

LORAL SPACE & COMMUNICATIONS INC.

Form 10-Q

November 09, 2009

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**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 September 30, 2009
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 ☒ No ☐

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

Indicate by check mark 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 ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a 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 ☒ 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 ☒

As of October 31, 2009, 20,349,269 shares of the registrant's voting common stock and 9,505,673 shares of the registrant's non-voting common stock were outstanding.

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For the quarterly period ended September 30, 2009**

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PART 1.
FINANCIAL INFORMATION

Item 1. Financial Statements

LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 173,417	\$ 117,548
Contracts-in-process	214,894	213,651
Inventories	92,749	109,755
Other current assets	29,291	54,286
Total current assets	510,351	495,240
Property, plant and equipment, net	202,243	188,270
Long-term receivables	231,827	184,701
Investments in affiliates	251,784	72,642
Intangible assets, net	23,120	31,578
Other assets	19,439	23,436
Total assets	\$ 1,238,764	\$ 995,867
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 99,599	\$ 91,052
Accrued employment costs	45,267	41,819
Customer advances and billings in excess of costs and profits	309,170	184,592
Other current liabilities	17,567	31,911
Total current liabilities	471,603	349,374
Borrowings under revolving credit facility		55,000
Pension and other post retirement liabilities	228,411	230,660
Long-term liabilities	159,995	151,176
Total liabilities	860,009	786,210
Commitments and contingencies		
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, 20,313,797 and 20,286,992 shares issued and outstanding	203	203
Non-voting common stock, \$.01 par value; 20,000,000 shares authorized, 9,505,673 shares issued and outstanding	95	95
Paid-in capital	1,011,952	1,007,011

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Accumulated deficit	(579,031)	(750,922)
Accumulated other comprehensive loss	(54,464)	(46,730)
Total equity	378,755	209,657
Total liabilities and equity	\$ 1,238,764	\$ 995,867

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
Revenues	\$ 249,237	\$ 212,519	\$ 733,175	\$ 639,117
Cost of revenues	212,009	194,715	663,425	585,830
Selling, general and administrative expenses	22,379	23,599	68,076	71,496
Gain on recovery from customer bankruptcy				(6,140)
Operating income (loss)	14,849	(5,795)	1,674	(12,069)
Interest and investment income	1,877	1,949	5,455	10,231
Interest expense	(707)	(523)	(754)	(1,179)
Gain on litigation recovery				58,295
Impairment of available for sale securities		(998)		(4,498)
Other expense	(7)	(66)	(106)	(362)
Income (loss) before income taxes and equity in net income (losses) of affiliates	16,012	(5,433)	6,269	50,418
Income tax (provision) benefit	(659)	561	(7,057)	(12,858)
Income (loss) before equity in net income (losses) of affiliates	15,353	(4,872)	(788)	37,560
Equity in net income (losses) of affiliates	93,071	(39,353)	172,679	(101,052)
Net income (loss) attributable to Loral Space & Communications Inc.	108,424	(44,225)	171,891	(63,492)
Preferred dividends		(6,214)		(18,301)
Net income (loss) applicable to Loral Space & Communications Inc. common shareholders	\$ 108,424	\$ (50,439)	\$ 171,891	\$ (81,793)
Basic and diluted income (loss) per share:				
Basic income (loss) per share	\$ 3.64	\$ (2.50)	\$ 5.78	\$ (4.06)
Diluted income (loss) per share	\$ 3.61	\$ (2.50)	\$ 5.75	\$ (4.06)
Weighted average shares outstanding:				
Basic	29,771	20,184	29,742	20,169
Diluted	30,004	20,184	29,870	20,169

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)
(Unaudited)

	Series A-1 Convertible Preferred Stock		Series B-1 Convertible Preferred Stock		Common Stock				Accumulated Other Comprehensive Income			
	Shares Issued	Amount	Shares Issued	Amount	Shares Issued	Amount	Non-Voting Shares Issued	Amount	Paid-In Capital	Accumulated Deficit	Income (Loss)	Total Equity
Balance, January 1, 2008	142	\$ 41,873	901	\$ 265,777	20,293	\$ 203			\$ 663,127	\$ (33,939)	\$ 36,517	\$ 973,558
Net loss												
Attributable to Loral Space & Communications Inc.										(692,916)		
Other comprehensive loss											(83,247)	
Comprehensive loss												(776,163)
Issuance of Series -1 preferred stock as payment for dividend	3	822	78	23,427								24,249
Restricted shares surrendered to and withholding taxes					(18)				(338)			(338)
Stock based compensation					12				7,621			7,621
Series-1 preferred dividends		618		4,179								4,797
Cancellation and conversion of Series-1 preferred stock to non-voting common stock	(145)	(43,313)	(979)	(293,383)			9,506	95	336,601			
Preferred stock dividends										(24,067)		(24,067)
Balance, December 31, 2008		\$		\$	20,287	\$ 203	9,506	\$ 95	\$ 1,007,011	\$ (750,922)	\$ (46,730)	\$ 209,657

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LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
Operating activities:		
Net income (loss)	\$ 171,891	\$ (63,492)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Non-cash operating items (Note 3)	(136,111)	159,354
Changes in operating assets and liabilities:		
Contracts-in-process	(8,492)	(186,857)
Inventories	17,006	(8,309)
Long-term receivables	(4,136)	19,140
Other current assets and other assets	2,359	(14,665)
Accounts payable	8,137	(979)
Accrued expenses and other current liabilities	(11,284)	(8,025)
Customer advances	85,407	4,595
Income taxes payable	18,266	(45,791)
Pension and other postretirement liabilities	(2,249)	(21,258)
Long-term liabilities	7,322	(4,360)
Net cash provided by (used in) operating activities	148,116	(170,647)
Investing activities:		
Capital expenditures	(32,200)	(44,459)
Decrease in restricted cash	10	561
Proceeds from the sale of short-term investments and available-for-sale securities		162
Distribution from equity investment	277	
Investment in affiliates	(4,480)	
Purchase of short-term investments		(500)
Net cash used in investing activities	(36,393)	(44,236)
Financing activities:		
Proceeds from the exercise of stock options	35	
Common stock repurchased to fund withholding taxes	(889)	
Repayment of borrowings under SS/L revolving credit facility	(55,000)	
Net cash used in financing activities	(55,854)	
Net increase (decrease) in cash and cash equivalents	55,869	(214,883)
Cash and cash equivalents beginning of period	117,548	314,694
Cash and cash equivalents end of period	\$ 173,417	\$ 99,811

See notes to condensed consolidated financial statements.

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**LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. Organization and Principal Business

Loral Space & Communications Inc. (Loral), together with its subsidiaries is a leading satellite communications company engaged in satellite manufacturing with investments in satellite-based communications services. 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).

The terms Loral, the Company, we, our and us when used in these financial statements with respect to the period to the Effective Date, are references to Old Loral, and when used with respect to the period commencing on and after the Effective Date, are references to Loral. These references include the subsidiaries of Old Loral or Loral, as the case may be, unless otherwise indicated or the context otherwise requires.

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 investment in Telesat Holdings Inc. (Telesat), a global provider of fixed satellite services. Telesat's satellite fleet operates in geosynchronous earth orbit approximately 22,000 miles above the equator. In this orbit, satellites remain in a fixed position relative to points on the earth's surface and provide reliable, high-bandwidth services anywhere in their coverage areas, serving as the backbone for many forms of telecommunications.

At September 30, 2009, Telesat had 11 in-orbit satellites and one recently launched satellite, Nimiq 5, which was placed into commercial service in October 2009. Telesat has contracted for the sale of all of the capacity on Nimiq 5 for 15 years or such later date as the customer may request. Telesat currently has one additional satellite under construction: Telstar 14R/Estrela do Sul 2, which Telesat anticipates will be operational in the second half of 2011. Telesat provides video distribution and DTH video, as well as end-to-end communications services using both satellite and hybrid satellite-ground networks.

Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat. We use the equity method of accounting for our investment in Telesat.

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 (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 and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2008 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.

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As noted above, we emerged from bankruptcy on November 21, 2005 and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 852, *Reorganizations* (ASC 852), 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.

Investments in Telesat and XTAR, L.L.C. (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. We capitalize interest cost on our investments, until such entities commence commercial operations.

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 orbital incentives) and the potential for component obsolescence in connection with long-term procurements. Significant estimates also include the estimated useful lives of our plant and equipment, and finite lived intangible assets, the fair value of indefinite lived intangible assets, the fair value of stock based compensation, the realization of deferred tax assets, 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, foreign exchange contracts, 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 who 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 provide for effective management of potential credit risks with regard to our current customer base. However, the global financial markets have been adversely impacted by the current market environment that includes illiquidity, market volatility, widening credit spreads, changes in interest rates, and currency exchange fluctuations. These credit and financial market conditions may have a negative impact on certain of our customers and could negatively impact the ability of such customers to pay amounts owed or to enter into future contracts with us.

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.

The provisions of ASC Topic 820 are applicable to all of the Company's assets and liabilities that are measured and recorded at fair value.

Table of Contents*Assets and liabilities measured at Fair Value on Recurring Basis*

The following table presents our assets and liabilities measured at fair value on a recurring basis at September 30, 2009:

	Level 1	Level 2 (In thousands)	Level 3
Assets:			
Marketable securities	\$ 748	\$	\$
Derivatives, net	\$	\$ 3,489	\$

The Company does not have any non-financial assets and non-financial liabilities that are recognized or disclosed at fair value on a recurring basis as of September 30, 2009.

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

We review the carrying values of our equity method investments when events and circumstances warrant and consider all available evidence in evaluating when declines in fair value are other than temporary. The fair values of our investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge would be recorded when the carrying amount of the investment exceeds its current fair value and is determined to be other than temporary. We had no equity-method investments measured at fair value at September 30, 2009.

Subsequent Events

In preparing these condensed consolidated financial statements, we have evaluated events and transactions for potential recognition or disclosure through the issuance of the condensed consolidated financial statements.

Recent Accounting Pronouncements

The amended provisions of ASC Topic 805, *Business Combinations* (ASC 805) were effective for the Company on January 1, 2009. The revisions extend the applicability of guidance provided by ASC 805 to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. It also requires the acquirer to recognize an adjustment to income tax expense for changes in the valuation allowance for acquired deferred tax assets and liabilities for uncertain tax positions. On January 1, 2009, the balances of our deferred tax valuation allowance and liabilities for uncertain tax positions from October 1, 2005 (our fresh start accounting date) were \$185.9 million and \$36.6 million, respectively.

Effective January 1, 2009, the Company adopted the amended provisions of ASC Subtopic 350-30, *General Intangibles Other than Goodwill*. The amendment revised the factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this change is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Effective January 1, 2009, the Company adopted the amended provisions of ASC 810, *Consolidation*. The revisions require that a non-controlling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the non-controlling interest be identified in the consolidated financial statements. The revisions call for consistency in the manner of reporting changes in the parent's ownership interest and require fair value measurement of any non-controlling equity investment retained in a deconsolidation. The adoption of the revised provisions did not have a material impact on our consolidated financial statements.

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Effective January 1, 2009 the Company adopted the expanded disclosure provisions of ASC Topic 815, *Derivatives and Hedging*, (ASC 815) and ASC Topic 825, *Financial Instruments* . The new provisions require increased qualitative, quantitative and credit-risk disclosures about an entity's derivative instruments and hedging activities but did not change the accounting for such instruments. Additionally, in April 2009, the FASB issued guidelines requiring an entity to provide disclosures about fair value of financial instruments in interim financial information. See Note 6 for the required disclosures.

On June 30, 2009, the Company adopted ASC Topic 855, *Subsequent Events* (ASC 855). ASC 855 establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 requires the disclosure of the date through which subsequent events have been evaluated and whether such date represents the date the financial statements were issued or were available to be issued. The adoption of ASC 855 did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167), which has not yet been incorporated into the FASB Accounting Standards Codification. SFAS 167 modifies the approach for determining the primary beneficiary of a variable interest entity (VIE). Under the modified approach, an enterprise is required to make a qualitative assessment whether it has (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If an enterprise has both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. The modified approach for determining the primary beneficiary of a VIE, effective for the Company on January 1, 2010, is not expected to have a material impact on our consolidated financial statements.

In December 2008, the FASB issued guidance relating to the disclosure requirements of ASC Topic 715, *Compensation - Retirement Benefits* (ASC 715). This guidance expands an employer's disclosures about plan assets of a defined benefit pension plan or other retirement plan. The Company will provide the required additional disclosures in our annual financial statements for the year ending December 31, 2009.

In November 2008, the FASB amended ASC Topic 323, *Investments - Equity Method and Joint Ventures* (ASC 323). As a result, transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor's ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. The amended guidance is effective for transactions occurring after December 31, 2008. The adoption of these provisions did not have a material impact on our consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value* that amends ASC Subtopic 820-10, *Fair Value Measurements and Disclosures - Overall*. The update provides guidance that in the absence of observable market information, the fair value of a liability should be determined using prescribed valuation techniques. The guidance, effective for the Company on October 1, 2009, is not expected to have a material impact on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605) - Multiple-Deliverable Revenue Arrangements* that amends ASC Subtopic 605-25, *Multiple-Element Arrangements* (ASC 605-25) to separate consideration in multiple-deliverable arrangements and significantly expand disclosure requirements. ASU No. 2009-13 establishes a hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The amended guidance, effective for the Company on January 1, 2011, is not expected to have a material impact on our consolidated financial statements.

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

	Nine Months Ended September 30,	
	2009	2008
Non-cash operating items:		
Equity in net (income) losses of affiliates	\$ (172,679)	\$ 101,052
Deferred taxes	(1,254)	22,032
Depreciation and amortization	29,550	26,327
Stock based compensation	6,366	5,925
Warranty expense accruals (reversals)	2,102	(414)
Increase in allowance for billed receivables	2,759	
Amortization of prior service credits and net actuarial gain	281	(2,487)
Gain on disposition of available-for-sale securities		(162)
Unrealized (gain) loss on non-qualified pension plan assets	(717)	851
Non-cash net interest (income) expense	(1,190)	649
(Gain) loss on foreign currency transactions and contracts	(898)	3,973
Amortization of fair value adjustments related to orbital incentives	(431)	(2,953)
Loss on disposition of assets		63
Impairment of available for sale securities		4,498
Net non-cash operating items	\$ (136,111)	\$ 159,354
Non-cash investing activities:		
Available for sale securities received in connection with the sale of Globalstar do Brazil	\$	\$ 6,000
Capital expenditures incurred not yet paid	\$ 2,116	\$ 1,810
Non-cash financing activities:		
Issuance of restricted stock	\$ 1,591	\$
Issuance of Loral Series-1 Preferred Stock as payment for dividend	\$	\$ 18,016
Accrued dividends on Series A-1 and Series B-1 preferred stock	\$	\$ 5,263
Supplemental information:		
Interest paid	\$ 1,700	\$ 998
Tax (refunds) payments	\$ (17,987)	\$ 34,156

At September 30, 2009 and December 31, 2008, the Company had \$5.6 million and \$5.7 million of restricted cash, respectively, of which \$0.6 million and \$0.7 million was in other current assets as of September 30, 2009 and December 31, 2008, respectively, and \$5.0 million was in other assets.

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The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended September 30,	
	2009	2008
Net income (loss)	\$ 108,424	\$ (44,225)
Amortization of prior service credits and net actuarial gains, net of tax benefit of \$335 in 2008	95	(494)
Proportionate share of Telesat Holdco other comprehensive loss	(613)	(1,049)
Unrealized (loss) gain on foreign currency hedges:		
Unrealized (loss) gain on foreign currency hedges, net of tax provision of \$4,623 in 2008	(2,340)	6,816
Less: reclassification adjustment for gains included in net income	(2,865)	
Net unrealized (loss) gain	(5,205)	6,816
Unrealized (loss) gain on securities:		
Unrealized (loss) gain on available-for-sale securities, net of tax benefit of \$413 in 2008	(285)	(609)
Less: reclassification adjustment for losses included in net income, net of tax provision of \$412 in 2008		585
Net unrealized loss	(285)	(24)
Comprehensive income (loss)	\$ 102,416	\$ (38,976)

	Nine Months Ended September 30,	
	2009	2008
Net income (loss)	\$ 171,891	\$ (63,492)
Amortization of prior service credits and net actuarial gains, net of tax benefit of \$1,005 in 2008	281	(1,482)
Cumulative translation adjustment		(498)
Proportionate share of Telesat Holdco other comprehensive income (loss)	2,231	(1,416)
Unrealized gain on foreign currency hedges:		
Unrealized (loss) gain on foreign currency hedges, net of tax provision of \$4,623 in 2008	(626)	6,816
Less: reclassification adjustment for gains included in net income	(10,171)	
Net unrealized (loss) gain	(10,797)	6,816
Unrealized gain (loss) on securities:		
Unrealized gain (loss) on available-for-sale securities, net of tax benefit of \$1,879 in 2008	551	(2,768)
Less: reclassification adjustment for losses included in net income, net of tax provision of \$1,752		2,584

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Net unrealized gain (loss)	551	(184)
Comprehensive income (loss)	\$ 164,157	\$ (60,256)

Table of Contents**5. Contracts-in-Process and Inventories**

Contracts-in-process and inventories are comprised of the following (in thousands):

	September 30, 2009	December 31, 2008
Contracts-in-Process:		
Amounts billed (net of allowance for doubtful accounts of \$3,682 and \$923)	\$ 154,481	\$ 122,455
Unbilled receivables	60,413	91,196
	\$ 214,894	\$ 213,651
Inventories:		
Inventories-gross	\$ 119,837	\$ 136,955
Allowance for obsolescence	(27,088)	(27,200)
	\$ 92,749	\$ 109,755

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.

6. Financial Instruments, Derivatives and Hedging Transactions*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

We, in the normal course of business, 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 September 30, 2009, SS/L had the following amounts denominated in Japanese Yen and EUROS (which have been translated into U.S. dollars based on the September 30, 2009 exchange rates) that were unhedged:

	Foreign Currency	U.S.\$
	(In thousands)	
Future revenues Japanese Yen	¥ 106,360	\$ 1,182
Future expenditures Japanese Yen	¥ 4,605,723	\$ 51,187
Contracts-in-process, unbilled receivables Japanese Yen	¥ 4,383	\$ 49
Future expenditures EUROS	3,420	\$ 4,990

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 under ASC Topic 815,

Derivatives and Hedging (ASC 815) 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 under ASC 815 and are used as economic hedges to manage certain risks in our business.

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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 only entering into contracts with carefully selected major financial institutions based upon their credit ratings and other factors.

The aggregate fair value of derivative instruments was a net asset position of \$3.5 million as of September 30, 2009. This amount represents the maximum exposure to loss at the reporting 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.

On July 9, 2008, SS/L was awarded a satellite contract denominated in EUROS and entered into a series of foreign exchange forward contracts with maturities through 2011 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 September 30, 2009 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	Euro Amount	To Sell At Contract Rate (In thousands)		At Market Rate	
2009	21,470	\$	32,119	\$	31,329
2010	19,210		29,389		28,031
2011	23,493		35,663		34,322
	64,173	\$	97,171	\$	93,682

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 September 30, 2009:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value (In thousands)	Balance Sheet Location	Fair Value
				(In thousands)
Derivatives designated as hedging instruments				
Foreign exchange contracts	Other current assets	\$ 2,199		\$
Foreign exchange contracts	Other assets	1,338		
		3,537		

**Derivatives not designated as
hedging instruments**

Foreign exchange contracts	Other assets	111	Other current liabilities	159
Total Derivatives		\$ 3,648		\$ 159

Table of Contents*Cash Flow Hedge Gains (Losses) Recognition*

The following summarizes the gains (losses) recognized in the condensed consolidated statement of operations and accumulated other comprehensive income for all derivatives for the nine months ended September 30, 2009:

Derivatives in Cash Flow	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) (In thousands)	Gain Reclassified from Accumulated OCI into Income (Effective Portion)		Loss on Derivative Ineffectiveness and amounts excluded from Effectiveness Testing	
		Location	Amount (In thousands)	Location	Amount (In thousands)
Foreign exchange contracts	\$ (890)	Revenue	\$ 10,171	Revenue	\$ (943)
Foreign exchange contracts	\$ 264			Interest income	\$ (70)

Cash Flow Derivatives Not Designated as Hedging Instruments	Gain Recognized in Income on Derivative	
	Location	Amount (In thousands)
Foreign exchange contracts	Revenue	\$ 120

We estimate that \$5.1 million of net gains from derivative instruments included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

7. Property, Plant and Equipment

	September 30, 2009	December 31, 2008
	(In thousands)	
Land and land improvements	\$ 26,852	\$ 26,913
Buildings	68,703	59,038
Leasehold improvements	11,093	10,870
Equipment, furniture and fixtures	150,307	133,916
Satellite capacity under construction (see Note 17)	22,625	10,478
Other construction in progress	16,100	21,863
	295,680	263,078
Accumulated depreciation and amortization	(93,437)	(74,808)
	\$ 202,243	\$ 188,270

Depreciation and amortization expense for property, plant and equipment was \$6.4 million and \$6.5 million for the three months ended September 30, 2009 and 2008, respectively and \$18.6 million and \$17.5 million for the nine months ended September 30, 2009 and 2008, respectively.

Table of Contents**8. Investments in Affiliates**

Investments in affiliates consists of:

	September 30, 2009	December 31, 2008
	(In thousands)	
Telesat Holdings Inc.	\$ 175,472	\$
XTAR, LLC	74,188	70,547
Other	2,124	2,095
	\$ 251,784	\$ 72,642

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

	Three Months Ended September 30, 2009 2008		Nine Months Ended September 30, 2009 2008	
	(In thousands)		(In thousands)	
Telesat Holdings Inc.	\$ 94,948	\$ (35,318)	\$ 173,240	\$ (88,661)
XTAR, LLC	(2,154)	(4,035)	(838)	(12,391)
Other	277		277	
	\$ 93,071	\$ (39,353)	\$ 172,679	\$ (101,052)

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

	Three Months Ended September 30, 2009 2008		Nine Months Ended September 30, 2009 2008	
	(In thousands)		(In thousands)	
Revenues	\$ 21,336	\$ 20,856	\$ 62,179	\$ 69,290
Elimination of Loral's proportionate share of profits relating to affiliate transactions	(6,804)	(1,050)	(7,047)	(4,864)
Profits relating to affiliate transactions not eliminated	3,817	591	3,969	2,731

We use the equity method of accounting for our investment in Telesat because we own 33 1/3% of the voting stock and do not exercise control via other means. Loral's equity in net income or loss of Telesat is based on our proportionate share of its 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 contribution of Loral Skynet 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 fair value adjustments applicable to the Loral Skynet assets and liabilities has been 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 them.

As of December 31, 2008 our investment in Telesat had been reduced to zero as a result of recording our proportionate interest in Telesat's losses. Equity in losses of affiliates, other than the elimination of our profit on transactions with such 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. During the year ended December 31, 2008, the Company recognized \$6.9 million of equity in losses of Telesat that due to an asset basis difference should have been recognized during the quarter ended March 31, 2009. The Company does not believe such amount is material to the consolidated financial statements for the year ended December 31, 2008, or the three and nine months ended September 30, 2009.

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Equity in net income (losses) of affiliates for the nine months ended September 30, 2009 includes equity in net losses of Telesat which were not recognized during the year ended December 31, 2008 and the three months ended March 31, 2009 as the carrying value of our investment in Telesat had been reduced to zero during 2008.

Telesat

The following table presents summary financial data for Telesat in accordance with U.S. GAAP:

Statement of Operations Data:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Revenues	\$ 170,510	\$ 169,744	\$ 507,907	\$ 508,631
Operating expenses	(52,722)	(61,586)	(155,926)	(195,449)
Depreciation, amortization and stock-based compensation	(54,660)	(55,028)	(160,783)	(170,249)
Gain on disposition of long-lived assets	29,648		29,648	
Operating income	92,775	53,129	220,846	142,932
Interest expense	(58,076)	(58,917)	(166,623)	(174,401)
Other income (expense)	142,863	(52,266)	249,498	(100,790)
Income tax (provision) benefit	(9,584)	4,561	(25,006)	1,233
Net income (loss)	167,978	(53,492)	278,715	(131,025)

Balance Sheet Data:

	September 30, 2009	December 31, 2008
	(In thousands)	
Current assets	\$ 203,399	\$ 179,769
Total assets	4,901,031	4,273,162
Current liabilities	191,479	171,423
Long-term debt, including current portion	2,957,703	2,901,620
Total liabilities	4,013,186	3,760,164
Redeemable preferred stock	132,244	116,044
Shareholders' equity	755,601	396,954

Other income (expense) included foreign exchange gains (losses) of \$238 million and \$(120) million for the three months ended September 30, 2009 and 2008, respectively, and \$394 million and \$(222) million for the nine months ended September 30, 2009 and 2008, respectively, and (losses) gains on financial instruments of \$(95) million and \$67 million for the three months ended September 30, 2009 and 2008, respectively, and \$(142) million and \$118 million for the nine months ended September 30, 2009 and 2008, respectively. Operating income for the three and nine months ended September 30, 2009 includes a gain of approximately \$30 million related to Telesat's transfer of its leasehold interests in Telstar 10 and related contracts to APT Satellite Company in July 2009 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 investment 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.

In January 2005, Hisdesat provided XTAR with a convertible loan in the amount of \$10.8 million due 2011, for which Hisdesat received enhanced governance rights in XTAR. If Hisdesat were to convert the loan into XTAR equity, our equity interest in XTAR would be reduced to 51%.

XTAR's lease obligation to Hisdesat for the XTAR-LANT transponders is \$23.4 million in 2009, with increases thereafter to a maximum of \$28 million per year through the end of the useful life of the satellite. 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 whereby 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%. 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 in respect of services provided by them to XTAR.

XTAR-EUR was launched on Arianespace, S.A.'s 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 incentive portion of the Launch Services Agreement in exchange for \$8.0 million payable in three installments. As of June 30, 2009, XTAR paid all three installments and has no further obligations under the Launch Services Agreement. As a result, XTAR's net income for the nine months ended September 30, 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. In response to the capital call Loral increased 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.

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The following table presents summary financial data for XTAR:
Statement of Operations Data:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Revenues	\$ 8,382	\$ 4,979	\$ 22,973	\$ 14,427
Operating expenses	(8,681)	(8,604)	(25,826)	(25,856)
Depreciation and amortization	(2,404)	(2,405)	(7,214)	(7,246)
Operating loss	(2,704)	(6,030)	(10,067)	(18,675)
Net loss	(3,832)	(7,206)	(1,458)	(22,168)

Balance Sheet Data:

	September	December 31,
	30,	2008
	2009	2008
	(In thousands)	
Current assets	\$ 7,664	\$ 9,107
Total assets	106,781	115,437
Current liabilities	42,745	41,314
Total liabilities	64,189	79,386
Members' equity	42,592	36,051

Other

On December 21, 2007, Loral and certain of its subsidiaries and DASA Globalstar LLC entered into an agreement to sell their respective interests in Globalstar do Brasil S.A. (GdB), the Globalstar Brazilian service provider, to Globalstar Inc. Closing of the transaction occurred on March 25, 2008. Pursuant to the sale agreement, Loral received 883,393 shares of common stock of Globalstar Inc. in consideration for the sale of its interest. The shares have been registered under the Securities Act of 1933 and may be sold by Loral without restriction. In addition, Loral agreed to indemnify Globalstar Inc. for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. Loral has agreed that proceeds from the sale of the Globalstar Inc. common stock received in the transaction will be kept in a segregated account and may be used only for payment of the indemnified liabilities. Remaining indemnified liabilities of \$0.9 million and \$1.4 million were included in current liabilities and \$6.9 million and \$8.8 million were included in long-term liabilities as of September 30, 2009 and December 31, 2008, respectively.

As of September 30, 2009, we owned 984,173 shares of Globalstar Inc. common stock including shares obtained in the sale of GdB, which are accounted for as available-for-sale securities, with a fair value of \$0.7 million. During the second quarter of 2008, management determined that there had been an other than temporary impairment in the fair values of Globalstar Inc. stock obtained in the sale of GdB. Accordingly, impairment charges of \$1.0 million and \$4.5 million were included in our condensed consolidated statement of operations for the three and nine months ended September 30, 2008, respectively. Unrealized (losses) gains, net of taxes, on Globalstar shares included in other comprehensive income were \$(0.3) million and nil for the three months ended September 30, 2009 and 2008, respectively, and \$0.6 million and \$0.3 million for the nine months ended September 30, 2009 and 2008, respectively.

Table of Contents**9. Intangible Assets and Amortization of Fair Value Adjustments**

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

	Weighted Average Remaining Amortization Period (Years)	September 30, 2009		December 31, 2008	
		Gross Amount (In thousands)	Accumulated Amortization (In thousands)	Gross Amount (In thousands)	Accumulated Amortization (In thousands)
Internally developed software and technology	2	\$ 59,027	\$ (43,267)	\$ 59,027	\$ (35,154)
Trade names	16	9,200	(1,840)	9,200	(1,495)
		\$ 68,227	\$ (45,107)	\$ 68,227	\$ (36,649)

Total amortization expense for intangible assets was \$2.8 million and \$2.9 million for the three months ended September 30, 2009 and 2008, respectively and \$8.5 million for each of the nine month periods ended September 30, 2009 and 2008. Annual amortization expense for intangible assets for the five years ending December 31, 2013 is estimated to be as follows (in thousands):

2009	\$ 11,276
2010	9,192
2011	2,931
2012	2,315
2013	460

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

	September 30, 2009	December 31, 2008
	(In thousands)	
Gross fair value adjustments	\$ (36,896)	\$ (36,896)
Accumulated amortization	17,059	19,084
	\$ (19,837)	\$ (17,812)

Net amortization of these fair value adjustments was a charge to expense of \$0.9 million and \$2.0 million for the three and nine months ended September 30, 2009, respectively, a charge to expense of \$0.6 million for the three months ended September 30, 2008 and a credit to expense of \$2.5 million for the nine months ended September 30, 2008.

Table of Contents**10. Debt***SS/L Credit Agreement*

On October 16, 2008, SS/L entered into a credit agreement with several banks and other financial institutions. The credit agreement provides for a \$100.0 million senior secured revolving credit facility. The revolving facility includes a \$50.0 million letter of credit sublimit. The credit agreement is for a term of three years, maturing on October 16, 2011.

The following summarizes information related to the SS/L credit agreement (in thousands, except percentages):

	September 30, 2009	December 31, 2008
Letters of credit outstanding	\$ 7,921	\$ 4,927
Borrowings		\$ 55,000
Interest rate on revolver borrowings		4.2575%

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Interest expense (including commitment and letter of credit fees)	\$ 248	\$	\$ 959	\$
Amortization of issuance costs	\$ 219	\$	\$ 657	\$

11. Income Taxes

During 2009 and 2008, we continued to maintain the 100% valuation allowance against our net deferred tax assets except with regard to our deferred tax assets related to AMT credit carryforwards. We will maintain the valuation allowance until sufficient positive evidence exists to support its reversal. For periods prior to January 1, 2009 any reduction to the balance of the valuation allowance as of October 1, 2005 first reduced goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital. For the three and nine months ended September 30, 2008, goodwill was reduced by \$37.5 million and \$38.1 million for the reversal of an excess valuation allowance. With the adoption of the amended provisions of ASC Topic 805, effective January 1, 2009, all reversals of the valuation allowance balance as of October 1, 2005 are recorded as a reduction to the income tax provision.

As of September 30, 2009, we had unrecognized tax benefits relating to uncertain tax positions of \$110.3 million. The Company recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense on a quarterly basis. As of September 30, 2009, we have accrued approximately \$19.2 million and \$23.8 million for the payment of potential tax-related interest and penalties, respectively.

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 2004. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. 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 several of our state income tax returns filed for 2004 and 2005 and our federal income tax returns filed for 2006, potentially resulting in the recognition of \$2.7 million of tax benefits.

The liability for uncertain tax positions is included in long-term liabilities in the condensed consolidated balance sheets. For the three and nine months ended September 30, 2009, we increased our liability for uncertain tax positions from \$114.4 million to \$117.0 million and from \$109.0 million to \$117.0 million, respectively. The increase of \$2.6 million and \$8.0 million for the three and nine months ended September 30, 2009, respectively, primarily related to (i) an increase of \$1.0 million and \$1.4 million to our current provision for uncertain tax positions for the three and nine months, respectively (which included an increase of \$0.4 million to our deferred tax assets resulting in a net increase of \$0.6 million and \$1.0 million to our income tax provision for the three and nine months, respectively); (ii) an increase of \$1.6 million and \$7.5 million to our current provision for potential additional interest and penalties

for the three and nine months, respectively; partially offset by (iii) a decrease of \$0.9 million from the reversal of liabilities for uncertain tax positions due to the expiration of the statute of limitations for the assessment of additional state tax for 2003 and 2004 treated as a current income tax benefit for the nine months ended September 30, 2009.

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For the three months ended September 30, 2008, we decreased our liability for uncertain tax positions from \$71.3 million to \$68.1 million and for the nine months ended September 30, 2008, we increased our liability for uncertain tax positions from \$68.0 million to \$68.1 million. The net decrease of \$3.2 million for the three months and the net increase of \$0.1 million for the nine months primarily related to (i) a decrease of \$2.9 million from the reversal of liabilities for uncertain tax positions due to the expiration of the statute of limitations for the assessment of additional federal tax for 2004, of which \$0.5 million was recorded as a reduction to goodwill, \$0.6 million was treated as a current income tax benefit and \$1.8 million reduced our deferred tax assets; (ii) a decrease of \$6.7 million from the utilization of net operating losses, provided by an increase to our Section 382 limitation, to satisfy the potential liability for various uncertain tax positions, of which \$13.7 million was recorded as a reduction to goodwill offset by an increase of \$7.0 million to our current provision for uncertain tax positions (which included an increase of \$1.8 million to our deferred tax assets resulting in a net increase of \$5.2 million to our income tax provision); offset by (iii) an increase to our current provision for uncertain tax positions and potential additional interest and penalties of \$6.4 million and \$9.7 million for the three and nine months ended September 30, 2008, respectively.

As of September 30, 2009, if our positions are sustained by the taxing authorities, approximately \$115.8 million would reduce the Company's future income tax provisions and \$1.2 million would reduce deferred tax assets. Other than as described above, there were no significant changes to our uncertain tax positions during the nine months ended September 30, 2009, and we do not anticipate any other significant increases or decreases to our unrecognized tax benefits during the next twelve months.

12. Equity

Common Stock

On November 10, 2008, the Court of Chancery of the State of Delaware (the "Court") issued an Implementing Order (the "Implementing Order") in the *In re: Loral Space and Communications Consolidated Litigation*. Effective December 22, 2008, pursuant to the Implementing Order, the Securities Purchase Agreement by and between Loral and MHR Fund Management LLC (together with its affiliates, "MHR"), as amended and restated on February 27, 2007 (the "SPA"), was reformed to provide for MHR to have purchased 9,505,673 shares of Loral Non-Voting Common Stock, which are in all respects identical to and treated equally with shares of Loral Voting Common Stock except for the absence of voting rights (other than as provided in the New Charter (defined below) or as provided by law), in exchange for the net payment of \$293.3 million made by MHR to Loral on February 27, 2007 in connection with the SPA. Pursuant to the Implementing Order, all other terms of the SPA are of no further force or effect.

Pursuant to the Implementing Order, on December 23, 2008, Loral filed an Amended and Restated Certificate of Incorporation (the "New Charter"). The New Charter has been accepted by the Secretary of State of Delaware and is the operative certificate of incorporation of Loral. The New Charter was ratified and amended by Loral's stockholders on May 19, 2009.

The New Charter, as amended, is substantially the same as the Restated Certificate of Incorporation of Loral previously in effect, except that the New Charter, as amended, provides that the total authorized capital stock of the Company is eighty million (80,000,000) shares consisting of two classes: (i) seventy million (70,000,000) shares of Common Stock, \$0.01 par value per share divided into two series, of which 50,000,000 shares are Voting Common Stock and 20,000,000 shares are Non-Voting Common Stock, and (ii) ten million (10,000,000) shares of Preferred Stock, \$0.01 par value per share.

As a result of the cancellation of the Loral Series-1 Preferred Stock and the issuance of the Non-Voting Common Stock on December 23, 2008, equity in our consolidated balance sheet has been adjusted to include the Non-Voting Common Stock at its fair value on December 23, 2008 and remove the Loral Series-1 Preferred Stock balances. Fair value was determined based on the closing market price per share of Loral common stock on December 23, 2008. The difference between the fair value of the 9,505,673 shares of Non-Voting Common Stock and the carrying value of the Loral Series-1 Preferred Stock, including accrued dividends thereon, has been reflected as an increase to paid-in capital.

In addition, the Certificates of Designation of the Series A Preferred Stock (defined below) and Series B Preferred Stock (defined below) were eliminated and are of no further force and effect.

Preferred Stock

On February 27, 2007 (the Issuance Date), Loral completed a \$300.0 million preferred stock financing pursuant to the SPA, under which Loral sold 136,526 shares of its Series A-1 cumulative 7.5% convertible preferred stock (the Series A-1 Preferred Stock) and 858,486 shares of its Series B-1 cumulative 7.5% convertible preferred stock (the Series B-1 Preferred Stock) and, together with the Series A-1 Preferred Stock, the Loral Series-1 Preferred Stock) at a purchase price of \$301.504 per share to various funds affiliated with MHR (the MHR Funds).

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Prior to the conversion of the Loral Series-1 Preferred Stock to Non-Voting Common Stock, the Loral Series-1 Preferred Stock had, among others, the following terms:

Each share of the Series A-1 Preferred Stock was convertible, at the option of the holder, into ten shares of Loral common stock at a conversion price of \$30.1504 per share. The conversion price reflected a premium of 12% to the closing price of Loral's common stock on October 16, 2006. The conversion price was subject to customary adjustments. Dividends on the Loral Series-1 Preferred Stock were paid in kind (i.e., in additional shares of Loral Series-1 Preferred Stock).

The Company paid dividends of \$6.1 million through the issuance of 121 shares and 20,168 shares of Series A-1 and Series B-1 Preferred Stock, respectively, during the three months ended September 30, 2008 and \$18 million through the issuance of 2,677 shares and 57,077 shares of Series A-1 and Series B-1 Preferred Stock, respectively, during the nine months ended September 30, 2008.

Loral incurred issuance costs of \$8.9 million in connection with this preferred stock financing. In addition, Loral paid MHR a placement fee of \$6.8 million upon closing of the financing.

Stock Plans

As of September 30, 2009, there were 277,453 shares of Loral common stock available for future grant under the Company's Amended and Restated 2005 Stock Incentive Plan. This number of common shares available would be reduced if SS/L phantom stock appreciation rights are settled in Loral common stock.

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.

Michael B. Targoff, Chief Executive Officer of Loral, 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 will be 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 as of September 30, 2009, because the average closing price of the Voting Common Stock over a period of 20 consecutive trading days has been at or above \$25 prior to September 30, 2009. Both the Initial Grant and the Subsequent Grants will be settled on March 31, 2013.

C. Patrick DeWitt, Senior Vice President of Loral and Chief Executive Officer of SS/L, was awarded 25,000 RSUs on March 5, 2009, of which 66.67% vest 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.

In April 2009, other SS/L employees were granted 66,259 shares of Loral voting common stock which are fully vested as of the grant date.

In June 2009, Mr. Targoff was awarded an option to purchase 125,000 shares of Loral voting common stock with an exercise price of \$35 per share. The option is 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.

In June 2009, certain other key employees were granted 225,000 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.

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The SS/L Phantom SARs awarded in June 2009 have the following vesting schedule: 50% vest on March 18, 2010, 25% vest on March 18 of 2011 and 25% vest on March 18, 2012. SS/L Phantom SARs are settled and the SAR value (if any) is paid out on each vesting date. The SS/L Phantom SARs expire on June 30, 2016. SS/L Phantom SARs may be settled in Loral common stock (based on the fair value of Loral common stock on the date of settlement) or cash at the option of the Company. The fair value of the SS/L Phantom SARs is included as a liability in our consolidated balance sheets. This liability will be adjusted each period to reflect the fair value of the underlying SS/L shares. As of September 30, 2009, the amount of the liability in our consolidated balance sheet related to the SS/L Phantom SARs was \$0.6 million.

In October 2009, an additional 242,500 SS/L Phantom SARs, with the same terms as those issued in June 2009, were awarded to employees.

Also, in October 2009, 50,000 SS/L Phantom SARs were awarded to Mr. DeWitt. These SS/L Phantom SARs have the same terms as those issued in June 2009, except that 25% vest on March 18 of each year from 2010 to 2013.

Incremental charges to expense for stock-based compensation related to grants subsequent to December 31, 2008 under the Company's Amended and Restated 2005 Stock Incentive Plan were \$1.1 million and \$3.5 million for the three and nine months ended September 30, 2009, respectively.

Total stock-based compensation for the three and nine months ended September 30, 2009 was \$1.8 million and \$6.4 million, respectively.

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The following table provides the components of net periodic benefit cost for our qualified and supplemental retirement plans (the Pension Benefits) and health care and life insurance benefits for retired employees and dependents (the Other Benefits) for the three and nine months ended September 30, 2009 and 2008:

	Pension Benefits		Other Benefits	
	Three Months		Three Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Service cost	\$ 2,261	\$ 2,039	\$ 264	\$ 335
Interest cost	5,996	5,787	1,050	1,164
Expected return on plan assets	(4,273)	(6,157)	(13)	(20)
Amortization of prior service credits and net actuarial loss or (gain)	226	(707)	(133)	(122)
	\$ 4,210	\$ 962	\$ 1,168	\$ 1,357

	Pension Benefits		Other Benefits	
	Nine Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Service cost	\$ 6,783	\$ 6,117	\$ 792	\$ 1,005
Interest cost	17,988	17,361	3,150	3,492
Expected return on plan assets	(12,819)	(18,471)	(39)	(60)
Amortization of prior service credits and net actuarial loss or (gain)	678	(2,121)	(399)	(366)
	\$ 12,630	\$ 2,886	\$ 3,504	\$ 4,071

14. Commitments and Contingencies***Financial Matters***

SS/L has deferred revenue and accrued liabilities for performance warranty obligations relating to 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 nine months ended September 30, 2009, is as follows (in thousands):

Balance of deferred amounts at January 1, 2009	\$ 36,255
Warranty costs incurred including payments	(916)
Accruals relating to pre-existing contracts (including changes in estimates)	3,993
Balance of deferred amounts at September 30, 2009	\$ 39,332

Loral has restructured its corporate functions reducing the number of employees at its headquarters and consolidating some functions at SS/L. In the fourth quarter of 2007 and the second quarter of 2008, Loral charged approximately \$7.0 million and \$0.3 million, respectively, to selling, general and administrative expenses, mainly for severance and related costs, and expects to make cash payments related to the restructuring primarily through 2009. Loral paid restructuring costs of approximately \$0.3 million and \$1.3 million for the three months ended September 30, 2009 and 2008, respectively and \$1.3 million and \$4.8 million for the nine months ended September 30, 2009 and 2008, respectively and paid cumulative restructuring costs of \$7.0 million as of September 30, 2009. The liability recorded in the condensed consolidated balance sheet for the restructuring was \$0.3 million at September 30, 2009.

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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 (orbitals), 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 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 condensed consolidated balance sheet as of September 30, 2009 were \$223 million, net of fair value adjustments of \$20 million. Approximately \$108 million of these orbital receivables are related to satellites launched as of September 30, 2009 and \$135 million are related to satellites under construction as of September 30, 2009. There were no vendor financing receivables in our condensed consolidated balance sheet as of September 30, 2009.

As of September 30, 2009, SS/L had past due 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 \$6 million. In addition, ICO has future payment obligations to SS/L which total in excess of \$26 million, of which approximately \$12 million (including \$9 million of orbital incentives) is included in long-term receivables. ICO, which filed for bankruptcy protection 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. ICO's plan of reorganization was confirmed by the ICO Bankruptcy Court in October 2009. The effective date of the plan is subject to, among other things, funding of a new exit financing facility, regulatory approval of the FCC and favorable resolution of any appeals or a finding that such appeals are moot.

SS/L also had a past due receivable in the aggregate amount of approximately \$3 million from Protostar Ltd. (Protostar), another highly-leveraged customer with an SS/L-built satellite in orbit, which amount was included in contracts in process. Protostar filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code in July 2009 and, in October 2009, SS/L filed a proof of claim with respect to its receivable. On October 29, 2009, Protostar conducted an auction for the sale of substantially all of the assets of Protostar I Ltd., including Protostar I, its SS/L-built satellite, and the sale to the winning bidder was approved by the Protostar Bankruptcy Court on November 4, 2009. In consideration of SS/L's ongoing business relationship with the winning bidder, SS/L withdrew its claim subject to the closing of the sale to the winning bidder and has established an allowance as of September 30, 2009 against the full amount of the Protostar receivable.

On July 30, 2007, SS/L entered into an Amended and Restated Customer Credit Agreement (the Sirius Credit Agreement) with Sirius Satellite Radio Inc. (Sirius). Any loans made under the Sirius Credit Agreement are secured by Sirius' right, title and interest in its rights under the Amended and Restated Satellite Purchase Agreement between Sirius and SS/L dated as of July 23, 2007 (the Satellite Purchase Agreement) for the purchase of the Sirius FM-5 and FM-6 Satellites (the Sirius Satellites), including its rights in and to the Sirius Satellites. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc. and any future material subsidiary that may be formed or acquired by Sirius, other than XM Radio and any other subsidiary designated as an unrestricted subsidiary under the indenture governing Sirius's 9 5/8% senior notes due 2013. The maturity date of the loans is the earliest to occur of (i) June 10, 2010, (ii) 90 days after the FM-6 Satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the FM-6 Satellite. Loans made under the Sirius Credit Agreement generally bear interest at a variable rate equal to three-month LIBOR plus a margin. The Sirius Credit Agreement

permits Sirius to prepay all or a portion of the loans outstanding without penalty. SS/L believes that, as of September 30, 2009, subject to satisfaction of the conditions set forth in the Sirius Credit Agreement, Sirius would be eligible to borrow up to \$20 million under the Sirius Credit Agreement upon incurrence of future milestone payments on the FM-6 Satellite. As of September 30, 2009, no loans were outstanding under the Sirius Credit Agreement. Sirius had previously requested payment from SS/L of \$15 million in liquidated damages with respect to the claimed late delivery of the FM-5 Satellite. In October 2009, Sirius agreed that it was not entitled to such payment. 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.

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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 of the satellites built by SS/L and launched since 1997 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 orbital incentive payments to SS/L. SS/L has implemented remediation measures that SS/L believes will prevent satellites launched after June 2001 from experiencing similar anomalies. 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 requires the satellite for the continued operation of its 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 and liquidated damages, which through September 30, 2009 totaled approximately \$104 million, plus re-procurement costs and interest. In the event of a termination for default, SS/L would own the satellite and would attempt to recoup any losses through resale to another customer.

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. EchoStar has also stated that it is currently evaluating potential alternative uses for the CMBStar satellite. 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 it will not incur a material loss with respect to this program.

In November 2004, Galaxy 27 (formerly Telstar 7) experienced an anomaly which caused it to completely cease operations for several days before it was partially recovered. In June 2008, Galaxy 26 (formerly Telstar 6) experienced a similar anomaly which caused the loss of power to one of the satellite's solar arrays. Three other satellites manufactured by SS/L for other customers have designs similar to Galaxy 27 and Galaxy 26 and, therefore, could be susceptible to similar anomalies in the future. A partial or complete loss of these satellites could result in the incurrence of warranty payments by SS/L of up to \$3.6 million, of which \$0.8 million has been accrued as of September 30, 2009.

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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 may also be required under the terms of our customer contracts to indemnify our customers for damages.

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 10 and 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.

Legal Proceedings

Delaware Shareholder Litigation

In connection with the *In re: Loral Space and Communications Inc. Consolidated Litigation* relating to the Company's sale of \$300 million of preferred stock to certain funds affiliated with MHR (the "MHR Funds") pursuant to the Securities Purchase Agreement dated October 17, 2006, as amended and restated on February 27, 2007 (the "Securities Purchase Agreement"), the Company filed an appeal with the Delaware Supreme Court with respect to the February 20, 2008 order of the Court of Chancery of the State of Delaware in and for New Castle County (the "Chancery Court") granting certification of the class of Loral shareholders and the December 22, 2008 order resolving plaintiffs' attorneys' applications for attorneys' fees and expenses that awarded class counsel in the litigation fees and expenses in the amount of \$10.6 million (the "Class Counsel Award") which Loral paid on December 31, 2008. On July 23, 2009, the Delaware Supreme Court affirmed the judgment of the Chancery Court. In addition, in January 2009, Loral paid counsel for the derivative plaintiffs in the litigation a total amount of \$8.8 million for fees and expenses incurred in connection with the litigation (the "Derivative Fee Award" and, together with the Class Counsel Award, the "Fee Awards"), which was accrued in other current liabilities on the consolidated balance sheet at December 31, 2008.

Insurance Coverage Litigation

The Company is obligated to indemnify its directors and officers for expenses incurred by them in connection with their defense in the shareholder derivative litigation described above and the related *Babus* shareholder litigation in New York. The Company has purchased directors and officers liability insurance coverage that provides the Company with coverage of up to \$40 million for amounts paid as a result of the Company's indemnification obligations to its directors and officers and for losses incurred by the Company in certain circumstances, including shareholder derivative actions.

The Company's insurers have denied coverage of the Fee Awards and, in December 2008, commenced an action against the Company in the Supreme Court of the State of New York, County of New York, seeking a declaratory judgment declaring that (x) the applicable insurance policies do not provide coverage for the Fee Awards; (y) even if the terms of the policies would otherwise cover the Fee Awards, Loral breached the cooperation clause of the policies thereby relieving the insurers of any liability under the policies; and (z) in the alternative, to the extent that the court finds that Loral is entitled to coverage of the Fee Awards, coverage is available only for a small portion of the Derivative Fee Award. The Company believes that the Fee Awards are covered by and reimbursable under its insurance and, in February 2009, the Company filed its answer and counterclaims in which it asserted its rights to coverage. In April 2009, the insurers filed their reply and defenses to the Company's counterclaims. In May 2009, the insurers filed a motion for partial summary judgment declaring that there is no coverage for the Fee Awards. In July 2009, the Company filed its opposition to the insurers' motion and its own cross motion for partial summary

judgment declaring that the Fee Awards are covered under the applicable insurance policies. In October 2009, the court heard oral argument on the motions for partial summary judgment, and the court's decision is pending.

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The Company has received requests for indemnification and advancement of expenses from its directors who are not affiliated with MHR under their indemnification agreements with the Company for any losses or costs they may incur as a result of the *In re: Loral Space and Communications Inc. Consolidated Litigation* and *Babus* lawsuits. As of September 30, 2009, after giving effect to a \$5.0 million deductible, the insurers have advanced approximately \$9.8 million in defense costs for the Company's directors who are not affiliated with MHR, but have denied coverage for approximately \$1.1 million of such defense costs (the Denied Fees and Expenses). The Company is disputing the insurers' denial of the Denied Fees and Expenses and is seeking to recover such fees and expenses in the above-referenced insurance coverage litigation.

In addition, the Company has received a request for indemnification from its directors who are affiliated with MHR for defense costs in the amount, as of November 30, 2008, of approximately \$18 million (the MHR-Affiliated Director Indemnity Claim). The Company has received an opinion from an independent counsel that the MHR-affiliated directors are entitled to indemnification for reasonable expenses incurred by them in defense of the claims asserted against them in their capacity as directors. The Company has referred the request for indemnification to Mr. John Stenbit, who has been appointed by the Board of Directors to act as an independent special committee of the Board with respect to determination of the amount of defense costs properly allocable to the MHR-affiliated directors in their capacity as Loral directors and for which they are entitled to indemnification. Since the special committee has not yet made any determinations with respect to its assignment, the Company cannot estimate how much, if any, of the \$18 million claimed by the directors affiliated with MHR will be subject to indemnification. In addition, the insurers have taken the position that it appears that no coverage is available for the MHR-Affiliated Director Indemnity Claim and have reserved their rights with respect thereto. The Company does not agree with the insurers' position and is seeking to recover from the insurers in the above-referenced insurance coverage litigation any fees and expenses that may properly be payable to the MHR-affiliated directors.

There can be no assurance that the Company's positions regarding insurance coverage for the Fee Awards, the Denied Fees and Expenses or the MHR-Affiliated Director Indemnity Claim will prevail or, if it does prevail on one or more of its positions, that the coverage limit will be adequate to cover the Fee Awards, all defense costs for its directors (including any amounts properly payable to the MHR-affiliated directors) and the Denied Fees and Expenses.

Informal SEC Inquiry

In June and July 2007, we received letters from the Staff of the Division of Enforcement of the SEC informing the Company that it is conducting an informal inquiry and requesting that the Company provide certain documents and information relating primarily to the Securities Purchase Agreement and activities before and after its execution as well as documents and information relating to the redemption of certain notes issued by Loral Skynet and documents and information regarding the directors and officers of Loral. The letter advised that the informal inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred, or as an adverse reflection upon any person or security. The Company has fully cooperated with the SEC staff during the investigation. There has been no activity with respect to the investigation since November 2007. In addition, the Company has received requests for indemnification and advancement of expenses from certain of its advisors with respect to costs they may incur as a result of compliance with SEC document requests.

Reorganization Matters

On July 15, 2003, Old Loral and certain of its subsidiaries (collectively with Old Loral, the Debtors) filed voluntary petitions for reorganization under chapter 11 of title 11 (Chapter 11) of the United States Code (the Bankruptcy Code) in the U.S. Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) (Lead Case No. 03-41710 (RDD), Case Nos. 03-41709 (RDD) through 03-41728 (RDD)) (the Chapter 11 Cases). The Debtors emerged from Chapter 11 on November 21, 2005 pursuant to the terms of their fourth amended joint plan of reorganization, as modified (the Plan of Reorganization).

Disputed Claims. In connection with our Plan of Reorganization, certain claims were filed against Old Loral and certain of its subsidiaries, the validity or amount of which we disputed. To the extent any disputed claims become allowed claims, the claimants would be entitled to distributions under the Plan of Reorganization based upon the amount of the allowed claim, payable either in cash for claims against SS/L or Loral SpaceCom Corporation or in Loral common stock for all other claims. As of September 30, 2009, except with respect to the D&O Claims discussed

below, we have resolved all disputed claims and all 20 million shares of Loral common stock distributable under the Plan of Reorganization have been distributed. Pursuant to a stipulation agreement and order of the Bankruptcy Court entered in August 2009, a disputed claim for \$3.0 million of the proceeds of our \$58 million judgment against Rainbow DBS Holdings, Inc. was allowed and 36,697 shares of Loral common stock were distributed to the claimant in full and final satisfaction of its claim. The effect of the issuance of the common stock attributable to this claim was recorded in connection with our fresh-start accounting as of October 1, 2005.

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Indemnification Claims of Directors and Officers of Old Loral. Old Loral was obligated to indemnify its directors and officers for, among other things, any losses or costs they may incur as a result of the lawsuits described below in *Old Loral Class Action Securities Litigations*. Most directors and officers have filed proofs of claim (the "D&O Claims") in unliquidated amounts with respect to the prepetition indemnity obligations of the Debtors. The Debtors and these directors and officers have agreed that in no event will their indemnity claims against Old Loral and Loral Orion, Inc. in the aggregate exceed \$25 million and \$5 million, respectively. If any of these claims ultimately becomes an allowed claim under the Plan of Reorganization, the claimant would be entitled to a distribution under the Plan of Reorganization of Loral common stock based upon the amount of the allowed claim. Any such distribution of stock would be in addition to the 20 million shares of Loral common stock distributed under the Plan of Reorganization to other creditors. Instead of issuing such additional shares, Loral may elect to satisfy any allowed claim in cash in an amount equal to the number of shares to which plaintiffs would have been entitled multiplied by \$27.75 or in a combination of additional shares and cash. We believe, although no assurance can be given, that Loral will not incur any substantial losses as a result of these claims.

Old Loral Class Action Securities Litigations

Beleson. In August 2003, plaintiffs Robert Beleson and Harvey Matcovsky filed a purported class action complaint against Bernard L. Schwartz, the former Chief Executive Officer of Loral, in the United States District Court for the Southern District of New York. The complaint sought, among other things, damages in an unspecified amount and reimbursement of plaintiffs' reasonable costs and expenses. The complaint alleged (a) that Mr. Schwartz violated Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about our financial condition relating to the sale of assets to Intelsat and our chapter 11 filing and (b) that Mr. Schwartz is secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as an alleged controlling person of Old Loral. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Loral common stock during the period from June 30, 2003 through July 15, 2003, excluding the defendant and certain persons related to or affiliated with him. In November 2003, three other complaints against Mr. Schwartz with substantially similar allegations were consolidated into the *Beleson* case. The defendant filed a motion for summary judgment in July 2008 and plaintiffs filed a cross-motion for partial summary judgment in September 2008. On February 24, 2009, the court granted defendant's motion and denied plaintiffs' cross motion. On or about March 24, 2009, plaintiffs filed a notice of appeal with respect to the court's decision, and the appeal is pending. Since this case was not brought against Old Loral, but only against one of its officers, we believe, although no assurance can be given, that, to the extent that any award is ultimately granted to the plaintiffs in this action, the liability of Loral, if any, with respect thereto is limited solely to the D&O Claims as described above under *Reorganization Matters - Indemnification Claims*.

Christ. In November 2003, plaintiffs Tony Christ, individually and as custodian for Brian and Katelyn Christ, Casey Crawford, Thomas Orndorff and Marvin Rich, filed a purported class action complaint against Bernard L. Schwartz and Richard J. Townsend, the former Chief Financial Officer of Loral, in the United States District Court for the Southern District of New York. The complaint sought, among other things, damages in an unspecified amount and reimbursement of plaintiffs' reasonable costs and expenses. The complaint alleged (a) that defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about Old Loral's financial condition relating to the restatement in 2003 of the financial statements for the second and third quarters of 2002 to correct accounting for certain general and administrative expenses and the alleged improper accounting for a satellite transaction with APT Satellite Company Ltd. and (b) that each of the defendants is secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as an alleged controlling person of Old Loral. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Loral common stock during the period from July 31, 2002 through June 29, 2003, excluding the defendants and certain persons related to or affiliated with them. On September 30, 2008, the parties entered into an agreement to settle the case, pursuant to which a settlement will be funded entirely by Old Loral's directors and officers liability insurer, and Loral will not be required to make any contribution toward the settlement. By order dated February 26, 2009, the court finally approved the settlement as fair, reasonable and adequate and in the best interests of the class. Certain class members objected to the settlement and filed a notice of appeal, and other

class members, who together had class period purchases valued at approximately \$550,000, elected to opt out of the class action settlement and commenced individual lawsuits against the defendants. On August 4, 2009, the objecting and opt-out class members entered into an agreement with the defendants to settle their claims, pursuant to which a settlement will be funded entirely by Old Loral's directors and officers liability insurer, and Loral will not be required to make any contribution toward the settlement. In addition, on or about March 24, 2009, at the time that they filed a notice of appeal with respect to the *Beleson* decision (discussed above), the plaintiffs in the *Beleson* case also filed a notice of appeal with respect to the court's decision approving the *Christ* settlement, arguing that the *Christ* settlement impairs the rights of the *Beleson* class. This appeal is pending, and a briefing schedule has not yet been set by the court. Since this case was not brought against Old Loral, but only against certain of its officers, we believe, although no assurance can be given, that, should the settlement not be consummated or should any objectors who opted out of the settlement prevail in lawsuits they may bring, to the extent that any award is ultimately granted to the plaintiffs or objectors in this action, the liability of Loral, if any, with respect thereto is limited solely to the D&O Claims as described above under *Reorganization Matters Indemnification Claims*.

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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.

15. Earnings (Loss) Per Share

Basic earnings (loss) 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 weighted average common shares outstanding for diluted earnings (loss) per share:

	Three Months Ended September 30, 2009 2008 (In thousands)		Nine Months Ended September 30, 2009 2008 (In thousands)	
Common and potential common shares:				
Weighted average common shares outstanding	29,771	20,184	29,742	20,169
Unvested restricted stock units	145		96	
Unvested restricted stock	2		4	
Unvested SARS	86		28	
Common and potential common shares	30,004	20,184	29,870	20,169

For the three and nine months ended September 30, 2009, the effect of 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 loss per share, as the effect would have been antidilutive. For the three and nine months ended September 30, 2008, all stock options outstanding, non-vested restricted stock and non-vested RSUs were excluded from the calculation of diluted loss per share as the effect would have been anti-dilutive. The following summarizes stock options outstanding, non-vested restricted stock and non-vested restricted stock units excluded from the calculation of diluted income (loss) per share:

	September 30, 2009 2008	
Stock options outstanding	2,157,952	2,034,202
Shares of non-vested restricted stock	40,577	107,731
Non-vested restricted stock units	23,250	

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16. Segments

Loral has two operating 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 three and nine months ended September 30, 2009 and 2008. 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 under the equity method of accounting. Our investment in XTAR, for which we use the equity method of accounting, is included in Corporate.

We 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. The common definition of EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization. In evaluating financial performance, we use revenues and operating income (loss) before depreciation, amortization and stock-based compensation (including stock-based compensation from SS/L Phantom SARs expected to be settled in Loral common stock) (Adjusted EBITDA) as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before gain on litigation recovery, impairment of available for sale securities, Satellite Services gain on disposition of long-lived assets, other expense and equity in net income (losses) of affiliates.

Adjusted EBITDA allows us and investors to compare our operating results with that of competitors exclusive of depreciation, amortization and stock based compensation, interest and investment income, interest expense, gain on litigation recovery, impairment of available for sale securities, Satellite Services gain on disposition of long-lived assets, other expense and equity in net losses 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. 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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Intersegment revenues primarily consists of satellites under construction by Satellite Manufacturing for Loral. Summarized financial information concerning the reportable segments is as follows:

	Three Months Ended September 30, 2009 2008 (In thousands)		Nine Months Ended September 30, 2009 2008 (In thousands)	
Revenues				
Satellite manufacturing:				
External revenues	\$ 227,908	\$ 191,663	\$ 671,016	\$ 569,827
Intersegment revenues ⁽¹⁾	25,611	24,637	74,809	76,504
Satellite manufacturing revenues	253,519	216,300	745,825	646,331
Satellite services revenues ⁽²⁾	170,510	169,744	507,907	508,631
Operating segment revenues before eliminations	424,029	386,044	1,253,732	1,154,962
Intercompany eliminations ⁽³⁾	(4,282)	(3,781)	(12,650)	(7,214)
Affiliate eliminations ⁽²⁾	(170,510)	(169,744)	(507,907)	(508,631)
Total revenues as reported	\$ 249,237	\$ 212,519	\$ 733,175	\$ 639,117
Segment Adjusted EBITDA				
Satellite manufacturing	\$ 31,620	\$ 9,618	\$ 54,166	\$ 24,483
Satellite services ⁽²⁾	117,788	108,158	351,981	319,322
Corporate ⁽⁴⁾	(4,440)	(3,424)	(15,192)	(9,664)
Adjusted EBITDA before eliminations	144,968	114,352	390,955	334,141
Intercompany eliminations ⁽³⁾	(291)	(267)	(1,383)	(776)
Affiliate eliminations ⁽²⁾	(117,788)	(108,158)	(351,981)	(313,182)
Adjusted EBITDA	\$ 26,889	\$ 5,927	\$ 37,591	\$ 20,183
Depreciation, Amortization and Stock-Based Compensation				
Satellite manufacturing	\$ (10,950)	\$ (10,601)	\$ (33,082)	\$ (27,983)
Satellite services ⁽²⁾	(54,661)	(55,028)	(160,783)	(170,249)
Corporate	(1,090)	(1,121)	(2,835)	(4,269)
Segment depreciation before affiliate eliminations	(66,701)	(66,750)	(196,700)	(202,501)
Affiliate eliminations ⁽²⁾	54,661	55,028	160,783	170,249
Depreciation, amortization and stock-based compensation as reported	\$ (12,040)	\$ (11,722)	\$ (35,917)	\$ (32,252)
Operating income (loss) as reported	\$ 14,849	\$ (5,795)	\$ 1,674	\$ (12,069)

**September
30,**