LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
May 09, 2012
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

Commission file number 1-14180

Loral Space & Communications Inc.

600 Third Avenue

New York, New York 10016

Telephone: (212) 697-1105

Jurisdiction of incorporation: Delaware

IRS identification number: 87-0748324

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

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

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

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

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

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

As of April 30, 2012, 21,200,638 shares of the registrant s voting common stock and 9,505,673 shares of the registrant s non-voting common stock were outstanding.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended March 31, 2012

Table of Contents

PART 1.

FINANCIAL INFORMATION

Item 1. ***Financial Statements***

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 509,278	$ 197,114
Contracts-in-process	198,479	159,261
Inventories	84,210	77,301
Deferred tax assets	67,070	67,070
Other current assets	14,467	15,038
Total current assets	873,504	515,784
Property, plant and equipment, net	206,398	203,722
Restricted cash	73,801	23,800
Long-term receivables	366,959	362,688
Investments in affiliates	78,203	446,235
Intangible assets, net	7,446	8,179
Long-term deferred tax assets	255,497	263,363
Other assets	12,214	12,382
Total assets	$ 1,874,022	$ 1,836,153
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 111,880	$ 90,323
Accrued employment costs	50,509	59,897
Customer advances and billings in excess of costs and profits	254,921	227,485
Dividend payable	417,606	
Other current liabilities	21,904	25,265
Total current liabilities	856,820	402,970
Pension and other postretirement liabilities	308,127	311,273
Long-term liabilities	173,271	174,325
Total liabilities	1,338,218	888,568
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, $.01 par value; 50,000,000 shares authorized, 21,319,330 and 21,229,573 issued	213	212
Non-voting common stock, $.01 par value; 20,000,000 shares authorized, 9,505,673 issued and outstanding	95	95
Paid-in capital	1,010,133	1,014,724
Treasury stock (at cost), 136,494 shares of voting common stock	(8,400)	(8,400)
(Accumulated deficit) retained earnings	(315,672)	94,303
Accumulated other comprehensive loss	(151,678)	(154,475)
Total shareholders equity attributable to Loral	534,691	946,459
Noncontrolling interest	1,113	1,126
Total equity	535,804	947,585
Total liabilities and equity	$ 1,874,022	$ 1,836,153

See notes to condensed consolidated financial statements.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues	$ 286,713	$ 279,899
Cost of revenues	(259,870)	(231,521)
Selling, general and administrative expenses	(29,096)	(20,926)
Operating (loss) income	(2,253)	27,452
Interest and investment income	10,596	7,573
Interest expense	(652)	(632)
Gain on litigation, net		4,470
Other expense	(360)	(1,951)
Income before income taxes and equity in net income of affiliates	7,331	36,912
Income tax provision	(6,582)	(15,363)
Income before equity in net income of affiliates	749	21,549
Equity in net income of affiliates	6,869	46,246
Net income	7,618	67,795
Net loss attributable to noncontrolling interest	13	24
Net income attributable to Loral common shareholders	7,631	67,819
Other comprehensive income (loss), net of tax	2,797	(7,104)
Comprehensive income attributable to Loral common shareholders	$ 10,428	$ 60,715
Net income per share attributable to Loral common shareholders:		
Basic	$ 0.25	$ 2.21
Diluted	$ 0.24	$ 2.10
Weighted average common shares outstanding:		
Basic	30,602	30,637
Diluted	30,958	31,338

See notes to condensed consolidated financial statements.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

(Unaudited)

	Common Stock Voting		Common Stock Non-Voting			Treasury Stock Voting		Retained Earnings	Accumulated Other	Shareholders Equity Attributable		
	Shares Issued	Amount	Shares Issued	Amount	Paid-In Capital	Shares	Amount	(Accumulated Deficit)	Comprehensive Loss	to Loral	Noncontrolling Interest	Total Equity
Balance, January 1, 2011	20,925	$ 209	9,506	$ 95	$ 1,028,263			$ (32,374)	$ (95,873)	$ 900,320	$ 629	$ 900,949
Net income								126,677			$ 497	
Other comprehensive loss									(58,602)			
Comprehensive income										68,075		68,572
Exercise of stock options	305	3			1,055					1,058		1,058
Shares surrendered to fund withholding taxes					(16,972)					(16,972)		(16,972)
Tax benefit associated with exercise of stock options					1,198					1,198		1,198
Stock based compensation					1,180					1,180		1,180
Voting common stock repurchased						136	$ (8,400)			(8,400)		(8,400)
Balance, December 31, 2011	21,230	$ 212	9,506	$ 95	$ 1,014,724	136	$ (8,400)	$ 94,303	$ (154,475)	$ 946,459	$ 1,126	$ 947,585
Net income (loss)								7,631			(13)	
Other comprehensive income									2,797			
Comprehensive income										10,428		10,415
Common dividends declared ($13.60 per share)								(417,606)		(417,606)		(417,606)
Exercise of stock options	72	1			178					179		179
Shares surrendered to fund withholding taxes	17				(4,900)					(4,900)		(4,900)
Tax benefit associated with exercise of stock options					19					19		19
Stock based compensation					281					281		281
Cash settlement of restricted stock units					(169)					(169)		(169)
Balance, March 31, 2012	21,319	$ 213	9,506	$ 95	$ 1,010,133	136	$ (8,400)	$ (315,672)	$ (151,678)	$ 534,691	$ 1,113	$ 535,804

See notes to condensed consolidated financial statements.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2012	2011
Operating activities:		
Net income	$ 7,618	$ 67,795
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Non-cash operating items (Note 3)	4,449	(24,055)
Changes in operating assets and liabilities:		
Contracts-in-process	(36,126)	(97,156)
Inventories	(6,909)	(12,336)
Long-term receivables		(1,553)
Other current assets and other assets	2,952	5,981
Accounts payable	25,660	9,920
Accrued expenses and other current liabilities	(13,190)	(12,808)
Customer advances	24,376	49,621
Income taxes payable	195	(3,434)
Pension and other postretirement liabilities	(3,146)	(1,656)
Long-term liabilities	(207)	(5,479)
Net cash provided by (used in) operating activities	5,672	(25,160)
Investing activities:		
Distribution received from affiliate	375,809	
Capital expenditures	(13,974)	(7,406)
Increase in restricted cash	(50,000)	(11,900)
Net cash provided by (used in) investing activities	311,835	(19,306)
Financing activities:		
Voting common stock repurchased	(472)	
Proceeds from the exercise of stock options	179	334
Cash settlement of restricted stock units	(169)	
Funding of withholding taxes on employee cashless stock option exercises	(4,900)	(16,478)
Excess tax benefit associated with exercise of stock options	19	1,321
Net cash used in financing activities	(5,343)	(14,823)
Increase (decrease) in cash and cash equivalents	312,164	(59,289)
Cash and cash equivalents beginning of period	197,114	165,801
Cash and cash equivalents end of period	$ 509,278	$ 106,512

See notes to condensed consolidated financial statements.

6

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Principal Business

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

Loral has two segments (see Note 18):

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 9). 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 accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2011 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the SEC.

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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the 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 three months ended March 31, 2012 and 2011, cumulative catch up adjustments related to prior year activity as a result of changes in contract estimates increased operating income by $17 million and $4 million, respectively, and diluted earnings per share by $0.34 and $0.07, 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.

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.

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.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Level 1	Level 2	Level 3
Assets:			
Cash equivalents			
Money market funds	$ 506,190	$	$
Available-for-sale securities			
Communications industry	$ 689	$	$
Non-qualified pension plan assets	$ 587	$	$
Liabilities:			
Derivatives			
Foreign exchange contracts	$	$ 5,268	$

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 March 31, 2012.

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.

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 which have been included in our consolidated financial statements.

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. This guidance was adopted by the Company on January 1, 2012 and did not have a significant impact on our consolidated financial statements.

9

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Additional Cash Flow Information

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Non-cash operating items:		
Equity in net income of affiliates	$ (6,869)	$ (46,246)
Deferred taxes	5,985	16,952
Depreciation and amortization	7,927	7,705
Stock based compensation	281	281
Warranty expense (reversals) accruals	(528)	148
Amortization of prior service credits and net actuarial gain	2,013	332
Unrealized gain on non-qualified pension plan assets	(84)	(177)
Non-cash net interest income	(1,975)	(2,752)
Gain on foreign currency transactions and contracts	(1,715)	(42)
Amortization of fair value adjustments related to orbital incentives	(586)	(256)
Net non-cash operating items	$ 4,449	$ (24,055)
Non-cash investing activities:		
Capital expenditures incurred not yet paid	$ 3,663	$ 2,213
Non-cash financing activities:		
Dividend declared not yet paid	$ 417,606	$
Supplemental information:		
Interest paid	$ 443	$ 211
Tax (refunds) payments, net	$ (157)	$ 3,166

4. Other Comprehensive Income

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011

	Before-Tax Amount	Tax (Expense) Benefit	Net-of Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of Tax Amount
Amortization of prior service credits and net actuarial loss	$ 2,012	$ (808)	$ 1,204	$ 332	$ (134)	$ 198
Proportionate share of Telesat Holdco other comprehensive income (loss)	908	(365)	543	(2,330)	937	(1,393)
Derivatives:						
Unrealized loss on foreign currency hedges	(1,677)	675	(1,002)	(11,572)	4,666	(6,906)
Less: reclassification adjustment for loss included in net income	3,277	(1,319)	1,958	1,849	(745)	1,104
Net unrealized gain (loss) on derivatives	1,600	(644)	956	(9,723)	3,921	(5,802)
Unrealized gain (loss) on available-for-sale securities	157	(63)	94	(177)	70	(107)
Other comprehensive income (loss)	$ 4,677	$ (1,880)	$ 2,797	$ (11,898)	$ 4,794	$ (7,104)

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Contracts-in-Process

Contracts-in-Process are comprised of the following (in thousands):

	March 31, 2012	December 31, 2011
Contracts-in-Process:		
Amounts billed	$ 127,389	$ 107,920
Unbilled receivables	71,090	51,341
	$ 198,479	$ 159,261

As of March 31, 2012 and December 31, 2011, 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.

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 (see Note 10).

Receivable balances related to satellite orbital incentive payments, deferred billings and the Telesat consulting services fee (see Note 19) as of March 31, 2012 and December 31, 2011 are presented below (in thousands):

	March 31, 2012	December 31, 2011
Orbital receivables	$ 353,513	$ 354,852
Deferred receivables	8,669	1,973
Telesat consulting services receivable	20,700	20,700
	382,882	377,525
Less, current portion included in contracts-in-process	(15,923)	(14,837)
Long-term receivables	$ 366,959	$ 362,688

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED 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 March 31, 2012 (in thousands):

	Total	Unlaunched	Launched	Financing Receivables Subject To Aging	Current	90 Days or Less	More Than 90 Days
Satellite Manufacturing:							
Orbital Receivables							
Long term orbitals	$ 337,590	$ 140,675	$ 196,915	$ 196,915	$ 196,915	$	$
Short term unbilled	12,619		12,619	12,619	12,619		
Short term billed	3,304		3,304	3,304	3,304		
	353,513	140,675	212,838	212,838	212,838		
Deferred Receivables	8,669			8,669	8,669		
Consulting Services:							
Receivables from Telesat	20,700			20,700	20,700		
	382,882	140,675	212,838	242,207	242,207		
Contracts-in-Process:							
Unbilled receivables	58,471	58,471					
Total	$ 441,353	$ 199,146	$ 212,838	$ 242,207	$ 242,207	$	$

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

	Total	Unlaunched	Launched	Financing Receivables Subject To Aging	Current	90 Days or Less	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

Billed receivables of $124.1 million and $104.5 million as of March 31, 2012 and December 31, 2011, respectively (not including billed orbital receivables of $3.3 million and $3.5 million as of March 31, 2012 and December 31, 2011, respectively) have been excluded from the tables 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 $140.7 million and $141.5 million as of March 31, 2012 and December 31, 2011, 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 $58.5 million and $40.0 million as of March 31, 2012 and December 31, 2011, 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.

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED 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 (in thousands):

Rating Categories	March 31, 2012	December 31, 2011
A/BBB	$ 61,153	$ 41,607
BB/B	281,366	246,373
B/CCC	98,559	94,156
Customers in bankruptcy		39,307
Other	275	(3,947)
Total financing receivables	$ 441,353	$ 417,496

6. Inventories

Inventories are comprised of the following (in thousands):

	March 31, 2012	December 31, 2011
Inventories-gross	$ 117,042	$ 110,087
Impaired inventory	(31,406)	(31,360)
	85,636	78,727
Inventories included in other assets	(1,426)	(1,426)
	$ 84,210	$ 77,301

7. 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 March 31, 2012, SS/L had the following amounts denominated in Japanese yen and euros (which have been translated into U.S. dollars based on the March 31, 2012 exchange rates) that were unhedged (in thousands):

	Foreign Currency	U.S.$
Future revenues Japanese yen	¥ 43,175	$ 521
Future expenditures Japanese yen	¥ 3,204,959	$ 38,654
Future revenues euros	17,478	$ 23,328
Future expenditures euros	3,817	$ 5,095

13

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Derivatives and Hedging Transactions

All derivative instruments are recorded at fair value as either assets or liabilities in our condensed 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 March 31, 2012. 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.

In June 2010, SS/L was awarded a satellite contract denominated in euros and entered into a series of foreign exchange forward contracts with maturities through 2013, 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 March 31, 2012 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 (in thousands):

Maturity	Euro Amount	To Sell Hedge Contract Rate	At Market Rate
2012	27,244	$ 34,164	$ 36,351
2013	27,000	32,894	35,975
	54,244	$ 67,058	$ 72,326

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Balance Sheet Classification

The following summarizes the fair values and location in our condensed consolidated balance sheet of all derivatives held by the Company as of March 31, 2012 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts			Other current liabilities	$ 3,139
			Other liabilities	1,841
				4,980
Derivatives not designated as hedging instruments				
Foreign exchange contracts			Other current liabilities	211
			Other liabilities	77
Total derivatives				$ 5,268

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):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	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

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 three months ended March 31, 2012 and 2011, respectively (in thousands):

Derivatives in Cash Flow Hedging Relationships	Loss Recognized in OCI on Derivatives (Effective Portion)		Loss Reclassified from Accumulated OCI into Income (Effective Portion)			Gain (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing		
			Location	Amount		Location	Amount	
Three months ended March 31, 2012								
Foreign exchange contracts	$	(1,677)	Revenue	$	(3,277)	Revenue	$	207
						Interest income	$	
Three months ended March 31, 2011:								
Foreign exchange contracts	$	(11,572)	Revenue	$	(1,849)	Revenue	$	1,135
						Interest income	$	(1)

15

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash Flow Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivatives Location	Amount
Three months ended March 31, 2012		
Foreign exchange contracts	Revenue	$ 233
Three months ended March 31, 2011:		
Foreign exchange contracts	Revenue	$ (2,450)

We estimate that $5.6 million of losses from derivative instruments included in accumulated other comprehensive loss as of March 31, 2012 will be reclassified into earnings within the next 12 months.

8. Property, Plant and Equipment

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

	March 31, 2012	December 31, 2011
Land and land improvements	$ 27,036	$ 27,036
Buildings	69,182	69,182
Leasehold improvements	17,019	16,696
Equipment	193,539	182,987
Furniture and fixtures	32,722	31,412
Construction in progress	23,514	25,828
	363,012	353,141
Accumulated depreciation and amortization	(156,614)	(149,419)
	$ 206,398	$ 203,722

Depreciation and amortization expense for property, plant and equipment was $7.2 million and $6.9 million for the three months ended March 31, 2012 and 2011, respectively.

9. Investments in Affiliates

Investments in affiliates consist of (in thousands):

	March 31, 2012	December 31, 2011
Telesat Holdings Inc.	$ 9,723	$ 377,244
XTAR, LLC	68,480	68,991
	$ 78,203	$ 446,235

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

	Three Months Ended March 31, 2012	2011
Telesat Holdings Inc.	$ 7,380	$ 48,022
XTAR, LLC	(511)	(1,764)
Other		(12)
	$ 6,869	$ 46,246

16

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Three Months Ended March 31,	
	2012	**2011**
Revenues	$ 24,156	$ 42,251
Elimination of Loral s proportionate share of profits relating to affiliate transactions	(6,841)	(7,320)
Profits relating to affiliate transactions not eliminated	3,848	4,119

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

Telesat

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.

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

In connection with the closing of the Telesat Credit Agreement, the Board of Directors of Telesat approved a special cash distribution to Telesat s shareholders of CAD 656.5 million, including a distribution of CAD 420 million to Loral. The special distribution by Telesat to its shareholders was authorized to be paid in two tranches; the first tranche was paid by Telesat on March 28, 2012, with Loral receiving CAD 375 million ($376 million), and the second tranche is planned for payment later in 2012, with Loral to receive CAD 45 million. The special cash distribution received from Telesat has been reflected in our condensed consolidated balance sheet as a reduction to investment in affiliates. Also in March 2012, Telesat completed the refinancing of all of its issued and outstanding senior preferred shares, which were replaced with a promissory note of CAD 146 million, which was equal to the outstanding liquidation value and accrued dividends on the senior preferred shares. The promissory note requires payment of at least 50% of the principal amount on March 28, 2014, with the balance, if any, to be repaid no later than March 28, 2016. Telesat will pay interest on the promissory note in the amount of 9.75% for the first two years and adjusting thereafter to reflect the then-current market rate (but no less than 11% per annum). In connection with the cash distribution to Telesat s shareholders, on March 28, 2012 the Board of Directors of Telesat authorized cash payments of CAD 48.6 million to executives and certain employees of Telesat.

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. Under Telesat s note indenture, which is generally the most restrictive agreement, dividends may be paid only if there is a sufficient capacity under a restricted payment basket, which is based on a formula of cumulative consolidated EBITDA less 1.4 times cumulative consolidated interest expense. Under the terms of its note indenture, Telesat is permitted to pay 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 three months ended March 31, 2012 and 2011, Loral received payments from Telesat of $1.6 million and nil, respectively, for consulting fees and interest.

17

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Statement of Operations Data:		
Revenues	$ 196,023	$ 205,722
Operating expenses	(83,740)	(46,775)
Depreciation, amortization and stock-based compensation	(60,488)	(62,191)
Loss on disposition of long lived assets	(58)	(759)
Operating income	51,737	95,997
Interest expense	(51,690)	(56,312)
Expense of refinancing	(21,862)	
Foreign exchange gains	62,490	83,330
Losses on financial instruments	(26,425)	(29,723)
Other income	724	1,096
Income tax benefit (provision)	2,429	(15,725)
Net income	17,403	78,663

	March 31, 2012	December 31, 2011
Balance Sheet Data:		
Current assets	$ 301,849	$ 351,802
Total assets	5,420,132	5,347,174
Current liabilities	302,995	289,351
Long-term debt, including current portion	3,312,120	2,817,857
Promissory note	143,596	
Total liabilities	4,800,054	4,045,619
Redeemable preferred stock		138,485
Shareholders equity	620,078	1,163,070

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 72 MHz X-band transponders on the Spainsat satellite located at 30° W.L., owned by Hisdesat. These transponders, designated as XTAR-LANT, provide capacity to XTAR for additional X-band services and greater coverage and flexibility.

We regularly evaluate our investment in XTAR to determine whether there has been a decline in fair value that is other than temporary. 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 March 31, 2012, 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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

XTAR s lease obligation to Hisdesat for the XTAR-LANT transponders requires payments by XTAR of $24 million in 2012, with increases thereafter to a maximum of $28 million per year through the end of the useful life of the satellite which is estimated to be in 2022. Under this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. In March 2009, XTAR entered into an agreement with Hisdesat pursuant to which the past due balance on XTAR-LANT transponders of $32.3 million as of December 31, 2008, together with a deferral of $6.7 million in payments due in 2009, will be payable to Hisdesat over 12 years through annual payments of $5 million (the Catch Up Payments). XTAR has a right to prepay, at any time, all unpaid Catch Up Payments discounted at 9%. Cumulative amounts paid to Hisdesat for Catch Up Payments through March 31, 2012 were $15.4 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 19). The ability of XTAR to pay dividends and management fees in cash to Loral is governed by XTAR s shareholder agreements.

The following table presents summary financial data for XTAR as of March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and 2011 (in thousands):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Statement of Operations Data:		
Revenues	$ 7,851	$ 8,870
Operating expenses	(8,324)	(8,504)
Depreciation and amortization	(2,405)	(2,405)
Operating loss	(2,878)	(2,039)
Net loss	(3,671)	(3,137)

	March 31, 2012	December 31, 2011
Balance Sheet Data:		
Current assets	$ 9,509	$ 10,558
Total assets	84,580	88,033
Current liabilities	45,730	45,704
Total liabilities	54,832	54,614
Members equity	29,748	33,419

Other

As of March 31, 2012 and December 31, 2011, 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.

10. Intangible Assets

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

	Weighted Average	March 31, 2012	December 31, 2011

	Remaining Amortization Period (Years)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Internally developed software and technology	1	$ 59,027	$ (57,791)	$ 59,027	$ (57,173)
Trade names	14	9,200	(2,990)	9,200	(2,875)
		$ 68,227	$ (60,781)	$ 68,227	$ (60,048)

Table of Contents

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Total amortization expense for intangible assets was $0.7 million for the three months ended March 31, 2012 and 2011, respectively. Annual amortization expense for intangible assets for the five years ending December 31, 2016 is estimated to be as follows (in thousands):

2012	$	ITEM 4. CONTROLS AND PROCEDURES Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-14 and 13a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective. On October 15, 2002, we issued a press release announcing that the

filing of our Form 10-Q for the fiscal quarter ended August 31, 2002 would be delayed. We had conducted physical inventory counts and discovered certain inventory shortfalls and other adjustments. We delayed the filing of our Form 10-Q for the fiscal quarter ended August 31, 2002 in order to give us sufficient time to review the causes of such inventory adjustments and to determine if any of the financial statements for prior periods would need to be restated. We also reviewed our inventory accounting controls and determined that there were certain material weaknesses. As a result, we have taken a number of corrective measures to address these weaknesses. Our Irvine and Boise facilities have now been closed and consolidated into our Wheeling facility, where the employees have more experience in using our materials management system. In addition, we have implemented additional training procedures to ensure that this continues to be the case, have hired personnel with more experience in managing the accounting function in a manufacturing environment, and currently expect to install a new ERP system by the end of fiscal year 2003. The Company also intends to conduct quarterly physical inventory counts until it is satisfied that its systems are operating properly. There were no other significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of our evaluation.

PART II: OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Not applicable.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit Number	Description
99.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On June 4, 2002, we filed a Current Report on Form 8-K dated May 28, 2002 under Item 4 regarding the decision by our Board of Directors to dismiss McGladrey & Pullen LLP as our independent public accountants.

On July 9, 2002, we filed a Current Report on Form 8-K dated July 5, 2002 under Item 4 regarding the decision by our Board of Directors to appoint KPMG LLP as the our independent public accountants.

SIGNATURES

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

	TROY GROUP, INC.
March 17, 2003	/s/ Patrick J. Dirk
	Patrick J. Dirk
	Chairman, President and Chief Executive Officer
	/s/James W. Klingler
	James W. Klingler
	Vice President-Finance, Treasurer and Chief Financial Officer

21

CERTIFICATIONS

I, Patrick J. Dirk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Troy Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of

registrant s board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 17, 2003	/s/ Patrick J. Dirk Patrick J. Dirk President and Chief Executive

Officer

CERTIFICATIONS

I, James W. Klingler certify that:

1. I have reviewed this quarterly report on Form 10-Q of Troy Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of

registrant s board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 17, 2003	/s/James W. Klingler
	James W. Klingler
	Vice President-Finance, Treasurer and Chief Financial Officer

23

The written statements required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, accompanied the filing of this report by correspondence to the Securities and Exchange Commission.