the disposition of a business, or the sale of investments or non-core assets; (iv) the gain or loss from all or certain claims and/or litigation and all or certain insurance recoveries relating to claims or litigation; or (v) the impact of investments or acquisitions made during the year or, to the extent provided by the Committee, any prior year. The events may relate to the Company as a whole or to any part of the Company’s business or operations, as determined by the Committee at the time the Performance Objectives are established. Any adjustments based on the effect of certain events are to be determined in accordance with generally accepted accounting principles and standards, unless another objective method of measurement is designated by the Committee and, in respect of Performance Awards intended to constitute Performance-Based Compensation, such adjustments shall be permitted only to the extent permitted under Section 162(m) without adversely affecting the treatment of any Performance Award as Performance-Based Compensation.

(c)Determination of Performance. Prior to the vesting, payment, settlement or lapsing of any restrictions with respect to any Performance Award, the Committee shall certify in writing that the applicable Performance Objectives have been satisfied to the extent necessary for such Award to qualify as Performance-Based Compensation. In respect of a Performance Award, the Committee may, in its sole discretion, reduce the amount of cash paid or number of Shares to be issued or that have been issued and that become vested or on which restrictions lapse. The Committee shall not be entitled to exercise any discretion otherwise authorized hereunder with respect to any Performance Award intended to constitute Performance-Based Compensation if the ability to exercise such discretion or the exercise of such discretion itself would cause the compensation attributable to such Awards to fail to qualify as Performance-Based Compensation.

(d)Effect of Change in Control. Any specific terms applicable to a Performance Award in the event of a Change in Control and not otherwise provided in the Plan shall be set forth in the applicable Award Agreement.

10. Share Awards.

The Committee may grant a Share Award to any Eligible Individual on such terms and conditions as the Committee may determine in its sole discretion. Share Awards may be made as additional compensation for services rendered by the Eligible Individual or may be in lieu of cash or other compensation to which the Eligible Individual is entitled from the

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Company. Any dividend payable in respect of a Share Award that vests based on the achievement of performance goals shall be subject to restrictions and risk of forfeiture to the same extent as the Share Award with respect to which such dividends are payable.

11. Effect of Termination of Employment; Transferability.

1.Termination. The Award Agreement evidencing the grant of each Award shall set forth the terms and conditions applicable to such Award upon Termination, which shall be as the Committee may, in its discretion, determine at the time the Award is granted or at anytime thereafter.

2.Transferability of Awards and Shares.

(a)Non-Transferability of Awards. Except as set forth in Section 11.2(c) or (d) or as otherwise permitted by the Committee and as set forth in the applicable Award Agreement, either at the time of grant or at anytime thereafter, no Award shall be (i) sold, transferred or otherwise disposed of, (ii) pledged or otherwise hypothecated or (iii) subject to attachment, execution or levy of any kind; and any purported transfer, pledge, hypothecation, attachment, execution or levy in violation of this Section 11.2 shall be null and void.

(b) (97)

Long term portion

CAD	2,748	2,772

The Senior Secured Credit Facilities are secured by substantially all of Telesat s assets. Each tranche of the Senior Secured Credit Facilities is subject to mandatory principal repayment requirements. Borrowings under the Senior Secured Credit Facilities bear interest at a base interest rate plus margins of 275 300 basis points. The required repayments on the Canadian term loan facility will be CAD 80 million for the year ended December 31, 2012. For the U.S. term loan facilities, required repayments in 2012 are 1/4 of 1% of the initial aggregate principal amount which is approximately $5 million per quarter. Telesat is required to comply with certain covenants which are usual and customary for highly leveraged transactions, including financial reporting, maintenance of certain financial covenant ratios for leverage and interest coverage, a requirement to maintain minimum levels of satellite insurance, restrictions on capital expenditures, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions and restrictions on transactions with affiliates.

The senior notes bear interest at an annual rate of 11.0% and are due November 1, 2015. The senior notes include covenants or terms that restrict Telesat s ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel the Company s satellite insurance, (vi) effect mergers with another entity and (vii) redeem the Senior notes prior to May 1, 2012, in each case subject to exceptions provided in the Senior notes indenture.

The senior subordinated notes bear interest at a rate of 12.5% and are due November 1, 2017. The senior subordinated notes include covenants or terms that restrict Telesat s ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel 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.

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Interest Expense

An estimate of the interest expense on the Facilities is based upon assumptions of LIBOR and Bankers Acceptance rates and the applicable margin for the Senior Secured Credit Facilities. Telesat s estimated interest expense for 2012 is approximately CAD 212 million, assuming Telesat does not refinance its facilities. Depending on market conditions, Telesat may refinance a portion of its facilities and incur additional secured debt.

Derivatives

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

As required, Telesat uses forward contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites and interest payments. At December 31, 2011, Telesat did not have any outstanding foreign exchange contracts. At December 31, 2010, the fair value of the outstanding foreign exchange contracts was a liability of CAD 2.6 million.

Telesat has entered into a cross currency basis swap to hedge the foreign currency risk on a portion of its U.S. dollar denominated debt. Telesat uses mostly natural hedges to manage the foreign exchange risk on operating cash flows. At December 31, 2011, the Company had a cross currency basis swap of CAD 1,175.3 million which requires the Company to pay Canadian dollars to receive $1,011.8 million. At December 31, 2011, the fair value of this derivative contract was a liability of CAD 160.4 million. Most of this non-cash loss will remain unrealized until the contract is settled. This contract is due on October 31, 2014. At December 31, 2010, there was a liability of CAD 192.5 million.

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 Telesat is required to pay. Telesat uses interest rate swaps to hedge the interest rate risk related to variable rate debt financing. At December 31, 2011, the fair value of these derivative contract liabilities was CAD 53.1 million, and at December 31, 2010, there was a liability of CAD 49.4 million. These contracts mature on October 31, 2014.

Capital Expenditures

Telesat has entered into contracts with SS/L for the construction of Nimiq 6, a direct broadcast satellite to be used by Telesat s customer, Bell TV, and Anik G1. These expenditures will be funded from some or all of the following: cash and short-term investments, restricted cash from insurance proceeds, cash flow from operations, proceeds from the sale of assets, cash flow from customer prepayments or through borrowings on available lines of credit under the Credit Facility.

XTAR

In January 2009, XTAR reached an agreement with Arianespace, S.A. to settle its revenue-based fee that was to be paid over time. To enable XTAR to be able to make these settlement payments, XTAR issued a capital call to its LLC members for $8 million in 2009. The capital call required Loral to increase its investment in XTAR by approximately $4.5 million, representing its 56% share of $8 million. This settlement benefited XTAR by providing a significant reduction to amounts that it would have been required to pay in the future and satisfied XTAR s obligations to Arianespace.

In November 2011, Loral and Hisdesat made capital contributions to XTAR in proportion to their respective equity interests in XTAR, which used the proceeds to repay the convertible loan to Hisdesat of $18.5 million which included the principal amount and accrued interest. Loral s capital contribution was $10.4 million.

Contractual Obligations and Other Commercial Commitments

The following tables aggregate our contractual obligations and other commercial commitments as of December 31, 2011 (in thousands).

Contractual Obligations:

	September 30,	September 30,	September 30, Payments Due by Period	September 30,	September 30,
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Lease payments[1]	$ 41,527	$ 11,356	$ 15,860	$ 9,417	$ 4,894
Unconditional purchase obligations[2]	441,841	265,957	175,884		
Revolving credit agreement[3]					
Total contractual cash obligations[4]	$ 483,368	$ 277,313	$ 191,744	$ 9,417	$ 4,894

Other Commercial Commitments:

	September 30, Total Amounts Committed	September 30, Less than 1 Year	September 30, Amount of Commitment Expiration Per Period 1-3 Years	September 30, 4-5 Years	September 30, More than 5 Years
Standby letters of credit	$ 4,785	$ 4,785	$	$	$

(1) Represents future minimum payments under operating and capital leases with initial or remaining terms of one year or more.

(2) SS/L has entered into various purchase commitments with suppliers due to the long lead times required to produce purchased parts.

(3) On December 20, 2010, SS/L amended and restated its revolving credit agreement with several banks and other financial institutions. The credit agreement provides for a $150 million senior secured revolving credit facility. The credit agreement matures on January 24, 2014 (see Note 9 to the financial statements). No amounts were outstanding under the credit agreement at December 31, 2011.

(4) Does not include our liabilities for uncertain tax positions of $139.9 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 10 to the financial statements). Does not include obligations for pensions and other postretirement benefits, for which we expect to make employer contributions of $45.7 million in 2012. We also expect to make significant employer contributions to our plans in future years.

Net Cash Provided by Operating Activities

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

The major driver of cash provided by operating activities was net income adjusted for non-cash items of $125 million which was partially offset by cash used in net program related assets (contracts-in-process and customer advances) of $44 million. Cash flow from operating activities was reduced by $25 million in 2011 due to an increase in contracts-in-process caused by advance spending on programs that customers are obligated to pay us for in the future. Customer advances reduced cash flow from operating activities by $19 million due to the timing of awards and progress on new satellite programs.

Significant cash uses in 2011 also included a decrease in pension and other postretirement liabilities of $19 million and an increase in inventories of $6 million.

Net cash provided by operating activities was $42 million for the year ended December 31, 2010.

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The major driver of cash provided by operating activities was net income adjusted for non-cash items of $108 million which was partially offset by cash used in program related assets (contracts-in-process and customer advances) of $87 million. Cash flow from operating activities was reduced by $44 million in 2010 due to an increase in contracts-in-process caused by advance spending on programs that customers are obligated to pay us for in the future. Customer advances reduced cash flow from operating activities by $43 million due to the timing of awards and progress on new satellite programs.

Other factors affecting cash from operating activities in 2010 were: increases in accounts payable, accrued expenses and other current liabilities increased cash by $20 million; a decrease in inventories increased cash by $14 million; increases in other current assets and other assets decreased cash by $9 million; and decreases in pension and other post retirement liabilities reduced cash by $9 million.

Net cash provided by operating activities for 2009 was $155 million. This was primarily due to net cash provided from program related assets (contracts-in-process and customer advances) of $72 million and net income adjusted for non-cash items of $67 million. Changes in program related assets resulted mainly from progress on new and existing satellite programs. In addition, a decrease in inventories increased cash by $17 million.

Net Cash Used in Investing Activities

Net cash used in investing activities for 2011 was $4 million, which included capital expenditures of $37 million for satellite manufacturing, an $18 million increase in restricted cash and an additional investment of $10 million in XTAR, representing our 56% share of an $18 million capital call, partially offset by proceeds of $61 million from the sale of our interest in the ViaSat-1 satellite and related net assets.

Net cash used in investing activities for 2010 was $54 million, which included capital expenditures of $35 million for satellite manufacturing and $19 million for the Canadian broadband business.

Net cash used in investing activities for 2009 was $49 million, primarily resulting from capital expenditures of $44 million and an additional investment of $4.5 million in XTAR, representing our 56% share of an $8 million capital call.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for 2011 was $23 million, which included $8 million for the repurchase of the Company s voting common stock and $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.

Net cash provided by financing activities for 2010 was $10 million, which included $12 million from the exercise of stock options, net of withholding taxes, partially offset by $2 million of issuance costs related to the amendment and extension of SS/L s revolving credit facility.

Net cash used in financing activities for 2009 was $55 million, primarily resulting from the repayment of borrowings under the SS/L Credit Agreement.

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.

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Other

Operating cash flows for 2011 included contributions of approximately $34 million to the qualified pension plan and approximately $2 million for other employee post-retirement benefit plans. Operating cash flows for 2010 included contributions of approximately $25 million to the qualified pension plan and approximately $3 million for other employee post-retirement benefit plans. During 2009, we contributed approximately $23 million to the qualified pension plan and funded approximately $3 million for other employee post-retirement benefit plans. During 2012, based on current estimates, we expect to contribute approximately $41 million to the qualified pension plan and expect to fund approximately $3 million for other employee post-retirement benefit plans.

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 7 to the financial statements for further information on affiliate matters).

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

	September 30,	September 30, Year Ended December 31,	September 30,
	2011	2010 (In millions)	2009
Revenues	$ 140.0	$ 137.2	$ 92.1
Elimination of Loral s proportionate share of profits relating to affiliate transactions	(18.5)	(14.7)	(10.1)
Profits relating to affiliate transactions not eliminated	10.4	8.3	5.7

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 the financial statements.

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

Foreign Currency

Loral

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

As of December 31, 2011, SS/L had the following amounts denominated in Japanese Yen and euros (which have been translated into U.S. dollars based on the December 31, 2011 exchange rates) that were unhedged:

	September 30, Foreign Currency	September 30, U.S.$
	(In millions)	
Future revenues Japanese yen	¥ 50.1	$ 0.7
Future expenditures Japanese yen	¥ 2,275.3	$ 29.6
Future revenues euros	17.6	$ 22.9
Future expenditures euros	5.3	$ 6.9

Derivatives

In June 2010 and July 2008, SS/L was awarded satellite contracts denominated in euros and entered into a series of foreign exchange forward contracts with maturities through 2013 and 2011, respectively, to hedge associated foreign currency exchange risk because our costs are denominated principally in U.S. dollars. These foreign exchange forward contracts have been designated as cash flow hedges of future euro-denominated receivables.

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The maturity of foreign currency exchange contracts held as of December 31, 2011 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows:

Maturity	September 30, Euro Amount	September 30, To Sell At Contract Rate (In millions)	September 30, At Market Rate
2012	27.2	$ 32.9	$ 35.3
2013	27.0	33.0	35.2
	54.2	$ 65.9	$ 70.5

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

There were no derivative instruments in an asset position as of December 31, 2011. Therefore, there was no exposure to loss at such date as a result of the potential failure of the counterparties to perform as contracted.

Telesat

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Approximately 47% of Telesat s revenues for the year ended December 31, 2011, a large portion of its expenses and a substantial portion of its indebtedness and capital expenditures were denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar-denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at December 31, 2011 would have increased or decreased Telesat s net income for the year ended December 31, 2011 by approximately $155 million. During the period from October 31, 2007 to December 31, 2011, Telesat s U.S. Term Loan Facility, Senior Notes and Senior Subordinated Notes have increased by approximately $192 million due to the stronger U.S. dollar. During that same time period, however, the liability created by the fair value of the currency basis swap, which synthetically converts $1.054 billion of the U.S. Term Loan Facility debt into CAD 1.224 billion of debt, decreased by approximately $158 million.

Interest

The Company had no borrowings outstanding under the SS/L Credit Agreement at December 31, 2011. Borrowings under this facility are limited to Eurodollar Loans for periods ending in one, two, three or six months or daily loans for which the interest rate is adjusted daily based upon changes in the Prime Rate, Federal Funds Rate or one month Eurodollar Rate. Because of the nature of the borrowing under a revolving credit facility, the borrowing rate adjusts to changes in interest rates over time. For a $150 million credit facility, if it were fully borrowed, a one percent change in interest rates would effect the Company s interest expense by $1.5 million for the year. The Company had no other long-term debt or other exposure to changes in interest rates with respect thereto.

As of December 31, 2011, the Company held 984,173 shares of Globalstar Inc. common stock and $0.8 million of non-qualified pension plan assets that were mainly invested in equity and bond funds. During the year, our excess cash was invested in money market securities; we did not hold any other marketable securities.

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

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

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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 chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2011, 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 chief executive officer 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* 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, 2011.

Our management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its attestation report which is included below.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2011 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 chief executive officer 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, 2011, based on criteria established in *Internal Control Integrated Framework* 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, 2011, based on the criteria established in *Internal Control Integrated Framework* 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, 2011, of the Company and our report dated February 28, 2012 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

New York, New York

February 28, 2012

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

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Executive Officers of the Registrant

The following table sets forth information concerning the executive officers of Loral as of February 15, 2012.

Name	Age	Position
Michael B. Targoff	67	Chief Executive Officer since March 1, 2006, President since January 2008 and Vice Chairman of the Board of Directors since November 2005. Prior to that, founder of Michael B. Targoff & Co.
Avi Katz	53	Senior Vice President, General Counsel and Secretary since January 2008. Vice President, General Counsel and Secretary from November 2005 to January 2008.
Richard P. Mastoloni	47	Senior Vice President of Finance and Treasurer since January 2008. Vice President and Treasurer from November 2005 to January 2008.
Harvey B. Rein	58	Senior Vice President and Chief Financial Officer since January 2008. Vice President and Controller from November 2005 to January 2008.
John Capogrossi	58	Vice President and Controller since January 2008. Executive Director, Financial Planning and Analysis, from October 2006 to January 2008. Assistant Controller from November 2005 to October 2006.

Messrs. Katz, Mastoloni and Rein were executive officers of Old Loral and certain of its subsidiaries which filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in July 2003.

The remaining information required under Item 10 will be presented in the Company s 2012 definitive proxy statement which is incorporated herein by reference.

Item 11. ***Executive Compensation***

Information required under Item 11 will be presented in the Company s 2012 definitive proxy statement which is incorporated herein by reference.

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 2012 definitive proxy statement which is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions***

Information required under Item 13 will be presented in the Company s 2012 definitive proxy statement which is incorporated herein by reference.

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

Information required under Item 14 will be presented in the Company s 2012 definitive proxy statement which is incorporated herein by reference.

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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
2.1	Debtors Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated June 3, 2005(1)
2.2	Modification to Debtors Fourth Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated August 1, 2005(2)
2.3	Letter Agreement among Loral Space & Communications Inc., Loral Skynet Corporation, Public Sector Pension Investment Board, 4363205 Canada Inc. and 4363213 Canada Inc. dated December 14, 2006(5)
2.4	Share Purchase Agreement among 4363213 Canada Inc., BCE Inc. and Telesat dated December 16, 2006(5)
2.5	Letter Agreement among Loral Space & Communications Inc., Public Sector Pension Investment Board and BCE Inc. dated December 16, 2006(5)
2.6	Asset Transfer Agreement, dated as of August 7, 2007, by and among 4363205 Canada Inc., Loral Skynet Corporation and Loral Space & Communications Inc.(7)
2.7	Amendment No. 1 to Asset Transfer Agreement, dated as of September 24, 2007, by and among 4363205 Canada Inc., Loral Skynet Corporation and Loral Space & Communications Inc.(8)
2.8	Asset Purchase Agreement, dated as of August 7, 2007, by and among Loral Skynet Corporation, Skynet Satellite Corporation and Loral Space & Communications Inc.(7)
3.1	Restated Certificate of Incorporation of Loral Space & Communications Inc. dated May 19, 2009(17)
3.2	Amended and Restated Bylaws of Loral Space & Communications Inc. dated December 23, 2008(13)
3.3	Amendment No. 1 to Bylaws of Loral Space & Communications dated January 12, 2010(21)
10.1	Amended and Restated Credit Agreement, dated as of December 20, 2010, by and among Space Systems/Loral, Inc., as borrower, the several banks and other financial institutions or entities from time to time party thereto, Credit Suisse Securities (USA) LLC, as documentation agent, ING Bank N.V., as syndication agent, J.P. Morgan Securities LLC and Credit Suisse Securities (USA) LLC, as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A., as administrative agent(25)
10.2	First Amendment dated as of December 8, 2011 to the Amended and Restated Credit Agreement, dated as of December 20, 2010, by and among Space Systems/Loral, Inc., the several banks and other financial institutions or entities from time to time party thereto, Credit Suisse Securities (USA) LLC, as documentation agent, ING Bank N.V., as syndication agent, and JPMorgan Chase Bank, N.A., as administrative agent
10.3	Ancillary Agreement, dated as of August 7, 2007, by and among Loral Space & Communications Inc., Loral Skynet Corporation, Public Sector Pension Investment Board, 4363205 Canada Inc. and 4363230 Canada Inc.(7)
10.4	Adjustment Agreement, dated as of October 29, 2007, between Telesat Interco Inc. (formerly 4363213 Canada Inc.), BCE Inc. and Telesat(9)
10.5	Omnibus Agreement, dated as of October 30, 2007, by and among Loral Space & Communications Inc., Loral Skynet Corporation, Public Sector Pension Investment Board, Red Isle Private Investments Inc. and Telesat Holdings Inc. (formerly 4363205 Canada Inc.)(9)

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Exhibit Number	Description
10.6	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(9)
10.7	Consulting Services Agreement, dated as of October 31, 2007, by and between Loral Space & Communications Inc. and Telesat(9)
10.8	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(9)
10.9	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(9)
10.10	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(13)
10.11	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.(18)
10.12	Letter Agreement dated April 30, 2010 relating to indemnification among the Special Committee of the Board of Directors of Loral Space & Communications Inc. and Mark Rachesky, Hal Goldstein, Sai Devahaktuni, MHR Fund Management LLC and certain entities affiliated with MHR Fund Management LLC (23)
10.13	Settlement Agreement dated December 15, 2010 between XL Specialty Insurance Company, Arch Insurance Company, U.S. Specialty Insurance Company, Loral Space & Communications Inc., Mark H. Rachesky, Hal Goldstein and Sai S. Devabhaktuni, and (for purposes of paragraphs 6 and 7 and 9 through 20 only) MHR Fund Management LLC and certain of its affiliated entities(24)
10.14	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.(10)
10.15	Beam Sharing Agreement, dated as of January 11, 2008, by and between Loral Space & Communications Inc. and ViaSat Inc.(11)
10.16	Satellite Capacity and Gateway Service Agreement dated as of December 31, 2009 between Loral Space & Communications Inc. and Barrett Xplore Inc.(20)
10.17	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(26)
10.18	Space Segment Assignment and Assumption Agreement dated as of March 1, 2011 by and between Telesat IOM Limited and Loral Space & Communications Inc.(26)
10.19	Barrett Assignment Agreement dated as of March 1, 2011 by and between Telesat IOM Limited and Loral Space & Communications Inc.(26)

Exhibit Number	Description
10.20	Employment Agreement between Loral Space & Communications Inc. and Michael B. Targoff dated as of March 28, 2006 and amended and restated as of December 17, 2008(15)
10.21	First Amendment of Employment Agreement dated as of July 19, 2011 between Loral Space & Communication Inc. and Michael B. Targoff(29)
10.22	Second Amendment of Employment Agreement dated as of January 17, 2012 between Loral Space & Communications Inc. and Michael B. Targoff(31)
10.23	Form of Officers and Directors Indemnification Agreement between Loral Space & Communications Inc. and Loral Executives(3)
10.24	Loral Space Management Incentive Bonus Program (Adopted as of December 17, 2008)(13)
10.25	Loral Space & Communications Inc. 2005 Stock Incentive Plan (Amended and Restated as of April 3, 2009)(16)
10.26	Form of Amended and Restated Non-Qualified Stock Option Agreement under Loral Space & Communications Inc. 2005 Stock Incentive Plan for Senior Management dated as of December 21, 2005 and amended and restated as of November 10, 2008(15)
10.27	Non-Qualified Stock Option Agreement under Loral Space & Communications Inc. 2005 Stock Incentive Plan between Loral Space & Communications Inc. and Michael B. Targoff dated March 28, 2006(4)
10.28	Restricted Stock Unit Agreement dated March 5, 2009 between Loral Space & Communications Inc. and Michael B. Targoff(14)
10.29	Restricted Stock Unit Agreement dated March 5, 2010 between Loral Space & Communications Inc. and Michael B. Targoff(22)
10.30	Restricted Stock Unit Agreement dated March 5, 2011 between Loral Space & Communications Inc. and Michael B. Targoff(27)
10.31	Option Agreement dated October 27, 2009, between Loral Space & Communications Inc. and Michael B. Targoff(19)
10.32	Form of Restricted Stock Unit Agreement dated October 27, 2009 between Loral Space & Communications Inc. and Loral executives(19)
10.33	Form of Phantom Stock Appreciation Rights Agreement relating to Space Systems/Loral, Inc. dated October 27, 2009 between Loral Space & Communications Inc. and Loral and SS/L executives(19)
10.34	Form of Director 2006 Restricted Stock Agreement(6)
10.35	Form of Director 2007 Restricted Stock Agreement(6)
10.36	Form of Director 2008 Restricted Stock Agreement(15)
10.37	Form of Director 2009 Restricted Stock Unit Agreement(22)
10.38	Form of Director 2010 Restricted Stock Unit Agreement(27)
10.39	Form of Director 2011 Restricted Stock Unit Agreement
10.40	Form of Employee Restricted Stock Agreement(6)
10.41	Amended and Restated Space Systems/Loral, Inc. Supplemental Executive Retirement Plan (Amended and Restated as of December 17, 2008)(13)

Exhibit Number	Description
10.42	Loral Savings Supplemental Executive Retirement Plan (Amended and Restated as of December 17, 2008)(13)
10.43	Loral Space & Communications Inc. Severance Policy for Corporate Officers (Amended and restated as of August 4, 2011)(30)
10.44	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(28)
10.45	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(28)
10.46	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(28)
14.1	Code of Conduct, Revised as of November 1, 2010(27)
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 Chief Executive Officer 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 Chief Executive Officer 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	Credit Agreement, dated as of October 31, 2007, among Telesat Interco Inc. (formerly 4363213 Canada Inc.), Telesat Holdings Inc. (formerly 4363205 Canada Inc.), 4363230 Canada Inc., Telesat LLC, certain subsidiaries of Telesat Holdings Inc., as guarantors, the lenders party thereto from time to time, Morgan Stanley Senior Funding, Inc., as administrative agent, and Morgan Stanley & Co. Incorporated, as collateral agent for the lenders, UBS Securities LLC, as syndication agent, JPMorgan Chase Bank, N.A., The Bank of Nova Scotia, as issuing bank, and Citibank, N.A., Canadian Branch or any of its lending affiliates, as co-documentation agents, and Morgan Stanley & Co. Incorporated, UBS Securities LLC and J.P. Morgan Securities Inc., as joint lead arrangers and joint book running managers(9)
99.2	Articles of Incorporation of Telesat Holdings Inc. (formerly 4363205 Canada Inc.)(9)
99.3	By-Law No. 1 of Telesat Holdings Inc. (formerly 4363205 Canada Inc.)(9)
99.4	Letter Agreement dated March 28, 2008 among Loral Space & Communications Inc., Loral Skynet Corporation, Public Sector Pension Investment Board, Red Isle Private Investment Inc. and Telesat Holdings Inc.(12)

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

(2) Incorporated by reference from the Company s Current Report on Form 8-K filed on August 5, 2005.

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

(4) Incorporated by reference from the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed on March 28, 2006.

(5) Incorporated by reference from the Company s Current Report on Form 8-K filed on December 21, 2006.

(6) Incorporated by reference from the Company s Current Report on Form 8-K filed on May 29, 2007.

(7) Incorporated by reference from the Company s Current Report on Form 8-K filed on August 9, 2007.

(8) Incorporated by reference from the Company s Current Report on Form 8-K filed on September 27, 2007.

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

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

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

(12) Incorporated by reference from the Company s Current Report on Form 8-K filed on March 31, 2008.

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

(14) Incorporated by reference from the Company s Current Report on Form 8-K filed on March 10, 2009.

(15) Incorporated by reference from the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed on March 16, 2009.

(16) 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.

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

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

(19) Incorporated by reference from the Company s Current Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 filed on November 9, 2009.

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

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

(22) 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.

(23) Incorporated by reference from the Company s Current Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed on May 10, 2010.

(24) Incorporated by reference from the Company s Current Report on Form 8-K filed on December 17, 2010.

(25) Incorporated by reference from the Company s Current Report on Form 8-K filed on December 22, 2010.

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

(27) 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.

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

(29) Incorporated by reference from the Company s Current Report on Form 8-K filed on July 20, 2011.

(30) 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.

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

Filed herewith.

Management compensation plan.

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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/ MICHAEL B. TARGOFF
Michael B. Targoff

Vice Chairman of the Board,

Chief Executive Officer and President

Dated: February 28, 2012

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/ MICHAEL B. TARGOFF	Vice Chairman of the Board,	February 28, 2012
Michael B. Targoff	Chief Executive Officer and President	
/s/ MARK H. RACHESKY, M.D.	Director, Non-Executive	February 28, 2012
Mark H. Rachesky, M.D.	Chairman of the Board	
/s/ HAL GOLDSTEIN	Director	February 28, 2012
Hal Goldstein		
/s/ JOHN D. HARKEY, JR.	Director	February 28, 2012
John D. Harkey, Jr.		
/s/ ARTHUR L. SIMON	Director	February 28, 2012
Arthur L. Simon		
/s/ JOHN P. STENBIT	Director	February 28, 2012
John P. Stenbit		
/s/ HARVEY B. REIN	Senior Vice President and CFO	February 28, 2012
Harvey B. Rein	(Principal Financial Officer)	
/s/ JOHN CAPOGROSSI	Vice President and Controller	February 28, 2012

John Capogrossi	(Principal Accounting Officer)

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, 2011 and 2010, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2011. 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, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2012 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York

February 28, 2012

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LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30,	September 30,
	December 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 197,114	$ 165,801
Contracts-in-process	159,261	186,896
Inventories	77,301	71,233
Deferred tax assets	67,070	66,220
Other current assets	15,038	28,927
Total current assets	515,784	519,077
Property, plant and equipment, net	203,722	235,905
Long-term receivables	362,688	319,426
Investments in affiliates	446,235	362,556
Intangible assets, net	8,179	11,110
Long-term deferred tax assets	263,363	294,019
Other assets	36,182	12,816
Total assets	$ 1,836,153	$ 1,754,909
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 90,323	$ 95,952
Accrued employment costs	59,897	52,017
Customer advances and billings in excess of costs and profits	227,485	261,603
Other current liabilities	25,265	30,375
Total current liabilities	402,970	439,947
Pension and other postretirement liabilities	311,273	244,817
Long-term liabilities	174,325	169,196
Total liabilities	888,568	853,960
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, 21,229,573 and 20,924,874 shares issued	212	209
Non-voting common stock, $0.01 par value; 20,000,000 shares authorized, 9,505,673 issued and outstanding	95	95
Paid-in capital	1,014,724	1,028,263
Treasury stock (at cost), 136,494 shares of voting common stock at December 31, 2011	(8,400)	
Retained earnings (accumulated deficit)	94,303	(32,374)
Accumulated other comprehensive loss	(154,475)	(95,873)

Total shareholders equity attributable to Loral		946,459		900,320
Noncontrolling interest		1,126		629
Total equity		947,585		900,949
Total liabilities and equity	$	1,836,153	$	1,754,909

See notes to consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	September 30, 2011	September 30, 2010	September 30, 2009
	Year Ended December 31,		
Revenues	$ 1,107,365	$ 1,158,985	$ 993,400
Cost of revenues	(908,715)	(986,697)	(880,486)
Selling, general and administrative expenses	(112,129)	(84,823)	(92,703)
Gain on disposition of net assets	6,913		
Directors indemnification expense		(6,857)	
Operating income	93,434	80,608	20,211
Interest and investment income	21,350	13,550	8,307
Interest expense	(2,688)	(3,143)	(1,422)
Gain on litigation	4,535	5,000	
Other expense	(6,641)	(2,921)	(121)
Income before income taxes and equity in net income of affiliates	109,990	93,094	26,975
Income tax (provision) benefit	(89,145)	308,622	(5,571)
Income before equity in net income of affiliates	20,845	401,716	21,404
Equity in net income of affiliates	106,329	85,625	210,298
Net income	127,174	487,341	231,702
Net income attributable to noncontrolling interest	(497)	(495)	
Net income attributable to Loral	$ 126,677	$ 486,846	$ 231,702
Net income per share attributable to Loral common shareholders:			
Basic	$ 4.13	$ 16.18	$ 7.79
Diluted	$ 3.92	$ 15.63	$ 7.73
Weighted average common shares outstanding:			
Basic	30,680	30,085	29,761
Diluted	31,166	30,887	29,981

See notes to consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

	Common Stock Voting Shares Issued	Common Stock Voting Amount	Common Stock Non-Voting Shares Issued	Common Stock Non-Voting Amount	Paid-In Capital	Treasury Stock Voting Shares	Treasury Stock Voting Amount	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
Balance, January 1, 2009	20,287	$ 203	9,506	$ 95	$ 1,007,011			$ (750,922)	$ (46,730)		$ 209,657
Net income								231,702			
Other comprehensive loss									(16,148)		
Comprehensive income											215,554
Exercise of stock options	74	1			1,403						1,404
Shares surrendered to fund withholding taxes	(43)				(1,559)						(1,559)
Stock based compensation	73	0			6,935						6,935
Balance, December 31, 2009	20,391	204	9,506	95	1,013,790			(519,220)	(62,878)		431,991
Net income								486,846		$ 495	
Other comprehensive loss									(32,995)		
Comprehensive income											454,346
Exercise of stock options	547	5			13,990						13,995
Shares surrendered to fund withholding taxes	(13)				(2,477)						(2,477)
Tax benefit associated with exercise of stock options					412						412
Stock based compensation					2,548						2,548
Contribution by noncontrolling interest										134	134
Balance, December 31, 2010	20,925	$ 209	9,506	$ 95	$ 1,028,263			$ (32,374)	$ (95,873)	$ 629	$ 900,949
Net income								126,677		$ 497	
Other comprehensive loss									(58,602)		
Comprehensive income											68,572
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)	$ 1,126	$ 947,585

See notes to consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	September 30,	September 30,	September 30,
		Year Ended December 31,	
	2011	2010	2009
Operating activities:			
Net income	$ 127,174	$ 487,341	$ 231,702
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash items	(2,226)	(379,507)	(164,785)
Changes in operating assets and liabilities:			
Contracts-in-process	(24,814)	(43,845)	(7,913)
Inventories	(6,068)	14,409	17,482
Long-term receivables	(3,145)	(5,964)	(5,565)
Other current assets and other assets	1,457	(8,527)	2,806
Accounts payable	(10,613)	9,453	(5,628)
Accrued expenses and other current liabilities	7,682	10,976	(9,611)
Customer advances	(19,399)	(43,229)	80,350
Income taxes payable	(4,273)	4,076	21,426
Pension and other postretirement liabilities	(19,318)	(9,069)	(4,158)
Long-term liabilities	11,537	5,835	(1,544)
Net cash provided by operating activities	57,994	41,949	154,562
Investing activities:			
Capital expenditures	(36,965)	(54,057)	(43,557)
Proceeds from sale of net assets	61,482		
(Increase) decrease in restricted cash	(18,175)		10
Investments in and advances to affiliates	(10,379)		(5,480)
Other			277
Net cash used in investing activities	(4,037)	(54,057)	(48,750)
Financing activities:			
(Repayments) borrowings under SS/L revolving credit facility			(55,000)
Debt issuance costs		(2,226)	
Voting common stock repurchased	(7,928)		
Proceeds from the exercise of stock options	1,058	13,995	1,404
Funding of withholding taxes on employees cashless stock option exercise	(16,972)	(2,477)	(1,559)
Excess tax benefit associated with exercise of stock options	1,198	412	
Net cash (used in) provided by financing activities	(22,644)	9,704	(55,155)
Increase (decrease) in cash and cash equivalents	31,313	(2,404)	50,657
Cash and cash equivalents beginning of year	165,801	168,205	117,548
Cash and cash equivalents end of year	$ 197,114	$ 165,801	$ 168,205

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 communica company engaged in satellite manufacturing with ownership interests in satellite-based communications services.

Loral has two segments (see Note 16):

Satellite Manufacturing:

Our subsidiary, Space Systems/Loral, Inc. (SS/L), designs and manufactures satellites, space systems and space system components for commercial and government customers whose applications include fixed satellite services (FSS), direct-to-home (DTH) broadcasting, mobile satellite services (MSS), broadband data distribution, wireless telephony, digital radio, digital mobile broadcasting, military communications, weather monitoring and air traffic management.

Satellite Services:

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

Loral holds a 64% economic interest and a $33^1/_3$% voting interest in Telesat Holdco (see Note 7). We use the equity method of accounting for our ownership interest in Telesat Holdco.

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

2. Basis of Presentation

The 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.

As noted above, we emerged from bankruptcy on November 21, 2005, and we adopted fresh-start accounting as of October 1, 2005 and determined the fair value of our assets and liabilities. Upon emergence, our reorganization equity value was allocated to our assets and liabilities, which were stated at fair value in accordance with the purchase method of accounting for business combinations. In addition, our accumulated deficit was eliminated, and our new equity was recorded in accordance with distributions pursuant to the Plan of Reorganization.

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 amounts of revenues and expenses reported for the period. Actual results could differ from estimates.

Most of our satellite manufacturing revenue is associated with long-term contracts which require significant estimates. These estimates include forecasts of costs and schedules, estimating contract revenue related to contract performance (including performance incentives) and the potential for component obsolescence in connection with long-term procurements. Changes in estimates are typically the result of schedule changes that affect performance incentives and penalties, changes in contract scope, changes in new business forecasts that can affect the level of overhead allocated to a given contract and changes in estimates on contracts as a result of the complex nature of the satellites we manufacture. Changes in estimates are included in sales and cost of sales using the cumulative catch-up method, which recognizes the cumulative effect of changes in estimates on current and prior periods in the current period based on a contract s completion percentage. Provisions for losses on contracts are recorded when estimates determine that a loss will be incurred on a contract at completion. Under firm fixed-price contracts, work performed and products shipped are paid for at a fixed price without adjustment for actual costs incurred in connection with the contract; accordingly, favorable changes in estimates in a period will result in additional revenue and profit, and unfavorable changes in estimates will result in a reduction of revenue and profit or the recording of a loss that will be borne solely by us. For the years ended December 31, 2011, 2010 and 2009, cumulative catch up adjustments related to prior year activity as a result of changes in contract estimates increased operating income by $48 million, $59 million and $41 million, respectively, and diluted earnings per share by $0.90, $1.15 and $0.62, respectively.

Significant estimates also include the allowances for doubtful accounts and long-term receivables, estimated useful lives of our plant and equipment and finite lived intangible assets, the fair value of stock based compensation, the realization of deferred tax assets, uncertain tax positions, the fair value of and gains or losses on derivative instruments and our pension liabilities.

Cash and Cash Equivalents, Restricted Cash and Available for Sale Securities

As of December 31, 2011, the Company had $197.1 million of cash and cash equivalents and $23.8 million of restricted cash (included in other assets on our consolidated balance sheet). 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. Investments in publicly traded common stock are classified as available for sale securities. Available for sale securities are carried at fair value with unrealized gains and losses, if any, reported in accumulated other comprehensive loss.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, contracts-in-process and long-term receivables. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Historically, our customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, we have added commercial customers which are highly leveraged, as well as those in the development stage which are partially funded. Management believes that its credit evaluation, approval and monitoring processes combined with contractual billing arrangements and our title interest in satellites under construction provide for management of potential credit risks with regard to our current customer base. However, swings in the global financial markets that include illiquidity, market volatility, changes in interest rates and currency exchange fluctuations can be difficult to predict and negatively affect certain customers ability to make payments when due.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Billed Receivables and Long-Term Receivables

Financing receivables consist of billed and unbilled receivables which are included in contracts-in-process and unbilled orbital receivables and notes receivable from Telesat for consulting services which are included in long-term receivables.

We estimate the collectibility of our billed, unbilled and long-term receivables by assessing the current credit worthiness of each customer and related aging of past due balances. A billed receivable is considered past due when it remains unpaid beyond its stated billing terms which can range from 30-60 days. We evaluate specific accounts when we become aware of a situation where a customer may not be able to meet its financial obligations due to a deterioration of its financial condition, credit ratings or bankruptcy. An allowance for doubtful accounts is established on a case-by-case basis based on the information available to us and is re-evaluated periodically.

Inventories

Inventories are valued at the lower of cost or fair value and consist principally of parts and subassemblies used in the manufacture of satellites which have not been specifically identified to contracts-in-process. Cost is determined using the first-in-first-out (FIFO) or average cost method.

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:

	September 30,	September 30, December 31, 2011	September 30,	September 30,	September 30, December 31, 2010	September 30,
	Level 1	Level 2 (In thousands)	Level 3	Level 1	Level 2 (In thousands)	Level 3
Assets						
Cash equivalents						
Money market funds	$ 191,482	$	$	$ 162,487	$	$

Available-for-sale securities						
Communications industry	$ 531	$	$	$ 1,427	$	$
Derivatives						
Foreign exchange contracts	$	$ 1	$	$	$ 4,548	$
Non-qualified pension plan assets	$ 844	$	$	$ 2,039	$	$ 13
Liabilities						
Derivatives						
Foreign exchange contracts	$	$ 4,622	$	$	$ 15,007	$

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, 2011.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Property, Plant and Equipment

Property, plant and equipment are generally stated at cost less accumulated depreciation and amortization. As of October 1, 2005, we adopted fresh-start accounting and our property, plant and equipment owned as of that date were recorded at their fair values. Depreciation is provided primarily on accelerated methods over the estimated useful life of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Below are the estimated useful lives of our property, plant and equipment as of December 31, 2011:

	September 30, Years
Land improvements	20
Buildings and building improvements	10 to 45
Leasehold improvements	2 to 17
Equipment, furniture and fixtures	5 to 10

Costs incurred in connection with the construction and deployment of Loral s portion of the ViaSat-1 satellite and related equipment were capitalized until these assets were sold in April 2011 (see Note 7). Such costs included direct contract costs, allocated indirect costs, launch costs, launch and in-orbit insurance costs and costs for gateway services equipment.

Intangible Assets

Intangible assets consist primarily of internally developed software and technology and trade names all of which were recorded at fair value in connection with the adoption of fresh-start accounting. The fair values were calculated using several approaches that encompassed the use of excess earnings, relief from royalty and the build-up methods. The excess earnings, relief from royalty and build-up approaches are variations of the income approach. The income approach, more commonly known as the discounted cash flow approach, estimates fair value based on the cash flows that an asset can be expected to generate over its useful life. Identifiable intangible assets with finite useful lives are amortized on a straight-line basis over the estimated useful lives of the assets.

Valuation of Long-Lived Assets

Long-lived assets of the Company, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the net carrying amount of the asset may not be recoverable. In connection with such review, the Company also re-evaluates the periods of depreciation and amortization for these assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value.

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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Treasury Stock

In November 2011, our Board of Directors authorized the purchase of up to 800,000 shares of our voting common stock. These purchases may be made from time to time in the open market or private transactions, as conditions may warrant. Under the repurchase program we purchased 136,494 shares of our voting common stock at a total cost of $8.4 million (an average price of $61.54 per share) during the year ended December 31, 2011.

We intend to hold repurchased shares of our voting common stock in treasury. We account for the treasury shares using the cost method.

Revenue Recognition

Revenue from satellite sales under long-term fixed-price contracts is recognized using the cost-to-cost percentage-of-completion method. Revenue includes the basic contract price and estimated amounts for penalties and performance incentives, including estimated orbital incentives discounted to their present value at launch date. Costs include the development effort required for the production of high-technology satellites, non-recurring engineering and design efforts in early periods of contract performance, as well as the cost of qualification testing requirements. Contracts are typically subject to termination for convenience or for default. If a contract is terminated for convenience by a customer or due to a customer s default, we are generally entitled to our costs incurred plus a reasonable profit.

Revenue under cost-reimbursable type contracts is recognized as costs are incurred; incentive fees are estimated and recognized over the contract term.

U.S. government contract risks include dependence on future appropriations and administrative allotment of funds and changes in government policies. Costs incurred under U.S. government contracts are subject to audit. Management believes the results of such audits will not have a material effect on Loral s financial position or its results of operations.

Losses on contracts are recognized when determined. Revisions in profit estimates are reflected in the period in which the conditions that require the revision become known and are estimable. In accordance with industry practice, contracts-in-process include unbilled amounts relating to contracts and programs with long production cycles, a portion of which may not be billable within one year.

Research and Development

Research and development costs, which are expensed as incurred, were $34.2 million, $19.9 million, and $23.0 million for 2011, 2010 and 2009, respectively, and are included in selling, general and administrative expenses in our consolidated statements of operations.

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 the Unrealized gains on cash flow hedges as a component of other comprehensive loss in the accompanying consolidated statements of equity 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).

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-Based Compensation

Stock-based compensation expense is measured at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the award s vesting period. We use the Black-Scholes-Merton option-pricing model and other models as applicable to estimate the fair value of these 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 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 affect the timing of the total amount of expense recognized over the vesting period. Estimated forfeitures are reassessed in each reporting period and may change based on new facts and circumstances. We emerged from bankruptcy on November 21, 2005, and as a result, we did not have sufficient stock price history upon which to base our volatility assumption for measuring our stock-based awards. In determining the volatility used in our models, we considered the volatility of the stock prices of selected companies in the satellite industry, the nature of those companies, our emergence from bankruptcy and other factors in determining our stock price volatility. We based 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 was based on term-matching, nominal, monthly U.S. Treasury constant maturity rates as of the date of grant. We assumed no dividends during the expected term.

SS/L phantom stock appreciation rights that are expected to be settled in cash or that contain an obligation to issue a variable number of shares based on the financial performance of SS/L are classified as liabilities in our consolidated balance sheets.

Deferred Compensation

Pursuant to the Plan of Reorganization we entered into deferred compensation arrangements for certain key employees that generally vest over four years and expire after seven years. The initial deferred compensation awards were calculated by multiplying $9.44 by the number of shares of common stock underlying the stock options granted to these key employees (see Note 11). We accreted the liability through charges to expense over the vesting period. The value of the deferred compensation may increase or decrease depending on stock price performance within a defined range, until the occurrence of certain events, including the exercise of the related stock options, and vesting will accelerate if there is a change of control as defined. No deferred compensation was charged or credited to expense in 2011 and 2010 because the maximum award under the deferred compensation plan was reached in 2009 and maintained throughout 2010 and 2011. Deferred compensation charged to expense, net of estimated forfeitures, was $6.6 million for the year ended December 31, 2009. As of December 31, 2011, other current liabilities in our consolidated balance sheet included deferred compensation liabilities of $6.4 million.

Income Taxes

Loral Space & Communications Inc. 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 effects of an uncertain tax position (UTP) taken or expected to be taken in income tax returns are 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 benefits recognized in the financial statements from such a position are 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 UTPs in income tax expense on a quarterly basis.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company recognizes the benefit of a UTP in the period when it 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.

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 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):

	September 30,	September 30, Year Ended December 31,	September 30,
	2011	2010	2009
Non-cash operating items:			
Equity in net income of affiliates	$ (106,329)	$ (85,625)	$ (210,298)
Deferred taxes	69,223	(325,223)	(192)
Depreciation and amortization	32,509	33,732	39,796
Amortization of fair value adjustments related to orbital incentives	(1,024)	(1,639)	(664)
Stock based compensation	1,180	2,548	7,514
Provisions for inventory obsolescence		4,297	1,042
Warranty expense accruals (reversals)	1,383	(1,437)	(65)
Provisions for bad debts on billed receivables			2,759
(Gain) loss on disposition of net assets	(6,453)	84	
Amortization of prior service credit and actuarial loss	876	(1,029)	412
Unrealized gain on nonqualified pension plan assets	(157)	(295)	(831)
Non-cash net interest expense (income)	354	(1,230)	(1,582)
Loss (gain) on foreign currency transactions and contracts	6,212	(3,690)	(2,676)
Net non-cash operating items	$ (2,226)	$ (379,507)	$ (164,785)
Non-cash investing activities:			
Capital expenditures incurred not yet paid	$ 7,766	$ 2,782	$ 3,091
Non-cash financing activities:			
Issuance of restricted stock	$	$	$ 1,591
Contributions by noncontrolling interest	$	$ 134	$
Repurchase of voting common stock not yet paid	$ 472	$	$
Capitalized lease obligation	$ 2,243	$	$

Supplemental information:						
Interest paid	$	1,649	$	1,991	$	2,164
Tax payments (refunds), net	$	5,937	$	573	$	(17,972)

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220) Presentation of Comprehensive Income*. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity and requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The guidance, effective for the Company on January 1, 2012, requires changes in presentation only and will not have a significant impact on our consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (ASC Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The changes to the ASC as a result of this update are effective prospectively for interim and annual periods beginning after December 15, 2011. We do not expect that the adoption of this guidance, effective for the Company on January 1, 2012, will have a significant impact on our consolidated financial statements.

3. Accumulated Other Comprehensive Loss

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

	September 30, Derivatives	September 30, Unrealized Gains (Losses) on Investments	September 30, Postretirement Benefits	September 30, Proportionate Share of Telesat Other Comprehensive Loss	September 30, Accumulated Other Comprehensive Loss
Balance at January 01, 2009	$ 18,182	$ 117	$ (65,029)	$	$ (46,730)
Period Change	(11,900)	658	233	(5,139)	(16,148)
Balance at December 31, 2009	$ 6,282	$ 775	$ (64,796)	$ (5,139)	$ (62,878)
Period Change	(13,035)	340	(17,251)	(3,049)	(32,995)
Balance at December 31, 2010	$ (6,753)	$ 1,115	$ (82,047)	$ (8,188)	$ (95,873)
Period Change	5,447	(535)	(50,648)	(12,866)	(58,602)
Balance at December 31, 2011	$ (1,306)	$ 580	$ (132,695)	$ (21,054)	$ (154,475)

The activity in other comprehensive income (loss) and related income tax effects were as follows (in thousands):

	September 30, 2011	September 30, Year Ended December 31, 2010	September 30, 2009
Derivatives:			
Unrealized loss on foreign currency hedges, net of tax benefit of $3,549 and $6,368 in 2011 and 2010, respectively	$ (5,272)	$ (9,422)	$ (94)
Less: reclassification adjustment for loss (gain) included in net income, net of tax provision of $7,216 in 2011 and tax benefit of $2,441 in 2010	10,719	(3,613)	(11,806)
Unrealized gain (loss) on derivatives, net	5,447	(13,035)	(11,900)
Unrealized gain (loss) on investments:			
Unrealized gain (loss) on available-for-sale securities, net of tax benefit of $360 in 2011 and tax provision of $230 in 2010	(535)	340	658

Postretirement benefits:						
Net actuarial losses and prior service credits, net of tax benefit of $34,424 and $11,254 in 2011 and 2010, respectively		(51,172)		(16,637)		(179)
Amortization of actuarial gains and prior service credits, net of tax provision of $352 in 2011 and tax benefit of $415 in 2010		524		(614)		412
Postretirement benefits		(50,648)		(17,251)		233
Proportionate share of Telesat other comprehensive loss:						
Proportionate share of Telesat other comprehensive loss, net of tax benefit of $8,651 and $2,052 in 2011 and 2010, respectively		(12,866)		(3,049)		(5,139)
Other comprehensive loss	$	(58,602)	$	(32,995)	$	(16,148)

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Contracts-in-Process and Long-Term Receivables

Contracts-in-Process

Contracts-in-Process consists of (in thousands):

	September 30,	September 30,
	December 31,	
	2011	2010
U.S. government contracts:		
Amounts billed	$ 34	$ 265
Unbilled receivables	1,311	1,634
	1,345	1,899
Commercial contracts:		
Amounts billed	107,886	125,328
Unbilled receivables	50,030	59,669
	157,916	184,997
	$ 159,261	$ 186,896

As of December 31, 2011 and 2010, billed receivables were reduced by an allowance for doubtful accounts of $0.2 million.

Unbilled amounts include recoverable costs and accrued profit on progress completed, which have not been billed. Such amounts are billed in accordance with the contract terms, typically upon shipment of the product, achievement of contractual milestones, or completion of the contract and, at such time, are reclassified to billed receivables. Fresh-start fair value adjustments relating to contracts-in-process are amortized on a percentage of completion basis as performance under the related contract is completed.

Long-Term Receivables

Billed receivables relating to long-term contracts are expected to be collected within one year. We classify deferred billings and the orbital receivable component of unbilled receivables expected to be collected beyond one year as long-term. Fresh-start fair value adjustments relating to long-term receivables are amortized using the effective interest method over the life of the related orbital stream.

Receivable balances related to satellite orbital incentive payments, deferred billings and the Telesat consulting services fee (see Note 17) as of December 31, 2011 are scheduled to be received as follows (in thousands):

	September 30,
	Long-Term Receivables
2012	$ 14,837

2013		16,145
2014		17,487
2015		19,046
2016		20,600
Thereafter		289,410
		377,525
Less, current portion included in contracts-in-process		(14,837)
Long-term receivables	$	362,688

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financing Receivables

The following summarizes the age of financing receivables that have a contractual maturity of over one year as of December 31, 2011 (in thousands):

	September 30, Total	September 30, Unlaunched	September 30, Launched	September 30, Financing Receivables Subject To Aging	September 30, Current	September 30, 90 Days or Less	September 30, More Than 90 Days
Satellite Manufacturing:							
Orbital Receivables							
Long term orbitals	$ 340,015	$ 141,518	$ 198,497	$ 198,497	$ 198,497	$	$
Short term unbilled	11,370		11,370	11,370	11,370		
Short term billed	3,467		3,467	3,467	1,084		2,383
	354,852	141,518	213,334	213,334	210,951		2,383
Deferred Receivables	1,973			1,973	1,973		
Consulting Services:							
Telesat receivables	20,700			20,700	20,700		
	377,525	141,518	213,334	236,007	233,624		2,383
Contracts-in-Process:							
Unbilled receivables	39,971	39,971					
Total	$ 417,496	$ 181,489	$ 213,334	$ 236,007	$ 233,624	$	$ 2,383

The following summarizes the age of financing receivables that have a contractual maturity of over one year as of December 31, 2010 (in thousands):

	September 30, Total	September 30, Unlaunched	September 30, Launched	September 30, Financing Receivables Subject To Aging	September 30, Current	September 30, 90 Days or Less	September 30, More Than 90 Days
Satellite Manufacturing:							
Orbital Receivables							
Long term orbitals	$ 298,977	$ 133,688	$ 165,289	$ 165,289	$ 165,289	$	$
Short term unbilled	11,009		11,009	11,009	11,009		
Short term billed	2,426		2,426	2,426	659		1,767
	312,412	133,688	178,724	178,724	176,957		1,767

Deferred Receivables	2,893			2,893	2,893		
<u>Consulting Services</u>:							
Telesat receivables	17,556			17,556	17,556		
	332,861	133,688	178,724	199,173	197,406		1,767
<u>Contracts-in-Process</u>:							
Unbilled receivables	50,294	50,294					
Total	$ 383,155	$ 183,982	$ 178,724	$ 199,173	$ 197,406	$	$ 1,767

Billed receivables of $104.5 million and $123.2 million as of December 31, 2011 and 2010, respectively (not including billed orbital receivables of $3.5 million and $2.4 million as of December 31, 2011 and 2010, respectively), have been excluded from the table above as they have contractual maturities of less than one year.

Long term unbilled receivables include satellite orbital incentives related to satellites under construction of $141.5 million and $133.7 million as of December 31, 2011 and 2010, respectively. These receivables are not included in financing receivables subject to aging in the table above since the timing of their collection is not determinable until the applicable satellite is launched. Contracts-in-process include $40.0 million and $50.3 million as of December 31, 2011 and 2010, respectively, of unbilled receivables that represent accumulated incurred costs and earned profits net of losses on contracts in process that have been recorded as sales but have not yet been billed to customers. These receivables are not included in financing receivables subject to aging in the table above since the timing of their collection is not determinable until the contractual obligation to bill the customer is fulfilled.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We assign internal credit ratings for all our customers with financing receivables. The credit worthiness of each customer is based upon public information and/or information obtained directly from our customers. We utilize credit ratings where available from the major credit rating agencies in our analysis. We have therefore assigned our rating categories to be comparable to those used by the major credit rating agencies. Credit risk profile by internally assigned ratings, consisted of the following:

Rating Categories	September 30, December 31, 2011	September 30, December 31, 2010
A/BBB	$ 41,607	$ 37,303
BB/B	246,373	225,533
B/CCC	94,156	80,222
Customers in bankruptcy	39,307	39,376
Other	(3,947)	721
Total financing receivables	$ 417,496	$ 383,155

5. Inventories

Inventories are comprised of the following (in thousands):

	September 30, December 31, 2011	September 30, December 31, 2010
Inventories-gross	$ 110,087	$ 104,029
Impaired inventory	(31,360)	(31,370)
	78,727	72,659
Inventories included in other assets	(1,426)	(1,426)
	$ 77,301	$ 71,233

The Company recorded inventory impairment charges of nil, $4.3 million and $1.0 million for the years ended December 31, 2011, 2010 and 2009, respectively. The charge recorded in 2010 related primarily to long-term inventories.

6. Property, Plant and Equipment

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

	September 30, December 31, 2011	September 30, 2010
Land and land improvements	$ 27,036	$ 27,036

Buildings	69,182	68,899
Leasehold improvements	16,696	14,007
Equipment	182,987	159,432
Furniture and fixtures	31,412	26,368
Satellite capacity under construction (see Note 17)		40,495
Other construction in progress	25,828	20,187
	353,141	356,425
Accumulated depreciation and amortization	(149,419)	(120,520)
	$ 203,722	$ 235,905

Depreciation and amortization expense for property, plant and equipment was $29.5 million, $25.8 million and $25.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Investments in Affiliates

Investments in affiliates consist of (in thousands):

	December 31, 2011	December 31, 2010
Telesat Holdings Inc.	$ 377,244	$ 295,797
XTAR, LLC	68,991	65,293
Other		1,466
	$ 446,235	$ 362,556

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

	Year Ended December 31, 2011	2010	2009
Telesat Holdings Inc.	$ 114,476	$ 92,798	$ 213,241
XTAR, LLC	(6,681)	(6,991)	(2,743)
Other	(1,466)	(182)	(200)
	$ 106,329	$ 85,625	$ 210,298

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.

The consolidated statements of operations reflect the effects of the following amounts related to transactions with or investments in affiliates (in thousands):

	Year Ended December 31, 2011	2010	2009
Revenues	$ 139,960	$ 137,244	$ 92,144
Elimination of Loral s proportionate share of profits relating to affiliate transactions	(18,498)	(14,734)	(10,071)
Profits relating to affiliate transactions not eliminated	10,411	8,294	5,671

The above amounts related to transactions with affiliates exclude the effect of Loral s sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related net assets. As a result of this sale to Telesat, Loral received a $13 million sale premium and reversed $5 million of cumulative intercompany profit eliminations that were recorded when the satellite was being built for Loral. This combined benefit was reduced by the $11 million elimination of the portion of the benefit applicable to Loral s 64% interest in Telesat, which has been reflected as a reduction of our investment in Telesat, and the remaining $7 million has been reflected as a gain on our consolidated statement of operations for the year ended December 31, 2011.

We use the equity method of accounting for our majority economic interest in Telesat because we own 33 $^{1}/3$% of the voting stock and do not exercise control by other means to satisfy the U.S. GAAP requirement for treatment as a consolidated subsidiary. Loral s equity in net income or loss of Telesat is based on our proportionate share of Telesat s results in accordance with U.S. GAAP and in U.S. dollars. Our proportionate share of Telesat s net income or loss is based on our 64% economic interest as our holdings consist of common stock and non-voting participating preferred shares that have all the rights of common stock with respect to dividends, return of capital and surplus distributions, but have no voting rights. The ability of Telesat to pay dividends and consulting fees in cash to Loral is governed by applicable covenants relating to Telesat s debt and shareholder agreements. Telesat is permitted to pay cash dividends of $75 million plus 50% of cumulative consolidated net income to its shareholders and consulting fees to Loral only when Telesat s ratio of consolidated total debt to consolidated EBITDA is less than 5.0 to 1.0. For the year ended December 31, 2011, Loral has received cash payments from Telesat for consulting fees and interest thereon of $3.2 million. Loral did not receive any cash payments from Telesat for consulting fees and interest for the years ended December 31, 2010 and 2009. Through December 31, 2011, Loral has received no dividend payments from Telesat.

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The contribution of Loral Skynet, a wholly owned subsidiary of Loral prior to its contribution, to Telesat in 2007 was recorded by Loral at the historical book value of our retained interest combined with the gain recognized on the contribution. However, the contribution was recorded by Telesat at fair value. Accordingly, the amortization of Telesat fair value adjustments applicable to the Loral Skynet assets and liabilities is proportionately eliminated in determining our share of the income or losses of Telesat. Our equity in the net income of Telesat also reflects the elimination of our profit, to the extent of our economic interest, on satellites we are constructing for Telesat.

Telesat

We hold equity interests in Telesat Holdco representing 64% of the economic interests and 33$^{1}/_{3}$% of the voting interests. Our Canadian partner, Public Sector Pension Investment Board (PSP), holds 36% of the economic interests and 66$^{2}/_{3}$% of the voting interests in Telesat Holdco (except with respect to the election of directors as to which it holds a 30% voting interest).

The following table presents summary financial data for Telesat in accordance with U.S. GAAP, as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	September 30,	September 30,	September 30,
		Year Ended December 31,	
	2011	2010	2009
Statement of Operations Data:			
Revenues	$ 817,269	$ 797,283	$ 691,566
Operating expenses	(188,119)	(190,632)	(203,417)
Depreciation, amortization and stock-based compensation	(248,012)	(249,318)	(230,176)
Gain on insurance proceeds	136,507		
Impairment of intangible assets	(1,112)		
(Loss) gain on disposition of long-lived assets	(1,499)	3,714	29,311
Operating income	515,034	361,047	287,284
Interest expense	(220,598)	(234,556)	(227,986)
Foreign exchange (losses) gains	(80,991)	159,191	439,160
Gains (losses) on financial instruments	50,731	(76,937)	(148,954)
Other income (expense)	1,964	619	(764)
Income tax expense	(65,271)	(41,177)	(2,185)
Net income	200,869	168,187	346,555

	September 30,	September 30,
	Year Ended December 31,	
	2011	2010
Balance Sheet Data:		
Current assets	$ 351,802	$ 291,367
Total assets	5,347,174	5,309,441
Current liabilities	289,351	294,485
Long-term debt, including current portion	2,817,857	2,928,916
Total liabilities	4,045,619	4,145,336
Redeemable preferred stock	138,485	141,718
Shareholders equity	1,163,070	1,022,387

Following the launch in May 2011 of Telstar 14R/Estrela do Sul 2, an SS/L-built satellite, the satellite s north solar array failed to fully deploy. The north solar array anomaly has diminished the amount of power available for the satellite s transponders and has reduced the life expectancy of the satellite. As a result, during the third quarter of 2011, Telesat carried out an impairment test for the satellite. Based on Telesat management s best estimates and assumptions, there was no impairment in Telstar 14R/Estrela do Sul 2 and as a result no adjustment to the carrying value of the asset was required. In December 2011, Telesat received insurance proceeds of $132.7 million from its insurers with respect to the claim Telesat filed for the failed solar array deployment.

Gain on disposition of long-lived assets in 2009 results from the transfer of Telesat s leasehold interests in the Telstar 10 satellite and related contracts to APT Satellite for a total consideration of approximately $69 million.

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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 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. During November 2011 and January 2012, XTAR reduced its revenue forecast for 2012 and subsequent years. We have performed an impairment test for our investment in XTAR as of December 31, 2011, using the January 2012 forecast, and concluded that our investment in XTAR was not impaired. Any further declines in XTAR s projected revenues may result in a future impairment charge.

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.

XTAR s lease obligation to Hisdesat for the XTAR-LANT transponders was $24 million in 2011, 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. Interest on XTAR s outstanding lease obligations to Hisdesat is paid through the issuance of a class of non-voting membership interests in XTAR, which enjoy priority rights with respect to dividends and distributions over the ordinary membership interests currently held by us and Hisdesat. 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, 2011 were $14.2 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 17). The ability of XTAR to pay dividends and management fees in cash to Loral is governed by XTAR s shareholder agreements.

XTAR-EUR was launched on Arianespace, S.A. s (Arianespace) Ariane ECA launch vehicle in 2005. The price for this launch had two components the first, consisting of a $15.8 million 10% interest paid-in-kind loan provided by Arianespace, was repaid in full by XTAR on July 6, 2007. The second component of the launch price consisted of a revenue-based fee to be paid to Arianespace over XTAR-EUR s 15 year in-orbit operations. This fee, also referred to as an incentive fee, equaled 3.5% of XTAR s annual operating revenues, subject to a maximum threshold. On February 29, 2008, XTAR paid Arianespace $1.5 million representing the incentive fee through December 31, 2007. On January 27, 2009, Arianespace agreed to eliminate the remaining incentive fee in exchange for $8.0 million payable in three installments. As of December 31, 2009, XTAR had paid all three installments and has no further obligations under the launch services agreement with Arianespace. As a result, XTAR s net loss for the year ended December 31, 2009 included a gain of $11.7 million related to the extinguishment of this liability.

To enable XTAR to make these settlement payments to Arianespace, XTAR issued a capital call to its LLC members. The capital call required Loral to increase its investment in XTAR by approximately $4.5 million in the first quarter of 2009, representing Loral s 56% share of the $8 million capital call.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents summary financial data for XTAR as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 (in thousands):

Statement of Operations Data:

	September 30, 2011	September 30, 2010	September 30, 2009
	Year Ended December 31,		
	2011	2010	2009
Revenues	$ 37,055	$ 37,907	$ 32,038
Operating expenses	(34,734)	(35,724)	(34,594)
Depreciation and amortization	(9,617)	(9,618)	(9,618)
Operating loss	(7,296)	(7,435)	(12,174)
Gain on settlement of Arianespace incentive cap			11,668
Net loss	(11,882)	(12,435)	(4,849)

	September 30,	September 30,
	December 31,	
	2011	2010
Balance Sheet Data:		
Current assets	$ 10,558	$ 9,290
Total assets	88,033	96,383
Current liabilities	45,704	61,839
Total liabilities	54,614	69,616
Members equity	33,419	26,767

Other

As of December 31, 2011 and 2010, 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.

8. Intangible Assets

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

	September 30, Weighted Average Remaining Amortization Period (Years)	September 30, December 31, 2011 Gross Amount	September 30, December 31, 2011 Accumulated Amortization	September 30, December 31, 2010 Gross Amount	September 30, December 31, 2010 Accumulated Amortization
Internally developed software and technology	1	$ 59,027	$ (57,173)	$ 59,027	$ (54,702)

Trade names	14		9,200		(2,875)		9,200		(2,415)
Total		$	68,227	$	(60,048)	$	68,227	$	(57,117)

Total amortization expense for intangible assets was $2.9 million, $9.2 million and $11.3 million for the years ended December 31, 2011, 2010 and 2009, respectively. Annual amortization expense for intangible assets for the five years ended December 31, 2016 is estimated to be as follows (in thousands):

		September 30,
2012	$	2,314
2013		460
2014		460
2015		460
2016		460

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

	September 30, December 31, 2011	September 30, 2010
Gross fair value adjustments	$ (36,896)	$ (36,896)
Accumulated amortization	20,255	19,299
	$ (16,641)	$ (17,597)

Net amortization of these fair value adjustments was a credit to expense of $1.0 million in 2011, a credit to expense of $2.9 million in 2010 and a charge to expense of $2.6 million in 2009.

9. Debt Obligations

SS/L Credit Agreement

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

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

	September 30, December 31, 2011	September 30, 2010
Letters of credit outstanding	$ 4,785	$ 4,911
Borrowings		

	September 30, Year Ended December 31, 2011	September 30, 2010	September 30, 2009
Interest expense (including commitment and letter of credit fees)	$ 1,302	$ 818	$ 1,168
Amortization of issuance costs	725	1,570	878

The Credit Agreement contains customary conditions precedent to each borrowing, including absence of defaults and accuracy of representations and warranties. The Revolving Facility is available to finance the working capital needs and general corporate purposes of SS/L.

The obligations under the Credit Agreement are secured by (i) a first mortgage on substantially all real property owned by SS/L and (ii) a first priority security interest in substantially all tangible and intangible assets of SS/L and certain of its subsidiaries. There is no Loral guarantee of the facility.

SS/L may elect to borrow under the Revolving Facility on either a daily basis or for periods ending in one, two, three or six months. Daily borrowings bear interest at an annual rate equal to 2.75% plus the greater of (1) the Prime Rate then in effect, (2) the Federal Funds Rate then in effect plus 0.5% and (3) the one month Eurodollar Rate then in effect plus 1.0%. Borrowings for periods ending in one, two, three or six months will bear interest at an annual rate equal to 3.75% plus the appropriate Eurodollar Rate. Interest on a daily loan is paid quarterly, and interest on a Eurodollar loan is paid either on the last day of the interest period or quarterly, whichever is shorter. In addition, the Credit Agreement requires the Company to pay certain customary fees, costs and expenses of the lenders.

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The Credit Agreement contains certain covenants which, among other things, limit the incurrence of additional indebtedness, capital expenditures, investments, restricted payments including dividends, asset sales, mergers and consolidations, liens, changes to the line of business and other matters customarily restricted in such agreements. The material financial covenants, ratios or tests contained in the Credit Agreement are:

SS/L must not permit its consolidated leverage ratio as of (i) the last day of any period of four consecutive fiscal quarters or (ii) the date of incurrence of certain indebtedness to exceed 3.00 to 1.00.

SS/L must maintain a minimum consolidated interest coverage ratio of at least 3.50 to 1.00 (or 3.00 to 1.00 if SS/L elects to provide a dividend to its shareholders of preferred stock which entitles holders thereof to receive cash distributions based on orbital incentives received by SS/L) as of the last day of any fiscal quarter for the period of four consecutive fiscal quarters ending on such day.

The Credit Agreement restricts the payments SS/L may make to Loral. SS/L is permitted to make payments to Loral to fund tax liabilities and to make annual payments to Loral of up to $1.5 million as a management fee and up to $15 million for corporate overhead, subject to restrictions. Additionally, SS/L is permitted to make dividend payments related to its cumulative consolidated net income beginning October 1, 2010, subject to restrictions. Notwithstanding the dividend related to the cumulative consolidated net income amount, though offsetting the amount available for such dividends, SS/L is permitted to pay dividends of up to $20 million in the aggregate in any fiscal year and $60 million during the term of the Credit Agreement. The Credit Agreement also provides that SS/L may make a one-time payment to Loral on or before January 14, 2011 of up to $66 million. In January 2011, SS/L made a one-time dividend payment of $50 million to Loral.

SS/L may prepay outstanding principal in whole or in part, together with accrued interest, without premium or penalty. The Credit Agreement requires SS/L to prepay outstanding principal and accrued interest upon certain events, including certain asset sales. If an event of default shall occur and be continuing, the commitments of all lenders under the Credit Agreement may be terminated and the principal amount outstanding, together with all accrued and unpaid interest, may be declared immediately due and payable. Under the Credit Agreement, events of default include, among other things, non-payment of amounts due under the Credit Agreement, default in payment of certain other indebtedness, breach of certain covenants, bankruptcy, violations under ERISA, violations under certain United States export control laws and regulations, a change of control of SS/L and if certain liens on the collateral securing the obligations under the Credit Agreement fail to be perfected. All outstanding principal is payable in full upon the Maturity Date.

Debt issuance costs for the Credit Agreement of approximately $2.2 million are being amortized on a straight line basis over the life of the Revolving Facility.

10. Income Taxes

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

	September 30,	September 30, Year Ended December 31,	September 30,
	2011	2010	2009
Current:			
U.S. Federal	$ (12,243)	$ (4,575)	$ (2,597)
State and local	(7,679)	(12,026)	(3,166)

Total current		(19,922)		(16,601)		(5,763)
Deferred:						
U.S. Federal		(61,248)		277,916		669
State and local		(7,975)		47,307		(477)
Total deferred		(69,223)		325,223		192
Total income tax (provision) benefit	$	(89,145)	$	308,622	$	(5,571)

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

	Year Ended December 31, 2011	2010	2009
(Increase) decrease to unrecognized tax benefits	$ (10,593)	$ (5,517)	$ 2,817
Interest expense	(4,809)	(5,391)	(4,426)
Penalties	(1,659)	(633)	(701)
Total	$ (17,061)	$ (11,541)	$ (2,310)

For 2011, the deferred income tax provision of $69.2 million related primarily to our equity in net income of Telesat for the current year after having reversed our valuation allowance in the fourth quarter of 2010.

For 2010, the deferred income tax benefit of $325.2 million related primarily to (i) a benefit of $335.3 million from the reversal of a significant portion of our valuation allowance during the fourth quarter after having determined that based on all available evidence, it was more likely than not that we would realize the benefit from a significant portion of our deferred tax assets in the future offset by (ii) a provision of $10.1 million for the decrease to our deferred tax asset for federal AMT credits.

For 2009, the deferred income benefit of $0.2 million is detailed above.

In addition to the (provision) benefit for income taxes presented above, we recorded: (i) a deferred tax benefit of $39.4 million and $22.3 million for 2011 and 2010, respectively, related to tax adjustments in other comprehensive loss (see Note 3) and (ii) a current state tax benefit of $1.2 million and $0.4 million for 2011 and 2010, respectively, related to the excess tax benefits from stock option exercises recorded to paid-in-capital. The Company uses the with-and-without approach of determining when excess tax benefits from equity compensation have been realized. There were no additional items for 2009.

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

	Year Ended December 31, 2011	2010	2009
Tax provision at U.S. Statutory Rate of 35%	$ (38,497)	$ (32,583)	$ (9,441)
Permanent adjustments which change statutory amounts:			
State and local income taxes, net of federal income tax	(9,703)	(31,898)	(16,703)
Equity in net income of affiliates	(37,216)	(29,969)	(73,604)
Losses in litigation	1,542	(583)	(526)
Provision for unrecognized tax benefits	1,457	2,542	(1,356)
Nondeductible expenses	(2,500)	(987)	(2,076)
Change in valuation allowance	375	402,809	96,617
Other, net	(4,603)	(709)	1,518
Total income tax (provision) benefit	$ (89,145)	$ 308,622	$ (5,571)

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

	September 30, Year Ended December 31, 2011	September 30, 2010	September 30, 2009
Balance at January 1	$ 132,211	$ 120,124	$ 108,592
Increases related to prior year tax positions	1,220	339	8,855
Decreases related to prior year tax positions	(24,745)	(1,933)	(1,969)
Decrease as a result of statute expirations	(1,629)	(1,886)	(3,178)
Decrease as a result of tax settlements	(7,606)	(5,207)	(4,887)
Increases related to current year tax positions	15,842	20,774	12,711
Balance at December 31	$ 115,293	$ 132,211	$ 120,124

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2007. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward. While we intend to contest any future tax assessments for uncertain tax positions, no assurance can be provided that we would ultimately prevail. During the next twelve months, the statute of limitations for assessment of additional tax will expire with regard to UTPs related to Old Loral, as well as several of our federal and state income tax returns filed for 2007 and 2008, potentially resulting in a $61.0 million reduction to our unrecognized tax benefits.

Our liability for UTPs increased from $122.8 million at December 31, 2010 to $139.9 million at December 31, 2011 and is included in long-term liabilities in the consolidated balance sheets. At December 31, 2011, we have accrued $29.0 million and $24.5 million for the potential payment of tax-related interest and penalties, respectively. If our positions are sustained by the taxing authorities, approximately $108.1 million of the tax benefits will reduce the Company s income tax provision. Other than as described above, there were no significant changes to our unrecognized tax benefits during the twelve months ended December 31, 2011, 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 Telesat transaction, 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, 2011 for the probable outcome of these matters is not material. (see Note 17)

At December 31, 2011, we had federal NOL carryforwards of $380.4 million, state NOL carryforwards, primarily California, of $244.0 million, and federal research credits of $5.8 million which expire from 2012 to 2031, as well as federal and state AMT credit carryforwards of approximately $14.4 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.

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, 2011, we had a valuation allowance totaling $10.9 million against our deferred tax assets for certain tax credit and loss carryovers due to the limited carryforward periods and character of such attributes. During 2011, the valuation allowance decreased by $0.3 million, primarily recorded as a benefit in our statement of operations.

During the fourth quarter of 2010, we determined, based on all available evidence, that it was more likely than not that we would realize the benefit from a significant portion of the deferred tax assets in the future and no longer required a full valuation allowance. We based this conclusion on cumulative profits generated in recent periods, as well as our current expectation that future operations would generate sufficient taxable income to realize the tax benefit from certain deferred tax assets. Accordingly, during 2010, our valuation allowance decreased from $414.0 million to $11.2 million. Of the $402.8 million change, which was recorded as a benefit in our statement of operations, $335.5 million was reversed as a deferred income tax benefit during the fourth quarter of 2010.

During 2009, our valuation allowance decreased by $73.7 million. The net change consisted primarily of (i) a decrease of $96.6 million recorded as a benefit in our statement of operations, (ii) an increase of $7.0 million charged to accumulated other comprehensive loss and (iii) an increase of $15.9 million offset by a corresponding increase to the deferred tax asset.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	September 30, December 31, 2011	September 30, 2010
Deferred tax assets:		
Postretirement benefits other than pensions	$ 26,685	$ 25,504
Inventoried costs	20,165	24,666
Net operating loss and tax credit carryforwards	139,070	151,497
Compensation and benefits	24,984	26,996
Deferred research & development costs	3,269	6,575
Income recognition on long-term contracts	22,402	24,686
Investments in and advances to affiliates	6,175	34,227
Other, net	5,850	5,468
Federal benefit of uncertain tax positions	29,576	29,249
Pension costs	93,948	70,268
Total deferred tax assets before valuation allowance	372,124	399,136
Less valuation allowance	(10,887)	(11,228)
Net deferred tax assets	361,237	387,908
Deferred tax liabilities:		
Property, plant and equipment	(27,515)	(23,189)
Intangible assets	(3,289)	(4,480)
Total deferred tax liabilities	(30,804)	(27,669)
Net deferred tax assets	$ 330,433	$ 360,239
Classification on consolidated balance sheets:		
Current deferred tax assets	$ 67,070	$ 66,220
Long-term deferred tax assets	263,363	294,019
Total deferred tax assets	$ 330,433	$ 360,239

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 1,742,879 shares of which 1,158,879 were available for future grant at December 31, 2011. 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. Options issued under the Stock Incentive Plan generally have an exercise price equal to the fair market value of our stock, as defined, vest over a four year period and have a five to seven year life. The Awards provide for accelerated vesting if there is a change in control, as defined in the Stock Incentive Plan.

In June 2009, Michael B. Targoff, Chief Executive Officer of Loral, was awarded an option to purchase 125,000 shares of voting common stock with an exercise price of $35 per share (the June 2009 CEO Grant). The option was vested with respect to 25% of the underlying shares upon grant, with the remainder of the option subject to vesting as to 25% of the underlying shares on each of the first three anniversaries of the grant date. The option expires on June 30, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of the June 2009 CEO Grant was estimated using the Hull-White I barrier lattice model based on the assumptions below. There were no stock options granted in 2011 or 2010.

	September 30, Year Ended December 31, 2009	
Risk free interest rate		2.72%
Expected life (years)		4.67
Estimated volatility		64.77%
Expected dividends		None
Weighted average grant date fair value	$	11.39

A summary of the Company s stock option activity for the year ended December 31, 2011 is presented below:

	September 30, Shares	September 30, Weighted Average Exercise Price		September 30, Weighted Average Remaining Contractual Term	September 30, Aggregate Intrinsic Value (In thousands)	
Outstanding at January 1, 2011	1,134,915	$	28.46	1.3 years	$	54,524
Granted		$				
Exercised	(795,915)	$	27.43			
Forfeited		$				
Outstanding at December 31, 2011	339,000	$	30.86	1.5 years	$	11,533
Vested and expected to vest at December 31, 2011	339,000	$	30.86	1.5 years	$	11,533
Exercisable at December 31, 2011	307,750	$	30.44	1.4 years	$	10,599

A summary of the Company s non-vested restricted stock activity for the year ended December 31, 2011 is presented below:

	September 30, Shares	September 30, Weighted Average Grant- Date Fair Value	
Non-vested restricted stock at January 1, 2011	6,000	$	33.58
Granted		$	
Vested	(2,000)	$	33.58

Forfeited		$	
Non-vested restricted stock at December 31, 2011	4,000	$	33.58

On March 5, 2009, the Compensation Committee approved awards of restricted stock units (the RSUs) for certain executives of the Company. Each RSU has a value equal to one share of voting common stock and generally provides the recipient with the right to receive one share of voting common stock or cash equal to the value of one share of voting common stock, at the option of the Company, on the settlement date.

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 requires the satisfaction of two conditions: a time-based vesting condition and a stock price vesting condition. Vesting of the Subsequent Grants is 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 applies to both the Initial Grant and the Subsequent Grants, has been satisfied. Both the Initial Grant and the Subsequent Grants will be settled on March 31, 2013 or earlier under certain circumstances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of the RSUs awarded in 2009 that vest upon achievement of a market condition and a time-based vesting condition was estimated using Monte Carlo simulation. Ex-dividend prices were simulated and those prices were used to determine when the price hurdle target will be achieved, if ever. The following assumptions were used to derive the fair value of such RSUs and the period over which the price hurdle target would be achieved:

	September 30, Year Ended December 31, 2009
Risk free interest rate	1.581%
Estimated volatility	59.83%
Expected dividends	None
Weighted average grant date fair value	$ 8.51

C. Patrick DeWitt, formerly Senior Vice President of Loral and Chief Executive Officer of SS/L and currently Chairman of the Board of SS/L, was awarded 25,000 RSUs on March 5, 2009, of which 66.67% vested on March 5, 2010, with the remainder vesting ratably on a quarterly basis over the subsequent two years. All of Mr. DeWitt s RSUs will be settled on March 12, 2012 or earlier under certain circumstances. The fair value of these RSUs is based upon the market price of Loral voting common stock as of the grant date. The weighted average grant date fair value of the award was $12.41.

A summary of the Company s non-vested RSU activity for the year ended December 31, 2011 is presented below:

	September 30, Shares	September 30, Weighted Average Grant- Date Fair Value
Non-vested RSUs at January 1, 2011	70,811	$ 18.25
Granted	15,000	$ 64.11
Vested	(61,211)	$ 15.88
Forfeited		$
Non-vested RSUs at December 31, 2011	24,600	$ 52.11

In April 2009, other SS/L employees were granted 66,259 shares of Loral voting common stock, which were fully vested as of the grant date. The grant date fair value of the award is based on Loral s average stock price of $24.01 at the date of grant.

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 is not freely tradable on the open market and thus does not have a readily ascertainable market value, SS/L equity value under the program is 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. SS/L Phantom SARs are settled and the SAR 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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of SS/L Phantom SARs granted along with their vesting schedule is presented below. The fair value of the SS/L Phantom SARs in included as a liability in our consolidated balance sheet.

	September 30,	September 30,	September 30,	September 30, Vesting Date March 18,	September 30,	September 30,
Grant Date	**SARs granted**	**2010**	**2011**	**2012**	**2013**	**2014**
June-2009	225,000	50%	25%	25%		
Oct-2009	217,500	50%	25%	25%		
Oct-2009	65,000	25%	25%	25%	25%	
Dec-2009	32,500	50%	25%	25%		
May-2010	175,000		25%	25%	25%	25%

A summary of the Company s non-vested SS/L Phantom SAR activity for the year ended December 31, 2011 is presented below:

	September 30, Shares	September 30, Weighted Average Grant- Date Fair Value
Non-vested SS/L Phantom SARs at January 1, 2011	461,250	$ 5.17
Granted		
Vested	(178,750)	5.60
Forfeited	(7,500)	9.08
Non-vested SS/L Phantom SARs at December 31, 2011	275,000	$ 4.78

During fiscal years 2011, 2010 and 2009, the following activity occurred under the Stock Incentive Plan (in thousands):

	September 30, Year Ended December 31, 2011	September 30, 2010	September 30, 2009
Total intrinsic value of options exercised	$ 39,018	$ 16,889	$ 1,578
Total fair value of restricted stock vested	$ 155	$ 1,493	$ 1,395
Total fair value of stock awards vested	$	$	$ 1,591
Total fair value of restricted stock units vested	$ 3,969	$ 12,687	$

We recorded total stock compensation expense of $4.0 million (of which $2.8 million was or is expected to be paid in cash), $10.0 million (of which $7.5 million was paid in cash) and $9.6 million (of which $2.1 million was paid in cash) for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, total unrecognized compensation costs related to non-vested awards were $2.2 million and are expected to be recognized over a weighted average remaining period of 1.2 years.

12. Earnings Per Share

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

	September 30, Year Ended December 31, 2011	September 30, Year Ended December 31, 2010
Net income attributable to Loral common shareholders basic	$ 126,677	$ 486,846
Less: Adjustment for dilutive effect of Telesat stock options	(4,352)	(4,177)
Net income attributable to Loral common shareholders diluted	$ 122,325	$ 482,669

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Telesat stock options were excluded from the calculations of 2009 diluted earnings per share because they did not have a significant dilutive effect in 2009.

Basic earnings 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:

	September 30,	September 30, Year Ended December 31,	September 30,
	2011	2010	2009
		(In thousands)	
Common shares outstanding for diluted earnings per share:			
Weighted average common shares outstanding	30,680	30,085	29,761
Stock options	257	495	48
Unvested restricted stock units	226	206	115
Unvested restricted stock	3	8	4
Unvested SS/L Phantom SARS		93	53
Common shares outstanding for diluted earnings per share	31,166	30,887	29,981

For the year ended December 31, 2009, the effect of certain stock options outstanding, which would be calculated using the treasury stock method and certain non-vested restricted stock and non-vested RSUs were excluded from the calculation of diluted earnings per share, as the effect would have been antidilutive. The following summarizes stock options outstanding, non-vested restricted stock and non-vested restricted stock units excluded from the calculation of diluted earnings per share:

	September 30, Year Ended December 31, 2009 (In thousands)
Stock options outstanding	125
Unvested restricted stock units	8
Unvested restricted stock	30

13. Pensions and Other Employee Benefits

Pensions

We maintain qualified pension and supplemental retirement plans. These plans are defined benefit pension plans, and members may contribute to the pension plan in order to receive enhanced benefits. Employees hired after June 30, 2006 do not participate in the defined benefit pension plans, 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 pension plan in accordance with the Internal Revenue Code and regulations thereon and to fund the supplemental retirement plans on a discretionary basis. 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 plans. 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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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Funded Status

The following tables provide a reconciliation of the changes in the plans benefit obligations and fair value of assets for 2011 and 2010, and a statement of the funded status as of December 31, 2011 and 2010, respectively. We use a December 31 measurement date for the pension plans and other post retirement benefit plans.

	September 30,	September 30,	September 30,	September 30,
	Pension Benefits		Other Benefits	
	Year Ended December 31,		Year Ended December 31,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Reconciliation of benefit obligation				
Obligation at beginning of period	$ 476,031	$ 420,076	$ 62,840	$ 67,392
Service cost	12,265	10,677	522	672
Interest cost	25,504	24,673	3,198	3,411
Participant contributions	1,469	1,507	2,014	1,968
Plan amendment				(1,386)
Actuarial loss (gain)	57,824	41,826	1,755	(5,085)
Benefit payments	(24,080)	(22,728)	(4,280)	(4,132)
Obligation at December 31,	549,013	476,031	66,049	62,840
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of period	289,036	256,166	269	507
Actual return on plan assets	(2,453)	28,133	(2)	2
Employer contributions	34,110	24,932	2,026	1,924
Participant contributions	1,469	1,507	2,014	1,968
Benefit payments	(22,870)	(21,702)	(4,280)	(4,132)
Fair value of plan assets at December 31,	299,292	289,036	27	269
Funded status at end of period	$ (249,721)	$ (186,995)	$ (66,022)	$ (62,571)

The benefit obligations for pensions and other employee benefits exceeded the fair value of plan assets by $315.7 million at December 31, 2011 (the unfunded benefit obligations). The unfunded benefit obligations were measured using a discount rate of 4.75% and 5.5% at December 31, 2011 and 2010, respectively. Lowering the discount rate by 0.5% would have increased the unfunded benefit obligations by approximately $36.5 million and $31.6 million as of December 31, 2011 and 2010, 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, 2011 and 2010 consist of (in thousands):

	September 30,	September 30,	September 30,	September 30,
	Pension Benefits		Other Benefits	
	December 31,		December 31,	

	2011	2010	2011	2010
Actuarial (loss) gain	$ (187,275)	$ (108,826)	$ 9,578	$ 12,402
Amendments-prior service credit	19,954	22,673	2,416	3,144
	$ (167,321)	$ (86,153)	$ 11,994	$ 15,546

The amounts recognized in other comprehensive loss during the year ended December 31, 2011 consist of (in thousands):

	September 30, Pension Benefits	September 30, Other Benefits
Actuarial loss during the period	$ (83,828)	$ (1,768)
Amortization of actuarial loss (gain)	5,379	(1,056)
Amortization of prior service credit	(2,719)	(728)
Total recognized in other comprehensive loss	$ (81,168)	$ (3,552)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Pension Benefits December 31, 2011	Pension Benefits December 31, 2010	Other Benefits December 31, 2011	Other Benefits December 31, 2010
Current Liabilities	$ 971	$ 1,223	$ 3,499	$ 3,526
Long-Term Liabilities	248,750	185,772	62,523	59,045
	$ 249,721	$ 186,995	$ 66,022	$ 62,571

The estimated actuarial loss and prior service credit for the pension benefits that will be amortized from accumulated other comprehensive income into net periodic cost over the next fiscal year is $11.9 million and $2.7 million, respectively. The estimated actuarial gain and prior service credit for other benefits that will be amortized from accumulated other comprehensive income into net periodic cost over the next fiscal year is $0.4 million and $0.7 million, respectively.

The accumulated pension benefit obligation was $530.0 million and $464.2 million at December 31, 2011 and 2010, respectively.

During 2011, we contributed $34.1 million to the qualified pension plan and $2.0 million for other employee post-retirement benefit plans. In addition, we made benefit payments relating to the supplemental retirement plan of $1.2 million. During 2012, based on current estimates, we expect to contribute approximately $41 million to the qualified pension plan and expect to fund approximately $3 million for other employee post-retirement benefit plans.

The following table provides the components of net periodic cost for the plans for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Pension Benefits For the Year Ended December 31, 2011	Pension Benefits 2010	Pension Benefits 2009	Other Benefits For the Year Ended December 31, 2011	Other Benefits 2010	Other Benefits 2009
Service cost	$ 12,265	$ 10,677	$ 9,436	$ 522	$ 672	$ 863
Interest cost	25,504	24,673	24,447	3,198	3,411	3,965
Expected return on plan assets	(23,552)	(20,641)	(17,176)	(12)	(31)	(50)
Amortization of prior service credit	(2,719)	(2,719)	(2,719)	(728)	(728)	(481)
Amortization of net actuarial loss (gain)	5,379	3,536	4,083	(1,056)	(1,118)	(471)
Net periodic cost	$ 16,877	$ 15,526	$ 18,071	$ 1,924	$ 2,206	$ 3,826

Assumptions

Assumptions used to determine net periodic cost:

	September 30, 2011	September 30, 2010	September 30, 2009
	For the Year Ended December 31,		
Discount rate	5.50%	6.00%	6.50%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	4.25%	4.25%	4.25%

Assumptions used to determine the benefit obligation:

	September 30, 2011	September 30, 2010	September 30, 2009
		December 31,	
Discount rate	4.75%	5.50%	6.00%
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 8.0% for the years ended December 31, 2011, 2010 and 2009. Our expected long-term rate of return on plan assets for 2012 is 8.0%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Actuarial assumptions to determine the benefit obligation for other benefits as of December 31, 2011 used a health care cost trend rate of 9.0% decreasing gradually to 5% by 2019. Actuarial assumptions to determine the benefit obligation for other benefits as of December 31, 2010, used a health care cost trend rate of 9.0% decreasing gradually to 5% by 2018. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates for 2011 would have the following effects (in thousands):

	September 30, 1% Increase	September 30, 1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 276	$ (224)
Effect on the health care component of the accumulated postretirement benefit obligation	$ 5,310	$ (4,490)

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 plans 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:

	September 30,	September 30,	September 30,	September 30,
	December 31, Actual Allocation		Target Allocation	
	2011	2010	Target	Target Range
Equities	58%	61%	60%	50-65%
Fixed Income	42%	39%	40%	35-50%
	100%	100%	100%	100%

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

	September 30, Target Allocation Target	September 30, 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%

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.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tables below provides the fair values of the Company s pension plan assets at December 31, 2011 and 2010, 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.

	September 30,	September 30,	September 30,	September 30,	September 30,
			Fair Value Measurements		
Asset Category	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, 2011:					
Equity securities:					
U.S. large-cap[1]	$ 60,813	20%		$ 60,813	
U.S. small-cap[2]	18,010	6%	$ 3,901	14,109	
Global [3]	20,273	7%		20,273	
Non-U.S.[4]	33,781	11%	1,037	32,744	
Alternative investments:					
Equity long/short fund[5]	16,509	6%		5,952	$ 10,557
Real Estate Securities fund[6]	17,689	6%		5,854	11,835
Private equity fund[7]	6,870	2%			6,870
	173,945	58%	4,938	139,745	29,262
Fixed income securities:					
Commingled funds[8]	100,178	33%		100,178	
Alternative investments:					
Distressed opportunity limited partnership[9]	5,217	2%			5,217
Multi-strategy limited partnerships[10]	19,916	7%			19,916
Diversified alternatives fund[11]					
Other limited partnerships[12]	36				36
	125,347	42%		100,178	25,169
	$ 299,292	100%	$ 4,938	$ 239,923	$ 54,431
At December 31, 2010:					
Equity securities:					
U.S. large-cap[1]	$ 86,866	30%		$ 86,866	
U.S. small-cap[2]	16,002	6%	$ 3,783	12,219	
Non-U.S.[4]	53,101	18%	1,249	51,852	
Alternative investments:					

Equity long/short fund[5]	11,993	4%		6,111	$ 5,882
Private equity fund[7]	6,934	2%			6,934
	174,896	61%	5,032	157,048	12,816
Fixed income securities:					
Commingled funds[8]	110,152	38%		110,152	
Alternative investments:					
Distressed opportunity limited partnership[9]	3,598	1%			3,598
Diversified alternatives fund[11]	353	0%			353
Other limited partnerships[12]	37	0%			37
	114,140	39%		110,152	3,988
	$ 289,036	100%	$ 5,032	$ 267,200	$ 16,804

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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. We are invested in two funds; one fund has semi-annual tender offer redemption periods on June 30 and December 31 and is reported on a one month lag. The other fund has no limitations on redemptions and is reported on a current basis.

(6) Investments in real estate through both the private and public sector. The pension plan is invested in two funds of funds. One fund invests in global public real estate securities (REITs) while the second fund invests in private real estate investments. The private real estate fund is valued on a quarterly lag.

(7) Fund invests in portfolios of secondary interest in established venture capital, buyout, mezzanine and special situation funds on a global basis. The pension plan committed to invest up to $10 million in this fund. The remaining outstanding commitment at December 31, 2011 is $1.55 million. The amount invested in the fund, net of distributions, is $6.45 million and $7.30 million at December 31, 2011 and 2010, respectively. 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 a one year lock-up period with semi-annual withdrawal rights on June 30 and December 31 thereafter. As of December 31, 2011, $2 million was subject to the lock-up period which will expire in June 2012. This fund is reported on a one month lag.

(10) Investments mainly in partnerships that have multi-strategy investment programs and do not rely on a single investment model. In 2011, the pension plan invested in two limited partnerships that have multi-strategy investment programs. 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) Fund is a fund of hedge funds. Fund was closed and unwound its holdings. At December 31, 2010, the remaining assets were sold with the cash proceeds received in 2011.

(12) The pension plan invested in other partnerships that have reached their end of life and have closed and are unwinding their holdings. Mainly partnerships that provided mezzanine financing.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2011 and 2010 is presented below:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Private Equity Fund	Equity Long/Short Fund	Distressed Opportunity Ltd. Partnership	Diversified Alternatives Fund	Other Limited Partnership	Multi Strategy Funds	Real Estate Fund	Total
	(In thousands)							
Balance at January 1, 2010	$ 6,245	$ 5,468	$ 3,204	$ 3,135	$ 218	$	$	$ 18,270
Unrealized gain/(loss)	339	414	394	(884)	(66)			197
Realized gain/(loss)				(697)	233			(464)
Purchases	1,300				35			1,335
Sales	(950)			(1,201)	(383)			(2,534)
Balance at December 31, 2010	$ 6,934	$ 5,882	$ 3,598	$ 353	$ 37	$	$	$ 16,804
Unrealized gain/(loss)	786	(325)	(381)	2,521	(1)	(84)	335	2,851
Realized gain/(loss)				(2,527)				(2,527)
Purchases	200	5,000	2,000			20,000	11,500	38,700
Sales	(1,050)			(347)				(1,397)
Balance at December 31, 2011	$ 6,870	$ 10,557	$ 5,217	$	$ 36	$ 19,916	$ 11,835	$ 54,431

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.

During 2011, the pension plan received the cash proceeds from its the investment balance in the Diversified Alternatives Fund that was closed and liquidating its remaining assets at December 31, 2010.

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 real estate fund is a fund of funds. The fund records its investments at acquisition cost and the value is adjusted quarterly to reflect the fund s share of income, appreciation or depreciation and additional contributions to or withdrawals from the underlying funds. The underlying funds real estate investments are independently appraised at least once per year and debt is marked to market on a quarterly basis.

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

Assets designated to fund the obligations of our supplemental retirement plan are held in a trust. Such assets amounting to $0.8 million and $2.1 million as of December 31, 2011 and 2010, respectively, are available to general creditors in the event of bankruptcy and, therefore, do not qualify as plan assets. Accordingly, other current assets included $0.8 million of these assets as of December 31, 2011 and 2010, respectively, and other assets included nil and $1.3 million of these assets as of December 31, 2011 and 2010, respectively.

Benefit Payments

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

	September 30,	September 30,	September 30,
		Other Benefits	
	Pension Benefits	Gross Benefit Payments	Medicare Subsidy Receipts
2012	27,281	3,873	265
2013	27,952	4,131	278
2014	28,959	4,383	293
2015	29,671	4,551	310
2016	30,426	4,682	321
2017 to 2021	170,801	24,487	1,773

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 $66^2/_3$%, and retirement contributions. Retirement contributions represent contributions made by the Company to 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 the years ended December 2011, 2010 and 2009, Company contributions were $11.5 million, $10.0 million and $8.7 million, respectively. 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.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Financial Instruments, Derivative Instruments and Hedging

Financial Instruments

The carrying amount of cash equivalents and restricted cash approximates fair value because of the short maturity of those instruments. The fair value of short-term investments, investments in available-for-sale securities and supplemental retirement plan assets is based on market quotations. The fair value of derivatives is based on the income approach, using observable Level II market expectations at the measurement date and standard valuation techniques to discount future amounts to a single present value.

Foreign Currency

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

As of December 31, 2011, SS/L had the following amounts denominated in Japanese yen and euros (which have been translated into U.S. dollars based on the December 31, 2011 exchange rates) that were unhedged:

	September 30, Foreign Currency		September 30, U.S.$	
	(In thousands)			
Future revenues Japanese yen	¥	50,062	$	650
Future expenditures Japanese yen	¥	2,275,318	$	29,567
Future revenues euros		17,635	$	22,867
Future expenditures euros		5,317	$	6,894

Derivatives and Hedging Transactions

All derivative instruments are recorded at fair value as either assets or liabilities in our consolidated balance sheets. Each derivative instrument is generally designated and accounted for as either a hedge of a recognized asset or a liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). Certain of these derivatives are not designated as hedging instruments and are used as economic hedges to manage certain risks in our business.

As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. The Company does not hold collateral or other security from its counterparties supporting its derivative instruments. In addition, there are no netting arrangements in place with the counterparties. To mitigate the counterparty credit risk, the Company has a policy of entering into contracts only with carefully selected major financial institutions based upon their credit ratings and other factors.

There were no derivative instruments in an asset position as of December 31, 2011. Therefore, there was no exposure to loss at such date as a result of the potential failure of the counterparties to perform as contracted.

Cash Flow Hedges

The Company enters into long-term construction contracts with customers and vendors, some of which are denominated in foreign currencies. Hedges of expected foreign currency denominated contract revenues and related purchases are designated as cash flow hedges and evaluated for effectiveness at least quarterly. Effectiveness is tested using regression analysis. The effective portion of the gain or loss on a cash flow hedge is recorded as a component of other comprehensive income (OCI) and reclassified to income in the same period or periods in which the hedged transaction affects income. The ineffective portion of a cash flow hedge gain or loss is included in income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2010 and July 2008, SS/L was awarded satellite contracts denominated in euros and entered into a series of foreign exchange forward contracts with maturities through 2013 and 2011, respectively, to hedge associated foreign currency exchange risk because our costs are denominated principally in U.S. dollars. These foreign exchange forward contracts have been designated as cash flow hedges of future euro denominated receivables.

The maturity of foreign currency exchange contracts held as of December 31, 2011 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows:

Maturity	September 30, Euro Amount	September 30, To Sell At Contract Rate (In thousands)		September 30, At Market Rate	
2012	27,244	$	32,894	$	35,275
2013	27,000		32,967		35,208
	54,244	$	65,861	$	70,483

Balance Sheet Classification

The following summarizes the fair values and location in our consolidated balance sheet of all derivatives held by the Company as of December 31, 2011 (in thousands):

	September 30, Asset Derivatives Balance Sheet Location	September 30, Fair Value		September 30, Liability Derivatives Balance Sheet Location	September 30, Fair Value	
Derivatives designated as hedging instruments						
Foreign exchange contracts				Other current liabilities	$	2,381
				Other liabilities		2,185
						4,566
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	$	1			
				Other liabilities		56
Total derivatives		$	1		$	4,622

The following summarizes the fair values and location in our consolidated balance sheet of all derivatives held by the Company as of December 31, 2010 (in thousands):

	September 30, Asset Derivatives			September 30, Liability Derivatives		
	Balance Sheet Location		**Fair Value**	**Balance Sheet Location**		**Fair Value**
Derivatives designated as hedging instruments						
Foreign exchange contracts	Other current assets	$	4,152	Other current liabilities	$	9,451
				Other liabilities		5,360
		$	4,152			14,811
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	$	396	Other current liabilities		133
				Other liabilities		63
Total derivatives		$	4,548		$	15,007

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash Flow Hedge Gains (Losses) Recognition

The following summarizes the gains (losses) recognized in the consolidated statements of operations and in accumulated other comprehensive loss for all derivatives for the years ended December 31, 2011 and 2010 (in thousands):

	September 30,	September 30,	September 30,	September 30,	September 30,
Derivatives in Cash Flow Hedging Relationships	**Loss Recognized in OCI on Derivatives (Effective Portion)**	**Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**		**Gain (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing**	
		Location	**Amount**	**Location**	**Amount**
Year ended December 31, 2011					
Foreign exchange contracts	$ (8,821)	Revenue	$ (17,935)	Revenue	$ (411)
				Interest income	$ (1)
Year ended December 31, 2010					
Foreign exchange contracts	$ (15,790)	Revenue	$ 6,054	Revenue	$ 636
				Interest income	$ (13)

	September 30,	September 30,
Cash Flow Derivatives Not Designated as Hedging Instruments	**Gain (Loss) Recognized in Income on Derivatives**	
	Location	**Amount**
Year ended December 31, 2011		
Foreign exchange contracts	Revenue	$ (254)
Year ended December 31, 2010		
Foreign exchange contracts	Revenue	$ 33

We estimate that $6.5 million of net losses from derivative instruments included in accumulated other comprehensive loss will be reclassified into earnings within the next 12 months.

15. Commitments and Contingencies

Financial Matters

Due to the long lead times required to produce purchased parts, we have entered into various purchase commitments with suppliers. These commitments aggregated approximately $442 million as of December 31, 2011 and primarily relate to Satellite Manufacturing backlog.

SS/L has deferred revenue and accrued liabilities for warranty payback obligations relating to performance incentives for satellites sold to customers, which could be affected by future performance of the satellites. These reserves for expected costs for warranty reimbursement and support are based on historical failure rates. However, in the event of a catastrophic failure of a satellite, which cannot be predicted, these reserves likely will not be sufficient. SS/L periodically reviews and adjusts the deferred revenue and accrued liabilities for warranty reserves based on the actual performance of each satellite and remaining warranty period. A reconciliation of such deferred amounts for the year ended December 31, 2011 is as follows (in thousands):

		September 30, 2011
Balance of deferred amounts at January 1	$	35,730
Warranty costs incurred including payments		(2,131)
Accruals relating to pre-existing contracts (including changes in estimates)		3,514
Balance of deferred amounts at December 31	$	37,113

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Many of SS/L s satellite contracts permit SS/L s customers to pay a portion of the purchase price for the satellite over time subject to the continued performance of the satellite (orbital incentives), and certain of SS/L s satellite contracts require SS/L to provide vendor financing to its customers, or a combination of these contractual terms. Some of these arrangements are provided to customers that are start-up companies, companies in the early stages of building their businesses or highly leveraged companies, including some with near-term debt maturities. There can be no assurance that these companies or their businesses will be successful and, accordingly, that these customers will be able to fulfill their payment obligations under their contracts with SS/L. We believe that these provisions will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided. Moreover, SS/L s receipt of orbital incentive payments is subject to the continued performance of its satellites generally over the contractually stipulated life of the satellites. Because these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/L will be able to collect all or a portion of these receivables. Orbital receivables included in our consolidated balance sheet as of December 31, 2011 were $355 million, net of fair value adjustments of $16 million. Approximately $230 million of the gross orbital receivables are related to satellites launched as of December 31, 2011, and $141 million are related to satellites under construction as of December 31, 2011.

On October 19, 2010, TerreStar Networks Inc. (TerreStar), an SS/L customer, filed for bankruptcy under chapter 11 of the Bankruptcy Code. As of December 31, 2011, SS/L had $19 million of past due receivables from TerreStar related to an in-orbit SS/L built satellite and other related ground system deliverables and $16 million of past due receivables from TerreStar related to a second satellite under construction. SS/L had previously exercised its contractual right to stop work on the satellite under construction as a result of TerreStar s payment default. The in-orbit satellite long-term orbital receivable balance, net of fair value adjustment, reflected on the balance sheet at December 31, 2011 is $16 million. The long-term orbital receivable balance reflected on the balance sheet for the satellite under construction is $13 million.

In July 2011, the TerreStar Bankruptcy Court approved an agreement between TerreStar and a subsidiary of DISH Network Corporation (DISH Subsidiary) pursuant to which DISH Subsidiary agreed to purchase substantially all of TerreStar s assets. In connection with the sale, pursuant to a Stipulation and Order entered into between TerreStar and SS/L and approved by the TerreStar Bankruptcy Court in July 2011, the parties agreed to amend the satellite construction contract for the in-orbit satellite, the contract for related ground system deliverables and the contract for the satellite under construction, and TerreStar agreed to assume and assign to DISH Subsidiary, and DISH Subsidiary will take assignment of, such contracts as amended. The contract amendments provide for restructuring of certain past due payments and payments to become due as a result of which SS/L will maintain the collective profit position of the contracts and will not realize any impairment to its receivables. In addition, SS/L will be entitled to an allowed unsecured claim against TerreStar in the amount of approximately $5 million. The assumption will be effective as of the earlier of the closing of the asset sale to DISH Subsidiary or the effective date of confirmation of a plan of reorganization for TerreStar. The assignment will be effective as of the closing of the asset sale to DISH Subsidiary. On February 15, 2012, the TerreStar Bankruptcy Court entered an order confirming TerreStar s plan of reorganization. The effective date of the plan of reorganization and the closing of the asset sale are each subject to a number of conditions, including, among others, FCC and other regulatory approvals. Pending assumption and assignment of the contracts, TerreStar is required to make payments that fall due in the ordinary course of business under the contracts as amended. Assuming closing of the asset sale to DISH Subsidiary and assumption and assignment of the contracts as amended, SS/L believes that it will not incur a loss with respect to the receivables due from TerreStar.

As of December 31, 2011, SS/L had receivables included in contracts in process from DBSD Satellite Services G.P. (formerly known as ICO Satellite Services G.P. and referred to herein as ICO), a customer with an SS/L-built satellite in orbit, in the aggregate amount of approximately $1 million. In addition, under its contract, ICO has future payment obligations to SS/L that total approximately $23 million, of which approximately $11 million (including $9 million of orbital incentives) is included in long-term receivables. ICO, which sought to reorganize under chapter 11 of the Bankruptcy Code in May 2009, has agreed to, and the ICO Bankruptcy Court has approved, ICO s assumption of its contract with SS/L, with certain modifications. The contract modifications do not have a material adverse effect on SS/L, and, although the timing of payments to be received from ICO has changed (for example, certain significant payments become due only on or after the effective date of ICO s plan of reorganization), SS/L will receive substantially the same net present value from ICO as SS/L was entitled to receive under the original contract. In March 2011, the ICO Bankruptcy Court approved an investment agreement pursuant to which DISH Network Corporation (DISH) agreed to acquire ICO. In connection with this investment agreement, in April 2011, DISH purchased certain claims against ICO for cash, including SS/L claims aggregating approximately $7.0 million plus approximately $1.4 million of accrued interest. SS/L believes that, based upon completion of the tender offer and other payments by ICO to SS/L under the modified contract, it is not probable that SS/L will incur a material loss with respect to the receivables from ICO. Although, in July 2011, the ICO Bankruptcy Court confirmed a plan of reorganization for ICO, closing of DISH s acquisition of ICO and ICO s emergence from chapter 11 is still subject to certain other conditions, including, FCC regulatory approval.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

See Note 17 Related Party Transactions *Transactions with Affiliates Telesat* for commitments and contingencies relating to our agreement to indemnify Telesat for certain liabilities and our arrangements with ViaSat, Inc. and Telesat.

Satellite Matters

Satellites are built with redundant components or additional components to provide excess performance margins to permit their continued operation in case of component failure, an event that is not uncommon in complex satellites. Thirty-seven of the satellites built by SS/L, launched since 1997 and still on-orbit have experienced some loss of power from their solar arrays. There can be no assurance that one or more of the affected satellites will not experience additional power loss. In the event of additional power loss, the extent of the performance degradation, if any, will depend on numerous factors, including the amount of the additional power loss, the level of redundancy built into the affected satellite s design, when in the life of the affected satellite the loss occurred, how many transponders are then in service and how they are being used. It is also possible that one or more transponders on a satellite may need to be removed from service to accommodate the power loss and to preserve full performance capabilities on the remaining transponders. A complete or partial loss of a satellite s capacity could result in a loss of performance incentives by SS/L. SS/L has implemented remediation measures that SS/L believes will reduce this type of anomaly for satellites launched after June 2001. Based upon information currently available relating to the power losses, we believe that this matter will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided.

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

SS/L currently has a contract-in-process with an estimated delivery date later than the contractually specified date after which the customer may terminate the contract for default. The customer is an established operator which will utilize the satellite in the operation of its existing business. SS/L and the customer are continuing to perform their obligations under the contract, and the customer continues to make milestone payments to SS/L. Although there can be no assurance, the Company believes that the customer will take delivery of this satellite and will not seek to terminate the contract for default. If the customer should successfully terminate the contract for default, the customer would be entitled to a full refund of its payments, liquidated damages and interest, which through December 31, 2011 totaled approximately $204 million, plus re-procurement costs. In the event of termination for default, SS/L would own the satellite and would attempt to recoup any losses through resale to another customer.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

See Note 17 Related Party Transactions *Transactions with Affiliates Telesat* for commitments and contingencies relating to SS/L s obligation to make payments to Telesat for transponders on Telstar 18.

Regulatory Matters

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

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):

	September 30, Rent Expense
Year ended December 31, 2011	$ 16,234
Year ended December 31, 2010	$ 18,911
Year ended December 31, 2009	$ 16,337

Property, plant and equipment relating to capital leases was $3.4 million at December 31, 2011 and nil at December 31, 2010 with accumulated amortization of $0.7 million and nil, respectively. Depreciation and amortization of assets recorded under capital leases was $0.7 million in 2011 and nil in 2010 and 2009.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2011 (in thousands):

	September 30, Capital Leases	September 30, Operating Leases
2012	$ 1,201	$ 10,155
2013	1,201	7,783
2014		6,876
2015		5,747
2016		3,670
Thereafter		4,894
Total minimum lease payments	2,402	$ 39,125
Less amount representing interest	(159)	
Present value of future minimum lease payments	$ 2,243	

Legal Proceedings

In February 2012, ViaSat, Inc. and ViaSat Communications, Inc. (formerly known as WildBlue Communications, Inc.) (collectively, ViaSat) commenced a lawsuit in the United States District Court for the Southern District of California against SS/L and Loral, Case No. 3:12-cv-00260-H-WVG. The complaint alleges, among other things, that SS/L and Loral infringed certain ViaSat patents and that SS/L breached non-disclosure obligations in certain contracts with ViaSat in connection with the manufacture of satellites by SS/L for customers other than ViaSat. The complaint also seeks to hold Loral liable for SS/L s alleged infringement and breach of contract. The 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. Although SS/L and Loral intend to engage in discussions with ViaSat to resolve the matter, there can be no assurance that the parties will resolve the matter. If the parties are not able to resolve the matter through discussions and the matter proceeds to trial, SS/L and Loral believe that they each have, and intend vigorously to pursue, meritorious defenses and counterclaims to ViaSat s claims. There can be no assurance, however, that SS/L s and Loral s defenses and counterclaims will be successful with respect to all or some of ViaSat s claims. We believe that SS/L s and Loral s conduct was consistent with, and in due regard for, any applicable and valid intellectual property rights of ViaSat. Although no assurance can be provided, we do not believe that this matter will have a material adverse effect on SS/L s or Loral s financial position or results of operations.

Other and Routine Litigation

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

16. Segments

Loral has two segments: satellite manufacturing and satellite services. Our segment reporting data includes unconsolidated affiliates that meet the reportable segment criteria. The satellite services segment includes 100% of the results reported by Telesat for the years ended December 31, 2011, 2010 and 2009. Although we analyze Telesat s revenue and expenses under the satellite services segment, we eliminate its results in our consolidated financial statements, where we report our 64% share of Telesat s results as equity in net income of affiliates. Our investment in

XTAR, for which we use the equity method of accounting, is included in Corporate.

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

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Segment Information

(In thousands)

	September 30, 2011	September 30, 2010	September 30, 2009
		Year Ended December 31, (In thousands)	
Revenues			
Satellite manufacturing:			
External revenues	$ 967,432	$ 1,021,768	$ 901,283
Intersegment revenues[1]	140,763	143,318	107,401
Satellite manufacturing revenues	1,108,195	1,165,086	1,008,684
Satellite services revenues[2]	817,269	797,283	691,566
Operating segment revenues before eliminations	1,925,464	1,962,369	1,700,250
Intercompany eliminations[3]	(830)	(6,101)	(15,284)
Affiliate eliminations[2]	(817,269)	(797,283)	(691,566)
Total revenues as reported	$ 1,107,365	$ 1,158,985	$ 993,400
Segment Adjusted EBITDA[4]			
Satellite manufacturing	$ 137,659	$ 143,076	$ 90,565
Satellite services[2]	629,150	606,651	488,149
Corporate[5]	(17,170)	(17,866)	(21,371)
Adjusted EBITDA before eliminations	749,639	731,861	557,343
Intercompany eliminations[3]	(279)	(1,465)	(1,673)
Affiliate eliminations[2]	(629,150)	(606,651)	(488,149)
Adjusted EBITDA	120,210	123,745	67,521
Reconciliation to Operating Income			
Depreciation, Amortization and Stock-Based Compensation[4]			
Satellite manufacturing	(32,514)	(34,675)	(44,203)
Satellite services[2]	(248,010)	(249,318)	(230,176)
Corporate	(1,175)	(1,605)	(3,107)
Segment depreciation before affiliate eliminations	(281,699)	(285,598)	(277,486)
Affiliate eliminations[2]	248,010	249,318	230,176
Depreciation, amortization and stock-based compensation as reported	(33,689)	(36,280)	(47,310)

Gain on disposition of net assets[6]	6,913		
Directors indemnification expense[7]		(6,857)	
Operating income as reported	$ 93,434	$ 80,608	$ 20,211
Capital Expenditures			
Satellite manufacturing	$ 36,615	$ 35,378	$ 26,426
Satellite services[2]	390,641	254,020	231,654
Corporate	350	18,679	17,131
Segment capital expenditures before affiliate eliminations[8]	427,606	308,077	275,211
Affiliate eliminations[2]	(390,641)	(254,020)	(231,654)
Capital expenditures as reported	$ 36,965	$ 54,057	$ 43,557

	September 30, As of December 31, 2011	September 30, 2010
	(In thousands)	
Total Assets[8]		
Satellite manufacturing	$ 929,408	$ 920,647
Satellite services[9]	5,724,418	5,605,239
Corporate	529,501	538,464
Total assets before affiliate eliminations	7,183,327	7,064,350
Affiliate eliminations[2]	(5,347,174)	(5,309,441)
Total assets as reported	$ 1,836,153	$ 1,754,909

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Intersegment revenues include $140 million, $137 million and $92 million for the years ended December 31, 2011, 2010 and 2009, respectively, of revenue from affiliates.

(2) Satellite services represents Telesat. Affiliate eliminations represent the elimination of amounts attributable to Telesat whose results are reported under the equity method of accounting in our consolidated statements of operations (see Note 7).

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

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

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

(6) Represents the gain on the sale of Loral s portion of the payload on the ViaSat-1 satellite and related net assets to Telesat adjusted for elimination of Loral s 64% ownership interest in Telesat (see Note 17).

(7) Represents indemnification expense, net of insurance recovery, in connection with defense costs incurred by MHR affiliated directors in the Delaware shareholder derivative case (see Note 15).

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

(9) Includes $2.4 billion of satellite services goodwill related to Telesat as of December 31, 2011 and 2010, respectively.

Revenue by Customer Location

The following table presents our revenues by country based on customer location for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	September 30,	September 30,	September 30,
	For the Year Ended December 31,		
	2011	2010	2009
United States	$ 397,389	$ 645,769	$ 534,294
Canada	137,610	137,195	92,094
Spain	113,546	85,161	85,499
Bermuda	83,600		
Mexico	82,657	49,157	22
France	80,923	24,657	344

People s Republic of China (including Hong Kong)	47,967	44,135	54,677
United Kingdom	40,741	57,976	101,499
Australia	40,067		
Luxembourg	31,107	70,678	61,673
Norway	29,809		
The Netherlands	18,501	26,721	59,509
Other	3,448	17,536	3,789
	$ 1,107,365	$ 1,158,985	$ 993,400

During 2011, three of our customers accounted for approximately 13%, 12% and 10% of our consolidated revenues. During 2010, five of our customers accounted for approximately 19%, 13%, 12%, 12% and 11% of our consolidated revenues. During 2009, three of our customers accounted for approximately 22%, 16% and 10% of our consolidated revenues.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Related Party Transactions

Transactions with Affiliates

Telesat

As described in Note 7, we own 64% of Telesat and account for our ownership interest under the equity method of accounting.

In connection with the acquisition of our ownership interest in Telesat (which we refer to as the Telesat transaction), Loral and certain of its subsidiaries, our Canadian partner, 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), provides for preemptive rights for certain shareholders upon the issuance of certain capital shares of Telesat Holdco and provides for either PSP or Loral to cause Telesat Holdco to conduct an initial public offering of its equity shares if an initial public offering has not been completed by October 31, 2011, the fourth anniversary of the Telesat transaction. 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.

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

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

As of December 31, 2011, SS/L had contracts with Telesat for the construction of the Nimiq 6 and Anik G1 satellites. Information related to satellite construction contracts with Telesat is as follows:

	September 30,	September 30,	September 30,
	For Year Ended December 31,		
	2011	2010	2009
	(In thousands)		

Revenues from Telesat satellite construction contracts	$	139,911	$	137,195	$	92,095
Milestone payments received from Telesat		126,579		168,130		89,419

Amounts receivable by SS/L from Telesat related to satellite construction contracts as of December 31, 2011 and 2010 were $4.6 million and nil, respectively.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On October 31, 2007, Loral and Telesat entered into a consulting services agreement (the Consulting Agreement). Pursuant to the terms of the Consulting Agreement, Loral provides to Telesat certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat as part of the Telesat transaction as well as with respect to certain aspects of the satellite communications business of Telesat. The Consulting Agreement has a term of seven years with an automatic renewal for an additional seven-year term if certain conditions are met. In exchange for Loral s services under the Consulting Agreement, Telesat will pay Loral an annual fee of US $5.0 million payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. If the terms of Telesat s bank or bridge facilities or certain other debt obligations prevent Telesat from paying such fees in cash, Telesat may issue junior subordinated promissory notes to Loral in the amount of such payment, with interest on such promissory notes payable at the rate of 7% per annum, compounded quarterly, from the date of issue of such promissory note to the date of payment thereof. Our selling, general and administrative expenses for each of the years ended December 31, 2011, 2010 and 2009, included income of $5.0 million related to the Consulting Agreement. We also had a long-term receivable related to the Consulting Agreement from Telesat of $20.7 million and $17.6 million as of December 31, 2011 and 2010, respectively. We received payments from Telesat of $3.2 million under this agreement for the year ended December 31, 2011. No payments were received from Telesat for the years ended December 31, 2010 and 2009.

In connection with the Telesat transaction, Loral has retained the benefit of tax recoveries related to the transferred assets and has indemnified Telesat for certain liabilities including Loral Skynet s tax liabilities arising prior to January 1, 2007. As of December 31, 2011 and 2010, we had recognized a net receivable from Telesat of $0.5 million, representing our estimate of the probable outcome of these tax matters, which is included as other assets of $2.6 million and long-term liabilities of $2.1 million in the consolidated balance sheet as of December 31, 2011. There can be no assurance, however, that these tax matters will be ultimately settled for the net amount recorded.

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

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

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

ViaSat/Telesat

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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. We recorded sales to ViaSat under this contract of $17.7 million, $34.6 million and $86.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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 if Telesat agreed that if it obtains certain supplemental capacity on the payload, Loral will be entitled to receive one-half of any net revenue actually earned by Telesat in connection with the leasing of such supplemental capacity to its customers during the first four years after the commencement of service using the supplemental capacity. In connection with the sale, Loral also assigned to Telesat and Telesat assumed Loral s 15-year contract with Xplornet Communications, Inc. (Xplornet) (formerly known as Barrett Xplore Inc.) for delivery of high throughput satellite Ka-band capacity and gateway services for broadband services in Canada. Our consolidated statements of operations for the year ended December 31, 2011 included a $6.9 million gain on this transaction representing the $13 million of proceeds in excess of costs adjusted for cumulative intercompany profit eliminations and our retained ownership interest in Telesat. During 2010, a subsidiary of Loral entered into contracts with ViaSat for procurement of equipment and services and with Telesat for consulting, management, engineering and integration services related to the gateways that enable commercial services using the Loral Payload. Prior to April 11, 2011, we had made cumulative payments of $3.9 million to ViaSat and $1.4 million to Telesat under these agreements.

Costs of satellite manufacturing for sales to related parties were $124.5 million, $140.5 million and $153.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

In connection with an agreement reached in 1999 and an overall settlement reached in February 2005 with ChinaSat relating to the delayed delivery of ChinaSat 8, SS/L has provided ChinaSat with usage rights to two Ku-band transponders on Telesat s Telstar 10 for the life of such transponders (subject to certain restoration rights) and to one Ku-band transponder on Telesat s Telstar 18 for the life of the Telstar 10 satellite plus two years, or the life of such transponder (subject to certain restoration rights), whichever is shorter. Pursuant to an amendment to the agreement executed in June 2009, in lieu of rights to one of the Ku-band transponders on Telstar 10, ChinaSat has rights to an equivalent amount of Ku-band capacity on Telstar 18 (the Alternative Capacity). The Alternative Capacity may be utilized by ChinaSat until April 30, 2019 subject to certain conditions. Under the agreement, SS/L makes monthly payments to Telesat for the transponders allocated to ChinaSat. Effective with the termination of Telesat s leasehold interest in Telstar 10 in July 2009, SS/L makes monthly payments with respect to capacity used by ChinaSat on Telstar 10 directly to APT, the owner of the satellite. As of December 31, 2011 and 2010, our consolidated balance sheets included a liability of $3.7 million and $6.0 million, respectively, for the future use of these transponders. Interest expense on this liability was $0.5 million, $0.7 million and $0.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. For the year ended December 31, 2011, we made payments of $2.7 million to Telesat pursuant to the agreement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

XTAR

As described in Note 7, 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, 2011 and 2010 were $4.2 million and $3.0 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, 2011 and 2010. Our selling, general and administrative expenses included offsetting income to the extent of cash received under this agreement of $1.2 million for the year ended December 31, 2009.

MHR Fund Management LLC

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

In June 2009, Loral filed a shelf registration statement covering shares of voting common stock and non-voting common stock held by the MHR Funds and Dr. Rachesky, which registration statement was declared effective in July 2009. Various funds affiliated with MHR and Dr. Rachesky held, as of December 31, 2011 and 2010, approximately 38.6% and 38.9%, respectively, of the outstanding voting common stock and as of December 31, 2011 and 2010 had a combined ownership of outstanding voting and non-voting common stock of Loral of 57.7% and 58.0%, respectively.

Funds affiliated with MHR were participants in a $200 million credit facility of Protostar Ltd. (Protostar), dated March 19, 2008, with an aggregate participation of $6.0 million. The MHR funds also owned certain equity interests in Protostar. During July 2009, Protostar filed for bankruptcy protection under chapter 11 of the Bankruptcy Code. The United States Bankruptcy Court for the District of Delaware entered an order confirming the plan of reorganization for Protostar and its affiliated debtors on October 6, 2010. The plan provided for the establishment of liquidating trusts for the Protostar debtors remaining assets, and Protostar commenced distributions on October 21, 2010 to the agent under the above-referenced facility for the benefit of its lenders. The plan of reorganization provided for no recovery by holders of equity interests in Protostar, and all equity interests were deemed cancelled as of the effective date of the plan.

Pursuant to a contract with Protostar valued at $26 million, SS/L has modified a satellite that Protostar acquired from China Telecommunications Broadcast Satellite Corporation, China National Postal and Telecommunication Broadcast Satellite Corporation and China National Postal and Telecommunications Appliances Corporation under an agreement reached in 2006. This satellite, renamed Protostar I, was launched on July 8, 2008. Pursuant to a bankruptcy auction, Protostar I was sold in November 2009. For the year ended December 31, 2009, as a result of Protostar s bankruptcy process and the sale of the satellite, SS/L recorded a charge of approximately $3 million to increase its allowance for billed receivables from Protostar.

As of December 31, 2010, funds affiliated with MHR held $83.7 million in principal amount of Telesat 11% Senior Notes and $29.75 million in principal amount of Telesat 12.5% Senior Subordinated Notes. As of December 31, 2011, MHR did not own any Telesat Senior Notes or Senior Subordinated Notes.

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18. Selected Quarterly Financial Information (unaudited, in thousands, except per share amounts)

	September 30,	September 30,	September 30,	September 30,
		Quarter Ended		
Year ended December 31, 2011	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Revenues	$ 279,899	$ 252,422	$ 268,845	$ 306,199
Operating income	27,452	23,484	14,371	28,127
Income before income taxes and equity in net income (losses) of affiliates	36,912	26,105	17,189	29,784
Equity in net income (losses) of affiliates	46,246	23,940	(77,262)	113,405
Net income (loss)	67,795	29,626	(77,298)	107,051
Net income (loss) attributable to Loral common shareholders	67,819	29,333	(77,368)	106,893
Basic and diluted income (loss) per share[(1)]:				
Basic income (loss) per share	2.21	0.96	(2.52)	3.48
Diluted income (loss) per share	2.10	0.91	(2.52)	3.28

	September 30,	September 30,	September 30,	September 30,
		Quarter Ended		
Year ended December 31, 2010	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Revenues	$ 228,914	$ 279,962	$ 323,438	$ 326,671
Operating income (loss)	(16,267)	23,098	39,621	34,156
Income (loss) before income taxes and equity in net income (losses) of affiliates	(13,704)	26,355	41,462	38,981
Equity in net income (losses) of affiliates	44,592	(44,374)	40,011	45,396
Net income (loss)	29,373	(19,665)	72,392	405,241
Net income (loss) attributable to Loral common shareholders	29,373	(19,665)	72,392	404,746
Basic and diluted income (loss) per share[(1)]:				
Basic income (loss) per share	0.98	(0.66)	2.40	13.36
Diluted income (loss) per share	0.97	(0.66)	2.29	12.87

(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.

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SCHEDULE II

LORAL SPACE & COMMUNICATIONS INC.

VALUATION AND QUALIFYING ACCOUNTS

For the Year Ended December 31, 2011, 2010 and 2009

(In thousands)

Description	September 30, Balance at Beginning of Period	September 30, Charged to Costs and Expenses	September 30, Additions Charged to Other Accounts[1]	September 30, Deductions From Reserves[2]	September 30, Balance at End of Period
Year ended 2009					
Allowance for billed receivables	$ 923	$ 2,759	$	$	$ 3,682
Inventory allowance	$ 27,200	$ 1,042	$ 55	$	$ 28,297
Deferred tax valuation allowance	$ 487,762	$ (96,617)	$ 22,893	$	$ 414,038
Year ended 2010					
Allowance for billed receivables	$ 3,682	$	$	$ (3,459)	$ 223
Inventory allowance	$ 28,297	$ 4,297	$	$ (1,224)	$ 31,370
Deferred tax valuation allowance	$ 414,038	$ (402,809)[3]	$	$	$ 11,229
Year ended 2011					
Allowance for billed receivables	$ 223	$	$	$	$ 223
Inventory allowance	$ 31,370	$ (10)	$	$	$ 31,360
Deferred tax valuation allowance	$ 11,229	$ (375)	$ 33	$	$ 10,887

(1) The allowance for long-term receivables is recorded as a reduction to revenues. Changes in the deferred tax valuation allowance which have been charged to other accounts have been recorded in accumulated other comprehensive loss and other deferred tax assets.

(2) Deductions from reserves reflect write-offs of uncollectible billed receivables and disposals of inventory.

(3) During the fourth quarter of 2010, we determined, based on all available evidence, that a full valuation allowance was no longer required on our deferred tax assets and, therefore, $335.3 million of the valuation allowance was reversed as an income tax benefit. In addition, the valuation allowance was reduced by $67.5 million recorded as benefit to continuing operations.

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Report of Independent Registered Chartered Accountants

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, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income, statements of comprehensive income, statements of changes in shareholders equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, 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.

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. In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. 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, 2011, December 31, 2010 and January 1, 2010 and their financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants

Licensed Public Accountants

February 21, 2012

Toronto, Canada

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Telesat Holdings Inc.

Consolidated Statements of Income

For the year ended December 31

(in thousands of Canadian dollars)	September 30, Notes	September 30, 2011	September 30, 2010 (Note 5)
Revenue	6	808,361	821,361
Operating expenses	7	(187,765)	(206,464)
		620,596	614,897
Depreciation	14	(198,626)	(202,183)
Amortization		(41,021)	(45,468)
Other operating gains, net	8	114,068	83,018
Operating income		495,017	450,264
Interest expense	9	(227,051)	(256,582)
Interest and other income		1,554	5,752
Gain (loss) on changes in fair value of financial instruments		98,585	(11,168)
(Loss) gain on foreign exchange		(78,844)	163,966
Income before tax		289,261	352,232
Tax expense	10	(51,986)	(66,131)
Net income		237,275	286,101

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)	September 30, Notes	September 30, 2011	September 30, 2010 (Note 5)
Net income		237,275	286,101
Other comprehensive loss:			
Foreign currency translation adjustments, net of tax		(3,541)	(1,692)
Actuarial losses on defined benefit plans, net of tax	25	(31,077)	(9,450)
Other comprehensive loss		(34,618)	(11,142)
Total comprehensive income		202,657	274,959

See accompanying notes to the consolidated financial statements

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Telesat Holdings Inc.

Consolidated Statements of Changes in Shareholders Equity

Year ended December 31

(in thousands of Canadian dollars)	Notes	Common shares	Preferred shares	Total share capital	Accumulated earnings (deficit)	Equity-settled employee benefits reserve	Foreign currency translation reserve	Total reserves	Total shareholders equity
Balance at January 1, 2010	**5**	**756,414**	**541,764**	**1,298,178**	**(112,817)**	**19,906**		**19,906**	**1,205,267**
Net income for the year					286,101				286,101
Dividends declared on preferred shares					(30)				(30)
Other comprehensive loss, net of tax of $3,357					(9,450)		(1,692)	(1,692)	(11,142)
Share based payments	24					4,667		4,667	4,667
Balance at December 31, 2010	**5**	**756,414**	**541,764**	**1,298,178**	**163,804**	**24,573**	**(1,692)**	**22,881**	**1,484,863**
Balance at January 1, 2011	**5**	**756,414**	**541,764**	**1,298,178**	**163,804**	**24,573**	**(1,692)**	**22,881**	**1,484,863**
Net income for the year					237,275				237,275
Dividends declared on preferred shares					(10)				(10)
Other comprehensive loss, net of tax of $10,486					(31,077)		(3,541)	(3,541)	(34,618)
Share based payments	24					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**

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, 2011	December 31, 2010 (Note 5)	January 1, 2010 (Note 5)
Assets				
Cash and cash equivalents	26	277,962	220,295	154,189
Trade and other receivables	11	46,789	44,083	70,200
Other current financial assets	23	7,010	6,944	7,317
Prepaid expenses and other current assets	12	22,126	20,937	23,001
Total current assets		353,887	292,259	254,707
Satellites, property and other equipment	6, 14	2,151,915	1,978,789	1,898,898
Other long-term financial assets	23	142,408	78,631	21,733
Other long-term assets	13	5,536	12,027	19,031
Intangible assets	6, 15	896,078	945,547	925,921
Goodwill	16	2,446,603	2,446,603	2,446,603
Total assets		5,996,427	5,753,856	5,566,893
Liabilities				
Trade and other payables		45,156	49,974	43,413
Other current financial liabilities		82,988	104,082	102,124
Other current liabilities	17	67,877	62,645	72,121
Current indebtedness	19	86,495	96,848	23,602
Total current liabilities		282,516	313,549	241,260
Long-term indebtedness	19	2,748,131	2,771,802	3,021,820
Deferred tax liabilities	10	451,896	414,717	353,637
Other long-term financial liabilities		259,783	265,629	239,825
Other long-term liabilities	18	422,502	361,861	363,649
Senior preferred shares	20	141,435	141,435	141,435
Total liabilities		4,306,263	4,268,993	4,361,626
Shareholders Equity				
Share capital	21	1,298,178	1,298,178	1,298,178
Accumulated earnings (deficit)		369,992	163,804	(112,817)
Reserves		21,994	22,881	19,906
Total shareholders equity		1,690,164	1,484,863	1,205,267
Total liabilities and shareholders equity		5,996,427	5,753,856	5,566,893

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)	September 30, Notes	September 30, 2011	September 30, 2010 (Note 5)
Cash flows from operating activities			
Net income		237,275	286,101
Adjustments to reconcile net income to cash flows from operating activities:			
Amortization and depreciation		239,647	247,651
Deferred tax expense	10	51,854	63,852
Unrealized foreign exchange loss (gain)		67,706	(170,016)
Unrealized loss (gain) on derivatives	23	(87,914)	13,955
Dividends on senior preferred shares	20	1,650	2,075
Share-based compensation	24	2,654	4,667
Loss (gain) on disposal of assets	8	1,483	(3,826)
Impairment loss on intangible assets	8	19,468	
Reversal of impairment loss on satellites, property and other equipment	8		(7,923)
Reversal of impairment loss on intangible assets	8		(71,269)
Insurance proceeds	8	(135,019)	
Other		(30,801)	(24,930)
Customer prepayments on future satellite services		57,768	30,982
Insurance proceeds		11,228	
Operating assets and liabilities	26	(13,113)	(29,815)
Net cash from operating activities		423,886	341,504
Cash flows used in investing activities			
Satellite programs		(356,199)	(257,725)
Purchase of other property and equipment		(17,566)	(3,966)
Purchase of intangible assets	29	(12,618)	
Insurance proceeds	8	135,019	
Proceeds from sale of assets		148	26,926
Net cash used in investing activities		(251,216)	(234,765)
Cash flows used in financing activities			
Repayment of indebtedness	19	(108,741)	(34,946)
Dividends paid on preferred shares		(10)	(30)
Satellite performance incentive payments		(5,928)	(5,099)
Net cash used in financing activities		(114,679)	(40,075)
Effect of changes in exchange rates on cash and cash equivalents		(324)	(558)
Increase in cash and cash equivalents		57,667	66,106
Cash and cash equivalents, beginning of year		220,295	154,189
Cash and cash equivalents, end of year	26	277,962	220,295

Supplemental disclosure of cash flow information		
Interest received	2,121	2,404
Interest paid	242,905	279,053
Income taxes paid	2,329	3,391

See accompanying notes to the consolidated financial statements

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Telesat Holdings Inc.

Notes to the 2011 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 global fixed satellite services operator providing secure satellite-delivered communications solutions worldwide to broadcast, telecom, corporate and government customers. The Company has a fleet of 12 satellites plus the Canadian Ka-band payload on ViaSat-1 with two more satellites under construction. Telesat also manages the operations of additional satellites for third parties. Telesat is headquartered at 1601 Telesat Court, Ottawa, Ontario, Canada, KIB 5P4 with offices and facilities around the world.

On October 31, 2007, Canada s Public Sector Pension Investment Board (PSP Investments) and Loral Space & Communications Inc. (Loral), through a newly formed entity called Telesat Holdings Inc. completed the acquisition of Telesat Canada from BCE Inc. Loral and PSP Investments indirectly hold an economic interest in Telesat of 64% and 36%, respectively. Loral indirectly holds a voting interest of 33 1/3% on all matters including the election of directors. PSP Investments indirectly holds a voting interest of 66 2/3% on all matters except for the election of directors, and a 30% voting interest for the election of directors. The remaining voting interest of 36 2/3% for the election of directors is held by shareholders of the Company s director voting preferred shares.

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 Company, as a first-time adopter of IFRS, has followed the requirements of *IFRS 1* , *First-time Adoption of International Financial Reporting Standards* (IFRS 1). The first date on which IFRS was applied was January 1, 2010. The accounting policies described in note 3 were consistently applied to all the periods presented.

Approval of Financial Statements

These financial statements were approved by the Company s Board of Directors and authorized for issue on February 21, 2012.

Transition to International Financial Reporting Standards (IFRS)

The Company s consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Canadian GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, the Company has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 5 of these consolidated financial statements contains reconciliations and descriptions of the impact of the transition from Canadian GAAP to IFRS on equity, income and comprehensive income as at December 31, 2010. Note 5 also has the January 1, 2010 reconciliation of shareholders equity. In addition the note discloses the reconciliation for the consolidated statement of income and consolidated statement of comprehensive income for the year ended December 31, 2010 and a line by line reconciliation of the consolidated balance sheets as at January 1, 2010 and December 31, 2010.

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 the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The most significant wholly owned subsidiaries are listed in note 28.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for 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 in exchange for assets.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (the CODM), 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 period-end exchange rate, and revenue and expenses are translated at average exchange rates for the period. Gains or losses on translation of foreign subsidiaries are recognized in other comprehensive income (OCI).

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 period-end exchange rates, and foreign denominated revenue and expenses are translated at average exchange rates for the period. 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 and short term investments. Restricted cash expected to be used within the next twelve months has been classified as cash and cash equivalents.

Revenue Recognition

Telesat recognizes revenue when earned, as services are rendered or as products are 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 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 warranty is 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. When it is questionable whether or not Telesat is the principal in a transaction, the transaction is evaluated to determine whether it should be recorded on a gross or net basis.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 directly 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 average cost of debt. All other borrowing costs are expensed in the period in which they are incurred.

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. The estimates of useful lives are reviewed at least annually and adjusted prospectively if necessary. Below are the estimated useful lives in years of satellites, property and other equipment as of December 31, 2011.

	September 30, Years	
Satellites	12	15
Property and other equipment	3	30

Construction in progress is not depreciated as depreciation only starts 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.

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.

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 as an operating expense.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and charged with any net cost of removal. When an item is sold prior to the end of its useful life, the gain or loss is recognized in income immediately.

Impairment of Long-Lived Assets

Tangible fixed assets and finite life intangible assets are assessed for impairment on a quarterly basis or more frequently when events or changes in circumstances indicate that the carrying value of assets exceeds the recoverable amount.

An impairment test consists of assessing the recoverable amount of an asset, which is the higher of its fair value less cost to sell and its value in use. If it is not practicable to estimate 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 cash generating unit 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.

The Company estimates 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 to sell is the amount obtainable from the sale of the asset or CGU in the course of an arm s length transaction between interested, knowledgeable and willing parties, less selling costs.

An impairment loss is the amount by which the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses and reversals of impairment losses are recognized in Other operating gains (losses).

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate 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. A reversal of an impairment loss is recognized immediately in Other operating gains (losses).

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 in income as part of the depreciation of the satellite.

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.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Finite life intangible assets, which are carried at cost less accumulated amortization, consist of revenue backlog, customer relationships, customer contract, 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.

	September 30, Years
Revenue backlog	4 to 17
Customer relationships	11 to 21
Customer contract	15
Concession rights	15
Transponder rights	6 to 14
Patents	18

The estimates of useful lives are reviewed every year and adjusted prospectively if necessary.

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 amount of these assets are likely to exceed their recoverable amount, which is the higher of fair value less cost to sell and value in use. Goodwill is tested for impairment at the entity level as this represents the lowest level within the entity 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.

An impairment test consists of assessing the recoverable amount of an asset, which is the higher of its fair value less cost to sell and its value in use.

Goodwill

In performing the goodwill impairment analysis, the Company uses 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 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, terminal growth rate and discount rate.

Under the market based approach, the fair value of the reporting unit is determined based on market multiples derived from comparable public companies. As part of that analysis, assumptions are made regarding 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, with the exception of the discount rate, are based on management s best estimates. The discount rates are consistent with external sources of information.

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 royalty 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 royalty approach, 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 included the tax rate and discount rate.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Orbital slots

In performing the orbital slots impairment analysis, the Company estimated fair value using the build up method to determine the cash flows for the income approach, with the resulting projected cash flows discounted at an appropriate weighted average cost of capital. In instances where the build up method did not generate positive value for an orbital slot, but the orbital slot was expected to generate revenue, a value was assigned based upon independent source data for recent transactions of similar orbital slots.

Under the build up approach, the amount an investor would be willing to pay for an orbital slot to operate a satellite business is calculated by first estimating the cash flows that typical market participants would assume could be available from the operation of satellites using the subject slot in a similar market. It was assumed that rather than acquiring such a business as a going concern, the buyer would hypothetically obtain a slot and build a new operation with similar attributes from scratch. Thus the buyer or builder is considered to incur the start-up costs and losses typically associated with the going concern value and pay for all other tangible and intangible assets.

The key assumptions used in estimating the recoverable amounts of the orbital slots included i) market penetration leading to revenue growth, ii) profit margin, iii) duration and profile of the build up period, iv) estimated start-up costs and losses incurred during the build up period and v) the weighted average cost of capital.

Financial Instruments

Telesat uses derivative financial instruments to manage its exposure to foreign exchange rate risk associated with anticipated purchases and 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 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 included in 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 rate 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 in a 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 Canadian dollar denominated 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.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. 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. The Company accrues the present value of its obligations under employee benefit plans and the related costs, adjusted for any unrecognized past service cost and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to any unrecognized past service cost plus the present value of available refunds and reductions in future contributions to the plan. Pension costs and other retirement benefits are determined using the projected benefit 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 which is also the basis used for calculating the expected rate of return on plan assets. The discount rate is based on the market interest rate of high quality bonds as determined in accordance 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. All actuarial gains and losses are recognized immediately in other comprehensive income in the period in which they occur and recognized in accumulated earnings (deficit). A valuation is performed at least every three years to determine the present value of the accrued pension and other retirement benefits. The 2010 pension expense calculations are extrapolated from a valuation performed as of January 1, 2007 while the 2011 pension expense calculations are extrapolated from the calculation performed as of January 1, 2010. The accrued benefit obligation is extrapolated from an actuarial valuation as of January 1, 2010. The most recent valuation of the pension plans for funding purposes was as of January 1, 2011, and the next required valuation is as of January 1, 2012.

In addition, Telesat provides certain health care and life insurance benefits for retired employees. These benefits are funded primarily on a pay-as-go basis, with the retiree generally paying a portion of the cost through contributions, deductibles and co-insurance provisions. Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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 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.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventories are valued at 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 is determined using the specific identification method.

Income Taxes

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.

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.

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 where 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 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 recently issued a number of 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.

Financial instruments

IFRS 9, *Financial Instruments* (IFRS 9) was issued by the International Accounting Standards Board (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.

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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)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Accounting for post employment benefits

On June 16, 2011, the IASB issued the amended version of IAS 19, *Employee Benefits* (IAS 19). The amendments make changes in eliminating the accounting option to defer the recognition of actuarial gains and losses, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans as well as amendments to disclosure requirements. Changes in the defined benefit obligation and plan assets are disaggregated into three components: service costs, net interest on the net defined benefit obligation (asset) and remeasurements of the net defined benefit obligation (asset). The revised standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is currently evaluating the impact of revised IAS 19 on its consolidated financial statements.

Fair value measurement and disclosure requirements

IASB issued IFRS 13, *Fair value measurement* (IFRS 13) on May 12, 2011. IFRS 13 provides guidance on how fair value measurement should be applied whenever its use is already required or permitted by other standards within IFRS. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is currently evaluating the impact of revised IFRS 13 on its consolidated financial statements.

4. 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 3. The percentage of completion method is used for fixed price consulting revenue contracts and requires judgment by management to determine the appropriateness of using the method for revenue recognition as this method requires the ability to accurately estimate costs incurred and accurately estimate costs required to complete contracts.

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.

IFRIC 4 Determining whether an arrangement contains a lease

The Company assesses for each new arrangement whether it 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 or whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or 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.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

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 will differ and 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 $134.4 million and $213.5 million at December 31, 2011 (December 31, 2010 $72.4 million and $244.5 million, January 1, 2010 $15.9 million and $185.3 million). 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 or losses on changes in fair value recorded to net income could vary.

Impairment of goodwill

Goodwill represents approximately $2.4 billion of total assets at December 31, 2011 and at each of the prior balance sheet dates. 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 approximately $896 million of total assets at December 31, 2011 (December 31, 2010 $946 million, January 1, 2010 $926 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.

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 recognised 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 judgment is made in establishing these assumptions.

Employee Benefit

The cost of defined benefit pension plans and other post employment medical 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 at each reporting date.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

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 at the end of each reporting period, 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 existing tax laws, and its ability to utilize future tax deductions before they expire. Actual results could differ from expectations.

5. TRANSITION TO IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010 (the opening balance sheet). Prior to the adoption of IFRS the Company prepared its consolidated financial statements in accordance with previous Canadian GAAP and applied Part V of the Canadian Institute of Chartered Accountants handbook. The Company s consolidated financial statements for the year ended December 31, 2011 are the first annual consolidated financial statements that comply with IFRS and these consolidated financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 provides for certain mandatory exceptions and provides for certain elective exemptions for first time adopters. These consolidated financial statements have been prepared in accordance with those IFRS standards and International Financial Reporting Interpretation Committee (IFRIC) interpretations issued and effective or issued and early adopted as at the timing of preparing these consolidated financial statements.

Initial elections upon adoption of IFRS 1

The basic principles of IFRS 1 assume that on the initial adoption of IFRS standards, these will be applied retrospectively as if the standards had been applied and effective from the date of inception. However, the IASB has determined that retrospective application in certain situations cannot be performed with sufficient reliability or significant cost. Therefore, IFRS 1 offers mandatory exceptions and elective exemptions to facilitate conversion from Canadian GAAP to IFRS. Below are the mandatory exceptions and elective exemptions applicable to the Company.

A. Mandatory exceptions

Estimates

The estimates made in the opening IFRS balance sheet reflect conditions that existed at the date of the underlying transaction or January 1, 2010, as required by each specific IFRS standard. Hindsight was not used to create or revise estimates. All estimates used in the preparation of the opening balance sheet reflect the facts and circumstances at the date of the underlying transaction or January 1, 2010, as may be the case.

B. Elective exemptions

Business combinations

IFRS 1 provides the Company with the option to apply IFRS 3R, *Business Combinations* , retrospectively or prospectively from the transition date of January 1, 2010. The retrospective application requires the restatement of business combinations that occurred prior to the transition date. The Company elected to apply IFRS 3R prospectively to business combinations that occurred on or after the date of transition of January 1, 2010.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

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5. TRANSITION TO IFRS (continued)

Fair value or revaluation as deemed cost

IFRS 1 provides an exemption to measure property, plant and equipment, intangible assets, and investment property at its fair value and use that fair value as its deemed cost at that date and an exemption to use a previous Canadian GAAP revaluation as deemed cost if it is comparable to fair value or reflects the cost or depreciated cost under IFRS. If no election is made, retrospective application is required in accordance with IAS 16, *Property, Plant and Equipment* , IAS 38, *Intangible Assets* , and IAS 40, *Investment Property* . The Company has elected to use a previous Canadian GAAP revaluation as deemed cost. The previous revaluation was required as part of the October 31, 2007 acquisition of Telesat Canada and Loral Skynet. This election had no impact on the Company s opening balance sheet.

Employee benefits

IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, *Employee Benefits* , for the recognition of actuarial gains and losses, or alternatively recognize all cumulative actuarial gains and losses deferred under Canadian GAAP in opening accumulated deficit at the transition date. The Company has elected to recognize all cumulative actuarial gains and losses in opening accumulated deficit for all of its employee benefit plans at the date of transition. This election resulted in a decrease to other long-term assets of $15.4 million, a decrease to deferred tax liability of $3.5 million, a decrease to other long-term liabilities of $1.4 million and an increase to accumulated deficit of $10.5 million.

Cumulative currency translation differences

IFRS 1 permits cumulative translation gains and losses to be reset to zero at the transition date. The Company has elected to reset all cumulative translation gains and losses to zero in opening accumulated deficit at January 1, 2010. The impact was a decrease in accumulated other comprehensive loss of $7.4 million and an increase to accumulated deficit of $7.4 million after adjusting for changes in functional currency as determined under IAS 21, *The Effects of Changes in Foreign Exchange Rates* . There was no impact to the shareholders equity.

Borrowing costs

IAS 23, *Borrowing Costs* , requires an entity to capitalize the borrowing costs related to all qualifying assets. IFRS 1 allows the Company the option to apply this standard retrospectively or prospectively from the date of transition. The Company has elected to apply IAS 23 prospectively.

Leases

IFRS 1 provides the option to apply the transitional provisions under IFRIC 4, *Determining whether an Arrangement contains a Lease* , to determine whether an arrangement contains a lease on the basis of facts and circumstances existing at the date of transition. The Company has made this election in its evaluation of contracts existing at the transition date. As a result of the application of IFRIC 4, management determined that certain agreements were incorrectly accounted for as leases under Canadian GAAP. These immaterial errors were corrected as part of the IFRS transition as permitted under IFRS 1 with prior periods adjusted in these financial statements and the agreements are now accounted for as service agreements which do not contain a lease under IFRIC 4. The impact to the opening balance sheet was a decrease in satellite, property and other equipment of $19.5 million, a decrease to other current liabilities of $3.5 million, a decrease to other long-term liabilities of $17.8 million, a decrease to deferred tax liability of $6.1 million and a decrease to opening accumulated deficit of $7.9 million.

C. Reconciliation of Canadian GAAP to IFRS

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for shareholders equity, net income and total comprehensive income. The first-time adoption of IFRS did not have a material impact on total operating, investing or financing cash flows.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

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5. TRANSITION TO IFRS (continued)

Reconciliation of Shareholders Equity

As at	September 30, December 31, 2010	September 30, January 1, 2010
Shareholders equity under Canadian GAAP	1,132,325	897,296
Differences increasing (decreasing) reported shareholders equity[(a)] :		
1. Impairment Tangible assets		(5,921)
2. Impairment Intangible assets	365,183	312,725
3. Employee benefits	(20,100)	(10,489)
4. Foreign currency translation	1,634	3,745
5. Share based compensation		
6. Leases	5,821	7,911
Total shareholder s equity under IFRS	**1,484,863**	**1,205,267**

(a) Differences increasing (decreasing) reported shareholders equity are disclosed net of tax.

Reconciliation of Net Income

	September 30, For the year ended December 31, 2010
Net income under Canadian GAAP	228,191
Differences increasing (decreasing) reported net income:	
1. Impairment Tangible assets	7,924
2. Impairment Intangible assets	71,269
3. Employee benefits	(192)
4. Foreign currency translation	(32)
5. Share based compensation	987
6. Leases	68
7. Income taxes	(22,114)
Total net income under IFRS	**286,101**

Reconciliation of Comprehensive Income

	September 30, For the year ended December 31, 2010
Comprehensive income under Canadian GAAP	229,406
Differences increasing (decreasing) reported comprehensive income:	
Differences in net income	57,910
Foreign currency translation adjustment	(2,907)
Actuarial loss on defined benefit plans	(9,450)
Comprehensive income under IFRS	274,959

D. Changes in accounting policies from Canadian GAAP to IFRS

In addition to the mandatory exceptions and elective exemptions for retrospective application of IFRS, the following narratives explain the significant differences, as identified in the tables above, between previously adopted Canadian GAAP accounting policies and the current IFRS accounting policies adopted by the Company.

(1) Impairment Tangible assets

A recoverability test, under Canadian GAAP, is a two step process whereby the first test is performed by comparing the undiscounted cash flows expected to be generated from the asset to its carrying amount. If the asset does not recover its carrying value, an impairment loss is determined as the excess of the asset s carrying amount over its fair value. Fair value is calculated as the present value of expected cash flows derived from the asset.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

5. TRANSITION TO IFRS (continued)

The impairment test under IAS 36, *Impairment of Assets* , is a one step process whereby impairment is calculated as the excess of the asset s carrying amount over its recoverable amount. The recoverable amount is the higher of the asset s fair value less cost to sell and its value in use. Value in use is defined as the present value of the future cash flows expected to be derived from the asset. As a result of the differences in measurement, the Company recognized an impairment under IFRS, on the transition date, as the carrying amount of a certain satellite was in excess of its value in use.

The impairment resulted in the following adjustments to the opening IFRS balance sheet: a reduction to satellites, property and other equipment of $7.9 million, a reduction to deferred tax liability of $2.0 million and an increase in opening accumulated deficit of $5.9 million. The impairment recorded on the transition date was subsequently reversed in 2010 due to changes in revenue assumptions.

(2) Impairment Intangible assets

Impairment losses cannot be reversed under Canadian GAAP.

IFRS requires impairment losses other than those related to goodwill, to be reversed if certain criteria are met in accordance with IAS 36, *Impairment of Assets* . As a result, the Company reversed an impairment relating to its orbital slot intangible assets at the transition date. The reversal of the impairment was mainly the result of the variations in the discount rate applied. The reversal resulted in an increase to intangible assets of $411.6 million, an increase to deferred tax liability of $98.9 million and a decrease to opening accumulated deficit of $312.7 million on the opening IFRS balance sheet.

At the end of 2010 the impairment reversal resulted in an increase to intangible assets of $483.0 million, an increase to deferred tax liability of $117.8 million and an increase in accumulated earnings of $365.2 million. In the 2010 statement of income under IFRS compared to Canadian GAAP an additional $71.3 million of other operating gains was recorded, reduced by additional tax expense of $18.8 million.

(3) Employee benefits actuarial gains and losses

Under Canadian GAAP actuarial gains and losses arising from the calculation of the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a corridor approach. The corridor was 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year. The excess of 10% is amortized as a component of pension expense on a straight-line basis over the expected average remaining service period of active participants. Actuarial gains and losses below the 10% corridor are deferred.

Under IFRS, the Company elected to recognize all actuarial gains and losses immediately in other comprehensive income without recycling to the income statement in subsequent periods. As a result, actuarial gains and losses are not amortized to the statement of income but instead recorded directly to other comprehensive income at the end of each period.

The recognition of actuarial gains and losses as per the opening IFRS balance sheet date resulted in a decrease to other long-term assets of $15.4 million, a decrease of $1.4 million to other long-term liabilities, a decrease to deferred tax liabilities of $3.5 million and a corresponding increase to accumulated deficit of $10.5 million. The change in accounting policy regarding the recognition of actuarial gains and losses had the following impact on the December 31, 2010 balance sheet: a decrease to other long-term assets of $29.5 million, a decrease of $2.6 million to other long-term liabilities, a decrease to deferred tax liabilities of $6.8 million and a corresponding decrease to accumulated earnings of $20.1 million. The operating expense increased by $0.2 million in 2010 under IFRS compared to Canadian GAAP as a result of the different accounting policies. The impact on the 2010 other comprehensive income resulted in a decrease of $9.5 million.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

5. TRANSITION TO IFRS (continued)

(4) Foreign currency translation

Under Canadian GAAP, foreign currency translation of subsidiaries depends on the criteria provided in determining self-sustaining foreign operations and integrated foreign operations.

IFRS requires each entity in a consolidated group to determine its functionally currency in isolation in accordance with primary and secondary indications. As a result of this difference, certain subsidiaries that were previously accounted for as integrated foreign operations under Canadian GAAP were revised to have their functional currency as a foreign currency. The impact on the transition date was an increase to satellites, property and other equipment of $0.1 million, a $3.6 million increase to intangible assets, a $0.8 million reduction in accumulated other comprehensive loss and a $2.9 million reduction of accumulated deficit. The resulting foreign currency translation adjustment was then cleared to accumulated deficit using the IFRS 1 exemption for IAS 21.

The impact on the December 31, 2010 balance sheet was an increase to satellites, property and other equipment of $0.1 million, a $1.5 million increase to intangible assets, a $0.8 million reduction in accumulated other comprehensive loss and a $0.8 million increase of accumulated earnings. The difference in foreign currency translation of subsidiaries between IFRS and Canadian GAAP resulted in a decrease of gain (loss) on foreign exchange of $0.03 million in the 2010 statement of income. Other comprehensive income decreased by $2.9 million as a result of the foreign currency translation difference.

(5) Share-based compensation

The Company has equity-settled share-based compensation transactions with certain key employees. The vesting conditions embedded in these compensation plans are time and performance based. Under Canadian GAAP, the total fair value of these awards is recognized on a straight line basis throughout the vesting period.

Under IFRS, each tranche of the option grant is considered a separate grant and fair value is determined for each tranche of the option grant. As a result of this difference, the Company recorded a transitional adjustment to its opening IFRS balance sheet which resulted in an increase to reserves of $8.8 million and an increase to accumulated deficit of $8.8 million, with no overall impact on net equity. The Company recorded an adjustment to its December 31, 2010 balance sheet which resulted in an increase to reserves of $7.8 million and a decrease to accumulated earnings of $7.8 million, with no overall impact on net equity. The operating expense decreased by $1.0 million in the 2010 statement of income under IFRS compared to Canadian GAAP.

(6) Leases

As a result of the application of IFRIC 4, management determined that certain agreements were incorrectly accounted for as leases under Canadian GAAP. These immaterial errors were corrected as part of the IFRS transition as permitted under IFRS 1 with prior periods adjusted in these consolidated financial statements and the agreements are now accounted for as service agreements under IFRIC 4. The impact to the opening balance sheet was a decrease in satellites, property and other equipment of $19.5 million, a decrease to other current liabilities of $3.5 million, a decrease to other long-term liabilities of $17.8 million, a decrease to deferred tax liability of $6.1 million and a decrease to opening accumulated deficit of $7.9 million. The impact to the December 31, 2010 balance sheet was a decrease in satellites, property and other equipment of $15.4 million, a decrease to other current liabilities of $3.6 million, a decrease to other long-term liabilities of $13.2 million, a decrease to deferred tax liability of $4.4 million and an increase to accumulated earnings of $5.8 million. The difference between IFRS and Canadian GAAP resulted in an increase of $5.2 million of operating expenses, decrease of $3.4 million of depreciation, decrease of $1.7 million of net interest expense and an increase of tax expense of $1.2 million in the 2010 statement of income.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

5. TRANSITION TO IFRS (continued)

(7) Income taxes

Differences for income taxes represent the effect of recording, where applicable, the deferred tax impact of other differences between Canadian GAAP and IFRS.

E. Presentation and Reclassification Differences

Consolidated Balance Sheet

Aggregation / disaggregation of balance sheet line items

i. Under Canadian GAAP, common shares, preferred shares, accumulated other comprehensive loss, and contributed surplus were presented separately. Under IFRS, common shares and preferred shares have been aggregated into the line item share capital while accumulated other comprehensive loss and contributed surplus have been aggregated into the line item reserves.

ii. For Canadian GAAP presentation, various balance sheet accounts were aggregated. IFRS has certain minimum presentation requirements for the balance sheet and as a result additional balance sheet line items were presented.

Reclassification of pension asset / liability

Under Canadian GAAP there was an asset recorded related to the post employment benefit plans. Upon transition to IFRS, all cumulative actuarial gains or losses deferred under Canadian GAAP were recognized in opening accumulated deficit as of the date of transition to IFRS and subsequently recognized in other comprehensive income. As a result of this accounting difference, the net amount related to the post employment benefit plans represents a liability under IFRS.

Tax reclassification

Under Canadian GAAP, deferred taxes were classified as current and non-current on the basis of either the underlying asset or the liability or the expected reversal of items not related to an asset or liability. For IFRS purposes, all deferred tax assets and liabilities are classified as non-current. All deferred tax assets and liabilities are netted.

Reclassification of Derivatives

Under Canadian GAAP the derivatives were categorized between current and non-current based on maturity. For IFRS purposes derivatives are separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e. the underlying contracted cash flows).

Consolidated Statement of Income

Aggregation / disaggregation of statement of income line items

i. Under Canadian GAAP, revenue was presented for service revenue and equipment sales revenue. Under IFRS, the revenue streams are presented as a single line revenue.

ii. Under Canadian GAAP, the consolidated statement of income presented amortization for the depreciation of satellites, property and other equipment and intangible assets as one line item. For IFRS the expenses were disaggregated to present 1) depreciation of satellites, property and other equipment (depreciation) and 2) amortization of intangible assets (amortization).

iii. Under Canadian GAAP, cost of equipment sales and other income were presented separately from operations and administration expenses. Under IFRS, the consolidated statement of income combines those expenses and presents one line item operating expenses.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

5. TRANSITION TO IFRS (continued)

iv. Under Canadian GAAP, interest income and expenses were presented as one line item interest expense. For IFRS presentation interest expense is disaggregated to present 1) interest expense and 2) interest and other income.

F. Adjusted Telesat Holdings Inc. financial statements

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the consolidated financial statements prepared under IFRS.

Reconciliation of Consolidated Balance Sheet as of December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
Current assets					**Assets**
Cash and cash equivalents	220,295			220,295	Cash and cash equivalents
Accounts receivable, net	44,109		(26)	44,083	Trade and other receivables
Current future tax asset	1,900		5,044	6,944	Other current financial assets
Other current assets	26,476		(5,539)	20,937	Prepaid expenses and other current assets
Total current assets	**292,780**		**(521)**	**292,259**	**Total current assets**
Satellites, property and other equipment, net	1,994,122	(15,333		1,978,789	Satellites, property and other equipment
			78,631	78,631	Other long-term financial assets
Other long-term assets	112,816	(29,487)	(71,302)	12,027	Other long-term assets
Intangible assets, net	461,060	484,487		945,547	Intangible assets
Goodwill	2,446,603			2,446,603	Goodwill
Total assets	**5,307,381**	**439,667**	**6,808**	**5,753,856**	**Total assets**
Liabilities					**Liabilities**
Current liabilities					
Accounts payable and accrued liabilities	49,906	68		49,974	Trade and other payables
			104,082	104,082	Other current financial liabilities
Other current liabilities	128,296	(3,657)	(61,994)	62,645	Other current liabilities
Debt due within one year	96,848			96,848	Current indebtedness
Total current liabilities	**275,050**	**(3,589)**	**42,088**	**313,549**	**Total current liabilities**
Debt financing	2,771,802			2,771,802	Long-term indebtedness
Future tax liability	310,552	106,565	(2,400)	414,717	Deferred tax liabilities
			265,629	265,629	Other long-term financial liabilities
Other long-term liabilities	676,217	(15,847)	(298,509)	361,861	Other long-term liabilities
Senior preferred shares	141,435			141,435	Senior preferred shares
Total liabilities	**4,175,056**	**87,129**	**6,808**	**4,268,993**	**Total liabilities**
Shareholders equity					**Shareholders Equity**

Common shares	756,414		541,764	1,298,178	Share capital
Preferred shares	541,764		(541,764)		
	1,298,178			1,298,178	
Accumulated deficit	(176,396)	340,200		163,804	Accumulated earnings (deficit)
Accumulated other comprehensive loss	(6,207)	6,207			
	(182,603)	346,407		163,804	
Contributed surplus	16,750	6,131		22,881	Reserves
Total shareholders equity	**1,132,325**	**352,538**		**1,484,863**	**Total shareholders equity**
Total liabilities and shareholders equity	**5,307,381**	**439,667**	**6,808**	**5,753,856**	**Total liabilities and shareholders equity**

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

5. TRANSITION TO IFRS (continued)

Reconciliation of Consolidated Balance Sheet as of January 1, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
Current assets					**Assets**
Cash and cash equivalents	154,189			154,189	Cash and cash equivalents
Accounts receivable, net	70,203		(3)	70,200	Trade and other receivables
Current future tax asset	2,184		5,133	7,317	Other current financial assets
Other current assets	29,018		(6,017)	23,001	Prepaid expenses and other current assets
Total current assets	**255,594**		**(887)**	**254,707**	**Total current assets**
Satellites, property and other equipment, net	1,926,190	(27,292)		1,898,898	Satellites, property and other equipment
			21,733	21,733	Other long-term financial assets
Other long-term assets	56,924	(15,560)	(22,333)	19,031	Other long-term assets
Intangible assets, net	510,675	415,246		925,921	Intangible assets
Goodwill	2,446,603			2,446,603	Goodwill
Total assets	**5,195,986**	**372,394**	**(1,487)**	**5,566,893**	**Total assets**
Liabilities					**Liabilities**
Current liabilities					
Accounts payable and accrued liabilities	43,413			43,413	Trade and other payables
			102,124	102,124	Other current financial liabilities
Other current liabilities	127,704	(3,527)	(52,056)	72,121	Other current liabilities
Debt due within one year	23,602			23,602	Current indebtedness
Total current liabilities	**194,719**	**(3,527)**	**50,068**	**241,260**	**Total current liabilities**
Debt financing	3,021,820			3,021,820	Long-term indebtedness
Future tax liability	269,193	87,162	(2,718)	353,637	Deferred tax liabilities
			239,825	239,825	Other long-term financial liabilities
Other long-term liabilities	671,523	(19,212)	(288,662)	363,649	Other long-term liabilities
Senior preferred shares	141,435			141,435	Senior preferred shares
Total liabilities	**4,298,690**	**64,423**	**(1,487)**	**4,361,626**	**Total liabilities**
Shareholders equity					**Shareholders Equity**
Common shares	756,414		541,764	1,298,178	Share capital
Preferred shares	541,764		(541,764)		
	1,298,178			1,298,178	
Accumulated deficit	(404,557)	291,740		(112,817)	Accumulated earnings (deficit)
Accumulated other comprehensive loss	(7,422)	7,422			

	(411,979)	299,162		(112,817)	
Contributed surplus	11,097	8,809		19,906	Reserves
Total shareholders equity	**897,296**	**307,971**		**1,205,267**	**Total shareholders equity**
Total liabilities and shareholders equity	**5,195,986**	**372,394**	**(1,487)**	**5,566,893**	**Total liabilities and shareholders equity**

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

5. TRANSITION TO IFRS (continued)

Reconciliation of Consolidated Statement of Income for the year ended December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
Operating revenues					
Service revenues	801,144		20,217	821,361	Revenue
Equipment sales revenues	20,217		(20,217)		
Total operating revenues	821,361				
		(4,422)	(202,042)	(206,464)	Operating expenses
		3,543	(205,726)	(202,183)	Depreciation
Amortization	(251,194)		205,726	(45,468)	Amortization
Operations and administration	(186,467)		186,467		
Cost of equipment sales	(15,575)		15,575		
Total operating expenses	(453,236)				
		79,192	3,826	83,018	Other operating gains (losses), net
				450,264	Operating income
Earnings (loss) from operations	368,125				
Interest expense	(253,086)	1,743	(5,239)	(256,582)	Interest expense
			5,752	5,752	Interest and other income
Loss on changes in fair value of financial instruments	(11,168)			(11,168)	Loss on changes in fair value of financial instruments
Gain (loss) on foreign exchange	163,998	(32)		163,966	Gain (loss) on foreign exchange
Other income (expense)	4,339		(4,339)		
Earnings (loss) before income taxes	272,208			352,232	Income before tax
Income tax expense	(44,017)	(22,114)		(66,131)	Tax expense
Net earnings	**228,191**	**57,910**		**286,101**	**Net income**

Reconciliation of Consolidated Statement of Comprehensive Income for the year ended December 31, 2010

Canadian GAAP accounts	September 30, Canadian GAAP	September 30, IFRS adjustments	September 30, IFRS balance	September 30,	IFRS accounts

	balance			
Net earnings	228,191	57,910	286,101	Net income
Other comprehensive income (loss):				Other comprehensive income (loss):
Unrealized foreign currency translation gains (losses) of self sustaining foreign operations net of related taxes	1,215	(2,907)	(1,692)	Foreign currency translation adjustments, net of tax
		(9,450)	(9,450)	Actuarial gains (losses) on defined benefit plans, net of tax
	1,215	(12,357)	(11,142)	Other comprehensive income (loss)
Comprehensive income (loss)	**229,406**	**45,553**	**274,959**	**Total comprehensive income**

G. Adjustments to previously reported unaudited comparative figures under IFRS

The Company has adjusted its comparative consolidated financial statements and the reconciliation of equity as at January 1, 2010 and December 31, 2010 and the reconciliation of comprehensive income for the year ended December 31, 2010 to reflect the correction of amounts recorded for the reversal of impairments on tangible and intangible assets.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

5. TRANSITION TO IFRS (continued)

Intangible assets

These adjustments impacted intangible assets, deferred tax liabilities and accumulated earnings (deficit) and were identified through the completion of the Company s transition to IFRS as a basis of accounting. The comparative amounts had been previously disclosed in the Company s unaudited 2011 interim condensed consolidated financial statements.

The impact on the Company s comparative consolidated balance sheet as at January 1, 2010 was a decrease of intangible assets of $71.3 million, a decrease of deferred tax liabilities of $18.8 million, and an increase of accumulated deficit of $52.5 million.

The impact of the Company s comparative consolidated balance sheet as at December 31, 2010 was a decrease of intangible assets of $0.1 million, a decrease of deferred tax liabilities of a nominal amount, and a decrease of accumulated earnings of $0.1 million.

The impact on the Company s comparative consolidated statement of income for the year ended December 31, 2010 was an increase in operating income of $71.3 million and an increase in net income of $52.5 million.

Tangible assets

This adjustment impacted satellites, property and other equipment, deferred tax liabilities and accumulated earnings (deficit) and was identified through the completion of the Company s transition to IFRS as a basis of accounting. The comparative amounts had been previously disclosed in the Company s unaudited 2011 interim condensed consolidated financial statements.

The impact on the Company s comparative consolidated balance sheet as at December 31, 2010 was an increase of satellite, property and other equipment of $6.9 million, an increase of deferred tax liabilities of $1.8 million, and an increase of accumulated earnings of $5.1 million.

The impact on the Company s comparative consolidated statement of income for the year ended December 31, 2010 was an increase in operating income of $6.9 million and an increase in net income of $5.1 million.

6. SEGMENT INFORMATION

Telesat operates in a single 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 in the North American and International markets which include television transmit and receive services, occasional use, bundled Digital Video Compression and radio services.

Enterprise provision of satellite capacity and ground network services for voice, data, and image transmission and internet access around the world.

Consulting and other all consulting services related to space and earth segments, government studies, satellite control services and R&D.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

6. SEGMENT INFORMATION (continued)

Revenue derived from the above service lines were as follows:

Revenue Year ended December 31	September 30, 2011	September 30, 2010
Broadcast	436,676	454,216
Enterprise	341,884	334,983
Consulting and Other	29,801	32,162
Total revenue	808,361	821,361

Geographic Information

Revenue by geographic region was based on the point of origin of the revenue (destination of the billing invoice), allocated as follows:

Revenue Year ended December 31	September 30, 2011	September 30, 2010
Canada	411,185	419,032
United States	247,924	261,136
Europe, Middle East & Africa	75,887	77,031
Asia & Australia	19,254	16,268
Latin America & Caribbean	54,111	47,894
Total revenue	808,361	821,361

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:

Satellites, property and other equipment	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Canada	1,809,152	1,644,049	1,519,663
United States	276,211	327,608	370,664
All others	66,552	7,132	8,571

Total satellites, property and other equipment	2,151,915	1,978,789	1,898,898

Intangible assets	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Canada	848,898	909,744	886,965
United States	33,257	33,094	36,066
All others	13,923	2,709	2,890
Total intangible assets	896,078	945,547	925,921

Goodwill was not allocated to geographic regions in any of the periods.

Major Customers

For the year ended December 31, 2011, there were two significant customers each representing more than 10% of consolidated revenue (December 31, 2010   two customers).

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

7. OPERATING EXPENSES

The Company s operating expenses are comprised of the following:

Year ended December 31	September 30, 2011	September 30, 2010
Compensation and employee benefits [(a)]	61,755	66,438
Other operating expenses [(b)]	48,110	52,341
Cost of sales [(c)]	77,900	87,685
Total	187,765	206,464

a) Compensation and employee benefits include salaries, commission, post-employment benefits and charges arising from share-based payments.

b) Other operating expenses include general and administrative expense, marketing expense, in-orbit insurance expense, professional fees and facility costs.

c) Cost of sales includes the rental of third-party capacity, the cost of equipment sales and costs directly attributable to the facilitation of customer contracts.

8. OTHER OPERATING GAINS

Year ended December 31	September 30, 2011	September 30, 2010
Insurance proceeds [(a)]	135,019	
Impairment (loss) reversal on intangible assets (note 15)	(19,468)	71,269
Impairment reversal on satellites, property and other equipment		7,923
(Loss) gain on disposal of assets	(1,483)	3,826
Total	114,068	83,018

(a) The Company has insurance policies that provide 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 U.S. $132.7 million from its insurers with respect to the claim. Based on management s best estimate and assumptions, there was no impairment in Telstar 14R/Estrela do Sul 2.

9. INTEREST EXPENSE

The components of interest expense are as follows:

Year ended December 31	September 30, 2011	September 30, 2010
Interest expense on indebtedness	182,719	192,829
Interest expense on derivative instruments	62,124	60,818
Interest expense on performance incentive payments	4,361	5,016
Interest expense on senior preferred shares (note 20)	9,869	12,339
Other expenses		224
Capitalized interest	(32,022)	(14,644)
Interest expense	227,051	256,582

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

10. INCOME TAXES

Year ended December 31	September 30, 2011	September 30, 2010
Current tax expense	132	2,279
Deferred tax expense	51,854	63,852
Tax expense	51,986	66,131

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	September 30, 2011	September 30, 2010
Income before tax	289,261	352,232
Multiplied by the statutory income tax rate of 28.11% (2010 30.49%)	81,311	107,396
Income tax recorded at rates different from the Canadian tax rate	(408)	179
Permanent differences	(9,316)	(17,811)
Origination and reversal of temporary differences	(10,145)	(24,880)
Previously unrecognized tax losses and credit	(8,977)	
Other	(479)	1,247
Total tax expense in the statement of income	51,986	66,131
Effective income tax rate	17.97%	18.77%

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:

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Deferred tax assets			
Investment tax credit	2,702	556	661
Foreign tax credit	11,289	26	3
Financing charges	5,439	5,495	5,465
Deferred revenue	4,065	2,063	2,455
Loss carry forwards	25,538	53,344	76,900
Employee benefit	15,250	5,860	4,441
Other	471	585	956

Total deferred tax assets	64,754	67,929	90,881
Deferred tax liabilities			
Capital assets	(276,158)	(230,094)	(206,404)
Intangibles	(226,855)	(238,258)	(223,577)
Finance charges	(9,359)	(8,933)	(8,174)
Reserves	(4,278)	(5,361)	(6,363)
Total deferred tax liabilities	(516,650)	(482,646)	(444,518)
Deferred tax liabilities, net	(451,896)	(414,717)	(353,637)

Losses and tax credits

At December 31, 2011, the Company had Canadian tax losses carried forward of $101.5 million and U.S. tax losses carried forward of $26.7 million. The deferred tax asset not recognized in respect of the U.S. losses was $9.1 million. The Canadian and U.S. losses will expire between 2027 and 2030.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

10. INCOME TAXES (continued)

The Company has $25.5 million of Canadian capital losses carried forward which may only be used against future capital gains. The deferred tax asset not recognized in respect of these losses was $3.3 million. These losses may be carried forward indefinitely.

In addition, the Company has $14.0 million of investment tax credits and foreign tax credits which may only be used to offset taxes payable. The deferred tax assets not recognized in respect of these credits is $3.2 million. They will begin to expire in 2017.

Investments in subsidiaries

As at December 31, 2011 the Company had temporary differences of $31.0 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

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Trade receivables	49,936	50,456	62,499
Trade receivables due from related parties	386	428	1,509
Less: Allowance for doubtful accounts	(3,740)	(7,128)	(8,708)
Net trade receivables	46,582	43,756	55,300
Other receivables [(a)]	207	327	14,900
Trade and other receivables	46,789	44,083	70,200

(a) The January 1, 2010 balance consists of the main following items:
$7.2 million receivable related to the sale of Telstar 10, $3.7 million receivable relating to the Company s tenancy arrangement and a $2.0 million receivable relating to a basis swap payment that was scheduled to settle on December 31, 2009 but was received in the first week of January 2010.

Allowance for doubtful accounts

The movement in the allowance for doubtful accounts was as follows:

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Allowance for doubtful accounts, at the beginning of the year	7,128	8,708	5,410
Provisions (reversal) for impaired receivables	(136)	(1,134)	4,067
Receivables written off during the period	(3,050)	(256)	(769)
Foreign currency exchange differences	(202)	(190)	
Allowance for doubtful accounts, end of year	3,740	7,128	8,708

12. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Prepaid expenses [(a)]	10,302	10,762	10,231
Current tax asset	5,902	4,988	5,448
Inventory [(b)]	4,259	2,985	5,214
Deferred charges [(c)]	1,663	1,996	2,108
Other		206	
	22,126	20,937	23,001

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

12. PREPAID EXPENSES AND OTHER CURRENT ASSETS (continued)

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, 2011, inventory consists of $4.1 million of finished goods (December 31, 2010 $2.4 million, January 1, 2010 $2.9 million) and $0.2 million of work in process (December 31, 2010 $0.6 million, January 1, 2010 $2.3 million). During the period, $18.3 million was recognized as cost of equipment sales and recorded as an operating expense (December 31, 2010 $15.6 million).

c) Deferred charges include deferred financing charges relating to the revolving facility and Canadian term loan facility (see note 19).

13. OTHER LONG-TERM ASSETS

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Prepaid expenses [a]	4,921	9,785	13,233
Deferred charges	87	1,751	5,244
Other	528	491	554
	5,536	12,027	19,031

a) Prepaid expenses consist of prepaid satellite in-orbit insurance.

14. SATELLITES, PROPERTY AND OTHER EQUIPMENT

	000000 Satellites	000000 Property and other equipment	000000 Assets under construction	000000 Total
Cost at January 1, 2010	2,018,872	199,923	72,366	2,291,161
Additions		6,184	282,376	288,560
Disposals/retirements		(21,501)		(21,501)
Impact of currency translation		(690)		(690)
Cost at December 31, 2010	2,018,872	183,916	354,742	2,557,530
Additions		1,368	371,997	373,365
Disposals/retirements	(26,502)	(16,336)		(42,838)

Reclassifications and transfers from assets under construction	321,743	24,791	(346,534)	
Impact of currency translation		(276)		(276)
Cost at December 31, 2011	2,314,113	193,463	380,205	2,887,781
Accumulated depreciation and impairment at January 1, 2010	(331,659)	(60,604)		(392,263)
Reversal of impairment	7,923			7,923
Depreciation	(181,872)	(20,311)		(202,183)
Disposals/retirements		7,654		7,654
Impact of currency translation		128		128
Accumulated depreciation and impairment at December 31, 2010	(505,608)	(73,133)		(578,741)
Depreciation	(181,658)	(16,968)		(198,626)
Disposals/retirements	26,502	14,769		41,271
Impact of currency translation		230		230
Accumulated depreciation and impairment at December 31, 2011	(660,764)	(75,102)		(735,866)
Net carrying values				
At January 1, 2010	1,687,213	139,319	72,366	1,898,898
At December 31, 2010	1,513,264	110,783	354,742	1,978,789
At December 31, 2011	1,653,349	118,361	380,205	2,151,915

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

14. SATELLITES, PROPERTY AND OTHER EQUIPMENT (continued)

Substantially all of the Company s satellites, property and other equipment have been pledged as security as a requirement of our senior secured credit facilities (note 19).

Borrowing costs of $32.0 million arising on financing were capitalized for the year ended December 31, 2011 ($14.6 million December 31, 2010) and are included in Assets under construction. The average capitalization rate was 8.0%, representing the Company s weighted average cost of borrowing.

The Company assesses impairment of its satellites, property and other equipment on a quarterly basis, or more frequently if events or changes in circumstances indicate that the carrying values may not be recoverable. The Company s CGUs hold a combination of certain satellites, property and other equipment and finite life intangible assets. Indefinite life intangible assets and goodwill have not been allocated to the CGUs. No impairment was recognized for the periods ended December 31, 2011 and December 31, 2010.

In 2010, an impairment loss of $7.9 million was reversed on the satellites. The reversal of impairment was mainly due to changes in revenue assumptions. The recoverable amount is calculated using the following assumptions:

	September 30, 2011	**September 30, 2010**
Discount rate	10.75%	10.0%

15. INTANGIBLE ASSETS

	000000	**000000**	**000000**	**000000**	**000000**	**000000**	**000000**	**000000**
	Indefinite life				**Finite life**			
	Orbital slots	**Trade name**	**Revenue backlog**	**Customer relationships**	**Customer contract**	**Transponder rights**	**Other**	**Total Intangibles**
Cost at January 1, 2010	599,549	17,000	268,433	199,070		29,550	4,453	1,118,055
Disposals						(999)	(2,966)	(3,965)
Impact of currency translation	(1,711)		(166)	(1,044)		(54)	(29)	(3,004)
Cost at December 31, 2010	597,838	17,000	268,267	198,026		28,497	1,458	1,111,086
Additions					12,618			12,618
Impact of currency translation	615		70	51			(123)	613
Cost at December 31, 2011	598,453	17,000	268,337	198,077	12,618	28,497	1,335	1,124,317
Accumulated amortization and impairment at January 1, 2010	(71,370)		(77,309)	(34,087)		(7,493)	(1,875)	(192,134)
Amortization			(32,952)	(11,021)		(4,387)	(797)	(49,157)
Retirements						999	2,468	3,467

Reversal of impairment	71,269							71,269
Impact of currency translation			34	937		38	7	1,016
Accumulated amortization and impairment at December 31, 2010	(101)		(110,227)	(44,171)		(10,843)	(197)	(165,539)
Amortization			(27,930)	(11,005)	(39)	(4,109)	(86)	(43,169)
Impairment	(19,468)							(19,468)
Impact of currency translation	1		(55)	(22)			13	(63)
Accumulated amortization and impairment at December 31, 2011	(19,568)		(138,212)	(55,198)	(39)	(14,952)	(270)	(228,239)
Net carrying values								
At January 1, 2010	528,179	17,000	191,124	164,983		22,057	2,578	925,921
At December 31, 2010	597,737	17,000	158,040	153,855		17,654	1,261	945,547
At December 31, 2011	578,885	17,000	130,125	142,879	12,579	13,545	1,065	896,078

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15. INTANGIBLE ASSETS (continued)

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.

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 significant intangible assets:

Revenue backlog	1 13 years
Customer relationships	7 17 years
Transponder rights	1 10 years
Customer contract	15 years
Concession rights	12 years
Patent	14 years

Substantially all of the Company s intangible assets have been pledged as security as a requirement of our senior secured credit facilities.

Impairment

Finite life intangible assets are assessed annually and are included with the Company s CGUs (see note 3). Indefinite life intangible assets are tested for impairment at the individual asset level (see note 3). The annual impairment test was performed in the fourth quarter of 2011 and 2010, and at the IFRS transition date.

In 2010, an impairment loss of $71.3 million was reversed on the orbital slots. The impairment was originally recorded in 2008 when discount rates were high due to liquidity issues in the credit markets. The subsequent decrease in discount rates, as well as changes in revenue projections and gross margin assumption positively impacted the valuation of the orbital slots in 2010. In 2011, an impairment loss of $19.5 million was recognized on the orbital slots (2010 no impairment loss) mainly due to an increase in discount rates.

The recoverable amount is calculated using the following assumptions

	September 30, 2011	**September 30, 2010**
Discount rate	10.75%	10.0%

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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 and 2010 in accordance with the policy described in note 3. In addition, goodwill was tested for impairment for purposes of the opening IFRS balance sheet. No impairment was recognized. The Company s recoverable amount exceeded the carrying value therefore, no impairment was recognized for the period. The most significant assumptions used in the impairment test were as follows:

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Discount rate	10.75%	10.0%	9.5%
Terminal year growth rate	3.0%	3.0%	3.0%

Some of the more sensitive assumptions used including the forecasted cash flows and the discount rate could have yielded different estimates of 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 lower fair value and there could have been a risk of failing the goodwill impairment test.

17. OTHER CURRENT LIABILITIES

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Deferred revenue	66,588	61,732	70,109
Decommissioning liabilities	151	166	1,024
Other	1,138	747	988
	67,877	62,645	72,121

18. OTHER LONG-TERM LIABILITIES

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Deferred revenue	342,281	315,583	322,384
Net defined benefit plan obligations (see note 25)	67,605	30,801	23,664
Uncertain tax positions	6,795	7,585	7,086

Unfavorable backlog	1,785	3,922	7,145
Unfavorable leases	769	969	1,174
Decommissioning liabilities	1,461	1,367	14
Other	1,806	1,634	2,182
	422,502	361,861	363,649

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19. INDEBTEDNESS

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Senior secured credit facilities [(a)] :			
Revolving facility			
The Canadian term loan facility	80,000	170,000	185,000
The U.S. term loan facility (December 31, 2011 USD $1,684,800, December 31, 2010 USD $1,702,350, January 1, 2010 USD $1,719,900)	1,720,686	1,698,945	1,811,399
The U.S. term loan II facility (December 31, 2011 USD $144,725, December 31, 2010 USD $146,225, January 1, 2010 USD $147,725)	147,808	145,933	155,584
Senior Notes (USD $692,825) [(b)]	707,582	691,439	729,683
Senior Subordinated Notes (USD $217,175) [(c)]	221,801	216,741	228,729
	2,877,877	2,923,058	3,110,395
Less: deferred financing costs and prepayment options [(d)]	(43,251)	(54,408)	(64,973)
	2,834,626	2,868,650	3,045,422
Less: current portion (net of deferred financing costs)	(86,495)	(96,848)	(23,602)
Long-term portion	2,748,131	2,771,802	3,021,820

(a) The senior secured credit facilities are secured by substantially all of Telesat s assets. Under the terms of these facilities, Telesat is required to comply with certain covenants including financial reporting, maintenance of certain financial covenant ratios for leverage and interest coverage, a requirement to maintain minimum levels of satellite insurance, restrictions on capital expenditures, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions, and restrictions on transactions with affiliates. The financial covenant ratios include total debt to EBITDA for covenant purposes (earnings before interest, taxes, depreciation, amortization and other charges) and EBITDA for covenant purposes to interest expense. Both financial covenant ratios tighten over the term of the credit facility. At December 31, 2011, Telesat was in compliance with all of the required covenants.

Each tranche of the credit facility is subject to mandatory principal repayment requirements, which, in the initial years, are generally an annual amount representing 1% of the initial aggregate principal amount, payable quarterly. The senior secured credit facility has several tranches which are described below:

(i) A revolving Canadian dollar denominated credit facility (the revolving facility) of up to $153 million is available to Telesat. This revolving facility matures on October 31, 2012 and is available to be drawn at any time. The drawn loans bear interest at the prime rate or LIBOR or Bankers Acceptance plus an applicable margin of 125 to 225 basis points per annum. Undrawn amounts under the facility are subject to a commitment fee. As of December 31, 2011, other than approximately $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 Canadian term loan facility was initially a $200 million facility denominated in Canadian dollars, with a maturity date of October 31, 2012. Loans under this facility bear interest at a floating rate of the Bankers Acceptance rate plus an applicable margin of 275 basis points per annum. The required repayments on the Canadian term loan facility are as follows:

September 30,	Principal Repayments
2012	80,000

The payments are generally made quarterly in varying amounts. The average interest rate was 4.13% for the year ended December 31, 2011 (December 31, 2010 3.63%). This facility had $80 million outstanding at December 31, 2011.

(iii) The U.S. term loan was initially a $1,755 million facility denominated in U.S. dollars, bears interest at LIBOR plus an applicable margin of 300 basis points per annum, and has a maturity of October 31, 2014. The weighted average effective interest rate was 3.72% for the year ended December 31, 2011 (December 31, 2010 3.76%). The loan had U.S. $1,685 million outstanding at December 31, 2011. Principal repayments of U.S. $4.4 million are made on a quarterly basis, with a lump sum repayment of the remaining balance payable on the maturity date.

(iv) The U.S. term loan II was initially a $150 million delayed draw facility denominated in U.S. dollars, bears interest at LIBOR plus an applicable margin of 300 basis points per annum, and has a maturity of October 31, 2014. The weighted average effective interest rate was 3.73% for the year ended December 31, 2011 (December 31, 2010 3.77%). The facility had U.S. $145 million outstanding at December 31, 2011. Principal repayments of U.S. $0.4 million are made on a quarterly basis, with a lump sum repayment of the remaining balance payable on the maturity date.

(b) The Senior Notes bear interest at an annual rate of 11.0% and are due November 1, 2015. The Senior Notes include covenants or terms that restrict Telesat s ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel the Company s satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the Senior Notes prior to May 1, 2012, in each case subject to exceptions provided in the Senior Notes indenture. The weighted average effective interest rate was 11.37% for the year ended December 31, 2011 (December 31, 2010 11.56%).

(c) The Senior Subordinated Notes bear interest at a rate of 12.5% and are due November 1, 2017. The Senior Subordinated Notes include covenants or terms that restrict Telesat s ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel 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, 2011 (December 31, 2010 12.88%).

(d)

The U.S. term loan facilities, Senior Notes and Senior Subordinated Notes are presented on the balance sheet net of related deferred financing costs of $49.4 million (December 31, 2010 $61.6 million, January 1, 2010 $73.1 million). The indentures agreement for the Senior Notes and Senior Subordinated Notes contain provisions for certain prepayment options which were fair valued at the time of debt issuance (note 23). The initial fair value impact of the prepayment options on the Senior Notes and Senior Subordinated Notes was an increase to the liabilities of $6.5 million and $2.7 million, respectively. These liability amounts are subsequently amortized using the effective interest rate method with carrying amounts of $4.1 million and $2.1 million respectively, at December 31, 2011 (December 31, 2010 $4.9 million and $2.3 million, January 1, 2010 $5.6 million and $2.5 million).

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Telesat Holdings Inc.

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19. INDEBTEDNESS (continued)

The short-term and long-term portions of deferred financing costs and prepayment options are as follows:

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Short-term deferred financing costs	12,961	12,165	11,462
Long-term deferred financing costs	36,468	49,433	61,593
	49,429	61,598	73,055
Long-term prepayment option Senior Notes	(4,133)	(4,928)	(5,631)
Long-term prepayment option Senior Subordinated Notes	(2,045)	(2,262)	(2,451)
	(6,178)	(7,190)	(8,082)
Total deferred financing costs and prepayment options	43,251	54,408	64,973

The outstanding balance of indebtedness, excluding deferred financing costs and prepayment options, will be repaid as follows (in millions of Canadian dollars):

2012	September 30, 2013	September 30, 2014	September 30, 2015	September 30, Thereafter	September 30, Total
99.5	19.4	1,829.6	707.6	221.8	2,877.9

20. SENIOR PREFERRED SHARES

Telesat issued 141,435 senior preferred shares with an issue price of $1,000 per Senior Preferred Share on October 31, 2007. The Senior Preferred Shares rank in priority, with respect to the payment of dividends and return of capital upon liquidation, dissolution or winding-up, ahead of the shares of all other classes of Telesat stock which have currently been created, as well as any other shares that may be created that by their terms rank junior to the senior preferred shares. Senior Preferred Shares are entitled to receive cumulative preferential dividends at a rate of 7% per annum on the Liquidation Value, being $1,000 per Senior Preferred Share plus all accrued and unpaid dividends (8.5% per annum following a Performance Failure, being a failure to pay annual dividends in cash or in Holding PIK Preferred Stock in any year, while such failure is continuing, the failure to redeem the Holding PIK Preferred Stock when submitted for redemption on or after the twelfth anniversary of the date of issue, or the failure to redeem Holding PIK Preferred Stock for which an offer of redemption is accepted following a Change of Control). Such annual dividend may be paid in cash, subject to the requirements of the Canada Business Corporations Act (the CBCA), if such payment is permitted under the terms of (i) the senior secured credit facilities and (ii) the indentures governing the notes. If the cash payment is not permitted under the terms of the senior secured credit facilities, the dividends will be paid, subject to the requirements of the CBCA, in senior preferred shares based on an issue price of $1,000 per Senior Preferred Share. Dividends of $1.7 million have been accrued at December 31, 2011 (December 31, 2010 $2.1 million, January 1, 2010 $25.1 million).

The Senior Preferred Shares may be submitted by the holder for redemption on or after the twelfth anniversary of the date of issue, subject to compliance with law. Upon a change of control which occurs after the fifth anniversary of the issue of the Senior Preferred Shares, or on the fifth anniversary if a change of control occurs prior to the fifth anniversary of the issue, Telesat must make an offer of redemption to all holders of Senior Preferred Shares, and must redeem any Senior Preferred Shares for which the offer of redemption is accepted within 25 days of such offer. As a result, the Senior Preferred Shares have been classified as a liability on the consolidated balance sheet and dividends have been classified as interest expense on the statement of income (note 9).

The holders of the Senior Preferred Shares are not entitled to receive notice of or to vote at any meeting of shareholders of the Company except for meetings of the holders of the Senior Preferred Shares as a class, called to amend the terms of the Senior Preferred Shares, or otherwise as required by law.

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21. SHARE CAPITAL

There was no change in share capital in the period of January 1, 2010 to December 31, 2011.

At December 31, 2011	September 30, Number of shares	September 30, Stated Value ($)
Common Shares	74,252,460	756,414
Voting Participating Preferred Shares	7,034,444	117,388
Non-Voting Participating Preferred Shares	35,953,824	424,366
Director Voting Preferred Shares	1,000	10
Total share capital		1,298,178

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, (ii) 1,000 director voting preferred shares, and (iii) 325,000 senior preferred shares (note 20). None of the redeemable common shares or redeemable non-voting participating preferred shares have been issued as at December 31, 2011. The Company s share based compensation plan has authorized the grant of up to 8,824,646 options to purchase non-voting participating preferred shares (see note 24).

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.

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.

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21. SHARE CAPITAL (continued)

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.

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.

22. CAPITAL DISCLOSURES

Telesat is a privately held company with registered debt in the United States. The Company s financial strategy is designed to maintain compliance with its financial covenants under its senior secured credit facility (see note 19), and to maximize returns to its shareholders and other stakeholders. Telesat meets these objectives through regular monitoring of its financial covenants and operating results on a quarterly basis. The Company s overall financial strategy remains unchanged from 2010.

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22. CAPITAL DISCLOSURES (continued)

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 and prepayment options as detailed in note 19).

The Company s capital at the end of the year was as follows:

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010
Shareholders equity (excluding reserves)	1,668,170	1,461,982	1,185,361
Debt financing (excluding deferred financing costs and prepayment options)	2,877,877	2,923,058	3,110,395

Telesat manages its capital by measuring the financial covenant ratios contained in its senior secured credit agreement (the credit agreement), dated October 31, 2007 and which terminates in October 2014. As of December 31, 2011, the Company was subject to three financial covenant compliance tests: a maximum Consolidated Total Debt to Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for covenant purposes ratio test, a minimum Consolidated EBITDA for covenant purposes to Consolidated Interest Expense ratio test and a maximum Permitted Capital Expenditure Amount test. Compliance with financial covenants is measured on a quarterly basis, except for the maximum Permitted Capital Expenditure Amount which is only measured at the end of every fiscal year.

As of December 31, 2011, Telesat s Consolidated Total Debt to Consolidated EBITDA for covenant purposes ratio, for credit agreement compliance purposes, was 4.39:1 (December 31, 2010 4.59:1), which was less than the maximum test ratio of 6.25:1. The Consolidated EBITDA for covenant purposes to Consolidated Interest Expense ratio, for credit agreement compliance purposes, was 2.74:1 (December 31, 2010 2.63:1), which was greater than the minimum test ratio of 1.70:1. The compliance test ratios become more restrictive over the term of the credit agreement.

The maximum Permitted Capital Expenditure Amount varies in each fiscal year with the opportunity to carry forward or carry back unused amounts based on conditions specified in the credit agreement. An additional amount of U.S. $500 million is also available over the term of the credit agreement for the construction or acquisition of up to four new satellites. For the fiscal year ended December 31, 2011, the Company s Capital Expenditure Amount, as defined in the credit agreement, was $341.5 million and was in compliance with the credit agreement.

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 23), and foreign exchange risk exposure arising from principal and interest payments on Telesat s debt is partially managed through a cross currency basis swap (note 23). In addition, the Company s operating results are tracked against budget on a monthly basis, and this analysis is reviewed by senior management.

23. 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, 2011.

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, 2011, the maximum exposure to credit risk is equal to the carrying value of the financial assets, $474 million (December 31, 2010 $350 million, January 1, 2010 $253 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.

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23. FINANCIAL INSTRUMENTS (continued)

It is expected that the counterparties to the Company s financial assets will be able to meet their obligations as they are institutions with strong credit ratings. Telesat regularly monitors the credit risk and credit exposure.

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, 2011, North American and International customers made up 36% and 64% of the outstanding trade receivable balance, respectively (December 31, 2010 38% and 62%, January 1, 2010 39% and 61%). Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts at December 31, 2011 was $3.7 million (December 31, 2010 $7.1 million, January 1, 2010 $8.7 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 most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. At December 31, 2011, approximately $2,798 million of the $2,878 million total debt financing (before netting of deferred financing costs and prepayment options) is the Canadian dollar equivalent of the U.S. dollar denominated portion of the debt.

The Company has entered into a cross currency basis swap to economically hedge the foreign currency risk on a portion of its U.S. dollar denominated debt. At December 31, 2011, the Company had a cross currency basis swap of $1,175 million (December 31, 2010 $1,187 million, January 1, 2010 $1,200 million) which required the Company to pay Canadian dollars to receive U.S. $1,012 million (December 31, 2010 U.S. $1,022 million, January 1, 2010 U.S. $1,033 million). At December 31, 2011, the fair value of this derivative contract was a liability of $160.4 million (December 31, 2010 liability of $192.5 million, January 1, 2010 liability of $137.1 million). The non-cash loss will remain unrealized until the contract is settled. This contract is due on October 31, 2014.

Telesat uses forward contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites. At December 31, 2011, the Company had no outstanding foreign exchange contracts. At December 31, 2010, the Company had nine outstanding foreign exchange contracts which required the Company to pay $188.3 million Canadian dollars (January 1, 2010 $21.5 million) to receive U.S. $185.0 million (January 1, 2010 U.S. $20.0 million) for future capital expenditures and interest payments. At December 31, 2010, the fair value of the derivative contracts was a liability of $2.6 million (January 1, 2010 $0.4 million).

The Company s main currency exposures as at December 31, 2011 lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables and indebtedness.

As at December 31, 2011, a 5 percent increase (decrease) in the Canadian dollar against the U.S. dollar would have increased (decreased) the Company s net income by approximately $158 million and increased (decreased) other comprehensive income by $1 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

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23. 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 which is primarily variable rate financing. Changes in the interest rates could impact the amount of interest Telesat is required to pay. Telesat uses interest rate swaps to economically hedge the interest rate risk related to variable rate debt financing. At December 31, 2011, the Company had a series of three interest rate swaps to fix interest on $930 million of Canadian dollar denominated debt at average fixed rates ranging from 3.02% to 3.5%. As at December 31, 2011, the fair value of these derivative contracts was a liability of $53.1 million (December 31, 2010 liability of $49.4 million, January 1, 2010 liability of $47.7). The contracts mature by October 31, 2014.

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 approximately $2.0 million for the year ended December 31, 2011.

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, 2011:

	000000	000000	000000	000000	000000	000000	000000	000000
In millions of Canadian dollars	**Carrying amount**	**Contractual cash flows (undiscounted)**	**2012**	**2013**	**2014**	**2015**	**2016**	**After 2016**
Trade and other payables	45,156	45,156	45,156					
Customer and other deposits	4,822	4,822	2,882	907	999	34		
Deferred satellites performance incentive payments	69,898	98,594	15,661	8,416	8,414	8,435	8,481	49,187
Dividends payable on senior preferred shares (note 20)	1,650	1,650	1,650					
Promissory note payable to Loral (note 29)	21,141	21,141						21,141
Tax indemnification payable to Loral (note 29)	7,111	7,111		7,111				
Other financial liabilities	3,708	3,708	2,151	1,557				
Long-term indebtedness	2,905,023	3,552,922	289,933	186,635	1,985,962	813,141	27,725	249,526
Interest rate swaps	53,101	52,762	18,658	18,607	15,497			
Cross currency basis swap	160,373	76,604	27,247	26,907	22,450			
	3,271,983	3,864,470	403,338	250,140	2,033,322	821,610	36,206	319,854

The carrying value of the deferred satellites performance incentive payments includes $2.5 million interest payable. The carrying value of the long-term indebtedness includes $21.0 million of interest payable and excludes $49.4 million of financing costs.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

23. FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities recorded in the balance sheet were as follows:

December 31, 2011	000000 Loans and receivables	000000 Held for Trading FVTPL	000000 Other financial liabilities	000000 Total	000000 Fair value
Cash and cash equivalents	277,962			277,962	277,962
Trade and other receivables	46,789			46,789	46,789
Other financial assets current	7,010			7,010	7,010
Other financial assets long-term	7,977	134,431		142,408	142,408
Trade and other payables			(45,156)	(45,156)	(45,156)
Other financial liabilities current		(42,204)	(40,784)	(82,988)	(85,549)
Other financial liabilities long-term		(171,270)	(88,513)	(259,783)	(255,225)
Indebtedness (excluding deferred financing costs) (note 19)			(2,884,056)	(2,884,056)	(2,943,132)
Senior preferred shares (note 20)			(141,435)	(141,435)	(143,265)
Total	339,738	(79,043)	(3,199,944)	(2,939,249)	(2,998,158)

December 31, 2010	Loans and receivables	Held for Trading FVTPL	Other financial liabilities	Total	Fair value
Cash and cash equivalents	220,295			220,295	220,295
Trade and other receivables	44,083			44,083	44,083
Other financial assets current	6,944			6,944	6,944
Other financial assets long-term	6,226	72,405		78,631	78,631
Trade and other payables			(49,974)	(49,974)	(49,974)
Other financial liabilities current		(63,199)	(40,883)	(104,082)	(104,012)
Other financial liabilities long-term		(181,255)	(84,374)	(265,629)	(263,456)
Indebtedness (excluding deferred financing costs) (note 19)			(2,930,248)	(2,930,248)	(3,067,412)
Senior preferred shares (note 20)			(141,435)	(141,435)	(153,978)
Total	277,548	(172,049)	(3,246,914)	(3,141,415)	(3,288,879)

January 1, 2010	Loans and receivables	Held for Trading FVTPL	Other financial liabilities	Total	Fair value
Cash and cash equivalents	154,189			154,189	154,189
Trade and other receivables	70,200			70,200	70,200
Other financial assets current	7,317			7,317	7,317
Other financial assets long-term	5,819	15,914		21,733	21,733

Trade and other payables			(43,413)	(43,413)	(43,413)
Other financial liabilities current		(57,129)	(44,995)	(102,124)	(102,470)
Other financial liabilities long-term		(128,157)	(111,668)	(239,825)	(237,226)
Indebtedness (excluding deferred financing costs) (note 19)			(3,118,477)	(3,118,477)	(3,104,151)
Senior preferred shares (note 20)			(141,435)	(141,435)	(174,466)
Total	237,525	(169,372)	(3,459,988)	(3,391,835)	(3,408,287)

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

23. FINANCIAL INSTRUMENTS (continued)

Fair Value

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. 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 in active markets for identical assets or liabilities.

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 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 expense 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 $66.5 million (December 31, 2010 $91.1 million, January 1, 2010 $64.5 million) of short-term investments classified as Level 2 in the fair value hierarchy. The fair value of the indebtedness is based on transactions and quotations from third parties considering market interest rates and excluding deferred financing costs. The indebtedness and senior preferred shares are classified as Level 2 in the fair value hierarchy.

Fair value of derivative financial instruments

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 methodologies used to calculate those values were as follows:

December 31, 2011	000000 Long-term assets	000000 Current liabilities	000000 Long-term liabilities	000000 Total	000000 Fair value hierarchy
Cross currency basis swap		(23,637)	(136,736)	(160,373)	Level 2
Interest rate swaps		(18,567)	(34,534)	(53,101)	Level 2
Forward foreign exchange contracts					Level 2
Prepayment option embedded derivatives	134,431			134,431	Level 2

	134,431	(42,204)	(171,270)	(79,043)

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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)

23. FINANCIAL INSTRUMENTS (continued)

December 31, 2010	000000 Long-term assets	000000 Current liabilities	000000 Long-term liabilities	000000 Total	000000 Fair value hierarchy
Cross currency basis swap		(29,349)	(163,107)	(192,456)	Level 2
Interest rate swaps		(31,279)	(18,148)	(49,427)	Level 2
Forward foreign exchange contracts		(2,571)		(2,571)	Level 2
Prepayment option embedded derivatives	72,405			72,405	Level 2
	72,405	(63,199)	(181,255)	(172,049)	

January 1, 2010	Long-term assets	Current liabilities	Long-term liabilities	Total	Fair value hierarchy
Cross currency basis swap		(16,763)	(120,343)	(137,106)	Level 2
Interest rate swaps		(39,930)	(7,814)	(47,744)	Level 2
Forward foreign exchange contracts		(436)		(436)	Level 2
Prepayment option embedded derivatives	15,914			15,914	Level 2
	15,914	(57,129)	(128,157)	(169,372)	

Reconciliation of fair value of derivative assets and liabilities	September 30,
Opening fair value, January 1, 2010	(169,372)
Unrealized losses on derivatives	(13,955)
Realized gains on derivatives:	
Cross currency basis swap	1,183
Interest rate swaps	
Forward foreign exchange contracts	1,604
Impact of foreign exchange	8,491
Fair value, December 31, 2010	(172,049)
Unrealized gains on derivatives	87,914
Realized gains on derivatives:	
Cross currency basis swap	1,895
Interest rate swaps	
Forward foreign exchange contracts	8,776
Impact of foreign exchange	(5,579)
Fair value, December 31, 2011	(79,043)

24. SHARE BASED COMPENSATION PLANS

Telesat Holdings Stock Option Incentive Plan

On September 19, 2008, Telesat adopted a stock option incentive plan (the stock option plan) for certain key employees of the Company and its subsidiaries. The stock option plan provides for the grant of up to 8,824,646 options to purchase non-voting participating preferred shares of Telesat Holdings Inc., convertible into common shares.

Two different types of stock options can be granted under the stock option plan: time-vesting options and performance-vesting options. The time-vesting options generally become vested and exercisable over a five year period by 20% increments on October 31 st of each year, starting in 2008. The vesting amount is prorated for optionees whose employment with the Company or its subsidiaries commenced after October 31, 2007. The performance-vesting options become vested and exercisable over a five year period starting March 31, 2009, provided the Company has achieved or exceeded an annual or cumulative target consolidated EBITDA established and communicated on the grant date by the Board of Directors.

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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)

23. FINANCIAL INSTRUMENTS (continued)

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.

The exercise periods of the stock options expire ten 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.

The movement in the number of stock options outstanding and their related weighted-average exercise prices are as follows:

	000000	000000	000000	000000
	Time Vesting Option Plans		Performance Vesting Option Plan	
	Number of Options	Weighted-Average Exercise Price ($)	Number of Options	Weighted-Average Exercise Price ($)
Outstanding December 31, 2011	7,265,952	11.08	1,407,672	11.12
Options exercisable at December 31, 2011	5,666,287		687,698	
Weighted-average remaining life	6 years		6 years	
Outstanding December 31, 2010	7,265,952	11.08	1,407,672	11.12
Options exercisable at December 31, 2010	4,173,018		526,252	
Weighted-average remaining life	7 years		7 years	
Outstanding January 1, 2010	7,303,705	11.07	1,453,814	11.07
Options exercisable at January 1, 2010	2,740,969		162,091	
Weighted-average remaining life	8 years		8 years	

During 2011 no options were granted, forfeited, exercised or expired.

The compensation expense, number of stock options granted, weighted-average fair value per option granted and the assumptions used to determine the share-based compensation expense using the Black-Scholes option pricing model were as follows:

	September 30, December 31, 2011	September 30, December 31, 2010
Compensation expense (credited to equity-settled employee benefits reserve)	2,654	4,667
Number of stock options granted		22,372
Weighted-average fair value per option granted ($)		16.50
Weighted average assumptions:		
Dividend yield		
Expected volatility		31.10%

Risk-free interest rate	3.85%
Expected life (years)	10

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

25. EMPLOYEE BENEFIT PLANS

The Company s net defined benefit plan expense included in operating expense consisted of the following elements:

	September 30,	September 30,	September 30,	September 30,
	Defined benefit pension plans		Other post-employment benefit plans	
Year ended December 31,	**2011**	**2010**	**2011**	**2010**
Current service cost	3,844	2,630	299	232
Interest cost	9,687	9,655	1,183	1,237
Expected return on plan assets	(10,708)	(10,231)		
Net defined benefit plan expense	2,823	2,054	1,482	1,469

The Company s funding policy is to make contributions to its 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.

	September 30,	September 30,	September 30,
	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Balance sheet obligations for:			
Pension benefits	43,266	9,209	1,231
Other post-employment benefits	24,339	21,592	22,433
	67,605	30,801	23,664

The amounts recognized in the balance sheet are determined as follows:

	000000	000000	000000	000000	000000	000000
	December 31, 2011		**December 31, 2010**		**January 1, 2010**	
	Pension	**Other**	**Pension**	**Other**	**Pension**	**Other**
Present value of funded obligations	211,872		174,662		151,063	
Fair value of plan assets	169,808		166,235		150,746	

	42,064		8,427		317	
Present value of unfunded obligations	1,202	24,339	782	21,592	914	22,433
Liability in the balance sheet	43,266	24,339	9,209	21,592	1,231	22,433

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25. 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	September 30, Pension	September 30, December 31, 2011 Other	September 30, Total
Change in benefit obligations			
Defined benefit obligation, January 1, 2011	175,444	21,592	197,036
Current service cost	3,844	299	4,143
Interest cost	9,687	1,183	10,870
Actuarial (gains) losses	30,541	2,222	32,763
Benefits paid	(7,825)	(990)	(8,815)
Contributions by plan participants	1,383	33	1,416
Plan amendments			
Defined benefit obligation, December 31, 2011	213,074	24,339	237,413

Pension and other benefits	Pension	December 31, 2011 Other	Total
Change in fair value of plan assets			
Fair value of plan assets, January 1, 2011	166,235		166,235
Expected return on plan assets	10,708		10,708
Actuarial gains (losses)	(8,800)		(8,800)
Benefits paid	(7,825)	(990)	(8,815)
Contributions by plan participants	1,383	33	1,416
Contributions by employer	8,107	957	9,064
Fair value of plan assets, December 31, 2011	169,808		169,808
Funded status			
Plan surplus (deficit)	(43,266)	(24,339)	(67,605)
Accrued benefit asset (liability)	(43,266)	(24,339)	(67,605)

Pension and other benefits	Pension	December 31, 2010 Other	Total
Change in benefit obligations			
Defined benefit obligation, January 1, 2010	151,977	22,433	174,410
Current service cost	2,630	232	2,862
Interest cost	9,665	1,237	10,902

Actuarial (gains) losses	19,165	(1,250)	17,915
Benefits paid	(9,379)	(856)	(10,235)
Contributions by plan participants	1,386	32	1,418
Plan amendments		(236)	(236)
Defined benefit obligation, December 31, 2010	175,444	21,592	197,036

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Telesat Holdings Inc.

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25. EMPLOYEE BENEFIT PLANS (continued)

Pension and other benefits	September 30, Pension	September 30, December 31, 2010 Other	September 30, Total
Change in fair value of plan assets			
Fair value of plan assets, January 1, 2010	150,746		150,746
Expected return on plan assets	10,231		10,231
Actuarial gains (losses)	5,108		5,108
Benefits paid	(9,379)	(856)	(10,235)
Contributions by plan participants	1,386	32	1,418
Contributions by employer	8,143	824	8,967
Fair value of plan assets, December 31, 2010	166,235		166,235
Funded status			
Plan surplus (deficit)	(9,209)	(21,592)	(30,801)
Accrued benefit asset (liability)	(9,209)	(21,592)	(30,801)

The major categories of plan assets as a percentage of total plans assets and the expected rate of return on assets at the end of the reporting period for each category are as follows:

	September 30, Expected return December 31, 2011	September 30, December 31, 2010	September 30, Fair value of plan assets December 31, 2011	September 30, December 31, 2010
Equity securities	8.4%	7.9%	59%	61%
Fixed income instruments	4.4%	4.6%	39%	36%
Short-term investments	3.4%	2.7%	2%	3%
Weighted average of expected return	6.7%	6.6%	100%	100%

Plan assets are valued as at the measurement date of December 31 each year. The overall expected rate of return is a weighted average of the expected returns of the various investment categories held in the asset portfolio. The Management Level Pension Fund Investment Committee and Investment Managers assessment of the expected returns is based on historical average return trends and market predictions.

The actual return on plan assets for the year ended December 31, 2011 was $1.9 million (December 31, 2010 $15.4 million).

The experience adjustments on plan liabilities for the year ended December 31, 2011 was a loss of $1.0 million (December 31, 2010 gain of $1.7 million). The experience adjustments on plan assets for the year ended December 31, 2011 was a loss of $8.8 million (December 31, 2010 gain of $5.1 million).

The significant weighted-average assumptions adopted in measuring the Company s pension and other benefit obligations were as follows:

	September 30, Pension	September 30, Other
	December 31, 2011	
Accrued benefit obligation		
Discount rate	4.5%	4.5%
Benefit costs for the periods ended		
Discount rate	5.5%	5.5%
Expected long-term rate of return on plan assets	6.5%	
Future salary increase	3.0%	
Pre and post retirement pension increase	1.1%	

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25. EMPLOYEE BENEFIT PLANS (continued)

For measurement purposes, the medical trend rate for drugs was assumed to be 10.5% for 2011, decreasing by 1% per annum, to a rate of 4.5% per annum in 2016. The health care cost trend rate was assumed to be 9% grading down to 5% in 2019. Other medical trend rates were assumed to be 4.5%.

Actuarial gains and losses recognized in other comprehensive income:

	000000 Pension	000000 2011 Other	000000 Total	000000 Pension	000000 2010 Other	000000 Total
Cumulative amount at January 1	(10,505)	1,055	(9,450)			
Recognized during the year, net of taxes (2011 $10,486; 2010 $3,357)	(29,614)	(1,463)	(31,077)	(10,505)	1,055	(9,450)
Cumulative amount at December 31	(40,119)	(408)	(40,527)	(10,505)	1,055	(9,450)

Sensitivity of assumptions

The impact of a hypothetical 1% change in the health care cost trend rate on the other post-retirement benefit obligation and the aggregate of service and interest cost would have been as follows:

	September 30, Benefit obligation	September 30, Aggregate of service and interest cost
As reported	24,339	1,482
Impact of increase of 1% point	2,011	146
Impact of decrease of 1% point	(1,706)	(121)

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 $8.9 million to the defined benefit plans during the next fiscal year.

26. SUPPLEMENTAL CASH FLOW INFORMATION

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, January 1, 2010

Cash and cash equivalents is comprised of:			
Cash	86,500	129,217	89,679
Short term investments, original maturity three months or less	66,547	91,078	64,510
Restricted cash [a]	124,915		
	277,962	220,295	154,189

(a) The insurance proceeds received for the settlement of the Telstar 14R/Estrela do Sul 2 claim are restricted in use, and will be used to repay a portion of the Company s Credit Facility or reinvested in satellite procurements in accordance with the terms and conditions of the Credit Agreement. The restricted amount is expected to be used within the next twelve months.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

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26. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

The net change in operating assets and liabilities shown in the consolidated statements of cash flows is comprised of the following:

At December 31	September 30, 2011	September 30, 2010
Trade and other receivables	(1,668)	21,884
Financial assets	(1,604)	(541)
Other assets	(4,335)	(1,295)
Trade and other payables	(196)	(22,484)
Financial liabilities	(2,061)	(20,249)
Other liabilities	(3,249)	(7,130)
	(13,113)	(29,815)

At December 31	September 30, 2011	September 30, 2010
Non-cash investing and financing activities are comprised of:		
Purchase of satellites, property and other equipment	24,441	24,775

27. COMMITMENTS AND CONTINGENT LIABILITIES

Off balance sheet commitments include operating leases, commitments for future capital expenditures and other future purchases.

Off balance sheet commitments	000000 2012	000000 2013	000000 2014	000000 2015	000000 2016	000000 Thereafter	000000 Total
Operating lease commitments	6,830	6,478	5,824	5,392	4,805	32,628	61,957
Other operating commitments	21,791	18,285	14,271	7,530	3,377	1,388	66,642
Capital commitments	156,096						156,096
Total off balance sheet commitments	**184,717**	**24,763**	**20,095**	**12,922**	**8,182**	**34,016**	**284,695**

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, 2011 was $7 million (December 31, 2010 $8.0 million). The expiry terms range from January 2012 to January 2043.

Telesat has entered into contracts for the construction and launch of Nimiq 6 (targeted for launch in 2012) and Anik G1 (targeted for launch in 2012). The total outstanding commitments at December 31, 2011 are in U.S. dollars.

Cash and cash equivalents includes $124.9 million of restricted cash as at December 31, 2011 (December 31, 2010 zero, January 1, 2010 zero). The restricted cash can be used for capital expenditures of satellite projects. The restricted cash is as a result of insurance proceeds received for the claim filed in relation to Telstar 14R/Estrela do Sul 2. 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.

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 $408.0 million (December 31, 2010 $377.1 million, January 1, 2010 $358.4 million), refundable under certain circumstances, are reflected in other financial liabilities, both current and long-term.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

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27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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.

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.

Telesat Canada s Anik F1 satellite, built by Boeing and launched in November 2000, has defective solar arrays that have caused a drop in power output on the satellite and reduced its operational life. Telesat Canada filed a claim for Anik F1 as a constructive total loss under its insurance policies and received an amount from its insurers in settlement of that claim. In November 2006, Telesat Canada commenced arbitration proceedings against Boeing, alleging that Boeing was grossly negligent and/or engaged in willful misconduct in the design and manufacture of the Anik F1 satellite and in failing to warn Telesat Canada prior to the launch of a material deficiency in the power performance of a similar satellite previously launched. Telesat s claim seeks approximately $331 million plus costs and post-award interest, a portion of which was in respect of the subrogated rights of its insurers. Boeing has responded by alleging that Telesat Canada failed to obtain what it asserts to be contractually required waivers of subrogation rights such that, if Telesat Canada is successful in obtaining an award which includes an amount in respect of the subrogated rights of the insurers, Boeing is entitled to off-setting damages in that amount, which is approximately $176 million. Boeing also asserts that Telesat Canada owes Boeing performance incentive payments pursuant to the terms of the satellite construction contract in the amount of approximately U.S. $5.5 million plus interest. The arbitration hearing is scheduled to commence in November 2012. While it is not possible to determine the ultimate outcome of the arbitration, Telesat Canada intends to vigorously prosecute its claims and defend its position that no liability is owed Boeing in connection with the dispute and that, in the circumstances of this case, it was not contractually required to obtain waivers of the subrogation rights at issue.

Other than the above, the Company is not aware of any proceedings outstanding or threatened as of the date hereof by or against us or relating to its business which may have, or have had in the recent past, significant effects on Telesat Canada s financial position or profitability.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

28. SUBSIDIARIES

The list of significant companies included in the scope of consolidation is as follows:

Company	September 30, Country	September 30, Method of Consolidation	September 30, % voting rights December 31, 2011
Telesat Canada	Canada	Fully consolidated	100.00
Infosat Communications LP	Canada	Fully consolidated	100.00
Skynet Satellite Corporation	United States	Fully consolidated	100.00
Telesat Network Services, Inc.	United States	Fully consolidated	100.00
The SpaceConnection Inc.	United States	Fully consolidated	100.00
Telesat Satellite LP	United States	Fully consolidated	100.00
Infosat Able Holdings Inc.	United States	Fully consolidated	100.00
Able Infosat Communications, Inc.	United States	Fully consolidated	100.00
Telesat Brasil Capacidade de Satélites Ltda.	Brazil	Fully consolidated	100.00
Telesat (IOM) Limited	Isle of Man	Fully consolidated	100.00

The percentage of voting rights and interest were the same as at December 31, 2010 and January 1, 2010, respectively.

29. 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, Mr. John P. Cashman and Mr. Colin D. Watson, two Canadian citizens. Red Isle is wholly owned by the Public Sector Pension Investment Board (PSP Investments), a Canadian Crown corporation. Loral Holdings is a wholly owned subsidiary of Loral Space & Communications Inc. (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.

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, Space Systems/Loral (SSL), a satellite manufacturer and a wholly owned subsidiary of Loral, XTAR LLC (XTAR), a satellite operator and affiliate of Loral, and Loral Canadian Gateway Corporation (LCGC), a wholly owned subsidiary of Loral.

On April 11, 2011, Telesat acquired from Loral and LCGC all of its rights and obligations with respect to the Canadian payload on the ViaSat-1 satellite, which was manufactured by SSL, and all related agreements. On closing of the transaction, Telesat paid Loral U.S. $13 million ($12.6 million Canadian dollars) for the assumption of Loral s 15-year revenue contract with Xplornet Communications Inc. for ViaSat-1. In addition Telesat reimbursed Loral and LCGC approximately U.S. $48.2 million of net costs incurred through completion of the sale.

During the year, the Company and its subsidiaries entered into the following transactions with related parties.

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Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

29. RELATED PARTY TRANSACTIONS (continued)

	September 30, Sale of goods and services, interest income	September 30,	September 30, Purchase of goods and services, interest expense	September 30,
year ended ended	**December 31, 2011**	**December 31, 2010**	**December 31, 2011**	**December 31, 2010**
Loral				
Revenue	1	166		
Operating expenses			4,990	5,245
Interest expense			1,291	1,004
-Intangible asset			12,618	
Red Isle				
Interest expense			9,869	12,339
SSL				
Revenue	1,942	2,373		
Satellite, property and other equipment			180,853	168,040
Operating expenses			1,423	373
XTAR				
Revenue	927	1,017		
LCGC				
Revenue	324	442		
Satellite, property and other equipment			4,586	

The following balances were outstanding at the end of the year:

	September 30, Amounts owed by related parties	September 30,	September 30,	September 30, Amounts owed to related parties	September 30,	September 30,
At	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Loral						
Trade receivables/payables					14	
Other long-term financial assets/liabilities	2,387	2,332	2,461	28,252	24,474	19,543
Red Isle						
Other current financial liabilities				1,650	2,075	
Other long-term financial liabilities						25,090
Senior preferred shares				141,435	141,435	141,435
SSL						
Trade receivable/payable	380	428	1,430	4,758	37	1,230

Other current financial liabilities		1,047	1,003	
Other long-term financial liabilities		15,018	15,469	8,068
XTAR				
Trade receivable/payable	79			

The amounts outstanding are unsecured and will be settled in cash. The related party transactions were made on terms equivalent to those that prevail in arm s length transactions.

Telesat Holdings Inc.

Notes to the 2011 Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

29. RELATED PARTY TRANSACTIONS (continued)

The Company has entered into contracts for the construction of Nimiq 6 and Anik G1 with SSL. The total outstanding commitments at December 31, 2011 were $50.9 million (December 31, 2010 $187.4 million, January 1, 2010 $225.1 million).

Other related party transactions

The Company funds certain defined benefit pension plans as described in note 25. Contributions made to the plans for the year ended December 31, 2011 were $8.1 million (December 31, 2010 $8.1 million).

Compensation of key management personnel

Key management personnel consists of Board level directors and senior management.

	September 30, Year ended 2011	September 30, Year ended 2010
Short-term benefits (including salary)	7,309	7,262
Post-employment benefits	720	557
Other-long term benefits		
Termination benefits		
Share-based payments	2,572	4,514
	10,601	12,333

There were no transactions with key management personnel in 2011 and 2010 other than compensation.

30. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The 11.0% Senior Notes and the 12.5% Senior Subordinated Notes 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 below for the year ended December 31, 2011 and the year ended December 31, 2010 are presented pursuant to Article 3-10(d) of Regulation S-X. The information presented consists of the operations of Telesat Holdings Inc. Telesat Holdings Inc. primarily holds investments in subsidiaries and equity. Telesat LLC, a U.S. Delaware corporation, is a financing subsidiary that has no assets, liabilities or operations.

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.

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Condensed Consolidating Statement of 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			(134,137)	(95,827)	(22,657)	64,856	(187,765)
			608,591	14,376	(2,371)		620,596
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)			535,593	(37,783)	(2,793)		495,017
Income (loss) from equity investments	247,144		(40,204)	(3,049)		(203,891)	
Interest (expense) income	(9,869)		(219,590)	2,421	(13)		(227,051)
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	237,275		299,315	(43,030)	(408)	(203,891)	289,261
Tax (expense) benefit			(52,171)	106	79		(51,986)
Net income (loss)	237,275		247,144	(42,924)	(329)	(203,891)	237,275

Condensed Consolidating Statement of Income (Loss)

For the year ended December 31, 2010

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Adjustments	Consolidated
Revenue			745,689	98,049	23,839	(46,216)	821,361
Operating expenses			(144,180)	(83,375)	(25,125)	46,216	(206,464)
			601,509	14,674	(1,286)		614,897
Depreciation			(147,892)	(53,948)	(343)		(202,183)
Amortization			(47,395)	2,126	(199)		(45,468)
Other operating losses, net			75,023	7,995			83,018
Operating income (loss)			481,245	(29,153)	(1,828)		450,264
Income (loss) from equity investments	298,439		(30,096)	(32,013)		(236,330)	
Interest (expense) income	(12,338)		(244,372)	125	3		(256,582)
Interest and other income (expense)			4,316	1,517	(81)		5,752
Loss on changes in fair value of financial instruments			(11,168)				(11,168)
Gain (loss) on foreign exchange			162,921	7,333	(6,288)		163,966
Income (loss) before tax	286,101		362,846	(52,191)	(8,194)	(236,330)	352,232
Tax expense			(64,407)	(1,169)	(555)		(66,131)
Net income (loss)	286,101		298,439	(53,360)	(8,749)	(236,330)	286,101

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Condensed Consolidating Balance Sheet

As at December 31, 2011

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Adjustments	Consolidated
Assets							
Cash and cash equivalents			256,837	18,654	2,471		277,962
Trade and other receivables			27,010	18,670	1,109		46,789
Other current financial assets			26	255	6,729		7,010
Intercompany receivable			349,662	137,658	148,153	(635,473)	
Prepaid expenses and other current assets			14,052	8,019	55		22,126
Total current assets			647,587	183,256	158,517	(635,473)	353,887
Satellites, property and other equipment			1,808,997	340,992	1,926		2,151,915
Other long-term financial assets			141,084	896	428		142,408
Other long-term assets			3,010	2,526			5,536
Intangible assets			848,898	47,077	103		896,078
Investment in affiliates	1,878,938		1,184,893	1,495,142	260	(4,559,233)	
Goodwill			2,078,056	343,876	24,671		2,446,603
Total assets	1,878,938		6,712,525	2,413,765	185,905	(5,194,706)	5,996,427
Liabilities							
Trade and other payables			33,405	9,118	2,633		45,156
Other current financial liabilities	1,650		79,995	1,308	35		82,988
Intercompany payable	45,689		179,352	375,012	35,420	(635,473)	
Other current liabilities			64,393	3,111	373		67,877
Current indebtedness			86,494	1			86,495
Total current liabilities	47,339		443,639	388,550	38,461	(635,473)	282,516
Long-term indebtedness			2,748,131				2,748,131
Deferred tax liabilities			452,208	(312)			451,896
Other long-term financial liabilities			255,630	3,862	291		259,783
Other long-term liabilities			411,533	10,726	243		422,502
Senior preferred shares	141,435						141,435
Total liabilities	188,774		4,311,141	402,826	38,995	(635,473)	4,306,263
Shareholders Equity							
Share capital	1,298,178		2,320,730	1,898,682	104,434	(4,323,846)	1,298,178
Accumulated earnings (deficit)	369,992		35,415	176,382	42,071	(253,868)	369,992
Reserves	21,994		45,239	(64,125)	405	18,481	21,994
Total shareholders equity	1,690,164		2,401,384	2,010,939	146,910	(4,559,233)	1,690,164
Total liabilities and shareholders equity	1,878,938		6,712,525	2,413,765	185,905	(5,194,706)	5,996,427

Condensed Consolidating Balance Sheet

As at December 31, 2010

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Adjustments	Consolidated
Assets							
Cash and cash equivalents			196,682	21,135	2,478		220,295
Trade and other receivables			28,718	13,593	1,772		44,083
Other current financial assets			25	346	6,573		6,944
Intercompany receivable			219,035	202,459	112,436	(533,930)	
Prepaid expenses and other current assets			13,671	7,136	130		20,937
Total current assets			458,131	244,669	123,389	(533,930)	292,259
Satellites, property and other equipment			1,643,419	333,173	2,197		1,978,789
Other long-term financial assets			77,503	502	626		78,631
Other long-term assets			7,907	4,120			12,027
Intangible assets			909,744	35,617	186		945,547
Investment in affiliates	1,663,758		1,309,540	1,487,893	259	(4,461,450)	
Goodwill			2,078,056	343,876	24,671		2,446,603
Total assets	1,663,758		6,484,300	2,449,850	151,328	(4,995,380)	5,753,856
Liabilities							
Trade and other payables			31,667	15,164	3,143		49,974
Intercompany payable	35,385		124,484	374,061		(533,930)	
Other current financial liabilities	2,075		100,610	1,233	164		104,082
Other current liabilities			61,643	301	701		62,645
Current indebtedness			96,847	1			96,848
Total current liabilities	37,460		415,251	390,760	4,008	(533,930)	313,549
Long-term indebtedness			2,771,802				2,771,802
Deferred tax liabilities			416,069	(2,002)	650		414,717
Other long-term financial liabilities			265,346		283		265,629
Other long-term liabilities			348,873	12,750	238		361,861
Senior preferred shares	141,435						141,435
Total liabilities	178,895		4,217,341	401,508	5,179	(533,930)	4,268,993
Shareholders Equity							
Share capital	1,298,178		2,320,730	1,896,596	104,434	(4,321,760)	1,298,178
Accumulated earnings (deficit)	163,804		(128,079)	216,134	38,204	(126,259)	163,804
Reserves	22,881		74,308	(64,388)	3,511	(13,431)	22,881
Total shareholders equity	1,484,863		2,266,959	2,048,342	146,149	(4,461,450)	1,484,863
Total liabilities and shareholders equity	1,663,758		6,484,300	2,449,850	151,328	(4,995,380)	5,753,856

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Condensed Consolidating Balance Sheet

As at January 1, 2010

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Adjustments	Consolidated
Assets							
Cash and cash equivalents			137,623	14,232	2,334		154,189
Trade and other receivables			51,444	15,591	3,165		70,200
Other current financial assets			101	267	6,949		7,317
Intercompany receivable			249,103	150,490	120,038	(519,631)	
Prepaid expenses and other current assets			14,957	7,967	77		23,001
Total current assets			453,228	188,547	132,563	(519,631)	254,707
Satellites, property and other equipment			1,446,613	449,801	2,484		1,898,898
Other long-term financial assets			20,545	529	659		21,733
Other long-term assets			13,311	5,720			19,031
Intangible assets			886,965	38,570	386		925,921
Investment in affiliates	1,371,792		1,346,054	1,477,459	261	(4,195,566)	
Goodwill			2,078,057	343,876	24,670		2,446,603
Total assets	1,371,792		6,244,773	2,504,502	161,023	(4,715,197)	5,566,893
Liabilities							
Trade and other payables			32,059	6,798	4,556		43,413
Intercompany payable			108,346	411,285		(519,631)	
Other current financial liabilities			100,685	1,304	135		102,124
Other current liabilities			70,523	1,093	505		72,121
Current indebtedness			23,601	1			23,602
Total current liabilities			335,214	420,481	5,196	(519,631)	241,260
Long-term indebtedness			3,021,820				3,021,820
Deferred tax liabilities			355,904	(2,266)	(1)		353,637
Other long-term financial liabilities	25,090		214,633	102			239,825
Other long-term liabilities			346,705	16,268	676		363,649
Senior preferred shares	141,435						141,435
Total liabilities	166,525		4,274,276	434,585	5,871	(519,631)	4,361,626
Shareholders Equity							
Share capital	1,298,178		2,320,730	1,896,596	104,434	(4,321,760)	1,298,178
Accumulated earnings (deficit)	(112,817)		(430,301)	237,247	46,953	146,101	(112,817)
Reserves	19,906		80,068	(63,926)	3,765	(19,907)	19,906
Total shareholders equity	1,205,267		1,970,497	2,069,917	155,152	(4,195,566)	1,205,267
Total liabilities and shareholders equity	1,371,792		6,244,773	2,504,502	161,023	(4,715,197)	5,566,893

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Condensed Consolidating Statement of Cash Flow

For the year ended December 31, 2011

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Adjustments	Consolidated
Cash flows from (used in) operating activities							
Net income (loss)	237,275		247,144	(42,924)	(329)	(203,891)	237,275
Adjustments to reconcile net income (loss) to cash flows from operating activities:							
Amortization and depreciation			189,061	50,170	416		239,647
Deferred tax expense (benefit)			52,099	(145)	(100)		51,854
Unrealized foreign exchange loss (gain)			66,375	4,045	(2,714)		67,706
Unrealized 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	(247,144)		40,204	3,049		203,891	
Loss on disposal of assets			588	879	16		1,483
Impairment loss on intangible assets			18,368	1,100			19,468
Insurance proceeds			(135,019)				(135,019)
Other			(28,167)	(2,876)	242		(30,801)
Customer prepayments on future satellite services			55,268	2,500			57,768
Insurance proceeds			11,228				11,228
Operating assets and liabilities	(2,075)		1,944	(15,262)	2,280		(13,113)
Net cash from (used in) operating activities	(10,294)		433,252	919	9		423,886
Cash flows from (used in) investing activities							
Satellite programs			(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 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

Condensed Consolidating Statement of Cash Flow

For the year ended December 31, 2010

	Telesat Holdings	Telesat LLC	Telesat Canada	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Adjustments	Consolidated
Cash flows from operating activities							
Net income (loss)	286,101		298,439	(53,360)	(8,749)	(236,330)	286,101
Adjustments to reconcile net income (loss) to cash flows from operating activities:							
Amortization and depreciation			195,287	51,822	542		247,651
Deferred tax expense			63,277	146	429		63,852
Unrealized foreign exchange (gain) loss			(168,787)	(7,502)	6,273		(170,016)
Unrealized loss on derivatives			13,955				13,955
Dividends on senior preferred shares	2,075						2,075
Share-based compensation			3,691	635	341		4,667
(Income) loss from equity investments	(298,439)		30,096	32,013		236,330	
Gain on disposal of assets			(3,754)	(72)			(3,826)
Reversal of impairment loss on intangible assets			(71,269)				(71,269)
Reversal of impairment loss on satellites, property and other equipment				(7,923)			(7,923)
Other			(24,600)	(315)	(15)		(24,930)
Customer prepayments on future satellite services			30,982				30,982
Operating assets and liabilities	10,293		(44,971)	2,867	1,996		(29,815)
Net cash from operating activities	30		322,346	18,311	817		341,504
Cash flows used in investing activities							
Satellite programs			(257,725)				(257,725)
Purchase of other property and equipment			(2,299)	(1,556)	(111)		(3,966)
Proceeds from sale of assets			26,782	144			26,926
Other			10,000			(10,000)	
Net cash used in investing activities			(223,242)	(1,412)	(111)	(10,000)	(234,765)
Cash flows from (used in) financing activities							
Repayment of indebtedness			(34,946)				(34,946)
Dividends paid on preferred shares	(30)						(30)
Satellite performance incentive payments			(5,099)				(5,099)
Dividends paid				(10,000)		10,000	
Net cash from (used in) financing activities	(30)		(40,045)	(10,000)		10,000	(40,075)
Effect of changes in exchange rates on cash and cash equivalents				4	(562)		(558)
Increase in cash and cash equivalents			59,059	6,903	144		66,106
Cash and cash equivalents, beginning of year			137,623	14,232	2,334		154,189
Cash and cash equivalents, end of year			196,682	21,135	2,478		220,295