LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
November 04, 2010

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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, 2010
Commission file number 1-14180
Loral Space & Communications Inc.
600 Third Avenue
New York, New York 10016
Telephone: (212) 697-1105
Jurisdiction of incorporation: Delaware
IRS identification number: 87-0748324

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

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 o No o

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

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

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

As of October 29, 2010, 20,730,059 of the registrant s voting common stock and 9,505,673 shares of the registrant s non-voting common stock were outstanding.

LORAL SPACE & COMMUNICATIONS INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the quarterly period ended September 30, 2010

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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, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 174,429	$ 168,205
Contracts-in-process	233,243	190,809
Inventories	72,002	83,671
Other current assets	24,510	24,343
Total current assets	504,184	467,028
Property, plant and equipment, net	228,520	207,996
Long-term receivables	301,594	248,097
Investments in affiliates	322,973	282,033
Intangible assets, net	11,843	20,300
Other assets	16,254	27,998
Total assets	$ 1,385,368	$ 1,253,452
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 94,259	$ 86,809
Accrued employment costs	43,294	44,341
Customer advances and billings in excess of costs and profits	328,268	291,021
Other current liabilities	30,573	19,147
Total current liabilities	496,394	441,318
Pension and other post retirement liabilities	219,158	226,190
Long-term liabilities	168,899	153,953
Total liabilities	884,451	821,461
Commitments and contingencies		
Equity:		

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 Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Revenues	$ 323,438	$ 249,237	$ 832,314	$ 733,175
Cost of revenues	263,405	212,009	710,483	663,425
Selling, general and administrative expenses	20,412	22,379	61,022	68,076
Directors indemnification expense			14,357	
Operating income	39,621	14,849	46,452	1,674
Interest and investment income	3,602	1,877	9,714	5,455
Interest expense	(593)	(707)	(1,797)	(754)
Other expense	(1,168)	(7)	(256)	(106)
Income before income taxes and equity in net income of affiliates	41,462	16,012	54,113	6,269
Income tax provision	(9,081)	(659)	(12,242)	(7,057)
Income (loss) before equity in net income of affiliates	32,381	15,353	41,871	(788)
Equity in net income of affiliates	40,011	93,071	40,229	172,679
Net income	$ 72,392	$ 108,424	$ 82,100	$ 171,891
Basic and diluted income per share:				
Basic income per share	$ 2.40	$ 3.64	$ 2.74	$ 5.78
Diluted income per share	$ 2.29	$ 3.61	$ 2.63	$ 5.75
Weighted average shares outstanding:				
Basic	30,206	29,771	30,017	29,742
Diluted	31,204	30,004	30,777	29,870

See notes to condensed consolidated financial statements.

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

	Common Stock						Accumulated	
	Voting		Non-Voting				Other	
	Shares Issued	Amount	Shares Issued	Amount	Paid-In Capital	Accumulated Deficit	Comprehensive Loss	Total Equity
Balance, January 1, 2009	20,287	$ 203	9,506	$ 95	$ 1,007,011	$ (750,922)	$ (46,730)	$ 209,657
Net income						231,702		
Other comprehensive loss							(16,148)	
Comprehensive income								215,554
Exercise of stock options	74	1			1,403			1,404
Shares repurchased to fund withholding taxes	(43)				(1,559)			(1,559)
Stock based compensation	73	0			6,935			6,935
Balance, December 31, 2009	20,391	204	9,506	95	1,013,790	(519,220)	(62,878)	431,991
Net income						82,100		
Other comprehensive loss							(23,906)	
Comprehensive income								58,194
Exercise of stock options	351	3			9,259			9,262
Shares repurchased to fund withholding taxes	(13)				(779)			(779)
Stock based compensation					2,249			2,249
Balance, September 30, 2010	20,729	$ 207	9,506	$ 95	$ 1,024,519	$ (437,120)	$ (86,784)	$ 500,917

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating activities:		
Net income	$ 82,100	$ 171,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash operating items (Note 3)	(6,197)	(136,111)
Changes in operating assets and liabilities:		
Contracts-in-process	(66,135)	(8,492)
Inventories	13,506	17,006
Long-term receivables	(4,432)	(4,136)
Other current assets and other assets	(165)	2,359
Accounts payable	8,693	8,137
Accrued expenses and other current liabilities	(2,646)	(11,284)
Customer advances and billings in excess of costs and profits	16,012	85,407
Income taxes payable	1,110	18,266
Pension and other postretirement liabilities	(7,032)	(2,249)
Long-term liabilities	3,551	7,322
Net cash provided by operating activities	38,365	148,116
Investing activities:		
Capital expenditures	(40,624)	(32,200)
Decrease in restricted cash in escrow		10
Distribution from equity investment		277
Investments in and advances to affiliates		(4,480)
Net cash used in investing activities	(40,624)	(36,393)
Financing activities:		
Proceeds from the exercise of stock options	9,262	35
Common stock repurchased to fund withholding taxes	(779)	(889)
Repayment of borrowings under SS/L revolving credit facility		(55,000)
Net cash provided by (used in) financing activities	8,483	(55,854)
Increase in cash and cash equivalents	6,224	55,869
Cash and cash equivalents beginning of period	168,205	117,548
Cash and cash equivalents end of period	$ 174,429	$ 173,417

See notes to condensed consolidated financial statements.

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

1. Organization and Principal Business

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

Loral has two segments (see Note 16):

Satellite Manufacturing

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

Satellite Services

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

As of September 30, 2010, Telesat had 12 in-orbit satellites and three satellites under construction, one of which is 100% contracted for at least the design life of the satellite. 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.

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

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2009 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.

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

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

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. The Company monitors its equity method investments for factors indicating other-than-temporary impairment. An impairment loss would be recognized when there has been a loss in value of the affiliate that is other-than-temporary.

Use of Estimates in Preparation of Financial Statements

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

Most of our satellite manufacturing revenue is associated with long-term contracts which require significant estimates. These estimates include forecasts of costs and schedules, estimating contract revenue related to contract performance (including orbital incentives) and the potential for component obsolescence in connection with long-term procurements. Significant estimates also include the allowances for doubtful accounts and long-term receivables, estimated useful lives of our plant and equipment and finite lived intangible assets, the fair value of stock based compensation, the realization of deferred tax assets, uncertain tax positions, the fair value of and gains or losses on derivative instruments and our pension liabilities.

Concentration of Credit Risk

Financial instruments that 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 that 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 management of potential credit risks with regard to our current customer base. However, the global financial markets have been adversely affected 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 effect on certain of our customers and could negatively affect 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.

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

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, 2010:

	Level 1	Level 2	Level 3
		(In thousands)	
Assets:			
Marketable securities	$ 1,712	$	$
Derivative assets	$	$ 3,988	$
Derivative liabilities	$	$ 21,778	$
Non-qualified pension plan assets	$ 2,387	$	$ 53

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, 2010.

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, 2010.

Recent Accounting Pronouncements

In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,* that amends Accounting Standards Codification (ASC) Topic 810, *Consolidations* (ASC 810). The amendments to ASC Topic 810 are the result of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R),*that was issued in June 2009. ASU No. 2009-17 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, did not 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.

In January 2010, the FASB issued new guidance to enhance disclosure requirements related to fair value measurements by requiring certain new disclosures and clarifying certain existing disclosures. This new guidance requires disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 recurring fair value measurements and the reasons for the transfers. In addition, the new guidance requires additional information related to activities in the reconciliation of Level 3 fair value measurements. The new guidance also expands the disclosures related to the disaggregation of assets and liabilities and information about inputs and valuation techniques. The new guidance related to Level 1 and Level 2 fair value measurements was effective for us on January 1, 2010 and the new guidance related to Level 3 fair value measurements is effective for us on January 1, 2011. Effective January 1, 2010, the Company adopted the new guidance relating to Level 1 and Level 2 fair value measurements. The Company s adoption of the new guidance had no impact on its fair value disclosures, and the adoption of the guidance related to Level 3 fair value measurements is not expected to have a significant impact on its fair value disclosures.

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

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,* which amends ASC Topic 310, *Receivables* (ASC 310) by requiring more robust and disaggregated disclosures about the credit quality of an entity s financing receivables, including trade receivables, and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users understanding of (1) the nature of an entity s credit risk associated with its financing receivables and (2) the entity s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The amended guidance, effective for the Company on December 31, 2010, is not expected to have a material impact on our consolidated financial statements.

3. Additional Cash Flow Information

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

	Nine Months Ended September 30,	
	2010	**2009**
Non-cash operating items:		
Equity in net income of affiliates	$ (40,229)	$ (172,679)
Deferred taxes	3,635	(1,254)
Depreciation and amortization	26,627	29,550
Stock based compensation	6,615	6,366
Provisions for inventory obsolescence	4,297	
Warranty expense (reversals) accruals	(1,259)	2,102
Increase in allowance for billed receivables		2,759
Amortization of prior service credits and net actuarial gains	(106)	281
Unrealized gain on non-qualified pension plan assets	(201)	(717)
Non-cash net interest income	(2,327)	(1,190)
Gain on foreign currency transactions and contracts	(2,085)	(898)
Amortization of fair value adjustments related to orbital incentives	(1,164)	(431)
Net non-cash operating items	$ (6,197)	$ (136,111)
Non-cash investing activities:		
Capital expenditures incurred not yet paid	$ 1,848	$ 2,116
Non-cash financing activities:		
Issuance of restricted stock	$	$ 1,591
Supplemental information:		
Interest paid	$ 1,382	$ 1,700
Tax (refunds) payments, net	$ (1,078)	$ (17,987)

At September 30, 2010 and December 31, 2009, the Company had $5.6 million of restricted cash, of which $0.6 million was in other current assets and $5.0 million was in other assets.

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

4. Comprehensive Income

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Net income	$ 72,392	$ 108,424
Amortization of prior service credits and net actuarial gains	(36)	95
Proportionate share of Telesat Holdco other comprehensive income (loss)	953	(613)
Unrealized loss on foreign currency hedges:		
Unrealized loss on foreign currency hedges	(22,715)	(2,340)
Less: reclassification adjustment for gains included in net income	(2,770)	(2,865)
Net unrealized loss	(25,485)	(5,205)
Unrealized gain (loss) on securities:		
Unrealized gain (loss) on available-for-sale securities	197	(285)
Comprehensive income	$ 48,021	$ 102,416

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income	$ 82,100	$ 171,891
Amortization of prior service credits and net actuarial gains	(106)	281
Proportionate share of Telesat Holdco other comprehensive income	711	2,231
Unrealized loss on foreign currency hedges:		
Unrealized loss on foreign currency hedges	(20,614)	(626)
Less: reclassification adjustment for gains included in net income	(4,753)	(10,171)
Net unrealized loss	(25,367)	(10,797)
Unrealized gain on securities:		
Unrealized gain on available-for-sale securities	856	551
Comprehensive income	$ 58,194	$ 164,157

5. Contracts-in-Process and Inventories

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

	September 30, 2010	December 31, 2009
Contracts-in-Process:		
Amounts billed	$ 170,108	$ 124,034
Unbilled receivables	63,135	66,775

	$	233,243	$	190,809
Inventories:				
Inventories-gross	$	104,637	$	119,528
Allowance for obsolescence		(31,210)		(28,297)
		73,427		91,231
Inventories included in other assets		(1,425)		(7,560)
	$	72,002	$	83,671

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. During the three months ended September 30, 2010, the Company recorded an inventory obsolescence charge of $4.3 million primarily related to long-term inventories.

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

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 investments in available-for-sale securities and supplemental retirement plan assets is based on market quotations. In determining the fair value of the Company s foreign currency derivatives, the Company uses the income approach employing market observable inputs (Level 2), such as spot currency rates and discount rates.

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, 2010, 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, 2010 exchange rates) that were unhedged:

	Foreign Currency	U.S.$
	(In thousands)	
Future revenues Japanese yen	¥ 224,479	$ 2,683
Future expenditures Japanese yen	¥ 4,508,757	$ 53,885
Future revenues euros	10,494	$ 14,284
Future expenditures euros	8,698	$ 11,839

Derivatives and Hedging Transactions

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

As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. The Company does not hold collateral or other security from its counterparties supporting its derivative instruments. In addition, there are no netting arrangements in place with the counterparties. To mitigate the counterparty credit risk, the Company has a policy of 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 in an asset position was $4.0 million as of September 30, 2010. 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.

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

On June 28, 2010, SS/L was awarded a satellite contract denominated in euros and entered into a series of foreign exchange forward contracts with maturities through 2013 to hedge associated foreign currency exchange risk because our costs are denominated principally in U.S. dollars. These foreign exchange forward contracts have been designated as cash flow hedges of future euro denominated receivables.

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, 2010 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 Hedge Contract Rate	At Market Rate
		(In thousands)	
2010	22,066	$ 27,229	$ 30,004
2011	102,805	131,042	139,240
2012	27,000	32,649	36,271
2013	27,000	32,894	36,090
	178,871	$ 223,814	$ 241,605

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, 2010 (in thousands):

	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	$ 3,679	Other current liabilities	$ 12,791
			Other liabilities	8,817
		3,679		21,608
Derivatives not designated as hedging instruments				
Foreign exchange contracts	Other current assets	309	Other liabilities	170
Total Derivatives		$ 3,988		$ 21,778

The following summarizes the fair values and location in our condensed consolidated balance sheet of all derivatives held by the Company as of December 31, 2009 (in thousands):

	Asset Derivatives	
	Balance Sheet Location	**Fair Value (In thousands)**
Derivatives designated as hedging instruments		
Foreign exchange contracts	Other current assets	$ 1,860
Foreign exchange contracts	Other assets	1,846
		3,706
Derivatives not designated as hedging instruments		
Foreign exchange contracts	Other assets	167
Total Derivatives		$ 3,873

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

Cash Flow Hedge Gains (Losses) Recognition

The following summarizes the gains (losses) recognized in the condensed consolidated statement of operations and in accumulated other comprehensive income for all derivatives for the three and nine months ended September 30, 2010 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivative (Effective Portion)	Gain Reclassified from Accumulated OCI into Income (Effective Portion) Location	Gain Reclassified from Accumulated OCI into Income (Effective Portion) Amount	Gain (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing Location	Gain (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing Amount
Three months ended September 30, 2010:					
Foreign exchange contracts	$ (22,715)	Revenue	$ 2,770	Revenue	$ 1,528
				Interest income	$ 14
Nine months ended September 30, 2010:					
Foreign exchange contracts	$ (20,614)	Revenue	$ 4,753	Revenue	$ 1,189
				Interest income	$ (5)

Cash Flow Derivatives Not Designated as Hedging Instruments	Loss Recognized in Income on Derivative Location	Loss Recognized in Income on Derivative Amount
Three months ended September 30, 2010:		
Foreign exchange contracts	Revenue	$ (550)
Nine months ended September 30, 2010:		
Foreign exchange contracts	Revenue	$ (28)

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

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivative (Effective Portion)	Gain Reclassified from Accumulated OCI into Income (Effective Portion) Location	Gain Reclassified from Accumulated OCI into Income (Effective Portion) Amount	Gain (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing Location	Gain (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing Amount
Three months ended September 30, 2009:					
Foreign exchange contracts	$ (2,340)	Revenue	$ 2,865	Revenue	$ 300
				Interest income	$ (24)
Nine months ended September 30, 2009:					
Foreign exchange contracts	$ (626)	Revenue	$ 10,171	Revenue	$ (943)
				Interest income	$ (70)

Cash Flow Derivatives Not Designated as Hedging Instruments	**Gain (Loss) Recognized in Income on Derivative Location**		**Amount**
Three months ended September 30, 2009:			
Foreign exchange contracts	Revenue	$	(310)
Nine months ended September 30, 2009:			
Foreign exchange contracts	Revenue	$	120

We estimate that $6.3 million of net losses from derivative instruments included in accumulated other comprehensive loss will be reclassified into earnings within the next 12 months.

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

7. Property, Plant and Equipment

	September 30, 2010	December 31, 2009
	(In thousands)	
Land and land improvements	$ 26,852	$ 26,852
Buildings	68,843	68,698
Leasehold improvements	11,209	11,133
Equipment, furniture and fixtures	172,360	156,669
Satellite capacity under construction (see Note 17)	37,191	27,412
Other construction in progress	30,935	17,243
	347,390	308,007
Accumulated depreciation and amortization	(118,870)	(100,011)
	$ 228,520	$ 207,996

Depreciation and amortization expense for property, plant and equipment was $6.6 million and $6.4 million for the three months ended September 30, 2010 and 2009, respectively, and $18.9 million and $18.6 million for the nine months ended September 30, 2010 and 2009, respectively.

8. Investments in Affiliates

Investments in affiliates consists of:

	September 30, 2010	December 31, 2009
	(In thousands)	
Telesat Holdings Inc.	$ 255,601	$ 208,101
XTAR, LLC	65,887	72,284
Other	1,485	1,648
	$ 322,973	$ 282,033

Equity in net income of affiliates consists of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Telesat Holdings Inc.	$ 42,086	$ 94,948	$ 46,789	$ 173,240
XTAR, LLC	(2,039)	(2,154)	(6,397)	(838)
Other	(36)	277	(163)	277
	$ 40,011	$ 93,071	$ 40,229	$ 172,679

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,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Revenues	$ 41,111	$ 21,336	$ 86,562	$ 62,179
Elimination of Loral s proportionate share of profits relating to affiliate transactions	(5,608)	(6,804)	(9,318)	(7,047)
Profits relating to affiliate transactions not eliminated	3,158	3,817	5,246	3,969

We use the equity method of accounting for our majority economic interest in Telesat because we own 33 1/3% of the voting stock and do not exercise control via other means to satisfy the U.S. GAAP requirement for treatment as a consolidated subsidiary. Loral s equity in net income or loss of Telesat is based on our proportionate share of Telesat s results in accordance with U.S. GAAP and in U.S. dollars. Our proportionate share of Telesat s net income or loss is based on our 64% economic interest as our holdings consist of common stock and non-voting participating preferred shares that have all the rights of common stock with respect to dividends, return of capital and surplus distributions, but have no voting rights.

LORAL SPACE & COMMUNICATIONS INC.
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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.

Telesat

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

Statement of Operations Data:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Revenues	$ 201,611	$ 170,510	$ 592,723	$ 507,907
Operating expenses	(47,186)	(52,722)	(142,266)	(155,926)
Depreciation, amortization and stock-based compensation	(61,766)	(54,660)	(185,299)	(160,783)
Gain on disposition of long-lived assets	950	29,648	950	29,648
Operating income	93,609	92,775	266,108	220,846
Interest expense	(57,888)	(58,076)	(176,693)	(166,623)
Financial instruments losses	(56,533)	(94,932)	(49,907)	(142,197)
Foreign exchange gains	102,536	238,512	69,181	394,190
Other income (expense)	134	(717)	(1,043)	(2,495)
Income tax provision	(8,821)	(9,584)	(18,994)	(25,006)
Net income	73,037	167,978	88,652	278,715

Balance Sheet Data:

	September 30, 2010	December 31, 2009
	(In thousands)	
Current assets	$ 324,355	$ 251,573
Total assets	5,181,365	4,994,684
Current liabilities	287,825	195,890
Long-term debt, including current portion	2,933,373	2,953,281
Total liabilities	4,121,116	4,041,932
Redeemable preferred stock	137,422	134,291
Shareholders equity	922,827	818,461

XTAR

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

XTAR owns and operates an X-band satellite, XTAR-EUR, located at 29º 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 30º 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 February 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%.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

XTAR s lease obligation to Hisdesat for the XTAR-LANT transponders is $24 million in 2010, with increases thereafter to a maximum of $28 million per year through the end of the useful life of the satellite which is estimated to be in 2021. Under this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. Interest on XTAR s outstanding lease obligations to Hisdesat is paid through the issuance of a class of non-voting membership interests in XTAR, which enjoy priority rights with respect to dividends and distributions over the ordinary membership interests currently held by us and Hisdesat. In March 2009, XTAR entered into an agreement with Hisdesat pursuant to which the past due balance on XTAR-LANT transponders of $32.3 million as of December 31, 2008, together with a deferral of $6.7 million in payments due in 2009, is payable to Hisdesat over 12 years through annual payments of $5 million (the Catch Up Payments). XTAR has a right to prepay, at any time, all unpaid Catch Up Payments discounted at 9%. Cumulative amounts paid to Hisdesat for catch up payments through September 30, 2010 were $7.9 million. XTAR has also agreed that XTAR s excess cash balance (as defined) will be applied towards making limited payments on future lease obligations, as well as payments of other amounts owed to Hisdesat, Telesat and Loral for services provided by them to XTAR.

XTAR-EUR was launched on Arianespace, S.A. s (Arianespace) Ariane ECA launch vehicle in 2005. The price for this launch had two components the first, consisting of a $15.8 million 10% interest paid-in-kind loan provided by Arianespace, was repaid in full by XTAR on July 6, 2007. The second component of the launch price consisted of a revenue-based fee to be paid to Arianespace over XTAR-EUR s 15 year in-orbit operations. This fee, also referred to as an incentive fee, equaled 3.5% of XTAR s annual operating revenues, subject to a maximum threshold. On February 29, 2008, XTAR paid Arianespace $1.5 million representing the incentive fee through December 31, 2007. On January 27, 2009, Arianespace agreed to eliminate the remaining incentive fee in exchange for $8.0 million payable in three installments. XTAR paid the first installment of $4 million in February 2009 and the remaining two installments of $2 million each in April and June 2009. As a result of the payment of the three installments, XTAR has no further obligations under the launch services agreement with Arianespace. 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. The capital call required Loral to increase its investment in XTAR by approximately $4.5 million in the first quarter of 2009, representing Loral s 56% share of the $8 million capital call.

The following table presents summary financial data for XTAR:

Statement of Operations Data:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Revenues	$ 9,274	$ 8,382	$ 26,118	$ 22,973
Operating expenses	(9,286)	(8,681)	(26,680)	(25,826)
Depreciation and amortization	(2,404)	(2,404)	(7,213)	(7,214)
Operating loss	(2,416)	(2,704)	(7,775)	(10,067)
Net loss	(3,609)	(3,832)	(11,386)	(1,458)

Balance Sheet Data:

	September 30, 2010	December 31, 2009
	(In thousands)	
Current assets	$ 6,393	$ 10,372
Total assets	95,890	107,084

Current liabilities	60,661	45,672
Total liabilities	68,074	67,882
Members equity	27,816	39,202

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Other

As of September 30, 2010 and December 31, 2009, the Company held various indirect ownership interests in two foreign companies that currently serve as exclusive service providers for Globalstar service in Mexico and Russia. The Company accounts for these ownership interests using the equity method of accounting. Loral has written-off its investments in these companies, and, because we have no future funding requirements relating to these investments, there is no requirement for us to provide for our allocated share of these companies net losses.

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, 2010 Gross Amount (In thousands)	September 30, 2010 Accumulated Amortization (In thousands)	December 31, 2009 Gross Amount (In thousands)	December 31, 2009 Accumulated Amortization (In thousands)
Internally developed software and technology	2	$ 59,027	$ (54,084)	$ 59,027	$ (45,972)
Trade names	15	9,200	(2,300)	9,200	(1,955)
		$ 68,227	$ (56,384)	$ 68,227	$ (47,927)

Total amortization expense for intangible assets was $2.8 million for each of the three month periods ended September 30, 2010 and 2009 and $8.5 million for each of the nine month periods ended September 30, 2010 and 2009. Annual amortization expense for intangible assets for the five years ending December 31, 2014 is estimated to be as follows (in thousands):

2010	$ 9,190
2011	2,931
2012	2,314
2013	460
2014	460

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

	September 30, 2010 (In thousands)	December 31, 2009 (In thousands)
Gross fair value adjustments	$ (36,896)	$ (36,896)