LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
November 09, 2009

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

Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009
Commission file number 1-14180
Loral Space & Communications Inc.
600 Third Avenue
New York, New York 10016
Telephone: (212) 697-1105
Jurisdiction of incorporation: Delaware
IRS identification number: 87-0748324

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

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

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

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

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

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

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

LORAL SPACE AND COMMUNICATIONS INC.
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PART 1.
FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 173,417	$ 117,548
Contracts-in-process	214,894	213,651
Inventories	92,749	109,755
Other current assets	29,291	54,286
Total current assets	510,351	495,240
Property, plant and equipment, net	202,243	188,270
Long-term receivables	231,827	184,701
Investments in affiliates	251,784	72,642
Intangible assets, net	23,120	31,578
Other assets	19,439	23,436
Total assets	$ 1,238,764	$ 995,867
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 99,599	$ 91,052
Accrued employment costs	45,267	41,819
Customer advances and billings in excess of costs and profits	309,170	184,592
Other current liabilities	17,567	31,911
Total current liabilities	471,603	349,374
Borrowings under revolving credit facility		55,000
Pension and other post retirement liabilities	228,411	230,660
Long-term liabilities	159,995	151,176
Total liabilities	860,009	786,210
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock:		
Voting common stock, $.01 par value; 50,000,000 shares authorized, 20,313,797 and 20,286,992 shares issued and outstanding	203	203
Non-voting common stock, $.01 par value; 20,000,000 shares authorized, 9,505,673 shares issued and outstanding	95	95
Paid-in capital	1,011,952	1,007,011

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

	Series A-1 Convertible Preferred Stock		Series B-1 Convertible Preferred Stock		Common Stock						Accumulated Other Comprehensive	
					Voting		Non-Voting					
	Shares Issued	Amount	Shares Issued	Amount	Shares Issued	Amount	Shares Issued	Amount	Paid-In Capital	Accumulated Deficit	Income (Loss)	Total Equity
alance, anuary 1, 2008	142	$ 41,873	901	$ 265,777	20,293	$ 203			$ 663,127	$ (33,939)	$ 36,517	$ 973,558
et loss ttributable to oral Space & ommunications nc.										(692,916)		
ther omprehensive oss											(83,247)	
omprehensive oss												(776,163
ssuance of eries -1 referred stock as ayment for ividend	3	822	78	23,427								24,249
estricted shares urrendered to und withholding axes					(18)				(338)			(338
tock based ompensation					12				7,621			7,621
eries-1 referred ividends		618		4,179								4,797
ancellation and onversion of eries-1 referred stock to on-voting ommon stock	(145)	(43,313)	(979)	(293,383)			9,506	95	336,601			
referred stock ividends										(24,067)		(24,067
alance, ecember 31, 008		$		$	20,287	$ 203	9,506	$ 95	$ 1,007,011	$ (750,922)	$ (46,730)	$ 209,657

et income ttributable to oral Space & ommunications nc.								171,891		
ther omprehensive oss									(7,734)	
omprehensive ncome										164,157
xercise of stock ptions			1				35			35
ommon stock epurchased			(40)				(889)			(889
tock based ompensation			66				5,795			5,795
alance, eptember 30, 009	$	$	20,314	$ 203	9,506	$ 95	$ 1,011,952	$ (579,031)	$ (54,464)	$ 378,755

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

1. Organization and Principal Business

Loral Space & Communications Inc. (Loral), together with its subsidiaries is a leading satellite communications company engaged in satellite manufacturing with investments in satellite-based communications services. Loral, a Delaware corporation, was formed on June 24, 2005, to succeed to the business conducted by its predecessor registrant, Loral Space & Communications Ltd. (Old Loral), which emerged from chapter 11 of the federal bankruptcy laws on November 21, 2005 (the Effective Date) pursuant to the terms of the fourth amended joint plan of reorganization, as modified (the Plan of Reorganization).

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

Loral has two segments (see Note 16):

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

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

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

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

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2008 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the SEC.

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As noted above, we emerged from bankruptcy on November 21, 2005 and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 852, *Reorganizations* (ASC 852), we adopted fresh-start accounting as of October 1, 2005 and determined the fair value of our assets and liabilities. Upon emergence, our reorganization equity value was allocated to our assets and liabilities, which were stated at fair value in accordance with the purchase method of accounting for business combinations. In addition, our accumulated deficit was eliminated, and our new equity was recorded in accordance with distributions pursuant to the Plan of Reorganization.

Investments in Telesat and XTAR, L.L.C. (XTAR) are accounted for using the equity method of accounting. Income and losses of affiliates are recorded based on our beneficial interest. Intercompany profit arising from transactions with affiliates is eliminated to the extent of our beneficial interest. Equity in losses of affiliates is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist. We capitalize interest cost on our investments, until such entities commence commercial operations.

Use of Estimates in Preparation of Financial Statements

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

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

Concentration of Credit Risk

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

Fair Value Measurements

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

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

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

included in Level 1, which are either directly or indirectly observable as of the reporting date.

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

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

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Assets and liabilities measured at Fair Value on Recurring Basis

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

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

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

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

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

Subsequent Events

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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4. Comprehensive Income (Loss)

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

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

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

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

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5. Contracts-in-Process and Inventories

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

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

Unbilled amounts include recoverable costs and accrued profit on progress completed, which have not been billed. Such amounts are billed in accordance with the contract terms, typically upon shipment of the product, achievement of contractual milestones, or completion of the contract and, at such time, are reclassified to billed receivables. Fresh-start fair value adjustments relating to contracts-in-process are amortized on a percentage of completion basis as performance under the related contract is completed.

6. Financial Instruments, Derivatives and Hedging Transactions

Financial Instruments

The carrying amount of cash equivalents and restricted cash approximates fair value because of the short maturity of those instruments. The fair value of short-term investments, investments in available-for-sale securities and supplemental retirement plan assets is based on market quotations. The fair value of derivatives is based on the income approach, using observable Level II market expectations at the measurement date and standard valuation techniques to discount future amounts to a single present value.

Foreign Currency

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

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

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

Derivatives and Hedging Transactions

All derivative instruments are recorded at fair value as either assets or liabilities in our condensed consolidated balance sheets. Each derivative instrument is generally designated and accounted for under ASC Topic 815,

Derivatives and Hedging (ASC 815) as either a hedge of a recognized asset or a liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). Certain of these derivatives are not designated as hedging instruments under ASC 815 and are used as economic hedges to manage certain risks in our business.

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

The aggregate fair value of derivative instruments was a net asset position of $3.5 million as of September 30, 2009. This amount represents the maximum exposure to loss at the reporting date as a result of the potential failure of the counterparties to perform as contracted.

Cash Flow Hedges

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

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

The maturity of foreign currency exchange contracts held as of September 30, 2009 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows:

Maturity	Euro Amount	To Sell At Contract Rate	At Market Rate
		(In thousands)	
2009	21,470	$ 32,119	$ 31,329
2010	19,210	29,389	28,031
2011	23,493	35,663	34,322
	64,173	$ 97,171	$ 93,682

Balance Sheet Classification

The following summarizes the fair values and location in our condensed consolidated balance sheet of all derivatives held by the Company as of September 30, 2009:

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

Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other assets		111	Other current liabilities		159
Total Derivatives		$	3,648		$	159

Cash Flow Hedge Gains (Losses) Recognition

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

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

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

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

7. Property, Plant and Equipment

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

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

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8. Investments in Affiliates

Investments in affiliates consists of:

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

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

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

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

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

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

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

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

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

Telesat

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

Statement of Operations Data:

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

Balance Sheet Data:

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

Other income (expense) included foreign exchange gains (losses) of $238 million and $(120) million for the three months ended September 30, 2009 and 2008, respectively, and $394 million and $(222) million for the nine months ended September 30, 2009 and 2008, respectively, and (losses) gains on financial instruments of $(95) million and $67 million for the three months ended September 30, 2009 and 2008, respectively, and $(142) million and $118 million for the nine months ended September 30, 2009 and 2008, respectively. Operating income for the three and nine months ended September 30, 2009 includes a gain of approximately $30 million related to Telesat s transfer of its leasehold interests in Telstar 10 and related contracts to APT Satellite Company in July 2009 for a total consideration of approximately $69 million.

XTAR

We own 56% of XTAR, a joint venture between us and Hisdesat Servicios Estrategicos, S.A. (Hisdesat) of Spain. We account for our investment in XTAR under the equity method of accounting because we do not control certain of its significant operating decisions.

XTAR owns and operates an X-band satellite, XTAR-EUR, located at 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 2011, for which Hisdesat received enhanced governance rights in XTAR. If Hisdesat were to convert the loan into XTAR equity, our equity interest in XTAR would be reduced to 51%.

XTAR s lease obligation to Hisdesat for the XTAR-LANT transponders is $23.4 million in 2009, with increases thereafter to a maximum of $28 million per year through the end of the useful life of the satellite. Under this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. Interest on XTAR s outstanding lease obligations to Hisdesat is paid through the issuance of a class of non-voting membership interests in XTAR, which enjoy priority rights with respect to dividends and distributions over the ordinary membership interests currently held by us and Hisdesat. In March 2009, XTAR entered into an agreement with Hisdesat whereby the past due balance on XTAR-LANT transponders of $32.3 million as of December 31, 2008, together with a deferral of $6.7 million in payments due in 2009, will be payable to Hisdesat over 12 years through annual payments of $5 million (the Catch Up Payments). XTAR has a right to prepay, at any time, all unpaid Catch Up Payments discounted at 9%. XTAR has also agreed that XTAR s excess cash balance (as defined) will be applied towards making limited payments on future lease obligations, as well as payments of other amounts owed to Hisdesat, Telesat and Loral in respect of services provided by them to XTAR.

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

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

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

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

Balance Sheet Data:

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

Other

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

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

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9. Intangible Assets and Amortization of Fair Value Adjustments

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

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