LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
August 09, 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 June 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 July 30, 2010, 20,698,332 shares 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.
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For the quarterly period ended June 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)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 141,665	$ 168,205
Contracts-in-process	242,862	190,809
Inventories	74,109	83,671
Other current assets	29,972	24,343
Total current assets	488,608	467,028
Property, plant and equipment, net	223,168	207,996
Long-term receivables	281,855	248,097
Investments in affiliates	282,009	282,033
Intangible assets, net	14,662	20,300
Other assets	26,359	27,998
Total assets	$ 1,316,661	$ 1,253,452
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 95,486	$ 86,809
Accrued employment costs	39,510	44,341
Customer advances and billings in excess of costs and profits	329,409	291,021
Other current liabilities	19,058	19,147
Total current liabilities	483,463	441,318
Pension and other post retirement liabilities	224,354	226,190
Long-term liabilities	156,816	153,953
Total liabilities	864,633	821,461
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, 20,695,154 and 20,390,752 shares issued and outstanding	207	204
Non-voting common stock, $.01 par value; 20,000,000 shares authorized, 9,505,673 shares issued and outstanding	95	95
Paid-in capital	1,023,651	1,013,790
Accumulated deficit	(509,512)	(519,220)

Accumulated other comprehensive loss	(62,413)	(62,878)
Total equity	452,028	431,991
Total liabilities and equity	$ 1,316,661	$ 1,253,452

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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 279,962	$ 271,447	$ 508,876	$ 483,938
Cost of revenues	236,653	254,215	447,078	451,416
Selling, general and administrative expenses	20,211	24,927	40,610	45,697
Directors indemnification expense			14,357	
Operating income (loss)	23,098	(7,695)	6,831	(13,175)
Interest and investment income	2,833	1,925	6,112	3,578
Interest expense	(581)	1,219	(1,204)	(47)
Other income (expense)	1,005	(12)	912	(99)
Income (loss) before income taxes and equity in net (losses) income of affiliates	26,355	(4,563)	12,651	(9,743)
Income tax provision	(1,646)	(6,418)	(3,161)	(6,398)
Income (loss) before equity in net (losses) income of affiliates	24,709	(10,981)	9,490	(16,141)
Equity in net (losses) income of affiliates	(44,374)	85,276	218	79,608
Net (loss) income	$ (19,665)	$ 74,295	$ 9,708	$ 63,467
Basic and diluted (loss) income per share:				
Basic (loss) income per share	$ (0.66)	$ 2.50	$ 0.32	$ 2.13
Diluted (loss) income per share	$ (0.66)	$ 2.48	$ 0.32	$ 2.13
Weighted average shares outstanding:				
Basic	29,984	29,753	29,923	29,727
Diluted	29,984	29,904	30,564	29,803

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 Other	
	Voting		Non-Voting					
	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						9,708		
Other comprehensive income							465	
Comprehensive income								10,173
Exercise of stock options	313	3			8,331			8,334
Shares repurchased to fund withholding taxes	(9)				(443)			(443)
Stock based compensation					1,973			1,973
Balance, June 30, 2010	20,695	$ 207	9,506	$ 95	$ 1,023,651	$ (509,512)	$ (62,413)	$ 452,028

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2010	**2009**
Operating activities:		
Net income	$ 9,708	$ 63,467
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Non-cash operating items (Note 3)	17,662	(60,547)
Changes in operating assets and liabilities:		
Contracts-in-process	(55,861)	2,409
Inventories	9,562	11,086
Long-term receivables	(2,927)	(2,733)
Other current assets and other assets	(1,245)	3,146
Accounts payable	8,206	14,846
Accrued expenses and other current liabilities	(5,161)	(17,944)
Customer advances and billings in excess of costs and profits	13,341	32,554
Income taxes payable	888	16,860
Pension and other postretirement liabilities	(1,835)	(1,192)
Long-term liabilities	214	5,288
Net cash (used in) provided by operating activities	(7,448)	67,240
Investing activities:		
Capital expenditures	(26,983)	(21,778)
Decrease in restricted cash in escrow		9
Investments in and advances to affiliates		(4,480)
Net cash used in investing activities	(26,983)	(26,249)
Financing activities:		
Proceeds from the exercise of stock options	8,334	35
Common stock repurchased to fund withholding taxes	(443)	
Repayment of borrowings under SS/L revolving credit facility		(55,000)
Net cash provided by (used in) financing activities	7,891	(54,965)
Decrease in cash and cash equivalents	(26,540)	(13,974)
Cash and cash equivalents beginning of period	168,205	117,548
Cash and cash equivalents end of period	$ 141,665	$ 103,574

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 June 30, 2010, Telesat had 12 in-orbit satellites and three satellites under construction, one of which is 100% leased 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 six months ended June 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.

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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 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.

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

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

Assets and Liabilities Measured at Fair Value on Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at June 30, 2010:

	Level 1	Level 2	Level 3
		(In thousands)	
Assets:			
Marketable securities	$ 1,516	$	$
Derivatives, net	$	$ 5,382	$
Non-qualified pension plan assets	$ 2,454	$	$ 65

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 June 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 June 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)

3. Additional Cash Flow Information

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

	Six Months Ended June 30,	
	2010	2009
Non-cash operating items:		
Equity in net income of affiliates	$ (218)	$ (79,608)
Deferred taxes	(347)	(655)
Depreciation and amortization	17,576	19,262
Stock based compensation	3,723	4,615
Warranty expense reversals	(520)	(185)
Amortization of prior service credits and net actuarial gains	(70)	186
Unrealized loss (gain) on non-qualified pension plan assets	58	(307)
Non-cash net interest income	(1,633)	(2,994)
Loss (gain) on foreign currency transactions and contracts	67	(572)
Amortization of fair value adjustments related to orbital incentives	(974)	(289)
Net non-cash operating items	$ 17,662	$ (60,547)
Non-cash investing activities:		
Capital expenditures incurred not yet paid	$ 3,562	$ 2,559
Supplemental information:		
Interest paid	$ 984	$ 1,379
Tax (refunds) payments, net	$ (1,244)	$ (15,178)

At June 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 (Loss)

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

	Three Months Ended June 30,	
	2010	2009
Net (loss) income	$ (19,665)	$ 74,295
Amortization of prior service credits and net actuarial gains	(35)	93
Proportionate share of Telesat Holdco other comprehensive income	86	2,844
Unrealized loss on foreign currency hedges:		
Unrealized loss on foreign currency hedges	(259)	(5,220)
Less: reclassification adjustment for gains included in net income	(952)	(4,300)
Net unrealized loss	(1,211)	(9,520)
Unrealized gain on securities:		
Unrealized gain on available-for-sale securities	177	688
Comprehensive (loss) income	$ (20,648)	$ 68,400

	Six Months Ended June 30,	
	2010	2009
Net income	$ 9,708	$ 63,467
Amortization of prior service credits and net actuarial gains	(70)	186
Proportionate share of Telesat Holdco other comprehensive (loss) income	(242)	2,844
Unrealized gain on foreign currency hedges:		
Unrealized gain on foreign currency hedges	2,101	1,714
Less: reclassification adjustment for gains included in net income	(1,983)	(7,306)
Net unrealized gain (loss)	118	(5,592)
Unrealized gain on securities:		
Unrealized gain on available-for-sale securities	659	836
Comprehensive income	$ 10,173	$ 61,741

5. Contracts-in-Process and Inventories

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

	June 30, 2010	December 31, 2009
Contracts-in-Process:		
Amounts billed	$ 174,918	$ 124,034
Unbilled receivables	67,944	66,775

	$	242,862	$	190,809
Inventories:				
Inventories-gross	$	108,740	$	119,528
Allowance for obsolescence		(27,071)		(28,297)
		81,669		91,231
Inventories included in other assets		(7,560)		(7,560)
	$	74,109	$	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.

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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 June 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 June 30, 2010 exchange rates) that were unhedged:

	Foreign Currency	U.S.$
	(In thousands)	
Future revenues Japanese yen	¥ 348,974	$ 3,936
Future expenditures Japanese yen	¥ 4,483,341	$ 50,567
Future revenues euros	10,995	$ 13,422

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 $8.5 million as of June 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.

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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 June 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	44,591	$ 55,360	$ 54,458
2011	102,805	131,042	125,757
2012	27,000	32,649	33,101
2013	27,000	32,894	33,247
	201,396	$ 251,945	$ 246,563

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 June 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	$ 7,834	Other current liabilities	$ 1,679
Foreign exchange contracts	Other assets		Other liabilities	1,462
		7,834		3,141
Derivatives not designated as hedging instruments				
Foreign exchange contracts	Other current assets	699	Other liabilities	10
Total Derivatives		$ 8,533		$ 3,151

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 six months ended June 30, 2010 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (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	Loss on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing Location	Loss on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing Amount
Three months ended June 30, 2010:					
Foreign exchange contracts	$ (259)	Revenue	$ 952	Revenue	$ (34)
				Interest income	$ (8)
Six months ended June 30, 2010:					
Foreign exchange contracts	$ 2,101	Revenue	$ 1,983	Revenue	$ (339)
				Interest income	$ (19)

Cash Flow Derivatives Not Designated as Hedging Instruments	Gain Recognized in Income on Derivative Location	Gain Recognized in Income on Derivative Amount
Three months ended June 30, 2010:		
Foreign exchange contracts	Revenue	$ 262
Six months ended June 30, 2010:		
Foreign exchange contracts	Revenue	$ 522

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 six months ended June 30, 2009 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (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	Loss on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing Location	Loss on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing Amount
Three months ended June 30, 2009:					
Foreign exchange contracts	$ (5,219)	Revenue	$ 4,301	Revenue	$ (390)
				Interest income	$ 56
Six months ended June 30, 2009:					
Foreign exchange contracts	$ 1,782	Revenue	$ 7,306	Revenue	$ (1,243)
Foreign exchange contracts	$ (68)			Interest income	$ (46)

Cash Flow Derivatives Not Designated as Hedging Instruments	Gain Recognized in Income on Derivative	
	Location	**Amount**
Three months ended June 30, 2009:		
Foreign exchange contracts	Revenue	$ 307
Six months ended June 30, 2009:		
Foreign exchange contracts	Revenue	$ 430

We estimate that $6.6 million of net gains from derivative instruments included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Property, Plant and Equipment

	June 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	168,047	156,669
Satellite capacity under construction (see Note 17)	34,116	27,412
Other construction in progress	26,395	17,243
	335,462	308,007
Accumulated depreciation and amortization	(112,294)	(100,011)
	$ 223,168	$ 207,996

Depreciation and amortization expense for property, plant and equipment was $6.3 million and $6.4 million for the three months ended June 30, 2010 and 2009, respectively, and $12.3 million and $12.2 million for the six months ended June 30, 2010 and 2009, respectively.

8. Investments in Affiliates

Investments in affiliates consists of:

	June 30, 2010	December 31, 2009
	(In thousands)	
Telesat Holdings Inc.	$ 212,562	$ 208,101
XTAR, LLC	67,926	72,284
Other	1,521	1,648
	$ 282,009	$ 282,033

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Telesat Holdings Inc.	$ (42,360)	$ 80,583	$ 4,703	$ 78,292
XTAR, LLC	(1,951)	4,693	(4,358)	1,316
Other	(63)		(127)	
	$ (44,374)	$ 85,276	$ 218	$ 79,608

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Revenues	$ 23,269	$ 16,595	$ 45,451	$ 40,843
Elimination of Loral s proportionate share of (profits) losses relating to affiliate transactions	(2,347)	2,005	(3,710)	(243)
Profits (losses) relating to affiliate transactions not eliminated	1,320	(1,143)	2,088	152

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

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.

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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Revenues	$ 199,593	$ 172,150	$ 391,112	$ 337,397
Operating expenses	(46,367)	(52,870)	(95,080)	(103,204)
Depreciation, amortization and stock-based compensation	(62,225)	(55,604)	(123,533)	(106,122)
Operating income	91,001	63,676	172,499	128,071
Interest expense	(58,869)	(54,410)	(118,805)	(108,546)
Financial instruments gains (losses)	49,679	(93,265)	6,626	(47,265)
Foreign exchange (losses) gains	(142,351)	236,678	(33,355)	155,678
Other expense	(901)	(2,234)	(1,177)	(1,778)
Income tax benefit (provision)	135	(8,400)	(10,173)	(15,423)
Net (loss) income	(61,306)	141,954	15,615	110,736

Balance Sheet Data:

	June 30, 2010	December 31, 2009
	(In thousands)	
Current assets	$ 276,209	$ 251,573
Total assets	4,975,765	4,994,684
Current liabilities	231,016	195,890
Long-term debt, including current portion	2,937,288	2,953,281
Total liabilities	4,021,673	4,041,932
Redeemable preferred stock	132,940	134,291
Shareholders equity	821,152	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 satisy 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.

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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%.

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 June 30, 2010 were $6.7 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 three and six months ended June 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Revenues	$ 8,903	$ 8,230	$ 16,844	$ 14,591
Operating expenses	(8,876)	(8,684)	(17,394)	(17,145)
Depreciation and amortization	(2,404)	(2,404)	(4,809)	(4,809)
Operating loss	(2,377)	(2,858)	(5,359)	(7,363)
Net (loss) income	(3,491)	8,390	(7,777)	2,374

Balance Sheet Data:

	June 30, 2010	December 31, 2009
	(In thousands)	

Current assets	$	6,441	$	10,372
Total assets		98,341		107,084
Current liabilities		59,886		45,672
Total liabilities		66,916		67,882
Members equity		31,425		39,202

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other

As of June 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)	June 30, 2010		December 31, 2009	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
		(In thousands)		(In thousands)	
Internally developed software and technology	2	$ 59,027	$ (51,380)	$ 59,027	$ (45,972)
Trade names	16	9,200	(2,185)	9,200	(1,955)
		$ 68,227	$ (53,565)	$ 68,227	$ (47,927)

Total amortization expense for intangible assets was $2.8 million for each of the three month periods ended June 30, 2010 and 2009 and $5.6 million for each of the six month periods ended June 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:

	June 30, 2010	December 31, 2009
	(In thousands)	
Gross fair value adjustments	$ (36,896)	$ (36,896)
Accumulated amortization	17,764	16,446
	$ (19,132)	$ (20,450)

Net amortization of these fair value adjustments was a credit to expense of $0.4 million and a charge to expense of $0.6 million for the three months ended June 30, 2010 and 2009, respectively, and a credit to expense of $1.3 million and a charge to expense of $1.1 million for the six months ended June 30, 2010 and 2009, respectively.

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

10. Debt

SS/L has 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 matures on October 16, 2011.

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

	June 30, 2010	December 31, 2009
Letters of credit outstanding	$ 4,911	$ 4,921
Borrowings		

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest expense (including commitment and letter of credit fees)	$ 200	$ 186	$ 398	$ 711
Amortization of issuance costs	$ 219	$ 219	$ 438	$ 438

11. Income Taxes

During 2010 and 2009, 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.

As of June 30, 2010, we had unrecognized tax benefits relating to uncertain tax positions (UTPs) of $120.6 million. The Company recognizes potential accrued interest and penalties related to UTPs in income tax expense on a quarterly basis. As of June 30, 2010, we have accrued approximately $21.7 million and $22.7 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 2005. 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 2005 and federal and state income tax returns filed for 2006, potentially resulting in the recognition of $7.0 million of tax benefits.

The liability for UTPs is included in long-term liabilities in the condensed consolidated balance sheets. For the three months ended June 30, 2010 and 2009 we increased our liability for UTPs from $113.7 million to $115.2 million and from $110.7 million to $114.4 million, respectively. The increase of $1.5 million and $3.7 million for the three months ended June 30, 2010 and 2009, respectively, primarily related to our current provision for potential additional interest and penalties. For the six months ended June 30, 2010 and 2009 we increased our liability for UTPs from $111.3 million to $115.2 million and from $109.0 million to $114.4 million, respectively. The net increase of $3.9 million for the six months ended June 30, 2010 related to (i) an increase of $0.7 million to our current provision for UTPs, (ii) an increase of $3.5 million to our current provision for potential additional interest and penalties, partially offset by (iii) a decrease of $0.3 million from the reversal of liabilities for UTPs due to the expiration of the statute of limitations for the assessment of additional state tax for 2004 treated as a current income tax benefit. The net increase of $5.4 million for the six months ended June 30, 2009 related to (i) an increase of $0.5 million to our current provision for UTPs, (ii) an increase of $5.8 million to our current provision for potential additional interest and penalties, partially offset by (iii) a decrease of $0.9 million from the reversal of liabilities for UTPs 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.

As of June 30, 2010, if our positions are sustained by the taxing authorities, approximately $115.3 million would reduce the Company s future income tax provisions. Other than as described above, there were no significant changes to our uncertain tax positions during the six months ended June 30, 2010, and we do not anticipate any other significant increases or decreases to our unrecognized tax benefits during the next twelve months.

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

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. The PPACA changes the tax treatment related to an existing retiree drug subsidy (RDS) available to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. As a result of the PPACA, RDS payments will reduce our income tax deduction for health care expenses beginning in 2013. This new requirement did not have a material impact on our consolidated financial statements for the three and six months ended June 30, 2010 since we maintain a full valuation allowance against the deferred tax asset for retiree health benefits.

12. Stock-Based Compensation

As of June 30, 2010, there were 603,596 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 was satisfied upon Mr. Targoff s continued employment through March 5, 2010, the first anniversary of the Grant Date. The stock price vesting condition, which applies to both the Initial Grant and the Subsequent Grants, has been satisfied. Both the Initial Grant and the Subsequent Grants will be settled on March 31, 2013 or earlier under certain circumstances.

C. Patrick DeWitt, formerly Senior Vice President of Loral and Chief Executive Officer of SS/L and currently Chairman of the Board of SS/L, was awarded 25,000 RSUs on March 5, 2009, of which 66.67% vested on March 5, 2010, with the remainder vesting ratably on a quarterly basis over the subsequent two years. All of Mr. DeWitt s RSUs will be settled on March 12, 2012 or earlier under certain circumstances.

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, the Company introduced a performance based long-term incentive compensation program consisting of SS/L phantom stock appreciation rights (SS/L Phantom SARs). Because SS/L common stock is not freely tradable on the open market and thus does not have a readily ascertainable market value, SS/L equity value under the program is derived from an Adjusted EBITDA-based formula. Each SS/L Phantom SAR provides the recipient with the right to receive an amount equal to the increase in SS/L s notional stock price over the base price multiplied by the number of SS/L Phantom SARs vested on the applicable vesting date, subject to adjustment. SS/L Phantom SARs are settled and the SAR value (if any) is paid out on each vesting date. SS/L Phantom SARs may be settled in Loral common stock (based on the fair value of Loral common stock on the date of settlement) or cash at the option of the Company. SS/L Phantom SARs awarded in 2010 and 2009 have a three year or a four year vesting schedule.

In May 2010, 175,000 SS/L Phantom SARs were awarded to employees with the following four year vesting schedule: 25% vest on March 18, 2011, 25% vest on March 18, 2012, 25% vest on March 18, 2013 and 25% vest on March 18, 2014. During 2009, 475,000 SS/L Phantom SARs were awarded to employees with the following three year vesting schedule: 50% vest on March 18, 2010, 25% vest on March 18 of 2011 and 25% vest on March 18, 2012.

In addition, 65,000 SS/L Phantom SARs were awarded in 2009 with the following four year vesting schedule: 25% vest on March 18, 2010, 25% vest on March 18 of 2011, 25% vest on March 18, 2012 and 25% vest on March 18, 2013. The fair value of the SS/L Phantom SARs is included as a liability in our consolidated balance sheets. The payout liability is adjusted each reporting period to reflect the fair value of the underlying SS/L equity based on the actual performance of SS/L. As of June 30, 2010 and December 31, 2009, the amount of the liability in our consolidated balance sheet related to the SS/L Phantom SARs was $2.3 million and $2.7 million, respectively. During the six months ended June 30, 2010 cash payments of $3.6 million were made related to the settlement of SS/L Phantom SARs.

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Total stock-based compensation was $2.0 million and $3.0 million for the three months ended June 30, 2010 and 2009, respectively, and $5.2 million and $4.6 million for the six months ended June 30, 2010 and 2009, respectively.

13. Pensions and Other Employee Benefit Plans

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 months and six months ended June 30, 2010 and 2009:

	Pension Benefits Three Months Ended June 30,		Other Benefits Three Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Service cost	$ 2,596	$ 2,261	$ 234	$ 264
Interest cost	6,117	5.996	981	1,050
Expected return on plan assets	(5,157)	(4,273)	(8)	(13)
Amortization of prior service credits and net actuarial loss or (gain)	131	226	(166)	(133)
Net periodic cost	$ 3,687	$ 4,210	$ 1,041	$ 1,168

	Pension Benefits Six Months Ended June 30,		Other Benefits Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Service cost	$ 5,192	$ 4,522	$ 468	$ 528
Interest cost	12,234	11,992	1,962	2,100
Expected return on plan assets	(10,314)	(8,546)	(16)	(26)
Amortization of prior service credits and net actuarial loss or (gain)	262	452	(332)	(266)
Net periodic cost	$ 7,374	$ 8,420	$ 2,082	$ 2,336

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 six months ended June 30, 2010, is as follows (in thousands):

Balance of deferred amounts at January 1, 2010	$ 37,167
Warranty costs incurred including payments	(610)
Accruals relating to pre-existing contracts (including changes in estimates)	90

Balance of deferred amounts at June 30, 2010	$ 36,647

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

Many of SS/L s satellite contracts permit SS/L s customers to pay a portion of the purchase price for the satellite over time subject to the continued performance of the satellite (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 June 30, 2010 were $272 million, net of fair value adjustments of $18 million. Approximately $143 million of the gross orbital receivables are related to satellites launched as of June 30, 2010 and $147 million are related to satellites under construction as of June 30, 2010. There were no vendor financing receivables in our condensed consolidated balance sheet as of June 30, 2010.

As of June 30, 2010, SS/L had $1 million of past due receivables from a highly leveraged customer related to an in-orbit SS/L-built satellite and other related deliverables. In addition to this amount, the customer is contractually obligated to make payments to SS/L of $37 million plus interest for orbital incentives and future milestones with respect to this in-orbit satellite and the other deliverables. SS/L is also in the process of constructing a second satellite for this customer. As of June 30, 2010, SS/L has $16 million of past due receivables and expects to receive $59 million plus interest for future milestone payments and orbital incentives with respect to that satellite. The opinion issued by the customer s independent auditors for the customer s most recent audited financial statements expressed substantial doubt about the customer s ability to continue as a going concern, and there can be no assurance that the customer will not default on its payment obligations. SS/L believes that both the satellite in orbit and the satellite under construction, as well as other deliverables under contract, are critical to the execution of the operation and business plan of this customer. In addition, SS/L s contracts with this customer require that SS/L provide orbital anomaly and troubleshooting support for the life of the satellites. SS/L believes, therefore, that, because of the importance to the customer of the satellites and SS/L s ongoing technical support, this customer (or its successor if it undergoes reorganization) will likely fulfill its contractual payment obligations and that SS/L will not incur a material loss with respect to the past due receivables or amounts scheduled to be paid in the future. Moreover, even if the customer were to default and not complete its payments for the satellite under construction, SS/L believes that the value of the work-in-progress would be sufficient so that SS/L will not incur a material loss with respect to that satellite.

As of June 30, 2010, 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 $7 million. In addition, ICO has future payment obligations to SS/L that total approximately $25 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.

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

Satellite Matters

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

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

Nonperformance 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 nonperformance 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 has a contract-in-process which, as of March 31, 2010, had an estimated delivery date later than the contractually specified date after which the customer was entitled to terminate the contract for default. In May 2010, the customer contract was amended to revise the delivery date such that the current estimated delivery date precedes the contractually specified date after which the customer may terminate the contract for default.

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 if a loss is incurred with respect to this program, such loss would not be material.

SS/L relies, in part, on patents, trade secrets and know-how to develop and maintain its competitive position. There can be no assurance that infringement of existing third party patents has not occurred or will not occur. In the event of infringement, we could be required to pay royalties to obtain a license from the patent holder, refund money to customers for components that are not useable or redesign our products to avoid infringement, all of which would increase our costs. We 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.

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

Legal Proceedings

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 Delaware shareholder derivative case, entitled *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, 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 an award of fees and expenses of $8.8 million to counsel for the derivative plaintiffs in the above-referenced Delaware litigation (the Derivative Fee Award) and of an award of fees and expenses of $10.6 million to class counsel in that litigation (the Class Counsel Fee Award and, together with the Derivative Fee Award, the Fee Awards). In December 2008, the insurers 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 February 2010, the court granted the Company s motion and denied the insurers motion, declaring that the Fee Awards are covered by the applicable insurance policies. The insurers have appealed the court s decision, oral argument on the appeal was held in May 2010, and a decision by the court is pending.

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 June 30, 2010, after giving effect to a $5.0 million deductible, the insurers have paid approximately $9.8 million in defense costs for the Company s directors who are not affiliated with MHR. In July 2010, the insurers paid $1.2 million with respect to a settlement of the Company s claim for coverage of $1.6 million of defense costs for which the insurers had previously denied coverage. The settlement has been included as a reduction of selling, general and administrative expenses during the three months ended June 30, 2010.

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 was appointed by the Board of Directors to act as an independent special committee of the Board with respect to resolution of the MHR-affiliated directors claim for indemnification. In April 2010, the special committee determined that $14.4 million should be paid to the MHR-affiliated directors with respect to their claim and fees associated with enforcement of their right to indemnification. The special committee reached its determination after mediation sessions held in April 2010 between the special committee and the MHR-affiliated directors, conducted under the auspices of a former Justice of the Delaware Supreme Court. Loral recorded a charge for this claim of

$14.4 million in the condensed consolidated statement of operations for the six months ended June 30, 2010. This amount was paid by Loral to the MHR-affiliated directors in May 2010. The MHR-affiliated directors have accepted this payment in full and final satisfaction of their claim and provided a release to Loral. Loral s insurers have taken the position that no coverage is available for the MHR-Affiliated Director Indemnity Claim. The Company does not agree with the insurers position and, through an amendment to its complaint in the above-referenced insurance coverage litigation, is seeking to recover from the insurers substantially all of the amount paid to the MHR-affiliated directors, subject to the coverage limits of its insurance policy.

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

There can be no assurance that the Company s positions regarding insurance coverage for the Fee Awards 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 and all defense costs for its directors (including any amounts properly payable to the MHR-affiliated directors).

Reorganization Matters

On July 15, 2003, our predecessor, Loral Space & Communications Ltd. (Old Loral) and certain of its subsidiaries (collectively with Old Loral, the Debtors) filed voluntary petitions for reorganization under chapter 11 of title 11 of the United States Code in the U.S. Bankruptcy Court for the Southern District of New York (Lead Case No. 03-41710 (RDD), Case Nos. 03-41709 (RDD) through 03-41728 (RDD)). 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).

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 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 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 Old 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 by Old Loral to Intelsat and Old Loral s 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. In February 2009, the court granted defendant s motion and denied plaintiffs cross motion. In March 2009, plaintiffs filed a notice of appeal with respect to the court s decision. Pursuant to stipulations entered into in February and July 2010 among the parties and the plaintiffs in the *Christ* case discussed below, the appeal, which has been consolidated with the *Christ* case, was withdrawn, provided however, that plaintiffs may reinstate the appeal on or before August 20, 2010. 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 of Directors and Officers of Old Loral.*

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

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 Old 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. In September 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. In August 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, in March 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 has been consolidated with the appeal in the *Beleson* case discussed above and, pursuant to stipulations entered into in February and July 2010 among the parties and the plaintiffs in the *Beleson* case, was withdrawn, provided, however, that the *Beleson* plaintiffs may reinstate the appeal on or before August 20, 2010. 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 of Directors and Officers of Old Loral.*

Other and Routine Litigation

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

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

15. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Common and potential common shares:				
Weighted average common shares outstanding	29,984	29,753	29,923	29,727
Stock options			342	
Unvested restricted stock units		143	196	72
Unvested restricted stock		8	11	4
Unvested SS/L Phantom SARs			92	
Common and potential common shares	29,984	29,904	30,564	29,803

For the six months ended June 30, 2010 and 2009 and the three months ended June 30, 2009, the effect of certain stock options outstanding, which would be calculated using the treasury stock method and certain non-vested restricted stock and non-vested RSUs was excluded from the calculation of diluted income per share, as the effect would have been antidilutive. For the three months ended June 30, 2010, 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 antidilutive 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Stock options outstanding	1,435	2,158	125	2,158
Shares of non-vested restricted stock	16	51		51
Non-vested restricted stock units	238	23	8	23
Non-vested SS/L Phantom SARs	106			

16. Segments

Loral has two segments: Satellite Manufacturing and Satellite Services. Our segment reporting data includes unconsolidated affiliates that meet the reportable segment criteria. The satellite services segment includes 100% of the results reported by Telesat for the three and six months ended June 30, 2010 and 2009. Although we analyze Telesat s revenue and expenses under the satellite services segment, we eliminate its results in our consolidated financial statements, where we report our 64% share of Telesat s results 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) and directors indemnification expense (Adjusted EBITDA) as the measure of a segment s profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before directors indemnification expense, other expense and equity in net income (losses) of affiliates.

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

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, directors indemnification expense, other expense and equity in net income (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.

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 June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In thousands)		(In thousands)	
Revenues				
Satellite manufacturing:				
External revenues	$ 256,689	$ 254,858	$ 463,428	$ 443,108
Intersegment revenues[1]	24,503	21,001	48,618	49,198
Satellite manufacturing revenues	281,192	275,859	512,046	492,306
Satellite services revenues[2]	199,593	172,150	391,112	337,397
Operating segment revenues before eliminations	480,785	448,009	903,158	829,703
Intercompany eliminations[3]	(1,230)	(4,412)	(3,170)	(8,368)
Affiliate eliminations[2]	(199,593)	(172,150)	(391,112)	(337,397)
Total revenues as reported	$ 279,962	$ 271,447	$ 508,876	$ 483,938
Segment Adjusted EBITDA[4]				
Satellite manufacturing	$ 37,040	$ 12,109	$ 49,770	$ 22,546
Satellite services[2]	153,225	119,280	296,058	234,193
Corporate[5]	(2,870)	(6,352)	(6,771)	(10,751)
Adjusted EBITDA before eliminations	187,395	125,037	339,057	245,988
Intercompany eliminations[3]	(194)	(525)	(512)	(1,092)
Affiliate eliminations[2]	(153,225)	(119,280)	(296,058)	(234,193)
Adjusted EBITDA	33,976	5,232	42,487	10,703

Depreciation, Amortization and Stock-Based Compensation[4]				
Satellite manufacturing	(9,998)	(12,202)	(19,503)	(22,132)
Satellite services[2]	(62,225)	(55,604)	(123,533)	(106,122)
Corporate	(880)	(725)	(1,796)	(1,745)
Segment depreciation before affiliate eliminations	(73,103)	(68,531)	(144,832)	(129,999)
Affiliate eliminations[2]	62,225	55,604	123,533	106,122
Depreciation, amortization and stock-based compensation as reported	(10,878)	(12,927)	(21,299)	(23,877)
Directors indemnification expense[6]			(14,357)	
Operating (loss) income as reported	$ 23,098	$ (7,695)	$ 6,831	$ (13,175)

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

	June 30, 2010	December 31, 2009
	(In thousands)	
Total Assets		
Satellite manufacturing	$ 931,878	$ 863,866
Satellite services (includes goodwill of $2.3 billion in 2010 and 2009)[2]	5,188,327	5,202,785
Corporate[4]	172,221	181,485
Total Assets before affiliate eliminations	6,292,426	6,248,136
Affiliate eliminations[2]	(4,975,765)	(4,994,684)
Total assets as reported[7]	$ 1,316,661	$ 1,253,452

(1) Intersegment revenues for satellite manufacturing includes affiliate revenue of $23.3 million and $16.6 million for the three months ended June 30, 2010 and 2009, respectively, and $45.5 million and $40.8 million for the six months ended June 30, 2010 and 2009, respectively.

(2) Satellite services represents Telesat. Affiliate eliminations represent the elimination of

amounts attributable to Telesat whose results are reported under the equity method of accounting in our condensed consolidated statements of operations (see Note 8).

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

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

(5)

Represents corporate expenses incurred in support of our operations and includes our equity investments in XTAR and Globalstar service providers.

(6) Represents the indemnification of legal expenses incurred by MHR affiliated directors in defense of claims asserted against them in their capacity as directors of Loral.

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

17. Related Party Transactions

Transactions with Affiliates

Telesat

As described in Note 8, we own 64% of Telesat and account for our ownership interest under the equity method of accounting.

In connection with the acquisition of our ownership interest in Telesat (which we refer to as the Telesat transaction), Loral and certain of its subsidiaries, our Canadian partner, Public Sector Pension Investment Board (PSP) and one of its subsidiaries, Telesat Holdco and certain of its subsidiaries, including Telesat, and MHR entered into a Shareholders Agreement (the Shareholders Agreement). The Shareholders Agreement provides for, among other things, the manner in which the affairs of Telesat Holdco and its subsidiaries will be conducted and the relationships among the parties thereto and future shareholders of Telesat Holdco. The Shareholders Agreement also contains an agreement by Loral not to engage in a competing satellite communications business and agreements by the parties to the Shareholders Agreement not to solicit employees of Telesat Holdco or any of its subsidiaries. Additionally, the Shareholders Agreement details the matters requiring the approval of the shareholders of Telesat Holdco (including veto rights for Loral over certain extraordinary actions), provides for preemptive rights for certain shareholders upon the issuance of certain capital shares of Telesat Holdco and provides for either PSP or Loral to cause Telesat Holdco to conduct an initial public offering of its equity shares if an initial public offering is not completed by the fourth anniversary of the Telesat transaction. The Shareholders Agreement also restricts the ability of holders of certain shares of Telesat

Holdco to transfer such shares unless certain conditions are met or approval of the transfer is granted by the directors of Telesat Holdco, provides for a right of first offer to certain Telesat Holdco shareholders if a holder of equity shares of Telesat Holdco wishes to sell any such shares to a third party and provides for, in certain circumstances, tag-along rights in favor of shareholders that are not affiliated with Loral if Loral sells equity shares and drag-along rights in favor of Loral in case Loral or its affiliate enters into an agreement to sell all of its Telesat Holdco equity securities.
Under the Shareholders Agreement, in the event that either (i) ownership or control, directly or indirectly, by Dr. Rachesky, President of MHR, of Loral s voting stock falls below certain levels or (ii) there is a change in the composition of a majority of the members of the Loral Board of Directors over a consecutive two-year period, Loral will lose its veto rights relating to certain extraordinary actions by Telesat Holdco and its subsidiaries. In addition, after either of these events, PSP will have certain rights to enable it to exit from its investment in Telesat Holdco, including a right to cause Telesat Holdco to conduct an initial public offering in which PSP s shares would be the first shares offered or, if no such offering has occurred within one year due to a lack of cooperation from Loral or Telesat Holdco, to cause the sale of Telesat Holdco and to drag along the other shareholders in such sale, subject to Loral s right to call PSP s shares at fair market value.

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

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

As of June 30, 2010, SS/L had contracts with Telesat for the construction of the Telestar 14R, Nimiq 6 and Anik G1 satellites. Information related to satellite construction contracts with Telesat is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Revenues from Telesat satellite construction contracts	$ 23,277	$ 16,571	$ 45,446	$ 40,819
Milestone payments received from Telesat	33,718	16,894	52,987	31,618

Amounts receivable by SS/L from Telesat as of June 30, 2010 and December 31, 2009, were $22.7 million and $6.1 million, respectively, related to satellite construction contracts.

On October 31, 2007, Loral and Telesat entered into a consulting services agreement (the Consulting Agreement). Pursuant to the terms of the Consulting Agreement, Loral provides to Telesat certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat as part of the Telesat transaction as well as with respect to certain aspects of the satellite communications business of Telesat. The Consulting Agreement has a term of seven years with an automatic renewal for an additional seven year term if certain conditions are met. In exchange for Loral s services under the Consulting Agreement, Telesat will pay Loral an annual fee of US $5.0 million, payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. If the terms of Telesat s b