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

Table of Contents

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

**Form 10-Q**
**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2010**
**Commission file number 1-14180**
**Loral Space & Communications Inc.**
**600 Third Avenue**
**New York, New York 10016**
**Telephone: (212) 697-1105**
**Jurisdiction of incorporation: Delaware**
**IRS identification number: 87-0748324**

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

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

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

| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

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

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

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

**Page No.**


**PART I FINANCIAL INFORMATION**

**Item 1: Financial Statements (Unaudited)**

| | |
|---|---|
| Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009 | 3 |
| Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and September 30, 2009 | 4 |
| Condensed Consolidated Statements of Equity for the nine months ended September 30, 2010 and the year ended December 31, 2009 | 5 |
| Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and September 30, 2009 | 6 |
| Notes to Condensed Consolidated Financial Statements | 7 |
| **Item 2:** Management s Discussion and Analysis of Financial Condition and Results of Operations | 34 |
| **Item 3:** Quantitative and Qualitative Disclosures About Market Risk | 53 |
| **Item 4:** Disclosure Controls and Procedures | 55 |

**PART II OTHER INFORMATION**

| | |
|---|---|
| **Item 1:** Legal Proceedings | 56 |
| **Item 1A:** Risk Factors | 56 |
| **Item 6:** Exhibits | 56 |
| Signatures | 57 |

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

# PART 1.
# FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

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

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

See notes to condensed consolidated financial statements.

**Table of Contents**

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

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

See notes to condensed consolidated financial statements.

Table of Contents

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

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

See notes to condensed consolidated financial statements.

Table of Contents

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

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

See notes to condensed consolidated financial statements.

6

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

**1. Organization and Principal Business**

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

Loral has two segments (see Note 16):

*Satellite Manufacturing*

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

*Satellite Services*

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

As of September 30, 2010, Telesat had 12 in-orbit satellites and three satellites under construction, one of which is 100% contracted for at least the design life of the satellite. Telesat provides video distribution and DTH video, as well as end-to-end communications services using both satellite and hybrid satellite-ground networks.

Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat.

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

**2. Basis of Presentation**

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

The December 31, 2009 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the SEC.

Table of Contents

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

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

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

***Use of Estimates in Preparation of Financial Statements***

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

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

***Concentration of Credit Risk***

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts, contracts-in-process and long-term receivables. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Historically, our customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, we have added commercial customers that are highly leveraged, as well as those in the development stage which are partially funded. Management believes that its credit evaluation, approval and monitoring processes combined with contractual billing arrangements provide for management of potential credit risks with regard to our current customer base. However, the global financial markets have been adversely affected by the current market environment that includes illiquidity, market volatility, widening credit spreads, changes in interest rates, and currency exchange fluctuations. These credit and financial market conditions may have a negative effect on certain of our customers and could negatively affect the ability of such customers to pay amounts owed or to enter into future contracts with us.

***Fair Value Measurements***

U.S. GAAP defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. U.S. GAAP also establishes a fair value hierarchy that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are described below:

*Level 1:* Inputs represent a fair value that is derived from unadjusted quoted prices for identical assets or liabilities traded in active markets at the measurement date.

*Level 2:* Inputs represent a fair value that is derived from quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for

substantially the full term of the assets or liabilities, and pricing inputs, other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

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

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

*Assets and Liabilities Measured at Fair Value on Recurring Basis*

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

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

The Company does not have any non-financial assets and non-financial liabilities that are recognized or disclosed at fair value on a recurring basis as of September 30, 2010.

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

We review the carrying values of our equity method investments when events and circumstances warrant and consider all available evidence in evaluating when declines in fair value are other than temporary. The fair values of our investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge would be recorded when the carrying amount of the investment exceeds its current fair value and is determined to be other than temporary. We had no equity-method investments measured at fair value at September 30, 2010.

***Recent Accounting Pronouncements***

In December 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,* that amends Accounting Standards Codification ( ASC ) Topic 810, *Consolidations* ( ASC 810 ). The amendments to ASC Topic 810 are the result of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R),*that was issued in June 2009. ASU No. 2009-17 modifies the approach for determining the primary beneficiary of a variable interest entity ( VIE ). Under the modified approach, an enterprise is required to make a qualitative assessment whether it has (1) the power to direct the activities of the VIE that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If an enterprise has both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. The modified approach for determining the primary beneficiary of a VIE, effective for the Company on January 1, 2010, did not have a material impact on our consolidated financial statements.

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

In January 2010, the FASB issued new guidance to enhance disclosure requirements related to fair value measurements by requiring certain new disclosures and clarifying certain existing disclosures. This new guidance requires disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 recurring fair value measurements and the reasons for the transfers. In addition, the new guidance requires additional information related to activities in the reconciliation of Level 3 fair value measurements. The new guidance also expands the disclosures related to the disaggregation of assets and liabilities and information about inputs and valuation techniques. The new guidance related to Level 1 and Level 2 fair value measurements was effective for us on January 1, 2010 and the new

guidance related to Level 3 fair value measurements is effective for us on January 1, 2011. Effective January 1, 2010, the Company adopted the new guidance relating to Level 1 and Level 2 fair value measurements. The Company s adoption of the new guidance had no impact on its fair value disclosures, and the adoption of the guidance related to Level 3 fair value measurements is not expected to have a significant impact on its fair value disclosures.

Table of Contents

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

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

**3. Additional Cash Flow Information**

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

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

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

Table of Contents

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

### 4. Comprehensive Income

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

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

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

### 5. Contracts-in-Process and Inventories

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

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

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

Unbilled amounts include recoverable costs and accrued profit on progress completed, which have not been billed. Such amounts are billed in accordance with the contract terms, typically upon shipment of the product, achievement of contractual milestones, or completion of the contract and, at such time, are reclassified to billed receivables. Fresh-start fair value adjustments relating to contracts-in-process are amortized on a percentage of completion basis as performance under the related contract is completed. During the three months ended September 30, 2010, the Company recorded an inventory obsolescence charge of $4.3 million primarily related to long-term inventories.

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

**6. Financial Instruments, Derivatives and Hedging Transactions**

*Financial Instruments*

The carrying amount of cash equivalents and restricted cash approximates fair value because of the short maturity of those instruments. The fair value of investments in available-for-sale securities and supplemental retirement plan assets is based on market quotations. In determining the fair value of the Company s foreign currency derivatives, the Company uses the income approach employing market observable inputs (Level 2), such as spot currency rates and discount rates.

*Foreign Currency*

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

As of September 30, 2010, SS/L had the following amounts denominated in Japanese yen and euros (which have been translated into U.S. dollars based on the September 30, 2010 exchange rates) that were unhedged:

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

*Derivatives and Hedging Transactions*

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

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

The aggregate fair value of derivative instruments in an asset position was $4.0 million as of September 30, 2010. This amount represents the maximum exposure to loss at the reporting date as a result of the potential failure of the counterparties to perform as contracted.

*Cash Flow Hedges*

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

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

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

On July 9, 2008, SS/L was awarded a satellite contract denominated in euros and entered into a series of foreign exchange forward contracts with maturities through 2011 to hedge associated foreign currency exchange risk because our costs are denominated principally in U.S. dollars. These foreign exchange forward contracts have been designated as cash flow hedges of future euro denominated receivables.

The maturity of foreign currency exchange contracts held as of September 30, 2010 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows:

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

*Balance Sheet Classification*

The following summarizes the fair values and location in our condensed consolidated balance sheet of all derivatives held by the Company as of September 30, 2010 (in thousands):

| | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value (In thousands) | Balance Sheet Location | Fair Value (In thousands) |
| **Derivatives designated as hedging instruments** | | | | |
| Foreign exchange contracts | Other current assets | $ 3,679 | Other current liabilities | $ 12,791 |
| | | | Other liabilities | 8,817 |
| | | 3,679 | | 21,608 |
| **Derivatives not designated as hedging instruments** | | | | |
| Foreign exchange contracts | Other current assets | 309 | Other liabilities | 170 |
| Total Derivatives | | $ 3,988 | | $ 21,778 |

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

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

Table of Contents

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

*Cash Flow Hedge Gains (Losses) Recognition*

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

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

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

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

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

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

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

Table of Contents

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

**7. Property, Plant and Equipment**

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

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

**8. Investments in Affiliates**

Investments in affiliates consists of:

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

Equity in net income of affiliates consists of:

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

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

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

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

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

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

***Telesat***

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

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

Balance Sheet Data:

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

***XTAR***

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

XTAR owns and operates an X-band satellite, XTAR-EUR, located at 29º E.L., which is designed to provide X-band communications services exclusively to United States, Spanish and allied government users throughout the satellite s coverage area, including Europe, the Middle East and Asia. XTAR also leases 7.2 72 MHz X-band transponders on

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

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

Table of Contents

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

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

XTAR-EUR was launched on Arianespace, S.A. s ( Arianespace ) Ariane ECA launch vehicle in 2005. The price for this launch had two components the first, consisting of a $15.8 million 10% interest paid-in-kind loan provided by Arianespace, was repaid in full by XTAR on July 6, 2007. The second component of the launch price consisted of a revenue-based fee to be paid to Arianespace over XTAR-EUR s 15 year in-orbit operations. This fee, also referred to as an incentive fee, equaled 3.5% of XTAR s annual operating revenues, subject to a maximum threshold. On February 29, 2008, XTAR paid Arianespace $1.5 million representing the incentive fee through December 31, 2007. On January 27, 2009, Arianespace agreed to eliminate the remaining incentive fee in exchange for $8.0 million payable in three installments. XTAR paid the first installment of $4 million in February 2009 and the remaining two installments of $2 million each in April and June 2009. As a result of the payment of the three installments, XTAR has no further obligations under the launch services agreement with Arianespace. XTAR s net income for the nine months ended September 30, 2009 included a gain of $11.7 million related to the extinguishment of this liability.

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

The following table presents summary financial data for XTAR:

Statement of Operations Data:

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

Balance Sheet Data:

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

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

17

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

***Other***

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

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

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

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

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

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

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

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| Gross fair value adjustments | $ (36,896) | $ (36,896) |
| Accumulated amortization | 18,298 | 16,446 |
| | $ (18,598) | $ (20,450) |

Net amortization of these fair value adjustments was a credit to expense of $0.5 million and a charge to expense of $0.9 million for the three months ended September 30, 2010 and 2009, respectively, and a credit to expense of $1.8 million and a charge to expense of $2.0 million for the nine months ended September 30, 2010 and 2009, respectively.

**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):

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Letters of credit outstanding | $ 4,911 | $ 4,921 |
| Borrowings | | |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Interest expense (including commitment and letter of credit fees) | $ 202 | $ 248 | $ 600 | $ 959 |
| Amortization of issuance costs | $ 219 | $ 219 | $ 657 | $ 657 |

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

**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.

Our income tax provision is summarized as follows: (i) for the nine months ended September 30, 2010, we recorded a current tax provision of $8.6 million (which included a provision of $8.6 million to increase our liability for UTPs) and a deferred tax provision of $3.6 million (which included a provision of $4.6 million for UTPs), resulting in a total provision of $12.2 million on pre-tax income of $54.1 million and (ii) for the nine months ended September 30, 2009, we recorded a current tax provision of $8.3 million (which included a provision of $8.0 million to increase our liability for UTPs) and a deferred tax benefit of $1.2 million (which included a benefit of $0.4 million for UTPs), resulting in a total provision of $7.1 million on pre-tax income of $6.3 million.

As of September 30, 2010, we had unrecognized tax benefits relating to uncertain tax positions ( UTPs ) of $128.1 million. The Company recognizes potential accrued interest and penalties related to UTPs in income tax expense on a quarterly basis. As of September 30, 2010, we have accrued approximately $23.1 million and $22.8 million for the payment of potential tax-related interest and penalties, respectively.

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2006. 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 2006 and federal income tax returns filed for 2007, potentially resulting in the recognition of $5.8 million of tax benefits.

The following summarizes the changes to our liabilities for UTPs included in long-term liabilities in the condensed consolidated balance sheets:

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2010** | **2009** |
| | **(In thousands)** | |
| Liabilities for UTPs: | | |
| Opening balance January 1 | $ 111,316 | $ 109,006 |
| Current provision (benefit) for: | | |
| Unrecognized tax benefits | 4,241 | 1,439 |
| Potential additional interest | 4,365 | 5,054 |
| Potential additional penalties | 667 | 2,465 |
| Statute expirations | (698) | (927) |
| Ending balance September 30 | 119,891 | 117,037 |
| UTP adjustment to net deferred tax asset: | | |
| Opening balance January 1 | 239 | (832) |
| Current provision (benefit) for unrecognized tax benefits | 4,582 | (419) |
| Ending balance September 30 | 4,821 | (1,251) |

| | | |
|---|---|---|
| Total uncertain tax positions | $ 124,712 | $ 115,786 |

As of September 30, 2010, if our positions are sustained by the taxing authorities, approximately $124.7 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 nine months ended September 30, 2010, and we do not anticipate any other significant increases or decreases to our unrecognized tax benefits during the next twelve months.

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 nine months ended September 30, 2010 since we maintain a full valuation allowance against the deferred tax asset for retiree health benefits.

In October 2010, California enacted legislation retroactively extending its suspension of the tax deduction for operating losses from 2008 and 2009 through 2011. Based upon the application of our effective tax rate for the full year against current period results, this change would have increased our income tax provision for the three and nine months ended September 30, 2010 by $2.2 million and $3.2 million, respectively. However, since this legislation was enacted after September 30, 2010, the effect will be recorded in the fourth quarter.

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

**12. Stock-Based Compensation**

As of September 30, 2010, there were 627,721 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 liability is adjusted each reporting period to reflect the formula-based value of the underlying SS/L equity based on the actual performance of SS/L. As of September 30, 2010 and December 31, 2009, the amount of the liability in our consolidated balance sheet related to the SS/L Phantom SARs was $4.9 million and $2.7 million, respectively. In March 2010 cash payments of $3.6 million were made related to the settlement of SS/L Phantom SARs.

Total stock-based compensation was $3.1 million and $1.8 million for the three months ended September 30, 2010 and 2009, respectively, and $8.3 million and $6.4 million for the nine months ended September 30, 2010 and 2009, respectively.

Table of Contents

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

**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 nine months ended September 30, 2010 and 2009:

| | Pension Benefits Three Months Ended September 30, | | Other Benefits Three Months Ended September 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) | 130 | 226 | (166) | (133) |
| Net periodic cost | $ 3,686 | $ 4,210 | $ 1,041 | $ 1,168 |

| | Pension Benefits Nine Months Ended September 30, | | Other Benefits Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Service cost | $ 7,788 | $ 6,783 | $ 702 | $ 792 |
| Interest cost | 18,351 | 17,988 | 2,943 | 3,150 |
| Expected return on plan assets | (15,471) | (12,819) | (24) | (39) |
| Amortization of prior service credits and net actuarial loss or (gain) | 392 | 678 | (498) | (399) |
| Net periodic cost | $ 11,060 | $ 12,630 | $ 3,123 | $ 3,504 |

**14. Commitments and Contingencies**

***Financial Matters***

SS/L has deferred revenue and accrued liabilities for performance warranty obligations relating to satellites sold to customers, which could be affected by future performance of the satellites. These reserves for expected costs for warranty reimbursement and support are based on historical failure rates. However, in the event of a catastrophic failure of a satellite, which cannot be predicted, these reserves likely will not be sufficient. SS/L periodically reviews and adjusts the deferred revenue and accrued liabilities for warranty reserves based on the actual performance of each satellite and remaining warranty period. A reconciliation of such deferred amounts for the nine months ended September 30, 2010, is as follows (in thousands):

| | |
|---|---|
| Balance of deferred amounts at January 1, 2010 | $ 37,167 |
| Warranty costs incurred including payments | (966) |
| Accruals relating to pre-existing contracts (including changes in estimates) | (292) |
| Balance of deferred amounts at September 30, 2010 | $ 35,909 |

Many of SS/L s satellite contracts permit SS/L s customers to pay a portion of the purchase price for the satellite over time subject to the continued performance of the satellite ( orbitals ), and certain of SS/L s satellite contracts require SS/L to provide vendor financing to its customers, or a combination of these contractual terms. Some of these arrangements are provided to customers that are start-up companies, companies in the early stages of building their businesses or highly leveraged companies, including some with near-term debt maturities. There can be no assurance that these companies or their businesses will be successful and, accordingly, that these customers will be able to fulfill their payment obligations under their contracts with SS/L. We believe that these provisions will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided. Moreover, SS/L s receipt of orbital payments is subject to the continued performance of its satellites generally over the contractually stipulated life of the satellites. Because these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/L will be able to collect all or a portion of these receivables. Orbital receivables included in our condensed consolidated balance sheet as of September 30, 2010 were $291 million, net of fair value adjustments of $18 million. Approximately $157 million of the gross orbital receivables are related to satellites launched as of September 30, 2010 and $152 million are related to satellites under construction as of September 30, 2010. There were no vendor financing receivables in our condensed consolidated balance sheet as of September 30, 2010 and December 31, 2009.

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

On October 19, 2010, TerreStar Networks Inc. ( TerreStar ), an SS/L customer, filed for bankruptcy under Chapter 11 of the Bankruptcy Code. As of September 30, 2010, SS/L had $19 million of past due receivables from TerreStar related to an in-orbit SS/L built satellite and other related deliverables and $16 million of past due receivables from TerreStar related to a second satellite under construction. SS/L had previously exercised its contractual right to stop work on the satellite under construction as a result of TerreStar s payment default. The in-orbit satellite long-term orbital receivable balance, net of fair value adjustment, reflected on the balance sheet at September 30, 2010 is $15 million. The long term orbital receivable balance reflected on the balance sheet for the satellite under construction is $13 million. In addition, there are approximately $5 million of costs that have been committed to and will be incurred in the future, substantially relating to the satellite under construction. To date, TerreStar has not assumed, and there can be no assurance that it will assume, SS/L s contracts in bankruptcy. SS/L believes, however, that the satellite in orbit and related deliverables are critical to the execution of TerreStar s operation and business plan. In addition, under its contract with TerreStar, SS/L is obligated to provide orbital anomaly and troubleshooting support for the life of the in-orbit satellite and related deliverables. SS/L believes, therefore, although no assurance can be given, that, because of the importance to TerreStar of the satellite and related deliverables and SS/L s ongoing technical support, TerreStar (or its successor in reorganization) will likely assume its contracts for the in-orbit satellite and related deliverables and SS/L will not incur a material loss with respect to the past due receivables or amounts scheduled to be paid in the future under those contracts. With respect to the satellite under construction, even if TerreStar were to reject the contract, SS/L believes, although no assurance can be given, that after giving effect to amounts expected to be realized from resale of that satellite or its components, SS/L will not incur a loss with respect to that satellite. Notwithstanding these considerations, if TerreStar, nevertheless, were to reject all of its contracts with SS/L, SS/L believes that after giving effect to amounts expected to be realized from resale of the satellite under construction or its components, SS/L would incur a loss of approximately $22 million, SS/L s cash flow in the short term would not be adversely affected and SS/L s cash flow over the approximate 15-year life of the satellites would be reduced by the combined total of $28 million of long term orbital receivables plus interest.

As of September 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. In September 2010, ICO satisfied the regulatory approval condition precedent to the plan when it obtained FCC approval for the transfer of its spectrum licenses to the reorganized entity, but the effective date of the plan is still subject to, among other things, funding of a new exit financing facility and favorable resolution of certain pending 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.

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

***Satellite Matters***

Satellites are built with redundant components or additional components to provide excess performance margins to permit their continued operation in case of component failure, an event that is not uncommon in complex satellites. Thirty one 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.

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 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 received requests for indemnification and advancement of expenses from its directors who are not affiliated with MHR under their indemnification agreements with the Company for any losses or costs they may incur as a result of the *In re: Loral Space and Communications Inc. Consolidated Litigation* and *Babus* lawsuits. As of September 30, 2010, after giving effect to a $5.0 million deductible, the insurers have paid approximately $9.8 million in defense costs. 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 nine months ended September 30, 2010.

In addition, the Company 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 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 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 during the first quarter of 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. On September 30, 2010, the insurers filed a motion for summary judgment requesting dismissal of Loral s claim for coverage of the MHR-Affiliated Director Indemnity Claim. Loral filed its response to the insurers motion on November 1, 2010 and oral argument on the motion is scheduled for November 23, 2010.

**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, May, July, August and October 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 November 19, 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.*

25

**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. In September 2010, counsel for the *Beleson* class agreed to voluntarily dismiss this appeal and, in November 2010, a stipulation of voluntary dismissal was approved by the court. Since this case was not brought against Old Loral, but only against certain of its officers, we believe, although no assurance can be given, that, should the settlement not be consummated or should any objectors who opted out of the settlement prevail in lawsuits they may bring, to the extent that any award is ultimately granted to the plaintiffs or objectors in this action, the liability of Loral, if any, with respect thereto is limited solely to the D&O Claims as described above under *Reorganization Matters Indemnification Claims 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**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net income, as reported basic | $ 72,392 | $ 108,424 | $ 82,100 | $ 171,891 |
| Less: Adjustment for dilutive effect of Telesat stock options | (1,003) | | (1,116) | |
| Net income diluted | $ 71,389 | $ 108,424 | $ 80,984 | $ 171,891 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | **(In thousands)** | | **(In thousands)** | |
| Common and potential common shares: | | | | |
| Weighted average common shares outstanding | 30,206 | 29,771 | 30,017 | 29,742 |
| Stock options | 591 | | 425 | |
| Unvested restricted stock units | 213 | 145 | 201 | 96 |
| Unvested restricted stock | 7 | 2 | 10 | 4 |
| Unvested SS/L Phantom SARs | 187 | 86 | 124 | 28 |
| Common and potential common shares | 31,204 | 30,004 | 30,777 | 29,870 |

For the three and nine months ended September 30, 2009, the effects of certain stock options outstanding, which would be calculated using the treasury stock method and certain unvested restricted stock units and unvested restricted stock were excluded from the calculation of diluted income per share, as the effect would have been antidilutive. The following summarizes stock options outstanding, unvested restricted stock units and unvested restricted stock excluded from the calculation of diluted income per share:

| | Three Months Ended September 30, 2009 (In thousands) | Nine Months Ended September 30, 2009 (In thousands) |
|---|---|---|
| Stock options outstanding | 2,158 | 2,158 |
| Unvested restricted stock units | 23 | 23 |
| Unvested restricted stock | 41 | 41 |

**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 nine months ended September 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 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 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 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.

Table of Contents

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

Intersegment revenues primarily consists of satellites under construction by Satellite Manufacturing for Telesat.
Summarized financial information concerning the reportable segments is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| **Revenues** | | | | |
| Satellite manufacturing: | | | | |
| External revenues | $ 282,344 | $ 227,908 | $ 745,772 | $ 671,016 |
| Intersegment revenues[1] | 42,581 | 25,611 | 91,199 | 74,809 |
| Satellite manufacturing revenues | 324,925 | 253,519 | 836,971 | 745,825 |
| Satellite services revenues[2] | 201,611 | 170,510 | 592,723 | 507,907 |
| Operating segment revenues before eliminations | 526,536 | 424,029 | 1,429,694 | 1,253,732 |
| Intercompany eliminations[3] | (1,487) | (4,282) | (4,657) | (12,650) |
| Affiliate eliminations[2] | (201,611) | (170,510) | (592,723) | (507,907) |
| Total revenues as reported | $ 323,438 | $ 249,237 | $ 832,314 | $ 733,175 |
| **Segment Adjusted EBITDA**[4] | | | | |
| Satellite manufacturing | $ 55,788 | $ 31,620 | $ 105,558 | $ 54,166 |
| Satellite services[2] | 154,400 | 117,788 | 450,457 | 351,981 |
| Corporate[5] | (3,601) | (4,440) | (10,372) | (15,192) |
| Adjusted EBITDA before eliminations | 206,587 | 144,968 | 545,643 | 390,955 |
| Intercompany eliminations[3] | (623) | (291) | (1,135) | (1,383) |
| Affiliate eliminations[2] | (154,400) | (117,788) | (450,457) | (351,981) |
| Adjusted EBITDA | 51,564 | 26,889 | 94,051 | 37,591 |
| **Depreciation, Amortization and Stock-Based Compensation**[4] | | | | |
| Satellite manufacturing | (10,431) | (10,950) | (29,934) | (33,082) |
| Satellite services[2] | (61,766) | (54,661) | (185,299) | (160,783) |
| Corporate | (1,512) | (1,090) | (3,308) | (2,835) |
| Segment depreciation before affiliate eliminations | (73,709) | (66,701) | (218,541) | (196,700) |
| Affiliate eliminations[2] | 61,766 | 54,661 | 185,299 | 160,783 |
| Depreciation, amortization and stock-based compensation as reported | (11,943) | (12,040) | (33,242) | (35,917) |
| Directors indemnification expense[6] | | | (14,357) | |
| Operating income as reported | $ 39,621 | $ 14,849 | $ 46,452 | $ 1,674 |

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (In thousands) | |
| **Total Assets** | | |
| Satellite manufacturing | $ 966,838 | $ 863,866 |
| Satellite services (includes goodwill of $2.4 billion in 2010 and $2.3 billion in 2009)[2] | 5,436,966 | 5,202,785 |
| Corporate | 162,929 | 181,485 |
| Total Assets before affiliate eliminations | 6,566,733 | 6,248,136 |
| Affiliate eliminations[2] | (5,181,365) | (4,994,684) |
| Total assets as reported[7] | $ 1,385,368 | $ 1,253,452 |

(1) Intersegment revenues for satellite manufacturing includes affiliate revenue of $41.1 million and $21.3 million for the three months ended September 30, 2010 and 2009, respectively, and $86.6 million and $62.2 million for the nine months ended September 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.

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

(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.

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.

Table of Contents

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

As of September 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Revenues from Telesat satellite construction contracts | $ 41,079 | $ 21,323 | $ 86,525 | $ 62,142 |
| Milestone payments received from Telesat | 48,058 | 36,227 | 101,045 | 67,845 |

Amounts receivable by SS/L from Telesat as of September 30, 2010 and December 31, 2009, were $16.3 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 bank or bridge facilities or certain other debt obligations prevent Telesat from paying such fees in cash, Telesat can issue junior subordinated promissory notes to Loral in the amount of such payment, with interest on such promissory notes payable at the rate of 7% per annum, compounded quarterly, from the date of issue of such promissory note to the date of payment thereof. Our selling, general and administrative expenses included income related to the Consulting Agreement of $1.25 million for each of the three month periods ended September 30, 2010 and 2009 and $3.75 million for each of the nine month periods ended September 30, 2010 and 2009. We also had a long-term receivable related to the Consulting Agreement from Telesat of $16.0 million and $11.6 million as of September 30, 2010 and December 31, 2009, respectively.

In connection with the Telesat transaction, Loral has indemnified Telesat for certain liabilities including Loral Skynet s tax liabilities arising prior to January 1, 2007. As of both September 30, 2010 and December 31, 2009 we had recognized liabilities of approximately $6.2 million representing our estimate of the probable outcome of these matters. These liabilities are offset by tax deposit assets of $6.6 million relating to periods prior to January 1, 2007. There can be no assurance, however, that the eventual payments required by us will not exceed the liabilities established.

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

A Beam Sharing Agreement between us and ViaSat provides for, among other things, (i) the purchase by us of a portion of the ViaSat-1 satellite payload providing coverage into Canada (the Loral Payload ) and (ii) payment by us of 15% of the actual costs of launch and associated services, launch insurance and telemetry, tracking and control services for the ViaSat-1 satellite. The aggregate cost to us for the foregoing is estimated to be approximately $60.0 million. SS/L commenced construction of the Viasat-1 satellite in January 2008. We recorded sales to ViaSat under this contract of $8.4 million and $24.3 million for the three months ended September 30, 2010 and 2009, respectively, and $26.4 million and $71.7 million for the nine months ended September 30, 2010 and 2009, respectively. Loral s cumulative costs for the Loral Payload were $37.2 million as of September 30, 2010, which is reflected as satellite capacity under construction in property, plant and equipment.

An Option Agreement between us and Telesat gave Telesat the option to cause us to assign to Telesat our rights and obligations with respect to the Loral Payload and all of our rights and obligations under the Beam Sharing Agreement upon certain payments by Telesat to us. In consideration for the grant of the option, Telesat (i) agreed in a Cooperation Agreement with us and ViaSat (the Cooperation Agreement ) to relinquish certain rights Telesat has to the 115º W.L. orbital position (the Orbital Slot ) so as to make those rights available to ViaSat pursuant to a license (the ViaSat License ) to be granted by Mansat Limited ( Mansat ) to ViaSat and (ii) agreed to provide tracking, telemetry and control services to ViaSat for the ViaSat-1 Satellite and to pay us all of the recurring fees Telesat receives for providing such services. We have agreed to reimburse ViaSat for fees due to Mansat as well as certain other regulatory fees due under the ViaSat License for the life of the ViaSat-1 Satellite. Because Telesat did not exercise its option on or prior to its expiration in October 2009, Telesat is obligated, at our request, to transfer to us Telesat s remaining rights from Mansat with respect to the Orbital Slot, and assign to us Telesat s related rights and obligations under the Cooperation Agreement.

31

Table of Contents

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

In February 2010, a subsidiary of Loral entered into a contract with ViaSat for the procurement of certain RF equipment and services to be integrated into the gateways to be constructed and owned by Loral to enable commercial service using the Loral Payload. The contract is valued at approximately $7.8 million before the exercise of options. Loral guaranteed the financial obligations of the subsidiary that entered into the contract. As of September 30, 2010 Loral has paid $3.9 million under this agreement.

In January 2010, we entered into a Consulting Services Agreement with Telesat for Telesat to provide services related to gateway construction, regulatory and licensing support and preparation for satellite traffic operations for the Loral Payload. Payments under the agreement are on a time and materials basis. As of September 30, 2010, $0.1 million has been expensed under this agreement.

In September 2010, we entered into an agreement with Telesat for Telesat to provide us with project management, engineering and integration services for three gateway sites including engineering and installation of the civil works, design and integration of the shelters and associated shelter infrastructure and monitoring the delivery and installation of equipment. The agreement is valued at approximately CAD 4.2 million ($4.1 million at the September 30, 2010 foreign exchange rate). As of September 30, 2010, Loral has incurred cumulative costs under this agreement of $0.4 million.

Costs of satellite manufacturing for sales to related parties were $37.3 million and $33.4 million for the three months ended September 30, 2010 and 2009, respectively, and $92.0 million and $115.0 million for the nine months ended September 30, 2010 and 2009, respectively.

In connection with an agreement reached in 1999 and an overall settlement reached in February 2005 with ChinaSat relating to the delayed delivery of ChinaSat 8, SS/L has provided ChinaSat with usage rights to two Ku-band transponders on Telesat s Telstar 10 for the life of such transponders (subject to certain restoration rights) and to one Ku-band transponder on Telesat s Telstar 18 for the life of the Telstar 10 satellite plus two years, or the life of such transponder (subject to certain restoration rights), whichever is shorter. Pursuant to an amendment to the agreement executed in June 2009, in lieu of rights to one of the Ku-band transponders on Telstar 10, ChinaSat has rights to an equivalent amount of Ku-band capacity on Telstar 18 (the Alternative Capacity ). The Alternative Capacity may be utilized by ChinaSat until April 30, 2019 subject to certain conditions. Under the agreement, SS/L makes monthly payments to Telesat for the transponders allocated to ChinaSat. Effective with the termination of Telesat s leasehold interest in Telstar 10 in July 2009, SS/L makes monthly payments with respect to capacity used by ChinaSat on Telstar 10 directly to APT, the owner of the satellite. As of September 30, 2010 and December 31, 2009, our consolidated balance sheet included a liability of $7.0 million and $8.4 million, respectively, for the future use of these transponders. SS/L has also recorded $0.5 million and $0.7 million of interest expense on the liability related to these transponders for the nine months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 we made payments of $1.9 million including interest to Telesat pursuant to the agreement.

*XTAR*

As described in Note 8 we own 56% of XTAR, a joint venture between us and Hisdesat and account for our ownership interest in XTAR under the equity method of accounting. We constructed XTAR s satellite, which was successfully launched in February 2005. XTAR and Loral have entered into a management agreement whereby Loral provides general and specific services of a technical, financial, and administrative nature to XTAR. For the services provided by Loral, XTAR is charged a quarterly management fee equal to 3.7% of XTAR s quarterly gross revenues. Amounts due to Loral under the management agreement as of September 30, 2010 and December 31, 2009 were $2.2 million and $1.3 million, respectively. During the quarter ended March 31, 2009, Loral and XTAR agreed to defer receivable amounts owed to Loral under this agreement and XTAR has agreed that its excess cash balance (as defined) will be applied at least quarterly towards repayment of receivables owed to Loral, as well as to Hisdesat and Telesat. Our selling, general and administrative expenses included offsetting income to the extent of cash received under this agreement of nil and $0.4 million for the three months ended September 30, 2010 and 2009 and nil and $1.2 million for the nine months ended September 30, 2010 and 2009, respectively.

*MHR Fund Management LLC*

Two of the managing principals of MHR, Mark H. Rachesky and Hal Goldstein, and a former managing principal of MHR, are members of Loral s board of directors. Prior to December 23, 2008, various funds affiliated with MHR held all issued and outstanding shares of Loral Series-1 Preferred Stock which was issued in February 2007. Pursuant to an order of the Delaware Chancery Court, on December 23, 2008, we issued to the MHR Funds 9,505,673 shares of Non-Voting Common Stock, and all shares of Loral Series-1 Preferred Stock (including all PIK dividends) previously issued to the MHR Funds pursuant to the Securities Purchase Agreement were cancelled.

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

Also pursuant to the Delaware Chancery Court Order, on December 23, 2008, Loral and the MHR Funds entered into a registration rights agreement which provides for registration rights for the shares of Non-Voting Common Stock, in addition and substantially similar to, the registration rights provided for the shares of Voting Common Stock held by the MHR Funds. In addition, in June 2009, Loral filed a shelf registration statement covering shares of Voting Common Stock and Non-Voting Common Stock held by the MHR Funds, which registration statement was declared effective in July 2009. Various funds affiliated with MHR held, as of September 30, 2010 and December 31, 2009, approximately 39.3% and 39.9%, respectively, of the outstanding Voting Common stock and, as of September 30, 2010 and December 31, 2009, had a combined ownership of Voting and Non-Voting Common Stock of Loral of 58.4% and 59.0%, respectively.

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

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

As of September 30, 2010, funds affiliated with MHR hold $83.7 million in principal amount of Telesat 11% Senior Notes and $29.75 million in principal amount of Telesat 12.5% Senior Subordinated Notes.

Table of Contents

**Item 2.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

*The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements (the financial statements ) included in Item 1 and our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission.*

**INDEX**


| Topic | Location |
|---|---|
| Overview | 34 |
| Consolidated Operating Results | 37 |
| Liquidity and Capital Resources: | |
| Loral | 46 |
| Telesat | 50 |
| Contractual Obligations | 52 |
| Statement of Cash Flows | 52 |
| Affiliate Matters | 52 |
| Commitments and Contingencies | 53 |
| Other Matters | 53 |


Loral Space & Communications Inc., a Delaware corporation, together with its subsidiaries ( Loral , the Company , we our , and us ) is a leading satellite communications company engaged in satellite manufacturing with ownership interests in satellite-based communications services. The term Parent Company is a reference to Loral Space & Communications Inc., excluding its subsidiaries.

**Disclosure Regarding Forward-Looking Statements**

*Except for the historical information contained in the following discussion and analysis, the matters discussed below are not historical facts, but are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition, we or our representatives have made and may continue to make forward-looking statements, orally or in writing, in other contexts. These forward-looking statements can be identified by the use of words such as believes, expects, plans, may, will, would, could, should, anticipates, estimates, project, intend, or outlook or other variations of these words. These statements, including without limitation, those relating to Telesat, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or quantify. Actual events or results may differ materially as a result of a wide variety of factors and conditions, many of which are beyond our control. For a detailed discussion of these and other factors and conditions, please refer to the Commitments and Contingencies section below and to our other periodic reports filed with the Securities and Exchange Commission ( SEC ). We operate in an industry sector in which the value of securities may be volatile and may be influenced by economic and other factors beyond our control. We undertake no obligation to update any forward-looking statements.*

**Overview**

***Businesses***

Loral has two segments, satellite manufacturing and satellite services. Loral participates in satellite services operations principally through its ownership interest in Telesat.

*Satellite Manufacturing*

Space Systems/Loral, Inc. ( SS/L ) is a leading designer, manufacturer and integrator of powerful satellites and satellite systems for commercial and government customers worldwide. SS/L s design, engineering and manufacturing excellence has allowed it to develop a large portfolio of highly engineered, mission-critical satellites and secure a leading industry presence. This position, coupled with SS/L s technical innovation and record of reliability and customer support, provides SS/L with the ability to produce satellites that meet a broad range of customer requirements for broadband internet service to the home, mobile video and internet service, broadcast feeds for television and radio distribution, phone service, civil and defense communications, direct-to-home television broadcast, satellite radio, telecommunications backhaul and trunking, weather and environment monitoring and air traffic control. In addition, SS/L has applied its design and manufacturing expertise to produce spacecraft subsystems, such as batteries for the International Space Station, and to integrate government and other add-on missions on commercial satellites, which are referred to as hosted payloads.

As of September 30, 2010, SS/L had $1.7 billion in backlog for 22 satellites for customers including Intelsat Global S.A., SES S.A., Telesat Holdings Inc., Hispasat, S.A., EchoStar Corporation, Sirius-XM Satellite Radio, TerreStar Corporation, Asia Satellite Telecommunications Co. Ltd., Hughes Network Systems, LLC, ViaSat, Inc. and Eutelsat/ictQatar. As of December 31, 2009, SS/L s backlog was $1.6 billion for 19 satellites. During October 2010, SS/L received an additional order for a new satellite from Asia Broadcast Satellite.

Satellite demand is driven by fleet replacement cycles, increased video, internet and data bandwidth demand and new satellite applications. SS/L expects its future success to derive from maintaining and expanding its share of the satellite construction contracts of its existing customers based on its engineering, technical and manufacturing leadership; its value proposition and record of reliability; the increased demand for satellite systems from new and existing customers as a result of new applications requiring high power and capacity satellites such as HDTV, 3-D TV and broadband; and expansion of its governmental contracts based on its record of reliability and experience with fixed-price contract manufacturing. We also expect SS/L to benefit from the increased revenues from larger and more complex satellites. As such, increased revenues as well as system and supply chain management improvements should enable SS/L to continue to improve its profitability.

The costs of satellite manufacturing include costs for material, subcontracts, direct labor and manufacturing overhead. Due to the long lead times required for certain of our purchased parts, and the desire to obtain volume-related price concessions, SS/L has entered into various purchase commitments with suppliers in advance of receipt of a satellite order. SS/L s costs for material and subcontracts have been relatively stable and are generally provided by suppliers with which SS/L has a long-established history. The number of available suppliers and the cost of qualifying the component for use in a space environment to SS/L s unique requirements limit the flexibility and advantages inherent in multiple sourcing options.

Satellite manufacturers have high fixed costs relating primarily to labor and overhead. Based on its current cost structure, we estimate that SS/L covers its fixed costs, including depreciation and amortization, with an average of four to five satellite awards a year depending on the size, power, pricing and complexity of the satellite. Cash flow in the satellite manufacturing business tends to be uneven. It takes two to three years to complete a satellite project and numerous assumptions are built into the estimated costs. SS/L s cash receipts are tied to the achievement of contract milestones that depend in part on the ability of its subcontractors to deliver on time. In addition, the timing of satellite awards is difficult to predict, contributing to the unevenness of revenue and making it more challenging to align the workforce to the workflow.

While its requirement for ongoing capital investment to maintain its current capacity is relatively low, over the past several years SS/L has modified and expanded its manufacturing facilities to accommodate an expanded backlog. SS/L can now accommodate as many as nine to 13 satellite awards per year, depending on the complexity and timing of the specific satellites, and can accommodate the integration and test of 13 to 14 satellites at any given time in its Palo Alto facility. The expansion has also reduced the company s reliance on outside suppliers for certain RF components and sub-assemblies.

The satellite manufacturing industry is a knowledge-intensive business, the success of which relies heavily on its technological heritage and the skills of its workforce. The breadth and depth of talent and experience resident in SS/L s workforce of approximately 2,800 personnel is one of our key competitive resources.

Satellites are extraordinarily complex devices designed to operate in the very hostile environment of space. This complexity may lead to unanticipated costs during the design, manufacture and testing of a satellite. SS/L establishes provisions for costs based on historical experience and program complexity to cover anticipated costs. As most of SS/L s contracts are fixed price, cost increases in excess of these provisions reduce profitability and may result in losses to SS/L, which may be material. Because the satellite manufacturing industry is highly competitive, buyers have the advantage over suppliers in negotiating prices, and terms and conditions resulting in reduced margins and increased assumptions of risk by manufacturers such as SS/L.

*Satellite Services*

Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat, the world s fourth largest satellite operator with approximately $5.4 billion of backlog as of September 30, 2010.

35

The satellite services business is capital intensive and the build-out of a satellite fleet requires substantial time and investment. Once the investment in a satellite is made, the incremental costs to maintain and operate the satellite is relatively low over the life of the satellite with the exception of in-orbit insurance. Telesat has been able to generate a large contracted revenue backlog by entering into long-term contracts with some of its customers for all or substantially all of a satellite s life. Historically, this has resulted in revenue from the satellite services business being fairly predictable.

Competition in the satellite services market has been intense in recent years due to a number of factors, including transponder over-capacity in certain geographic regions and increased competition from terrestrial-based communications networks.

At September 30, 2010, Telesat had 12 in-orbit satellites. These 12 satellites had an average of approximately 52% of service life remaining, with an average service life remaining of approximately 7.6 years. Telesat currently has three satellites under construction, all by SS/L.

Telesat is committed to continuing to provide the strong customer service and focus on innovation and technical expertise that has allowed it to successfully build its business to date. Building on backlog and significant contracted growth, Telesat s focus is on taking disciplined steps to grow the core business and sell newly launched and existing in-orbit satellite capacity, and, in a disciplined manner, use the cash flow generated by existing business, contracted expansion satellites and cost savings to strengthen the business.

Telesat believes its existing satellite fleet supports a strong combination of existing backlog and revenue growth. The growth is expected to come from the Telstar 14R satellite, which Telesat expects to be launched in the second half of 2011, the Nimiq 6 satellite, which is anticipated to be launched in the first half of 2012, the Anik G1 satellite, which Telesat anticipates will be launched in the second half of 2012 and the sale of available capacity on its existing satellites. Telesat believes this fleet of satellites provides a solid foundation upon which it will seek to grow its revenues and cash flows.

Telesat believes that it is well-positioned to serve its customers and the markets in which it participates. Telesat actively pursues opportunities to develop new satellites, particularly in conjunction with current or prospective customers, who will commit to a substantial amount of capacity at the time the satellite construction contract is signed. Although Telesat regularly pursues opportunities to develop new satellites, it does not procure additional or replacement satellites unless it believes there is a demonstrated need and a sound business plan for such capacity.

Telesat anticipates that it will be able to increase revenue without a proportional increase in operating expenses, allowing for profit margin expansion. The fixed cost nature of the business, combined with contracted revenue growth and other growth opportunities is expected to produce growth in operating income and operating cash flow.

For the remainder of 2010, Telesat continues to focus on the execution of its business plan to serve its customers and the market in which it participates, the sale of capacity on its existing satellites and the continuing efforts to achieve operating efficiencies. Telesat will also continue to pursue the expansion of its fleet with the on-going construction of Nimiq 6, Telstar 14R and Anik G1.

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Approximately 45% of Telesat s revenues received in Canada for the three and nine months ended September 30, 2010, certain of its expenses and a substantial portion of its indebtedness and capital expenditures were denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at September 30, 2010 would have increased or decreased Telesat s net income for the nine months ended September 30, 2010 by approximately $154 million. During the period from October 31, 2007 to September 30, 2010, Telesat s U.S. term loan facility, senior notes and senior subordinated notes have increased by approximately $213 million due to the stronger U.S. dollar. During that same time period, however, the liability created by the fair value of the currency basis swap, which synthetically converts $1.054 billion of the U.S. term loan facility debt into CAD 1.224 billion of debt, decreased by approximately $157 million.

In July 2010, the Government of Canada adopted the legislative amendments proposed in its 2010 budget that exempt Canadian satellite operators, like Telesat, from certain restrictions on foreign ownership under the Telecommunications Act and the Radiocommunications Act. We believe that the removal of those restrictions will

give Telesat access to additional sources of capital and, more generally, greater strategic flexibility to enhance its competitive position. The legislative amendments do not affect the nature of Loral s ownership interest in, or rights with respect to the governance of, Telesat, nor do they alter the Canadian government s authority to review foreign investment in Canadian companies under the Investment Canada Act, including the authority to review any changes to the nature of Loral s ownership.

*General*

SS/L is continuing to prepare for an initial public offering and expects to file an amendment to its registration statement with the SEC to reflect, among other things, SS/L s financial condition as of, and results of operations and cash flow for the period ending, September 30, 2010 as well as changes to the form of the offering, which will likely be the sale by Loral of a portion of its interest in SS/L. Loral is also evaluating other strategic alternatives for SS/L.

Telesat s board of directors and shareholders have authorized a process to explore an initial public offering or other strategic alternatives. In order to maximize the benefits to Loral shareholders of any strategic transaction that may result from this process, it will likely be advisable to separate Loral s non-Telesat assets so that any transaction involving Loral s interest in Telesat could be structured in the form of a transaction at the Parent Company level. Accordingly, in the event of any such transaction, Loral would, prior to the transaction, likely spin-off or sell its interest in SS/L (or its remaining interest if there has first been an SS/L initial public offering) and otherwise separate from Loral the remaining non-Telesat assets. There can be no assurance whether or when any transaction involving any or all of Loral, Telesat or SS/L may occur.

We also regularly explore and evaluate possible other strategic transactions and alliances. We also periodically engage in discussions with satellite service providers, satellite manufacturers and others regarding such matters, which may include joint ventures and strategic relationships as well as business combinations or the acquisition or disposition of assets. In order to pursue certain of these opportunities, we will require additional funds. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for these transactions on favorable terms, if at all.

We are investing in the Canadian coverage portion of the ViaSat-1 satellite which is being constructed by SS/L. On December 31, 2009, we entered into an agreement to lease a portion of the Canadian coverage portion of the satellite and provide gateway services to an internet broadband service provider for CAD 262 million over the 15-year life of the satellite. Loral expects to have invested approximately $70 million, including costs for payload, launch, launch insurance, telemetry tracking and control services and gateways, excluding customer prepayments of between CAD 2.5 million and CAD 13.0 million, by the time service is initiated. Approximately $46 million has been invested through September 30, 2010, with the remaining $24 million to be invested by the end of 2011.

In connection with the Telesat transaction, Loral has agreed that, subject to certain exceptions described in Telesat s shareholders agreement, for so long as Loral has an interest in Telesat, it will not compete in the business of leasing, selling or otherwise furnishing fixed satellite service, broadcast satellite service or audio and video broadcast direct to home service using transponder capacity in the C-band, Ku-band and Ka-band (including in each case extended band) frequencies and the business of providing end-to-end data solutions on networks comprised of earth terminals, space segment, and, where appropriate, networking hubs.

**Consolidated Operating Results**

See *Critical Accounting Matters* in our latest Annual Report on Form 10-K filed with the SEC and Note 2 to the financial statements.

*Changes in Critical Accounting Policies* There have been no changes in our critical accounting policies during the nine months ended September 30, 2010.

*Consolidated Operating Results* The following discussion of revenues and Adjusted EBITDA reflects the results of our operating business segments for the three and nine months ended September 30, 2010 and 2009. The balance of the discussion relates to our consolidated results, unless otherwise noted.

The common definition of EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization. In evaluating financial performance, we use revenues and operating income before depreciation, amortization and stock-based compensation (including stock-based compensation from SS/L phantom stock appreciation rights 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 of affiliates.

Adjusted EBITDA allows us and investors to compare our operating results with that of competitors exclusive of depreciation and amortization, interest and investment income, interest expense, directors indemnification expense, other expense and equity in net income of affiliates. Financial results of competitors in our industry have significant

variations that can result from timing of capital expenditures, the amount of intangible assets recorded, the differences in assets lives, the timing and amount of investments, the effects of other expense, which are typically for non-recurring transactions not related to the ongoing business, and effects of investments not directly managed. The use of Adjusted EBITDA allows us and investors to compare operating results exclusive of these items. Competitors in our industry have significantly different capital structures. The use of Adjusted EBITDA maintains comparability of performance by excluding interest expense.

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

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. 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 operating results under the equity method of accounting.

The following reconciles Revenues and Adjusted EBITDA on a segment basis to the information as reported in our financial statements:

**Revenues:**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions) | | (In millions) | |
| Satellite Manufacturing | $ 324.9 | $ 253.5 | $ 837.0 | $ 745.8 |
| Satellite Services | 201.6 | 170.5 | 592.7 | 507.9 |
| Segment revenues | 526.5 | 424.0 | 1,429.7 | 1,253.7 |
| Eliminations(1) | (1.5) | (4.3) | (4.7) | (12.6) |
| Affiliate eliminations(2) | (201.6) | (170.5) | (592.7) | (507.9) |
| Revenues as reported(3) | $ 323.4 | $ 249.2 | $ 832.3 | $ 733.2 |

See explanations below for Notes 1, 2 and 3.

Variances in Satellite Manufacturing revenues from period to period are influenced by the size, timing and number of satellite contracts awarded in the current and preceding years and the length of the construction period for satellite contracts awarded. Satellite Manufacturing revenues are recognized on the cost-to-cost percentage of completion method over the construction period, which usually ranges between 24 and 36 months. Large satellites with significant new development can require up to 48 months for completion.

Revenues from Satellite Manufacturing before eliminations increased $71 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009, due to $48 million of higher revenues generated by increased satellite contract awards, improved factory performance of $28 million and performance incentives earned in 2010 of $6 million, partially offset by revenue decreases of $11 million from prior year contract scope additions, which generated higher revenues in the third quarter of 2009. Eliminations for the three months ended September 30, 2010 and 2009 consist primarily of revenue applicable to Loral s interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (see Note 17 to the financial statements).

Satellite Services segment revenue increased by $31 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 primarily due to the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues, an increase in equipment sales due to the completion of a significant project, growth in Telstar 18 service, the full quarter effect of Nimiq 5 which went into commercial service in October 2009 and increased revenue from Telstar 11N which went into commercial service in April 2009, partially offset by the termination of leasehold interests in Telstar 10 and decreased revenue from the automotive industry. Satellite Services segment revenues would have increased by approximately $25 million for the three months ended September 30, 2010 as compared with the three months ended September 30, 2009 if the U.S. dollar/Canadian dollar exchange rate had been unchanged between the two periods.

Revenues from Satellite Manufacturing before eliminations increased $91 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009, due to $45 million of higher revenues generated by increased satellite contract awards, improved factory performance of $49 million and a $20 million increase in performance incentives earned, net of penalties, partially offset by a revenue decrease of $23 million from prior year contract scope additions, which generated higher revenues in the first nine months of 2009. Eliminations for

the nine months ended September 30, 2010 and 2009 consist primarily of revenue applicable to Loral s interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (see Note 17 to the financial statements).

Satellite Services segment revenue increased by $85 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 primarily due to the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues, settlements from two terminated contracts, an increase in equipment sales due to the completion of a significant project, growth in Telstar 18 service, the full nine month effect of Nimiq 5 and increased revenue from Telstar 11N, partially offset by the termination of leasehold interests in Telstar 10, the removal of Nimiq 3 from service and decreased revenue from the automotive industry. Satellite Services segment revenues would have increased by approximately $48 million for the nine months ended September 30, 2010 as compared with the nine months ended September 30, 2009 if the U.S. dollar/Canadian dollar exchange rate had been unchanged between the two periods.

**Adjusted EBITDA:**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions) | | (In millions) | |
| Satellite Manufacturing | $ 55.8 | $ 31.6 | $ 105.6 | $ 54.2 |
| Satellite Services | 154.4 | 117.8 | 450.4 | 352.0 |
| Corporate expenses | (3.6) | (4.4) | (10.4) | (15.2) |
| Segment Adjusted EBITDA before eliminations | 206.6 | 145.0 | 545.6 | 391.0 |
| Eliminations[1] | (0.6) | (0.3) | (1.1) | (1.4) |
| Affiliate eliminations[2] | (154.4) | (117.8) | (450.4) | (352.0) |
| Adjusted EBITDA | $ 51.6 | $ 26.9 | $ 94.1 | $ 37.6 |

See explanations below for Notes 1 and 2.

Satellite Manufacturing segment Adjusted EBITDA increased $24 million for the three months ended September 30, 2010 compared with the three months ended September 30, 2009. The increase consists of $28 million from improved factory performance, $11 million from the increased sales volume and $6 million from performance incentives earned in 2010, partially offset by $11 million of Adjusted EBITDA in the third quarter of 2009 which was generated by contract scope additions and an $11 million loss resulting from a contract award in the third quarter of 2010.

Satellite Services segment Adjusted EBITDA increased $37 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 primarily due to the revenue increase described above, expense reductions as a result of efficiencies gained from restructuring, reductions in third party satellite capacity and elimination of expenses associated with decreased revenue from the automotive industry, partially offset by the impact of the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses. Satellite Services segment Adjusted EBITDA would have increased by approximately $32 million for the three months ended September 30, 2010 as compared with the three months ended September 30, 2009 if the U.S. dollar/Canadian dollar exchange rate had been unchanged between the two periods.

Corporate expenses were slightly reduced for the three months ended September 30, 2010 compared to the three months ended September 30, 2009.

Satellite Manufacturing segment Adjusted EBITDA increased $51 million for the nine months ended September 30, 2010 compared with the nine months ended September 30, 2009. The increase consists of $49 million from improved factory performance, $25 million from performance incentives earned, net of penalties and $12 million from the increased sales volume, partially offset by $20 million of Adjusted EBITDA in the first nine months of 2009 which was generated by contract scope additions and an $11 million loss resulting from a contract award in the third quarter of 2010.

Satellite Services segment Adjusted EBITDA increased by $98 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 primarily due to the revenue increase described above,

expense reductions as a result of efficiencies gained from restructuring, reductions in third party satellite capacity, elimination of expenses associated with decreased revenue from the automotive industry and restructuring charges of $3 million in 2009, partially offset by the impact of the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses. Satellite Services segment Adjusted EBITDA would have increased by approximately $70 million for the nine months ended September 30, 2010 as compared with the nine months ended September 30, 2009 if the U.S. dollar/Canadian dollar exchange rate had been unchanged between the two periods.

Corporate expenses decreased for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily due to a $3 million reduction in deferred compensation expense because the maximum award under the deferred compensation plan was reached in 2009, a $1 million settlement under our directors and officers liability insurance related to a claim for which the insurers had previously denied coverage and a $1 million decrease in legal fees.

Table of Contents

**Reconciliation of Adjusted EBITDA to Net Income (Loss):**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions) | | (In millions) | |
| Adjusted EBITDA | $ 51.6 | $ 26.9 | $ 94.1 | $ 37.6 |
| Depreciation, amortization and stock-based compensation | (12.0) | (12.1) | (33.2) | (35.9) |
| Directors indemnification expense[4] | | | (14.4) | |
| Operating income | 39.6 | 14.8 | 46.5 | 1.7 |
| Interest and investment income | 3.6 | 1.9 | 9.7 | 5.5 |
| Interest expense | (0.6) | (0.7) | (1.8) | (0.7) |
| Other income (expense) | (1.1) | | (0.3) | (0.1) |
| Income tax provision | (9.1) | (0.7) | (12.2) | (7.1) |
| Equity in net income of affiliates | 40.0 | 93.1 | 40.2 | 172.6 |
| Net income | $ 72.4 | $ 108.4 | $ 82.1 | $ 171.9 |

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

(2) Represents the elimination of amounts attributed to Telesat whose results are reported under the equity method of accounting in our consolidated statements of operations (see Note 8 to the financial statements).

(3) Includes revenues from affiliates of $41.1 million and $21.3 million for the three months ended September 30, 2010 and 2009, respectively, and $86.6 million and $62.2 million for the nine months ended September 30, 2010 and 2009, respectively.

(4) 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.

**Three Months Ended September 30, 2010 Compared With Three Months Ended September 30, 2009**

The following compares our consolidated results for the three months ended September 30, 2010 and 2009 as presented in our financial statements:

***Revenues from Satellite Manufacturing***

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | % Increase/ (Decrease) |
|---|---|---|---|
| | (In millions) | | |
| Revenues from Satellite Manufacturing | $ 325 | $ 253 | 28% |
| Eliminations | (2) | (4) | (50)% |
| Revenues from Satellite Manufacturing as reported | $ 323 | $ 249 | 30% |

Revenues from Satellite Manufacturing before eliminations increased $71 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009, due to $48 million of higher revenues generated by increased satellite contract awards, improved factory performance of $28 million and

performance incentives earned in 2010 of $6 million, partially offset by revenue decreases of $11 million from prior year contract scope additions, which generated higher revenues in the third quarter of 2009. Eliminations for the three months ended September 30, 2010 and 2009 consist primarily of revenue applicable to Loral s interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (see Note 17 to the financial statements). As a result, revenues from Satellite Manufacturing as reported increased $74 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009.

***Cost of Satellite Manufacturing***

| | Three Months Ended September 30, | | % Increase/ (Decrease) |
|---|---|---|---|
| | 2010 | 2009 | |
| | (In millions) | | |
| Cost of Satellite Manufacturing | $ 263 | $ 212 | 24% |
| Cost of Satellite Manufacturing as a % of Satellite Manufacturing revenues as reported | 81% | 85% | |

Cost of Satellite Manufacturing increased by $51 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 primarily as a result of a $40 million cost increase due to the increased sales volume and an $11 million increase from a contract award received in the third quarter of 2010 that was recorded at a loss.

***Selling, General and Administrative Expenses***

| | Three Months Ended September 30, | | % Increase/ (Decrease) |
|---|---|---|---|
| | 2010 | 2009 | |
| | (In millions) | | |
| Selling, general and administrative expenses | $ 20 | $ 22 | (9)% |
| % of revenues as reported | 6% | 9% | |

Selling, general and administrative expenses decreased by $2 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009, primarily due to a $3 million increase in the allowance for billed receivables in the third quarter of 2009.

***Interest and Investment Income***

| | Three Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| | (In millions) | |
| Interest and investment income | $ 4 | $ 2 |

Interest and investment income increased by $2 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009, primarily due to increased interest income on long-term orbital receivables as a result of satellite launches.

***Interest Expense***

| | Three Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| | (In millions) | |
| Interest expense | $ 1 | $ 1 |

Interest expense for the three months ended September 30, 2010 and 2009 consists primarily of fees and amortization of issuance costs related to the SS/L credit agreement and the interest on the payments by SS/L to Telesat related to

the ChinaSat transponders.

***Other Expense***

Other expense for the three months ended September 30, 2010 includes expenses related to the evaluation of strategic alternatives for SS/L.

***Income Tax Provision***

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.

For the three months ended September 30, 2010 and 2009, we recorded an income tax provision of $9.1 million and $0.7 million on pre-tax income of $41.5 million and $16.0 million, respectively. The provision for 2010 included an additional expense of $9.4 million for our uncertain tax positions as compared to $2.1 million for 2009. In addition, while both periods included a benefit for the utilization of federal losses, the California loss deduction had been suspended for 2009 which increased our provision for the prior year.
Subsequently on October 19, 2010, California enacted legislation retroactively extending its suspension of the tax deduction for operating losses from 2008 and 2009 through 2011. Based upon the application of our effective tax rate for the full year against current period results, this change would have increased our income tax provision for the three months ended September 30, 2010 by $2.2 million. However, since this legislation was enacted after September 30, 2010, the effect will be recorded in the fourth quarter.

***Equity in Net Income of Affiliates***

Equity in net income of affiliates consists of:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| | (In millions) | |
| Telesat | $ 42.1 | $ 95.0 |
| XTAR | (2.1) | (2.2) |
| Other | | 0.3 |
| | $ 40.0 | $ 93.1 |

Summary financial information for Telesat in accordance with U.S. GAAP is as follows (in millions):

| | Three Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In Canadian dollars) | | (In U.S. dollars) | |
| Statement of Operations Data: | | | | |
| Revenues | 209.5 | 187.0 | 201.6 | 170.5 |
| Operating expenses | (48.9) | (57.9) | (47.2) | (52.7) |
| Depreciation, amortization and stock-based compensation | (64.3) | (60.0) | (61.8) | (54.7) |
| Gain on disposition of long lived assets | 1.0 | 34.7 | 1.0 | 29.6 |
| Operating income | 97.3 | 103.8 | 93.6 | 92.7 |
| Interest expense | (60.2) | (63.9) | (57.9) | (58.0) |
| Financial instruments losses | (58.5) | (109.2) | (56.5) | (94.9) |
| Foreign exchange gains | 106.2 | 273.1 | 102.5 | 238.5 |
| Other income (expense) | 0.1 | (0.8) | 0.1 | (0.7) |
| Income tax provision | (9.1) | (10.6) | (8.8) | (9.6) |
| Net income | 75.8 | 192.3 | 73.0 | 168.0 |
| Average exchange rate for translating Canadian dollars to U.S. dollars | | | 1.0392 | 1.0976 |

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat s main currency exposures as of September 30, 2010 lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing, which is due primarily in 2014.

A five percent change in the value of the Canadian dollar against the U.S. dollar at September 30, 2010 would have increased or decreased Telesat s net gains (losses) on financial instruments and foreign exchange for the three months ended September 30, 2010 by approximately $154 million.

As discussed in Note 8 to the financial statements, Loral s equity in net income or loss of Telesat is based on our proportionate share of their results in accordance with U.S. GAAP and in U.S. dollars. In determining our equity in net income or loss of Telesat, Telesat s net income or loss has been proportionately adjusted to exclude the amortization of the fair value adjustments applicable to its acquisition of the Loral Skynet assets and liabilities. Our equity in net income or loss of Telesat also reflects the elimination of our profit, to the extent of our beneficial interest, on satellites we are constructing for them.

See Note 8 to the financial statements for information related to XTAR.

Table of Contents

**Nine Months Ended September 30, 2010 Compared With Nine Months Ended September 30, 2009**

The following compares our consolidated results for the nine months ended September 30, 2010 and 2009 as presented in our financial statements:

***Revenues from Satellite Manufacturing***

| | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 | % Increase/ (Decrease) |
|---|---|---|---|
| | (In millions) | | |
| Revenues from Satellite Manufacturing | $ 837 | $ 746 | 12% |
| Eliminations | (5) | (13) | (62)% |
| Revenues from Satellite Manufacturing as reported | $ 832 | $ 733 | 14% |

Revenues from Satellite Manufacturing before eliminations increased $91 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009, due to $45 million of higher revenues generated by increased satellite contract awards, improved factory performance of $49 million and a $20 million increase in performance incentives earned, net of penalties, partially offset by a revenue decrease of $23 million from prior year contract scope additions, which generated higher revenues in the first nine months of 2009. Eliminations for the nine months ended September 30, 2010 and 2009 consist primarily of revenue applicable to Loral s interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (see Note 17 to the financial statements). As a result, revenues from Satellite Manufacturing as reported increased $99 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009.

***Cost of Satellite Manufacturing***

| | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 | % Increase/ (Decrease) |
|---|---|---|---|
| | (In millions) | | |
| Cost of Satellite Manufacturing | $ 710 | $ 663 | 7% |
| Cost of Satellite Manufacturing as a % of Satellite Manufacturing revenues as reported | 85% | 90% | |

Cost of Satellite Manufacturing increased by $47 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 as a result of a $40 million increase from the higher sales volume and the $11 million loss from a contract award in the third quarter of 2010.

***Selling, General and Administrative Expenses***

| | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 | % Increase/ (Decrease) |
|---|---|---|---|
| | (In millions) | | |
| Selling, general and administrative expenses | $ 61 | $ 68 | (10)% |
| % of revenues as reported | 7% | 9% | |

Selling, general and administrative expenses decreased by $7 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009, primarily due to a $4 million reduction in deferred

compensation expense because the maximum award under the deferred compensation plan was reached in 2009, a $3 million decrease in research and development expenses and a $3 million increase in the allowance for billed receivables in the third quarter of 2009, partially offset by a $3 million increase in new business acquisition expenses.

***Directors   Indemnification Expense***

Director  s indemnification expense for the nine months ended September 30, 2010 represents our indemnification of legal expenses incurred by MHR affiliated directors in defense of claims asserted against them in their capacity as directors of Loral (see Note 14 to the financial statements).

Table of Contents

***Interest and Investment Income***

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| | (In millions) | |
| Interest and investment income | $ 10 | $ 5 |

Interest and investment income increased by $5 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009, primarily due to increased interest income on long-term orbital receivables as a result of satellite launches.

***Interest Expense***

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| | (In millions) | |
| Interest expense | $ 2 | $ 1 |

Interest expense for the nine months ended September 30, 2010 and 2009 consists primarily of fees and amortization of issuance costs related to the SS/L credit agreement and the interest on the payment by SS/L to Telesat related to the ChinaSat transponders. Interest expense for the nine months ended September 30, 2009 includes a $1 million reversal of interest expense previously recorded due to the favorable resolution of a contingent liability.

***Other Expense***

Other expense for the nine months ended September 30, 2010 includes expenses related to the evaluation of strategic alternatives for SS/L, partially offset by the reversal of a liability related to a sale of certain assets in a prior year.

***Income Tax Provision***

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.

For the nine months ended September 30, 2010 and 2009, we recorded an income tax provision of $12.2 million and $7.1 million on pre-tax income of $54.1 million and $6.3 million, respectively. The provision for 2010 included an additional expense of $13.2 million for our uncertain tax positions as compared to $7.6 million for 2009. In addition, while both periods included a benefit for the utilization of federal losses, the California loss deduction had been suspended for 2009 which increased our provision for the prior year.

Subsequently on October 19, 2010, California enacted legislation retroactively extending its suspension of the tax deduction for operating losses from 2008 and 2009 through 2011. Based upon the application of our effective tax rate for the full year against current period results, this change would have increased our income tax provision for the nine months ended September 30, 2010 by $3.2 million. However, since this legislation was enacted after September 30, 2010, the effect will be recorded in the fourth quarter.

Table of Contents

***Equity in Net Income of Affiliates***

Equity in net income of affiliates consists of:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| | (In millions) | |
| Telesat | $ 46.8 | $ 173.2 |
| XTAR | (6.4) | (0.8) |
| Other | (0.2) | 0.3 |
| | $ 40.2 | $ 172.7 |

Summary financial information for Telesat in accordance with U.S. GAAP is as follows (in millions):

| | Nine Months Ended September 30, (In Canadian dollars) | | Nine Months Ended September 30, (In U.S. dollars) | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Statement of Operations Data: | | | | |
| Revenues | 614.1 | 593.7 | 592.7 | 507.9 |
| Operating expenses | (147.4) | (182.3) | (142.3) | (155.9) |
| Depreciation, amortization and stock-based compensation | (192.0) | (188.0) | (185.3) | (160.8) |
| Gain on disposition of long-lived assets | 1.0 | 34.7 | 1.0 | 29.6 |
| Operating income | 275.7 | 258.1 | 266.1 | 220.8 |
| Interest expense | (183.1) | (194.8) | (176.7) | (166.6) |
| Financial instruments losses | (51.7) | (166.2) | (49.9) | (142.2) |
| Foreign exchange gains | 71.7 | 460.8 | 69.2 | 394.2 |
| Other expense | (1.0) | (2.9) | (1.0) | (2.5) |
| Income tax provision | (19.7) | (29.2) | (19.0) | (25.0) |
| Net income loss | 91.9 | 325.8 | 88.7 | 278.7 |
| Average exchange rate for translating Canadian dollars to U.S. dollars | | | 1.0361 | 1.1690 |

| | September 30, 2010 (In Canadian dollars) | December 31, 2009 | September 30, 2010 (In U.S. dollars) | December 31, 2009 |
|---|---|---|---|---|
| Balance Sheet Data: | | | | |
| Current assets | 333.9 | 265.0 | 324.4 | 251.6 |
| Total assets | 5,332.7 | 5,260.4 | 5,181.4 | 4,994.7 |
| Current liabilities | 296.2 | 206.3 | 287.8 | 195.9 |
| Long-term debt, including current portion | 3,019.1 | 3,110.4 | 2,933.4 | 2,953.3 |
| Total liabilities | 4,241.5 | 4,257.0 | 4,121.1 | 4,041.9 |
| Redeemable preferred stock | 141.4 | 141.4 | 137.4 | 134.3 |
| Shareholders equity | 949.8 | 862.0 | 922.9 | 818.5 |
| Period end exchange rate for translating Canadian dollars to U.S. dollars | | | 1.0292 | 1.0532 |

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat s main currency exposures as of September 30, 2010 lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing, which is due primarily in 2014.

A five percent change in the value of the Canadian dollar against the U.S. dollar at September 30, 2010 would have increased or decreased Telesat s net gains (losses) on financial instruments and foreign exchange for the nine months ended September 30, 2010 by approximately $154 million.

As discussed in Note 8 to the financial statements, Loral s equity in net income or loss of Telesat is based on our proportionate share of their results in accordance with U.S. GAAP and in U.S. dollars. In determining our equity in net income or loss of Telesat, Telesat s net income or loss has been proportionately adjusted to exclude the amortization of the fair value adjustments applicable to its acquisition of the Loral Skynet assets and liabilities. Our equity in net income or loss of Telesat also reflects the elimination of our profit, to the extent of our beneficial interest, on satellites we are constructing for them.

See Note 8 to the financial statements for information related to XTAR.

Table of Contents

*Backlog*

Backlog as of September 30, 2010 and December 31, 2009, was as follows (in millions):

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Satellite Manufacturing | $ 1,733 | $ 1,632 |
| Satellite Services | 5,462 | 5,230 |
| Total backlog before eliminations | 7,195 | 6,862 |
| Satellite Manufacturing eliminations | (5) | (9) |
| Satellite Services eliminations | (5,462) | (5,230) |
| Total backlog | $ 1,728 | $ 1,623 |

The increase in Satellite Manufacturing backlog as of September 30, 2010 compared with December 31, 2009 was the result of five awards received, partially offset by revenues recognized, during the nine months ended September 30, 2010. The increase in Satellite Services backlog as of September 30, 2010 compared with December 31, 2009 was the result of additional bookings, partially offset by exchange rate changes and revenues recognized during the nine months ended September 30, 2010.

**Liquidity and Capital Resources**

*Loral*

As described above, the Company s principal assets are 100% of the capital stock of SS/L and a 64% economic interest in Telesat. In addition, the Company has a 56% economic interest in XTAR and is also investing in the Canadian broadband business with its purchase of the entire Canadian capacity of the ViaSat-1 satellite which is under construction at SS/L as well as its investment in related ground infrastructure. SS/L s operations as well as the Company s investment in the Canadian broadband business (mainly capital expenditures until the satellite is launched) are consolidated in the Company s financial statements, while the operations of Telesat and XTAR are not consolidated but are presented using the equity method of accounting.

The Parent Company has no debt. SS/L has a $100 million revolving credit facility under which only $5 million of letter of credit capacity is utilized as of September 30, 2010. Telesat has third party debt with financial institutions, and XTAR has debt to its LLC member, Hisdesat, Loral s joint venture partner in XTAR. The Parent Company has provided a guarantee of SS/L s $100 million credit facility but has not provided a guarantee for the Telesat or XTAR debt.

Cash is maintained at the Parent Company, SS/L, Telesat and XTAR to support the operating needs of each respective entity. The ability of SS/L and Telesat to pay dividends and management fees in cash to the Parent Company is governed by applicable covenants relating to the debt at each of those entities and in the case of Telesat and XTAR by their respective shareholder agreements.

The Parent Company s cash flow is fairly predictable. SS/L s cash flow, however, is subject to substantial fluctuation and is difficult to predict. It takes two to three years to complete a satellite project and numerous assumptions are built into the estimated costs. Revenues and profit from satellite sales under these long-term contracts are recognized using the cost-to-cost percentage of completion method, while SS/L s cash receipts are tied to the achievement of contract milestones that are dependent in part on the ability of our subcontractors to deliver on time. Milestone payments are negotiated for each contract and the timing of milestone receipts does not match the timing of cash expenditures. As a result, the timing of revenue recognition and cash receipts do not match, creating fluctuations in contracts-in-process, long-term receivables and customer advances. In addition, the timing of satellite awards is difficult to predict, contributing to the unevenness of revenues and cash flow.

**Table of Contents**

*Cash and Available Credit*

At September 30, 2010, the Company had $174 million of cash and cash equivalents, $6 million of restricted cash and no debt outstanding. This represents an increase of $6 million from our cash position at December 31, 2009. Our increased cash position was the result of improved performance, lower capital expenditures than originally planned and the timing of cash receipts on new programs booked in 2010. During the first nine months of 2010, SS/L has not borrowed any funds under its $100 million revolving credit agreement. The restricted cash balance at September 30, 2010 is substantially unchanged from December 31, 2009.

The SS/L Credit Agreement, which is guaranteed pursuant to a Parent Guarantee Agreement, provides SS/L with a $100 million revolving credit facility, including a $50 million letter of credit sub-limit. Any borrowings under the SS/L Credit Agreement mature on October 16, 2011. As of September 30, 2010, SS/L has borrowing availability of approximately $95 million under the facility after giving effect to approximately $5 million of outstanding letters of credit. SS/L anticipates that over the next 12 months it will be in compliance with all the covenants of the SS/L Credit Agreement and have full availability of the facility. An initial public offering by SS/L would, however, constitute an event of default under the SS/L Credit Agreement because Loral will cease to own 100 percent of SS/L. SS/L is seeking to enter into a new credit agreement or an amendment to the existing SS/L Credit Agreement that will permit the offering. If a new credit agreement or an amendment cannot be entered into prior to an offering, SS/L could terminate the SS/L Credit Agreement and seek to enter into a new agreement after the offering closes. There can be no assurance that SS/L could obtain any new financing on favorable terms, if at all.

*Cash Management*

We have a cash management investment program that seeks a competitive return while maintaining a conservative risk profile. We currently invest our cash in several liquid Prime AAA money market funds. The dispersion across funds reduces the exposure of a default at one fund.

*Orbital Receivables*

Satellite construction contracts often include provisions for incentive payments pursuant to which a portion of the contract value (typically about 10%) is received over the life of the satellite (typically 15 years), which are referred to as orbital receivables. Receipt of these orbital receivables is contingent upon the on-orbit performance of the satellite in accordance with contractual specifications. We record these orbital receivables in long term receivables on our balance sheet as we record the revenues on the satellite during the construction period which is typically two to three years. The amount recorded as revenues is the net of (i) a factor to reflect the risk that a portion of the orbital incentives will be lost due to non-performance and (ii) a discount for the time value of money because the amounts will be collected over the operating life of the satellite.

As of September 30, 2010, SS/L has orbital receivables of approximately $291 million, net of fresh-start fair value adjustments of $18 million and warranty reserves. Of the gross orbital receivables as of September 30, 2010, approximately $157 million are related to satellites launched and $152 million are related to satellites that are under construction. This represents an increase in orbital receivables of approximately $50 million from December 31, 2009. We anticipate that this orbital receivable asset, which represents a use of cash, will continue to grow. We will generate positive cash flow from orbital receivables once principal and interest payments received for those satellites that are operating in space becomes greater than the amount being deferred for satellites under construction. The timing of when we will have positive cash flow from orbital receivables is dependent on a number of factors including: the number of new satellite awards with the requirement for orbital incentive payments; the timing of the completion of contracts under construction; interest rates associated with orbital incentive payments; the performance of on-orbit satellites; and the number of satellites in operation as compared to the number of satellites under construction.

*Liquidity*

During the first nine months of 2010, the Parent Company funded approximately $16 million of costs associated with the ViaSat-1 satellite and related ground infrastructure. The Parent Company received CAD 2.5 million of prepayments in 2010 from the ViaSat-1 lessee. For the remainder of 2010 and 2011, the Parent Company will continue to fund its costs of the ViaSat-1 satellite as well as fund gateway and related costs. Total ViaSat-1 related expenditures for the Parent Company for the remainder of 2010 and 2011 are estimated to be approximately $24 million, some of which could be offset by additional lessee prepayments of up to CAD 10.5 million.

In connection with the Delaware shareholder derivative case relating to the Company s sale in 2007 of $300 million of preferred stock to certain funds affiliated with MHR, the Parent Company paid $14.4 million in May 2010 to the directors affiliated with MHR for indemnification of their defense costs and expenses. The Parent Company received $1.2 million in July 2010 in settlement of approximately $1.6 million in defense costs and expenses that had previously been denied by the insurers. The Parent Company is seeking to recover from its directors and officers liability insurers up to the coverage limits of its $40 million policy or approximately $29 million in additional funds. Specifically, the additional recovery would be against the $19.4 million in fees and expenses previously paid to plaintiffs counsel in the litigation and the $14.4 million paid in May 2010 as discussed above (see Note 14 to the financial statements). There can be no assurance that the Company will prevail in the insurance coverage litigation.

The Parent Company also received approximately $9.3 million from the exercise of stock options during the first nine months of 2010 and funded its operating costs. At the Parent Company, we expect that our cash and cash equivalents will be sufficient to fund projected expenditures for the next 12 months.

In addition to our cash on hand, we believe that given the substantial value of our assets, which consist of our 64% economic interest in Telesat, our 56% equity interest in XTAR and the ViaSat-1 Canadian broadband lease, we have the ability, if appropriate, to access the financial markets for debt or equity at the Parent Company. Given the uncertain financial environment, however, there can be no assurance that the Parent Company would be able to obtain such financing on acceptable terms.

During the first nine months of 2010, SS/L generated cash mainly as a result of improved performance on backlog programs, lower capital expenditure levels than originally planned and the timing of cash receipts on new programs booked in 2010. This cash increase occurred despite the increase in orbital receivables and the funds that were spent on capital expenditures. For 2010 and 2011, SS/L s capital expenditures are projected to be approximately $100 million in total, though the timing of certain expenditures has shifted from 2010 into 2011. This is above our normal level of annual capital expenditures which is expected to ramp down to approximately $30 million. For 2010 and 2011, we anticipate completing certain building modifications and purchasing additional test and satellite handling equipment required to meet our contractual obligations as a result of our increased backlog and size and complexity of the satellites under construction. In addition, for the remainder of 2010 and 2011, SS/L expects the growth in its orbital receivable asset to be less than previously anticipated. This decline in projected orbital receivable growth is the result of a decrease in satellite construction awards in 2010 requiring orbital receivables. Finally, with the uncertainty as to the timing and nature of new construction contract awards and milestone receipts, cash flow related to contract assets can change our cash requirements. SS/L believes that, absent unforeseen circumstances, with its cash on hand and cash flow from operations, it has sufficient liquidity to fulfill its obligations for the next 12 months. The borrowing capacity under the revolving credit facility enhances the liquidity position of SS/L.

*Risks to Cash Flow*

Economic and credit market conditions could adversely affect the ability of customers to make payments to us, including orbital receivable payments under satellite construction contracts with SS/L. Though most of our customers are substantial corporations for which creditworthiness is generally high, there are certain customers which are either highly leveraged or are in the developmental stage and are not fully funded. There can be no assurance that these customers will not delay contract payments to, or seek financial relief from, us if such customers have financial difficulties. If customers fall behind or default on their payment obligations, our liquidity will be adversely affected.

There can be no assurance that SS/L s customers will not default on their obligations to SS/L in the future and that such defaults will not materially and adversely affect SS/L and Loral. In the event of an uncured payment default by a customer during the pre-launch construction phase of the satellite, SS/L s construction contracts generally provide

SS/L with significant rights even if its customers (or their successors) have paid significant amounts under the contract. These rights typically include the right to stop work on the satellite and the right to terminate the contract for default. In the latter case, SS/L would generally have the right to retain, and sell to other customers, the satellite or satellite components that are under construction. The exercise of such rights, however, could be impeded by the assertion by customers of defenses and counterclaims, including claims of breach of performance obligations on the part of SS/L, and our recovery could be reduced by the lack of a ready resale market for the affected satellites or their components. In either case, our liquidity could be adversely affected pending resolution of such customer disputes.

In the event of an uncured payment default by a customer after satellite delivery and launch when title has passed to the customer, SS/L s remedies are more limited. Typically, amounts due post-launch and delivery are final milestone payments and, in certain cases, orbital incentive payments. To recover such amounts, SS/L generally would have to commence litigation to enforce its rights. We believe, however, that, as customers generally rely on SS/L to provide orbital anomaly and troubleshooting support for the life of the satellite, which support is generally perceived to be critical to maximize the life and performance of the satellite, it is likely that customers (or their successors) will cure any payment defaults and fulfill their payment obligations or make other satisfactory arrangements to obtain SS/L s support, and our liquidity would not be adversely affected.

SS/L s contracts contain detailed and complex technical specifications to which the satellite must be built. SS/L s contracts also impose a variety of other contractual obligations on SS/L, including the requirement to deliver the satellite by an agreed upon date, subject to negotiated allowances. If SS/L is unable to meet its contract obligations, including significant deviations from technical specifications or delivering the satellite beyond the agreed upon date in a contract, the customer would have the right to terminate the contract for contractor default. If a contract is terminated for contractor default, SS/L would be required to refund the payments made to SS/L to the date of termination, which could be significant. In such circumstances, SS/L would, however, keep the satellite under construction and be able to recoup some of its losses through the resale of the satellite or its components to another customer. It has been SS/L s experience that, because the satellite is generally critical to the execution of a customer s operations and business plan, customers will usually accept a satellite with minor deviations from specifications or renegotiate a revised delivery date with SS/L as opposed to terminating the contract for contractor default and losing the satellite. Nonetheless, the obligation to return all funds paid to SS/L in the later stages of a contract, due to termination for contractor default, would have a material adverse effect on our liquidity.

On October 19, 2010, TerreStar Networks Inc. ( TerreStar ), an SS/L customer, filed for bankruptcy under Chapter 11 of the Bankruptcy Code. As of September 30, 2010, SS/L had $19 million of past due receivables from TerreStar related to an in-orbit SS/L built satellite and other related deliverables and $16 million of past due receivables from TerreStar related to a second satellite under construction. SS/L had previously exercised its contractual right to stop work on the satellite under construction as a result of TerreStar s payment default. The in-orbit satellite long-term orbital receivable balance, net of fair value adjustment, reflected on the balance sheet at September 30, 2010 is $15 million. The long term orbital receivable balance reflected on the balance sheet for the satellite under construction is $13 million. In addition, there are approximately $5 million of costs that have been committed to and will be incurred in the future, substantially relating to the satellite under construction. To date, TerreStar has not assumed, and there can be no assurance that it will assume, SS/L s contracts in bankruptcy. SS/L believes, however, that the satellite in orbit and related deliverables are critical to the execution of TerreStar s operation and business plan. In addition, under its contract with TerreStar, SS/L is obligated to provide orbital anomaly and troubleshooting support for the life of the in-orbit satellite and related deliverables. SS/L believes, therefore, although no assurance can be given, that, because of the importance to TerreStar of the satellite and related deliverables and SS/L s ongoing technical support, TerreStar (or its successor in reorganization) will likely assume its contracts for the in-orbit satellite and related deliverables and SS/L will not incur a material loss with respect to the past due receivables or amounts scheduled to be paid in the future under those contracts. With respect to the satellite under construction, even if TerreStar were to reject the contract, SS/L believes, although no assurance can be given, that after giving effect to amounts expected to be realized from resale of that satellite or its components, SS/L will not incur a loss with respect to that satellite. Notwithstanding these considerations, if TerreStar, nevertheless, were to reject all of its contracts with SS/L, SS/L believes that after giving effect to amounts expected to be realized from resale of the satellite under construction or its components, SS/L would incur a loss of approximately $22 million, SS/L s cash flow in the short term would not be adversely affected and SS/L s cash flow over the approximate 15-year life of the satellites would be reduced by the combined total of $28 million of long term orbital receivables plus interest.

SS/L booked seven satellite awards in both 2008 and 2009. SS/L booked five satellite awards in the first nine months of 2010, resulting in backlog of $1.7 billion at September 30, 2010. In October 2010, SS/L received its sixth satellite award for the year. SS/L has high fixed costs relating primarily to labor and overhead. Based on SS/L s current cost structure, SS/L estimates that it covers its fixed costs, including depreciation and amortization, with an average of four

to five satellite awards a year depending on the size, power, pricing and complexity of the satellite. If SS/L s satellite awards fall below four to five awards per year, SS/L would be required to phase in a reduction of costs to accommodate this lower level of activity. The timing of any reduced demand for satellites, if it were to occur, is difficult to predict. It is, therefore, difficult to anticipate the need to reduce costs to match any such slowdown in business, especially when SS/L has significant backlog business to perform. A delay in matching the timing of a reduction in business with a reduction in expenditures could adversely affect our liquidity. We believe that SS/L s current backlog, existing liquidity and availability under the Credit Agreement are sufficient to finance SS/L, even if SS/L receives fewer than four to five awards over the next 12 months. If SS/L were to experience a shortage of orders below the four to five awards per year for multiple years, SS/L could require additional financing, the amount and timing of which would depend on the magnitude of the order shortfall coupled with the timing of a reduction in costs. There can be no assurance that SS/L could obtain such financing on favorable terms, if at all.

Table of Contents

***Telesat***

*Cash and Available Credit*

As of September 30, 2010, Telesat had CAD 245 million of cash and short-term investments as well as approximately CAD 153 million of borrowing availability under its revolving facility. Telesat believes that cash and short-term investments as of September 30, 2010, net cash provided by operating activities, cash flow from customer prepayments, and drawings on the available lines of credit under the Senior Secured Credit Facilities (as defined below) will be adequate to meet its expected cash requirement for activities in the normal course of business, including interest and required principal payments on debt as well as planned capital expenditures for the next twelve months.

Telesat has adopted what it believes are conservative policies relating to and governing the investment of its surplus cash. The investment policy does not permit Telesat to engage in speculative or leveraged transactions, nor does it permit Telesat to hold or issue financial instruments for trading purposes. The investment policy was designed to preserve capital and safeguard principal, to meet all liquidity requirements of Telesat and to provide a competitive rate of return. The investment policy addresses dealer qualifications, lists approved securities, establishes minimum acceptable credit ratings, sets concentration limits, defines a maturity structure, requires all firms to safe keep securities, requires certain mandatory reporting activity and discusses review of the portfolio. Telesat operates its investment program under the guidelines of its investment policy.

*Liquidity*

A large portion of Telesat s annual cash receipts are reasonably predictable because they are primarily derived from an existing backlog of long-term customer contracts and high contract renewal rates. Telesat believes its cash flow from operations will be sufficient to provide for its capital requirements and to fund its interest and debt payment obligations for the next twelve months. Cash required for the construction of the Telstar 14R, Nimiq 6 and Anik G1 satellites will be funded from some or all of the following: cash and short-term investments, cash flow from operations, cash flow from customer prepayments or through borrowings on available lines of credit under the Senior Secured Credit Facilities.

Telesat maintains a target of approximately CAD 25 million in cash and cash equivalents within its subsidiary operating entities for the management of its liquidity. Telesat s intention is to maintain at least this level of cash and cash equivalents to assist with the day-to-day management of its cash flows.

*Debt*

Telesat has entered into agreements with a syndicate of banks to provide Telesat with a series of term loan facilities denominated in Canadian dollars and U.S. dollars, and a revolving facility (collectively, the Senior Secured Credit Facilities ) as outlined below. In addition, Telesat has issued two tranches of notes. Telesat s debt, stated in accordance with accounting principles generally accepted in Canada, is as follows:

| | **Maturity** | **Currency** | **September 30, 2010** | **December 31, 2009** |
|---|---|---|---|---|
| | | | **(In CAD millions)** | |
| Senior Secured Credit Facilities: | | | | |
| Revolving facility | October 31, 2012 | CAD or USD equivalent | | |
| Canadian term loan facility | October 31, 2012 | CAD | 175 | 185 |
| U.S. term loan facility | October 31, 2014 | USD | 1,727 | 1,777 |
| U.S. term loan II facility | October 31, 2014 | USD | 148 | 152 |
| Senior notes | November 1, 2015 | USD | 689 | 703 |
| Senior subordinated notes | November 1, 2017 | USD | 215 | 220 |
| | | CAD | 2,954 | 3,037 |

| | | | |
|---|---|---|---|
| Current portion | CAD | (62) | (23) |
| Long term portion | CAD | 2,892 | 3,014 |

The outstanding debt balances above, with the exception of the revolving credit facility and the Canadian term loan, are presented net of related debt issuance costs. The debt issuance costs in the amount of CAD 4 million related to the revolving credit facility and the Canadian term loan are included in other assets and are amortized to interest expense on a straight-line basis. All other debt issuance costs are amortized to interest expense using the effective interest method.

The Senior Secured Credit Facilities are secured by substantially all of Telesat s assets. Each tranche of the Senior Secured Credit Facilities is subject to mandatory principal repayment requirements. Borrowings under the Senior Secured Credit Facilities bear interest at a base interest rate plus margins of 275  300 basis points. The required repayments on the Canadian term loan facility will be CAD 5 million for the remainder of 2010. For the US term loan facilities, required repayments in 2010 are 1/4 of 1% of the initial aggregate principal amount which is approximately $5 million per quarter. Telesat is required to comply with certain covenants which are usual and customary for highly leveraged transactions, including financial reporting, maintenance of certain financial covenant ratios for leverage and interest coverage, a requirement to maintain minimum levels of satellite insurance, restrictions on capital expenditures, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions and restrictions on transactions with affiliates.

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

The senior subordinated notes bear interest at a rate of 12.5% and are due November 1, 2017. The senior subordinated notes include covenants or terms that restrict Telesat s ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel the Company s satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the senior subordinated notes prior to May 1, 2013, in each case subject to exceptions provided in the senior subordinated notes indenture.

*Interest Expense*

An estimate of the interest expense on borrowings is based upon assumptions of LIBOR and Bankers Acceptance rates and the applicable margin for the Senior Secured Credit Facilities. Telesat s estimated interest expense for the remainder 2010 is approximately CAD 55 million.

*Derivatives*

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

Telesat uses forward contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites and interest payments. At September 30, 2010, Telesat had $80 million in outstanding foreign exchange forward contracts. The fair value of these derivative contracts at September 30, 2010 was an asset of CAD 0.6 million and at December 31, 2009 it was a liability of CAD 0.4 million.

Telesat has also entered into a cross currency basis swap to hedge the foreign currency risk on a portion of its US dollar denominated debt. Telesat uses mostly natural hedges to manage the foreign exchange risk on operating cash flows. At September 30, 2010, the Company had a cross currency basis swap of CAD 1,190.6 million which requires the Company to pay Canadian dollars to receive $1,025.0 million. At September 30, 2010, the fair value of this derivative contract was a liability of CAD 159.2 million. This non-cash loss will remain mostly unrealized until the contract is settled. This contract is due on October 31, 2014. At December 31, 2009 the fair value of this derivative contract was a liability of CAD 137.1 million.

*Interest Rate Risk*

Telesat is exposed to interest rate risk on its cash and cash equivalents and its long term debt which is primarily variable rate financing. Changes in the interest rates could impact the amount of interest Telesat is required to pay. Telesat uses interest rate swaps to hedge the interest rate risk related to variable rate debt financing. At September 30, 2010, the fair value of these derivative contracts was a liability of CAD 69.6 million, and at December 31, 2009 there was a liability of CAD 47.8 million. These contracts are due between October 31, 2010 and October 31, 2014.

51

*Capital Expenditures*
Telesat has entered into contracts with SS/L for the construction of Telstar 14R, Nimiq 6, a direct broadcast satellite to be used by Telesat s customer, Bell TV and Anik G1. The outstanding commitments as of September 30, 2010 on these contracts and contracts for the launch and launch insurance of these satellites are approximately CAD 474 million. These expenditures will be funded from some or all of the following: cash and short-term investments, cash flow from operations, cash flow from customer prepayments or through borrowings on available lines of credit under the Senior Secured Credit Facilities.

***Contractual Obligations***
There have not been any significant changes to the contractual obligations as previously disclosed in our latest Annual Report on Form 10-K filed with the SEC. As of September 30, 2010, we have recorded liabilities for uncertain income tax positions in the amount of $120 million. We do not expect to make any significant payments regarding such liabilities during the next 12 months.

***Statement of Cash Flows***

***Net Cash Provided by Operating Activities***
Net cash provided by operating activities was $38 million for the nine months ended September 30, 2010 compared to $148 million in the same period last year.

The major driver of this change was net cash used in program related assets (contracts-in-process, inventories and customer advances) of $37 million in the current period compared to net cash provided by program related assets of $94 million last year. Contracts-in-process used $8 million last year but reduced cash flow from operating activities by $66 million this year due to advance spending on programs that customers are obligated to pay us for in the future. Customer advances provided $85 million last year compared to $16 million this year due to the timing of awards and progress on new satellite programs.

Net income adjusted for non-cash items provided $76 million for the nine months ended September 30, 2010 compared to $36 million in the same period last year. Net income for the nine months ended September 30, 2010 includes a $14 million charge for payments of Directors claims related to litigation.

Other factors affecting cash from operating activities: changes in accounts payable, accrued expenses and other current liabilities increased cash by $6 million for the nine months ended September 30, 2010 and decreased cash by $3 million in the same period last year. We received income tax refunds of $18 million during the nine months ended September 30, 2009.

***Net Cash Used in Investing Activities***
Net cash used in investing activities for the nine months ended September 30, 2010 was $41 million relating to capital expenditures.

Net cash used in investing activities for the nine months ended September 30, 2009 was $36 million resulting from capital expenditures of $32 million and an investment of $4.5 million in XTAR.

***Net Cash Provided by (Used) in Financing Activities***
Net cash provided by financing activities for the nine months ended September 30, 2010 was $8 million mainly resulting from proceeds from the exercise of stock options.

Net cash used in financing activities for the nine months ended September 30, 2009 was $56 million resulting from repayment of borrowings under the SS/L Credit Agreement during the first quarter.

**Affiliate Matters**
Loral has investments in Telesat and XTAR that are accounted for under the equity method of accounting. See Note 8 to the financial statements for further information on affiliate matters.

Table of Contents

### Commitments and Contingencies

Our business and operations are subject to a number of significant risks; see Item 1A Risk Factors and also Note 14 to the financial statements, Commitments and Contingencies.

### Other Matters

***Recent Accounting Pronouncements***

There are no accounting pronouncements that have been issued but not yet adopted that we believe will have a significant impact on our financial statements.

**Item 3.** ***Quantitative and Qualitative Disclosures About Market Risk***

***Foreign Currency***

*Loral*

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

As of September 30, 2010, SS/L had the following amounts denominated in Japanese yen and euros (which have been translated into U.S. dollars based on the September 30, 2010 exchange rates) that were unhedged:

| | Foreign Currency | U.S.$ |
|---|---|---|
| | (In millions) | |
| Future revenues Japanese yen | ¥ 224.5 | $ 2.7 |
| Future expenditures Japanese yen | ¥ 4,508.8 | $ 53.9 |
| Future revenue euros | 10.5 | $ 14.3 |
| Future expenditures euros | 8.7 | $ 11.8 |

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 the 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.

Table of Contents

The maturity of foreign currency exchange contracts held as of September 30, 2010 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows:

| Maturity | Euro Amount | To Sell At Contract Rate | At Market Rate |
|---|---|---|---|
| | | (In millions) | |
| 2010 | 22.1 | $ 27.2 | $ 30.0 |
| 2011 | 102.8 | 131.0 | 139.2 |
| 2012 | 27.0 | 32.6 | 36.3 |
| 2013 | 27.0 | 32.9 | 36.1 |
| | 178.9 | $ 223.7 | $ 241.6 |

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

The aggregate fair value of derivative instruments in an asset position was $4.0 million as of September 30, 2010. This amount represents the maximum exposure to loss at September 30, 2010 as a result of the counterparties failing to perform as contracted.

*Telesat*

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Approximately 45% of Telesat s revenues for the nine months ended September 30, 2010, a large portion of its expenses and a substantial portion of its indebtedness and capital expenditures are denominated in US dollars. The most significant impact of variations in the exchange rate is on the US dollar denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at September 30, 2010 would have increased or decreased Telesat s net income for the nine months ended September 30, 2010 by approximately $154 million.

See *Management s Discussion and Analysis of Financial Condition and Results of Operations* Liquidity and Capital Resources *Telesat Derivatives* for a discussion of derivatives at Telesat.

***Interest***

*Loral*

As of September 30, 2010, the Company had no long-term debt or any exposure to changes in interest rates with respect thereto.

*Telesat*

Telesat is exposed to interest rate risk on its cash and cash equivalents and the portion of its long term debt which is variable rate financing and unhedged. Changes in the interest rates could impact the amount of interest Telesat is required to pay.

***Other***

As of September 30, 2010, the Company held 984,173 shares of Globalstar Inc. common stock with a market value of approximately $1.7 million and $2.4 million of non-qualified pension plan assets that were mainly invested in equity and bond funds. During the first nine months of 2010 year, our excess cash was invested in money market securities; we did not hold any other marketable securities.

Table of Contents

**Item 4.** ***Disclosure Controls and Procedures***

(a) *Disclosure Controls and Procedures.* Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of September 30, 2010, have concluded that our disclosure controls and procedures were effective and designed to ensure that information relating to Loral and its consolidated subsidiaries required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

(b) *Internal control over financial reporting.* There were no changes in our internal control over financial reporting (as defined in the Securities and Exchange Act of 1934 Rules 13a-15(f) and 15-d-15(f)) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II.
## OTHER INFORMATION

**Item 1. *Legal Proceedings***

We discuss certain legal proceedings pending against the Company in the notes to the financial statements and refer the reader to that discussion for important information concerning those legal proceedings, including the basis for such actions and relief sought. See Note 14 to the financial statements of this Quarterly Report on Form 10-Q for this discussion.

**Item 1A. *Risk Factors***

Our business and operations are subject to a significant number of risks. The most significant of these risks are summarized in, and the reader s attention is directed to, the section of our Annual Report on Form 10-K for the year ended December 31, 2009 in Item 1A. Risk Factors. There are no material changes to those risk factors except as set forth in Note 14 (Commitments and Contingencies) of the financial statements contained in this report, and the reader is specifically directed to that section.

In addition, in our form 10-K under Risks Factors Associated with Satellite Service we identify one such risk as Changes in the Canadian competitive environment could adversely affect Telesat. In connection with that risk, in July 2010, the Government of Canada adopted the legislative amendments proposed in its 2010 budget that exempt Canadian Satellite operators, like Telesat, from certain foreign ownership restrictions under the Telecommunications Act and Radiocommunications Act. While we believe these amendments may enhance Telesat s ability to compete on a global basis, they may increase the competition Telesat currently experiences in respect of Canadian orbital slots and spectrum. As a result of the July 2010 legislative amendments, in addition to continuing to compete with other Canadian operators, like Ciel, for the rights to Canadian orbital slots and spectrum, Telesat may experience increased competition from non-Canadian operators for these scarce resources, which could have a material adverse effect on Telesat s business prospects.

The risks described in our Annual Report on Form 10-K, as updated by this report, are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 6. *Exhibits***

The following exhibits are filed as part of this report:

| | |
|---|---|
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002. |

Table of Contents

## SIGNATURES

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

Registrant

Loral Space & Communications Inc.

/s/ Harvey B. Rein
Harvey B. Rein
*Senior Vice President and Chief Financial Officer*
*(Principal Financial Officer)*
*and Registrant s Authorized Officer*

Date: November 4, 2010

**Table of Contents**

## EXHIBIT INDEX

| | |
|---|---|
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002. |