LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
May 09, 2011

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 March 31, 2011
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 April 29, 2011, 21,192,528 shares of the registrant s voting common stock and 9,505,673 shares of the registrant s non-voting common stock were outstanding.

LORAL SPACE & COMMUNICATIONS INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the quarterly period ended March 31, 2011

	Page No.
PART I FINANCIAL INFORMATION	
Item 1: Financial Statements (Unaudited)	3
Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010	3
Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and March 31, 2010	4
Condensed Consolidated Statements of Equity for the three months ended March 31, 2011 and the year ended December 31, 2010	5
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and March 31, 2010	6
Notes to Condensed Consolidated Financial Statements	7
Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3: Quantitative and Qualitative Disclosures About Market Risk	48
Item 4: Disclosure Controls and Procedures	50
PART II OTHER INFORMATION	
Item 1: Legal Proceedings	50
Item 1A: Risk Factors	50
Item 6: Exhibits	51
Signatures	52

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)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 106,512	$ 165,801
Contracts-in-process	285,421	186,896
Inventories	83,569	71,233
Deferred tax assets	66,220	66,220
Assets held-for-sale	47,796	
Other current assets	19,520	28,927
Total current assets	609,038	519,077
Property, plant and equipment, net	188,402	235,905
Long-term receivables	333,125	319,426
Investments in affiliates	406,472	362,556
Intangible assets, net	10,378	11,110
Long-term deferred tax assets	281,861	294,019
Other assets	24,379	12,816
Total assets	$ 1,853,655	$ 1,754,909
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 104,484	$ 95,952
Accrued employment costs	40,145	52,017
Customer advances and billings in excess of costs and profits	318,291	261,603
Liabilities held-for-sale	3,514	
Other current liabilities	32,116	30,375
Total current liabilities	498,550	439,947
Pension and other postretirement liabilities	243,161	244,817
Long-term liabilities	164,846	169,196
Total liabilities	906,557	853,960
Commitments and contingencies		
Equity:		
Loral shareholders equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding		
Common Stock:		
	212	209

Voting common stock, $.01 par value; 50,000,000 shares authorized, 21,191,528 and 20,924,874 issued and outstanding		
Non-voting common stock, $.01 par value; 20,000,000 shares authorized, 9,505,673 issued and outstanding	95	95
Paid-in capital	1,013,718	1,028,263
Retained earnings (accumulated deficit)	35,445	(32,374)
Accumulated other comprehensive loss	(102,977)	(95,873)
Total shareholders equity attributable to Loral	946,493	900,320
Noncontrolling interest	605	629
Total equity	947,098	900,949
Total liabilities and equity	$ 1,853,655	$ 1,754,909

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 March 31, 2011	Three Months Ended March 31, 2010
Revenues	$ 279,899	$ 228,914
Cost of revenues	231,521	210,425
Selling, general and administrative expenses	20,926	20,399
Directors indemnification expense		14,357
Operating income (loss)	27,452	(16,267)
Interest and investment income	7,573	3,279
Interest expense	(632)	(623)
Gain on litigation, net	4,470	
Other expense	(1,951)	(93)
Income (loss) before income taxes and equity in net income of affiliates	36,912	(13,704)
Income tax provision	(15,363)	(1,515)
Income (loss) before equity in net income of affiliates	21,549	(15,219)
Equity in net income of affiliates	46,246	44,592
Net income	67,795	29,373
Net loss attributable to noncontrolling interest	24	
Net income attributable to Loral	67,819	29,373
Net income per share attributable to Loral common shareholders:		
Basic	$ 2.21	$ 0.98
Diluted	$ 2.10	$ 0.97
Weighted average common shares outstanding:		
Basic	30,637	29,862
Diluted	31,338	30,388

See notes to condensed consolidated financial statements.

Table of Contents

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

	Common Stock Voting Shares Issued	Common Stock Voting Amount	Common Stock Non-Voting Shares Issued	Common Stock Non-Voting Amount	Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
Balance, January 1, 2010	20,391	$ 204	9,506	$ 95	$ 1,013,790	$ (519,220)	$ (62,878)		$ 431,991
Net income						486,846		$ 495	
Other comprehensive loss							(32,995)		
Comprehensive income									454,346
Exercise of stock options	547	5			13,990				13,995
Shares surrendered to fund withholding taxes	(13)				(2,477)				(2,477)
Tax benefit associated with exercise of stock options					412				412
Stock based compensation					2,548				2,548
Contribution by noncontrolling interest								134	134
Balance, December 31, 2010	20,925	209	9,506	95	1,028,263	(32,374)	(95,873)	629	900,949
Net income (loss)						67,819		(24)	
Other comprehensive loss							(7,104)		
Comprehensive income									60,691
Exercise of stock options		3			331				334
Shares surrendered to fund withholding taxes					(16,478)				(16,478)

Tax benefit associated with exercise of stock options					1,321				1,321
Stock based compensation					281				281
Balance, March 31, 2011	20,925	$ 212	9,506	$ 95	$ 1,013,718	$ 35,445	$ (102,977)	$ 605	$ 947,098

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operating activities:		
Net income	$ 67,795	$ 29,373
Adjustments to reconcile net income to net cash used in operating activities:		
Non-cash operating items (Note 3)	(24,055)	(36,474)
Changes in operating assets and liabilities:		
Contracts-in-process	(97,156)	(7,805)
Inventories	(12,336)	1,527
Long-term receivables	(1,553)	(1,450)
Other current assets and other assets	5,981	26
Accounts payable	9,920	9,035
Accrued expenses and other current liabilities	(12,808)	7,170
Customer advances	49,621	(18,577)
Income taxes payable	(3,434)	468
Pension and other postretirement liabilities	(1,656)	(393)
Long-term liabilities	(5,479)	1,229
Net cash used in operating activities	(25,160)	(15,871)
Investing activities:		
Capital expenditures	(7,406)	(9,936)
Increase in restricted cash	(11,900)	
Net cash used in investing activities	(19,306)	(9,936)
Financing activities:		
Proceeds from the exercise of stock options	334	35
Funding of withholding taxes on employee cashless stock option exercises	(16,478)	(205)
Excess tax benefit associated with exercise of stock options	1,321	
Net cash used in financing activities	(14,823)	(170)
Decrease in cash and cash equivalents	(59,289)	(25,977)
Cash and cash equivalents beginning of period	165,801	168,205
Cash and cash equivalents end of period	$ 106,512	$ 142,228

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., 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.

Loral holds a 64% economic interest and a $33^{1}/_{3}$% voting interest in Telesat Holdco (see Note 8). We use the equity method of accounting for our investment in Telesat Holdco.

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 months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2010 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.

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.

Table of Contents

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 performance 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 indefinite lived intangible assets and goodwill, 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 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 which 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 and our title interest in satellites under construction provide for management of potential credit risks with regard to our current customer base. However, swings in the global financial markets that include illiquidity, market volatility, changes in interest rates, and currency exchange fluctuations can be difficult to predict and negatively affect certain customers ability to make payments when due.

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.

Table of Contents

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at March 31, 2011:

	Level 1	Level 2 (In thousands)	Level 3
Assets:			
Cash equivalents			
Money market funds	$ 102,946	$	$
Available-for-sale securities			
Communications industry	$ 1,250	$	$
Derivatives			
Foreign exchange contracts	$	$ 45	$
Non-qualified pension plan assets	$ 1,900	$	$
Liabilities:			
Derivatives			
Foreign exchange contracts	$	$ 22,624	$

The Company does not have any non-financial assets or non-financial liabilities that are recognized or disclosed at fair value on a recurring basis as of March 31, 2011.

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 required to be measured at fair value at March 31, 2011.

3. Additional Cash Flow Information

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Non-cash operating items:		
Equity in net income of affiliates	$ (46,246)	$ (44,592)
Deferred taxes	16,952	229
Depreciation and amortization	7,705	8,739
Stock based compensation	281	1,682
Warranty expense accruals (reversals)	148	(634)
Amortization of prior service credits and net actuarial gain	332	(35)
Unrealized gain on non-qualified pension plan assets	(177)	(111)
Non-cash net interest income	(2,752)	(753)
Gain on foreign currency transactions and contracts	(42)	(215)
Amortization of fair value adjustments related to orbital incentives	(256)	(784)
Net non-cash operating items	$ (24,055)	$ (36,474)
Non-cash investing activities:		
Capital expenditures incurred not yet paid	$ 2,213	$ 2,992

Supplemental information:				
Interest paid	$	211	$	580
Tax payments (refunds), net	$	3,166	$	(1,521)

At March 31, 2011 and December 31, 2010, other current assets included restricted cash of $0.6 million and other assets included restricted cash of $16.9 million and $5.0 million, respectively.

Table of Contents

4. Comprehensive Income

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

	Three Months Ended March 31,	
	2011	2010
Net income	$ 67,795	$ 29,373
Amortization of prior service credits and net actuarial loss (gain), net of tax provision of $134 in 2011	198	(35)
Proportionate share of Telesat Holdco other comprehensive loss, net of tax benefit of $937 in 2011	(1,393)	(328)
Derivatives:		
Unrealized (loss) gain on foreign currency hedges, net of tax benefit of $4,666 in 2011	(6,906)	2,360
Less: reclassification adjustment for loss (gain) included in net income, net of tax provision of $745 in 2011	1,104	(1,031)
Net unrealized (loss) gain on derivatives	(5,802)	1,329
Unrealized (loss) gain on available-for-sale securities, net of tax benefit of $70 in 2011	(107)	482
Comprehensive income	$ 60,691	$ 30,821

5. Contracts-in-Process, Long-Term Receivables and Inventories

Contracts-in-Process

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

	March 31, 2011	December 31, 2010
Contracts-in-Process:		
Amounts billed	$ 204,185	$ 125,593
Unbilled receivables	81,236	61,303
	$ 285,421	$ 186,896

As of March 31, 2011 and December 31, 2010, billed receivables were reduced by an allowance for doubtful accounts of $0.2 million.

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 (see Note 9).

Long-Term Receivables

Billed receivables relating to long-term contracts are expected to be collected within one year. We classify deferred billings and the orbital receivable component of unbilled receivables expected to be collected beyond one year as long-term. Fresh-start fair value adjustments relating to long-term receivables are amortized using the effective interest method over the life of the related orbital stream (see Note 9).

Receivable balances related to satellite orbital incentive payments, deferred billings and the Telesat consulting services fee (see Note 16) as of March 31, 2011 and December 31, 2010 are presented below (in thousands):

	March 31, 2011	December 31, 2010
Orbital receivables	$ 325,936	$ 312,412
Deferred receivables	1,973	2,893
Telesat consulting services receivables	19,109	17,556
	347,018	332,861
Less, current portion included in contracts-in-process	(13,893)	(13,435)
Long-term receivables	$ 333,125	$ 319,426

10

Table of Contents

Financing Receivables

The following summarizes the age of financing receivables that have a contractual maturity of over one year as of March 31, 2011 (in thousands):

	Total	Unlaunched	Launched	Financing Receivables Subject To Aging	Current	90 Days or Less	More Than 90 Days
Satellite Manufacturing:							
Orbital Receivables							
Long term orbitals	$ 312,043	$ 145,940	$ 166,103	$ 166,103	$ 166,103	$	$
Short term unbilled	10,499		10,499	10,499	10,499		
Short term billed	3,394		3,394	3,394	1,559		1,835
	325,936	145,940	179,996	179,996	178,161		1,835
Deferred Receivables	1,973			1,973	1,973		
Consulting Services:							
Receivables from Telesat	19,109			19,109	19,109		
	347,018	145,940	179,996	201,078	199,243		1,835
Contracts-in-Process:							
Unbilled receivables	70,737	70,737					
Total	$ 417,755	$ 216,677	$ 179,996	$ 201,078	$ 199,243	$	$ 1,835

The following summarizes the age of financing receivables that have a contractual maturity of over one year as of December 31, 2010 (in thousands):

	Total	Unlaunched	Launched	Financing Receivables Subject To Aging	Current	90 Days or Less	More Than 90 Days
Satellite Manufacturing:							
Orbital Receivables							
Long term orbitals	$ 298,977	$ 133,688	$ 165,289	$ 165,289	$ 165,289	$	$
Short term unbilled	11,009		11,009	11,009	11,009		
Short term billed	2,426		2,426	2,426	659		1,767
	312,412	133,688	178,724	178,724	176,957		1,767
Deferred Receivables	2,893			2,893	2,893		
Consulting Services:							

Receivables from Telesat	17,556			17,556	17,556		
	332,861	133,688	178,724	199,173	197,406		1,767
Contracts-in-Process:							
Unbilled receivables	50,294	50,294					
Total	$ 383,155	$ 183,982	$ 178,724	$ 199,173	$ 197,406	$	$ 1,767

Billed receivables of $200.8 million and $123.2 million as of March 31, 2011 and December 31, 2010, respectively (not including billed orbital receivables of $3.4 million and $2.4 million as of March 31, 2011 and December 31, 2010, respectively) have been excluded from the tables above as they have contractual maturities of less than one year. Long term unbilled receivables include satellite orbital incentives related to satellites under construction of $145.9 million and $133.7 million as of March 31, 2011 and December 31, 2010, respectively. These receivables are not included in financing receivables subject to aging in the table above since the timing of their collection is not determinable until the applicable satellite is launched. Contracts-in-process include $70.7 million and $50.3 million as of March 31, 2011 and December 31, 2010, respectively, of unbilled receivables that represent accumulated incurred costs and earned profits net of losses on contracts in process that have been recorded as sales but have not yet been billed to customers. These receivables are not included in financing receivables subject to aging in the table above since the timing of their collection is not determinable until the contractual obligation to bill the customer is fulfilled.

Table of Contents

We assign internal credit ratings for all our customers with financing receivables. The credit worthiness of each customer is based upon public information and/or information obtained directly from our customers. We utilize credit ratings where available from the major credit rating agencies in our analysis. We have therefore assigned our rating categories to be comparable to those used by the major credit rating agencies. Credit risk profile of financing receivables by internally assigned ratings, consisted of the following (in thousands):

Rating Categories	March 31, 2011	December 31, 2010
A/BBB	$ 28,662	$ 37,303
BB/B	238,461	225,533
B/CCC	83,826	80,222
Customers in bankruptcy	39,056	39,376
Other	27,750	721
Total financing receivables	$ 417,755	$ 383,155

Inventories

Inventories are comprised of the following (in thousands):

	March 31, 2011	December 31, 2010
Inventories-gross	$ 116,365	$ 104,029
Impaired inventory	(31,370)	(31,370)
	84,995	72,659
Inventories included in other assets	(1,426)	(1,426)
	$ 83,569	$ 71,233

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 II), such as spot currency rates and discount rates.

Foreign Currency

In the normal course of business, we 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 March 31, 2011, SS/L had the following amounts denominated in Japanese yen and euros (which have been translated into U.S. dollars based on the March 31, 2011 exchange rates) that were unhedged:

	Foreign Currency	U.S. $
	(In thousands)	

Future revenues Japanese yen	¥	51,097	$	616
Future expenditures Japanese yen	¥	2,980,475	$	35,955
Future revenue euros		12,334	$	17,477
Future expenditures euros		8,688	$	12,311

Table of Contents

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.

C*ash 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.

In June 2010 and July 2008, SS/L was awarded satellite contracts denominated in euros and entered into a series of foreign exchange forward contracts with maturities through 2013 and 2011, respectively, 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 March 31, 2011 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)	
2011	102,950	$ 131,995	$ 145,427
2012	27,000	32,649	37,578
2013	27,000	32,894	37,112
	156,950	$ 197,538	$ 220,117

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 March 31, 2011 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts	Other current assets	$	Other current liabilities	$ 14,113
			Other liabilities	6,959

						21,072
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets		45	Other current liabilities		1,447
				Other liabilities		105
Total derivatives		$	45		$	22,624

13

The following summarizes the fair values and location in our consolidated balance sheet of all derivatives held by the Company as of December 31, 2010 (in thousands):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
Derivatives designated as hedging instruments						
Foreign exchange contracts	Other current assets	$	4,152	Other current liabilities	$	9,451
				Other liabilities		5,360
			4,152			14,811
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets		396	Other current liabilities		133
				Other liabilities		63
Total derivatives		$	4,548		$	15,007

Cash Flow Hedge Gains (Losses) Recognition
The following summarizes the gains (losses) recognized in the consolidated statements of operations and in accumulated other comprehensive loss for all derivatives for the three months ended March 31, 2011 and 2010 (in thousands):

Derivatives in Cash Flow Hedging Relationships		Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Gain (Loss) 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 March 31, 2011								
Foreign exchange contracts	$	(11,572)	Revenue	$	(1,849)	Revenue	$	1,135
						Interest income	$	(1)
Three months ended March 31, 2010								
Foreign exchange contracts	$	2,360	Revenue	$	1,031	Revenue	$	(305)
						Interest income	$	(11)

Cash Flow Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivatives	
	Location	Amount

Three months ended March 31, 2011			
Foreign exchange contracts	Revenue	$	(2,450)
Three months ended March 31, 2010			
Foreign exchange contracts	Revenue	$	260

We estimate that $18.1 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

Property, plant and equipment consists of (in thousands):

	March 31, 2011	December 31, 2010
	(In thousands)	
Land and land improvements	$ 27,036	$ 27,036
Buildings	70,145	68,899
Leasehold improvements	14,042	14,007
Equipment, furniture and fixtures	193,853	185,801
Satellite capacity under construction (see Note 17)		40,495
Other construction in progress	10,749	20,187
	315,825	356,425
Accumulated depreciation and amortization	(127,423)	(120,520)
	$ 188,402	$ 235,905

Depreciation and amortization expense for property, plant and equipment was $6.9 million and $6.0 million for the three months ended March 31, 2011 and 2010, respectively.

8. Investments in Affiliates

Investments in affiliates consist of (in thousands):

	March 31, 2011	December 31, 2010
	(In thousands)	
Telesat Holdings Inc.	$ 341,490	$ 295,797
XTAR, LLC	63,529	65,293
Other	1,453	1,466
	$ 406,472	$ 362,556

Equity in net income of affiliates consists of:

	Three Months Ended March 31, 2011	2010
	(In thousands)	
Telesat Holdings Inc.	$ 48,022	$ 47,063
XTAR, LLC	(1,764)	(2,407)
Other	(12)	(64)
	$ 46,246	$ 44,592

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

Three Months
Ended March 31,

	2011	2010
	(In thousands)	
Revenues	$ 42,251	$ 22,182
Elimination of Loral s proportionate share of profits relating to affiliate transactions	(7,320)	(1,363)
Profits relating to affiliate transactions not eliminated	4,119	768

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 by other means to satisfy the U.S. GAAP requirement for treatment as a consolidated subsidiary. Loral s equity in net income or loss of Telesat is based on our proportionate share of Telesat s results in accordance with U.S. GAAP and in U.S. dollars. Our proportionate share of Telesat s net income or loss is based on our 64% economic interest as our holdings consist of common stock and non-voting participating preferred shares that have all the rights of common stock with respect to dividends, return of capital and surplus distributions but have no voting rights. The ability of Telesat to pay dividends and consulting fees in cash to Loral is governed by applicable covenants relating to Telesat s debt and shareholder agreements. Telesat is permitted to pay cash dividends of $75 million plus 50% of cumulative consolidated net income to its shareholders and consulting fees to Loral only when Telesat s ratio of consolidated total debt to consolidated EBITDA is less than 5.0 to 1.0. Through March 31, 2011, Loral has received no cash payments from Telesat for dividends or consulting fees.

Table of Contents

The contribution of Loral Skynet, a wholly owned subsidiary of Loral prior to its contribution, 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 Telesat fair value adjustments applicable to the Loral Skynet assets and liabilities is 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, as of March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(In thousands)	
Statement of Operations Data:		
Revenues	$ 205,722	$ 191,519
Operating expenses	(46,775)	(48,713)
Depreciation, amortization and stock-based compensation	(62,191)	(61,308)
Loss on disposition of long lived asset	(759)	
Operating income	95,997	81,498
Interest expense	(56,312)	(59,936)
Foreign exchange gains	83,330	108,996
Losses on financial instruments	(29,723)	(43,053)
Other income (expense)	1,096	(276)
Income tax provision	(15,725)	(10,308)
Net income	78,663	76,921

	March 31, 2011	December 31, 2010
	(In thousands)	
Balance Sheet Data:		
Current assets	$ 337,842	$ 291,367
Total assets	5,545,952	5,309,441
Current liabilities	378,694	294,485
Long-term debt, including current portion	2,923,811	2,928,916
Total liabilities	4,265,687	4,145,336
Redeemable preferred stock	145,719	141,718
Shareholders equity	1,134,546	1,022,387

XTAR

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

XTAR owns and operates an X-band satellite, XTAR-EUR, located at 29° E.L., which is designed to provide X-band communications services exclusively to United States, Spanish and allied government users throughout the satellite s coverage area, including Europe, the Middle East and Asia. XTAR also leases 7.2 72 MHz X-band transponders on the Spainsat satellite located at 30° W.L., owned by Hisdesat. These transponders, designated as XTAR-LANT, provide capacity to XTAR for additional X-band services and greater coverage and flexibility.

16

In January 2005, Hisdesat provided XTAR with a convertible loan in the principal amount of $10.8 million due February 2011, for which Hisdesat received enhanced governance rights in XTAR. At March 31, 2011, the accrued interest on the convertible loan was $6.8 million. Effective February 2011, the due date of this loan was extended to June 2011. If Hisdesat were to convert the loan into XTAR equity, our equity interest in XTAR would be reduced to 51%. In March 2011, Loral and Hisdesat agreed that each shareholder intends to make a capital contribution to XTAR in proportion to its equity interest in XTAR, which will use the proceeds to repay the convertible loan and related accrued interest to Hisdesat.

XTAR s lease obligation to Hisdesat for the XTAR-LANT transponders is $24 million in 2011, 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 2022. 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, 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%. Cumulative amounts paid to Hisdesat for Catch Up Payments through March 31, 2011 were $10.4 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 (see Note 17).

The following table presents summary financial data for XTAR as of March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(In thousands)	
Statement of Operations Data:		
Revenues	$ 8,870	$ 7,941
Operating expenses	(8,504)	(8,518)
Depreciation and amortization	(2,405)	(2,405)
Operating loss	(2,039)	(2,982)
Net loss	(3,137)	(4,286)

	March 31, 2011	December 31, 2010
	(In thousands)	
Balance Sheet Data:		
Current assets	$ 9,466	$ 9,290
Total assets	94,155	96,383
Current liabilities	62,460	61,839
Total liabilities	70,525	69,616
Members equity	23,630	26,767

Other

As of March 31, 2011 and December 31, 2010, 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

Intangible Assets were established in connection with our 2005 adoption of fresh-start accounting and consist of:

	Weighted Average Remaining Amortization Period (Years)	March 31, 2011		December 31, 2010	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
		(In thousands)		(In thousands)	
Internally developed software and technology	2	$ 59,027	$ (55,319)	$ 59,027	$ (54,702)
Trade names	15	9,200	(2,530)	9,200	(2,415)
		$ 68,227	$ (57,849)	$ 68,227	$ (57,117)

Total amortization expense for intangible assets was $0.7 million and $2.8 million for the three months ended March 31, 2011 and 2010, respectively. Annual amortization expense for intangible assets for the five years ending December 31, 2015 is estimated to be as follows (in thousands):

2011	$ 2,931
2012	2,314
2013	460
2014	460
2015	460

The following summarizes fair value adjustments made 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 (in thousands):

	March 31, 2011	December 31, 2010
	(In thousands)	
Gross fair value adjustments	$ (36,896)	$ (36,896)
Accumulated amortization	19,487	19,299
	$ (17,409)	$ (17,597)

Net amortization of these fair value adjustments was a credit to expense of $0.2 million and $0.9 million for the three months ended March 31, 2011 and 2010, respectively.

10. Debt

SS/L Credit Agreement

On December 20, 2010, SS/L entered into an amended and restated credit agreement (the Credit Agreement) with several banks and other financial institutions. The Credit Agreement provides for a $150 million senior secured revolving credit facility (the Revolving Facility). The Revolving Facility includes a $50 million letter of credit sublimit and a $10 million swingline commitment. The Credit Agreement matures on January 24, 2014 (the Maturity Date). The prior $100 million credit agreement was entered into on October 16, 2008 and had a maturity date of October 16, 2011.

18

The following summarizes information related to the Credit Agreement and prior credit agreement (in thousands, except percentages):

	March 31, 2011	December 31, 2010
Letters of credit outstanding	$ 4,911	$ 4,911
Borrowings		

	Three Months Ended March 31, 2011	2010
Interest expense (including commitment and letter of credit fees)	$ 321	$ 198
Amortization of issuance costs	$ 181	$ 219

11. Income Taxes

Until the fourth quarter of 2010, we maintained a 100% valuation allowance against our net deferred tax assets except with regard to the deferred tax assets related to AMT credit carryforwards. During the fourth quarter of 2010, we determined, based on all available evidence, that it was more likely than not that we would realize the benefit from a significant portion of our deferred tax assets in the future, and therefore, a full valuation allowance was no longer required. Accordingly, we reversed a substantial portion of the valuation allowance as a deferred income tax benefit and reduced the valuation allowance as of December 31, 2010 to $11.2 million. At March 31, 2011, we maintained a valuation allowance against our deferred tax assets for capital loss carryovers and certain state tax attributes due to the limited carryforward periods and the character of such attributes and will continue to maintain such valuation allowance until sufficient positive evidence exists to support its full or partial reversal.

For the three months ended March 31, our income tax provision is summarized as follows: (i) for 2011, we recorded a current tax benefit of $1.6 million (which included a net benefit of $2.6 million to decrease our liability for uncertain tax positions (UTPs)) and a deferred tax provision of $17.0 million (which included a benefit of $0.7 million for UTPs), resulting in a total provision of $15.4 million on pre-tax income of $36.9 million and (ii) for 2010, we recorded a current tax provision of $1.3 million (which included a provision of $2.3 million to increase our liability for UTPs) and a deferred tax provision of $0.2 million (which included a benefit of $0.2 million for UTPs), resulting in a total provision of $1.5 million on a pre-tax loss of $13.7 million.

As of March 31, 2011, we had unrecognized tax benefits relating to UTPs of $111.1 million. The Company recognizes potential accrued interest and penalties related to UTPs in income tax expense on a quarterly basis. As of March 31, 2011, we have accrued approximately $24.7 million and $22.5 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. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward. 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 and state income tax returns filed for 2007, and we anticipate settling certain tax positions potentially resulting in a $1.4 million reduction to our unrecognized tax benefits.

Table of Contents

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

	Three Months Ended March 31, 2011	2010
	(In thousands)	
Liabilities for UTPs:		
Opening balance January 1	$ 122,857	$ 111,316
Current provision (benefit) for:		
Unrecognized tax benefits	(92)	866
Potential additional interest	1,292	1,411
Potential additional penalties	355	351
Statute expirations	(942)	(288)
Tax settlements	(3,257)	
Ending balance March 31	120,213	113,656
UTP adjustment to net deferred tax asset:		
Opening balance January 1	13,920	(239)
Current change for unrecognized tax benefits	689	222
Ending balance March 31	14,609	(17)
Total uncertain tax positions	$ 134,822	$ 113,639

As of March 31, 2011, if our positions are sustained by the taxing authorities, approximately $105.6 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 three months ended March 31, 2011, and we do not anticipate any other significant changes to our unrecognized tax benefits during the next twelve months.

12. Stock-Based Compensation

As of March 31, 2011, there were 1,147,211 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 Loral restricted stock units or SS/L phantom stock appreciation rights are settled in Loral common stock.

The fair value of the SS/L phantom stock appreciation rights (SS/L Phantom SARs) is included as a liability in our consolidated balance sheets. The payout liability is adjusted each reporting period to reflect the fair value of the underlying SS/L equity based on the actual performance of SS/L. As of March 31, 2011 and December 31, 2010, the amount of the liability in our consolidated balance sheet related to the SS/L Phantom SARs was $3.2 million and $6.3 million, respectively. During the three months ended March 31, 2011 and 2010, cash payments of $4.3 million and $3.6 million, respectively, were made related to SS/L Phantom SARs.

Total stock-based compensation for the three months ended March 31, 2011 and 2010 was $1.5 million and $3.2 million, respectively. There were no grants of stock-based awards during the three months ended March 31, 2011.

13. Pensions and Other Employee Benefit Plans

The following table provides the components of net periodic 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 ended March 31, 2011 and 2010:

	Pension Benefits	Other Benefits

	Three Months Ended March 31,		Three Months Ended March 31,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Service cost	$ 3,048	$ 2,596	$ 181	$ 234
Interest cost	6,327	6,117	837	981
Expected return on plan assets	(5,813)	(5,157)	(4)	(8)
Amortization of prior service credits and net actuarial loss or (gain)	711	131	(379)	(166)
Net periodic cost	$ 4,273	$ 3,687	$ 635	$ 1,041

14. Commitments and Contingencies

Financial Matters

SS/L has deferred revenue and accrued liabilities for warranty payback obligations relating to performance incentives for 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 three months ended March 31, 2011, is as follows (in thousands):

Balance of deferred amounts at January 1, 2011	$	35,730
Warranty costs incurred including payments		(394)
Accruals relating to pre-existing contracts (including changes in estimates)		542
Balance of deferred amounts at March 31, 2011	$	35,878

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 (orbital incentives), 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 incentive 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 consolidated balance sheet as of March 31, 2011 were $326 million, net of fair value adjustments of $17 million. Approximately $197 million of the gross orbital receivables are related to satellites launched as of March 31, 2011, and $146 million are related to satellites under construction as of March 31, 2011.

On October 19, 2010, TerreStar Networks Inc. (TerreStar), an SS/L customer, filed for bankruptcy under chapter 11 of the Bankruptcy Code. As of March 31, 2011, SS/L had $19 million of past due receivables from TerreStar related to an in-orbit SS/L built satellite and other related ground system 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 March 31, 2011 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 $3 million of costs that have been committed to and will be incurred in the future, substantially relating to the ground system deliverables.

In February 2011, TerreStar withdrew its proposed plan of reorganization and, in May 2011, the bankruptcy court authorized the conduct of an auction by TerreStar for the sale of substantially all of its assets. Prior to withdrawing its plan, TerreStar had indicated that it intended to assume its contract for the satellite under construction. SS/L and TerreStar are in discussions regarding terms for the assumption of that contract, but, as a precaution, in case SS/L and TerreStar are not able to agree on terms, SS/L has filed a motion for relief from the automatic stay in bankruptcy to allow SS/L to terminate the contract. The bankruptcy court has deferred its decision on this motion pending the outcome of the discussions between SS/L and TerreStar. SS/L and TerreStar are also in discussions regarding terms for the assumption of the satellite construction contract for the in-orbit satellite and contract for related ground system deliverables. SS/L believes that the in-orbit satellite and related ground system deliverables are critical to the execution of TerreStar s operation and business plan. In addition, under its satellite contracts with TerreStar, SS/L is obligated to provide orbital anomaly and troubleshooting support during the life of the satellites, and, if TerreStar were to reject these contracts, SS/L would not provide this support. SS/L believes that a prudent satellite operator would not risk losing SS/L s support services because no other service provider has the data or capability to provide these services which are necessary for the continued successful operation of a satellite over its lifetime. SS/L believes, therefore, although no assurance can be given, that, because of its importance to TerreStar and the importance of SS/L s ongoing technical support, any plan of reorganization for or sale of assets by TerreStar that does not provide for assumption of the in-orbit satellite contract would not be feasible. Notwithstanding these considerations, there can be no assurance that SS/L will reach an agreement with TerreStar regarding assumption of any of its contracts, or, if an agreement is reached, what the terms will be. SS/L believes, nevertheless, based on the discussions with TerreStar, that it is not probable that SS/L will incur a material loss with respect to the past due receivables or amounts scheduled to be paid in the future under its contracts with TerreStar. If TerreStar were to reject all of its contracts with SS/L and assuming that SS/L received no recovery on its claim as a creditor with respect to these contracts, SS/L believes that, after giving effect to amounts expected to be realized from the resale of the satellite under construction or its components, SS/L would incur a loss of approximately $20 million, SS/L s cash flow in the short term would not be adversely affected and SS/L s cash flow over the expected 15-year life of the satellites would be reduced by approximately $27 million, comprised substantially of long term orbital receivables, plus interest.

Table of Contents

As of March 31, 2011, SS/L had 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 $8 million. In addition, under its contract, ICO has future payment obligations to SS/L that total approximately $25 million, of which approximately $11 million (including $9 million of orbital incentives) is included in long-term receivables. After receiving Bankruptcy Court approval, ICO, which sought to reorganize under chapter 11 of the Bankruptcy Code in May 2009, assumed 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 certain payments to be received from ICO has changed (for example, certain significant payments become due only on or after the effective date of a chapter 11 plan of reorganization for ICO), SS/L will receive substantially the same net present value from ICO as SS/L was entitled to receive under the original contract. Although a plan of reorganization for ICO was confirmed by the Bankruptcy Court in October 2009 and, in September 2010, ICO satisfied the regulatory approval condition precedent to the effective date of the plan when it obtained FCC approval for the transfer of its spectrum licenses to the reorganized entity, in December 2010, the United States Second Circuit Court of Appeals stayed consummation of the plan. The Second Circuit ultimately ruled that ICO s plan of reorganization violated the absolute priority rule of the Bankruptcy Code and reversed the orders approving confirmation of ICO s plan so that it could not be declared effective. In March 2011, the ICO Bankruptcy Court approved an investment agreement pursuant to which DISH Network Corporation (DISH) agreed to acquire ICO under an alternative plan of reorganization. In connection with this investment agreement, in April 2011, DISH purchased certain claims against ICO, including SS/L claims aggregating approximately $7.0 million plus approximately $1.4 million of accrued interest. SS/L believes that, based upon completion of the tender offer and other payments by ICO to SS/L under the modified contract, it is not probable that SS/L will incur a material loss with respect to the receivables from ICO. Closing of DISH s acquisition of ICO and ICO s emergence from chapter 11 is subject to a number of conditions, including, among others, confirmation of a new chapter 11 plan of reorganization for ICO and FCC regulatory approval.

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

Satellite Matters

Satellites are built with redundant components or additional components to provide excess performance margins to permit their continued operation in case of component failure, an event that is not uncommon in complex satellites. Thirty-three of the satellites built by SS/L, 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 performance incentives by 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.

Non-performance can increase costs and subject SS/L to damage claims from customers and termination of the contract for SS/L s default. SS/L s contracts contain detailed and complex technical specifications to which the satellite must be built. It is very common that satellites built by SS/L do not conform in every single respect to, and contain a small number of minor deviations from, the technical specifications. Customers typically accept the satellite with such minor deviations. In the case of more significant deviations, however, SS/L may incur increased costs to bring the satellite within or close to the contractual specifications or a customer may exercise its contractual right to terminate the contract for default. In some cases, such as when the actual weight of the satellite exceeds the specified weight, SS/L may incur a predetermined penalty with respect to the deviation. A failure by SS/L to deliver a satellite to its customer by the specified delivery date, which may result from factors beyond SS/L s control, such as delayed performance or non-performance by its subcontractors or failure to obtain necessary governmental licenses for delivery, would also be harmful to SS/L unless mitigated by applicable contract terms, such as excusable delay. As a general matter, SS/L s failure to deliver beyond any contractually provided grace period would result in the incurrence of liquidated damages by SS/L, which may be substantial, and if SS/L is still unable to deliver the satellite upon the end of the liquidated damages period, the customer will generally have the right to terminate the contract for default. If a contract is terminated for default, SS/L would be liable for a refund of customer payments made to date, and could also have additional liability for excess re-procurement costs and other damages incurred by its customer, although SS/L would own the satellite under construction and attempt to recoup any losses through resale to another customer. A contract termination for default could have a material adverse effect on SS/L and us.

SS/L currently has a contract-in-process with an estimated delivery date later than the contractually specified date after which the customer may terminate the contract for default. The customer is an established operator which will utilize the satellite in the operation of its existing business. SS/L and the customer are continuing to perform their obligations under the contract, and the customer continues to make milestone payments to SS/L. Although there can be no assurance, the Company believes that the customer will take delivery of this satellite and will not seek to terminate the contract for default. If the customer should successfully terminate the contract for default, the customer would be entitled to a full refund of its payments and liquidated damages, which through March 31, 2011 totaled approximately $136 million, plus re-procurement costs and interest. In the event of a termination for default, SS/L would own the satellite and would attempt to recoup any losses through resale to another customer.

SS/L is building a satellite known as CMBStar under a contract with EchoStar Corporation (EchoStar). Satellite construction is substantially complete. EchoStar and SS/L have agreed to suspend final construction of the satellite pending, among other things, further analysis relating to efforts to meet the satellite performance criteria and/or confirmation that alternative performance criteria would be acceptable. In May 2010, SS/L provided EchoStar, at its request, with a proposal to complete construction and prepare the satellite for launch under the current specifications. In August 2010, SS/L provided EchoStar, at its request, additional proposal information. 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 18.

Regulatory Matters

SS/L is required to obtain licenses and enter into technical assistance agreements, presently under the jurisdiction of the State Department, in connection with the export of satellites and related equipment, and with the disclosure of technical data or provision of defense services to foreign persons. Due to the relationship between launch technology and missile technology, the U.S. government has limited, and is likely in the future to limit, launches from China and other foreign countries. Delays in obtaining the necessary licenses and technical assistance agreements have in the past resulted in, and may in the future result in, the delay of SS/L s performance on its contracts, which could result in the cancellation of contracts by its customers, the incurrence of penalties or the loss of incentive payments under these contracts.

Legal Proceedings

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.

In December 2010, the Company, the three Loral directors (the MHR-Affiliated Directors) who are or were affiliated with MHR and Loral s insurers (the Insurers) entered into a Settlement Agreement (the Settlement Agreement) with respect to the litigation in which Loral asserted claims for coverage under directors and officers liability insurance policies (the Policies) for (a) the $19.4 million in fees and expenses that Loral paid to plaintiffs counsel in the above-mentioned Delaware shareholder litigation (the Delaware Plaintiffs Fee Awards), and (b) substantially all of the $14.4 million that Loral s Special Committee determined to pay, as indemnification, to the MHR-Affiliated Directors relating to fees and expenses they incurred in the defense of the Delaware shareholder litigation (the MHR Directors Fee Indemnification). The Settlement Agreement further provided for mutual releases by the parties. Additional parties to the Settlement Agreement for purposes of such releases are MHR and certain of its affiliates.

Pursuant to the Settlement Agreement, the Insurers paid Loral in December 2010 and January 2011: (a) $5.0 million in conditional settlement of Loral s claim for coverage under the Policies for the Delaware Plaintiffs Fee Award; and (b) $7.5 million in full settlement of Loral s claim for coverage under the Policies for the MHR Directors Fee Indemnification. The Settlement Agreement terminated the coverage action with respect to the MHR Directors Fee Indemnification issue but did not terminate the coverage action with respect to the Delaware Plaintiffs Fee Awards. Rather, the trial court s judgment in favor of Loral on its claim for coverage of the Delaware Plaintiffs Fee Awards was the subject of a pending appeal.

In February 2011, the Appellate Division of the Supreme Court of the State of New York issued a decision in the pending appeal and ruled that Loral is entitled to coverage for approximately $8.8 million of the Delaware Plaintiffs Fee Awards, representing the fees and expenses paid to counsel for the plaintiffs who filed the derivative claims in the case. Since the Insurers had already paid $5.0 million of the covered amount, they were obligated to pay the remaining approximately $3.8 million of the covered amount, plus approximately $1.7 million of prejudgment interest and approximately $0.6 million of attorneys fees. In March 2011, the Company was paid $4.6 million and, in April 2011, the Company received the remaining $1.5 million. Since neither the insurers nor the Company filed or sought leave to file an appeal of the Appellate Division s ruling within the applicable time period for filing appeals, this insurance coverage litigation is concluded.

Reorganization Matters

On July 15, 2003, Old Loral and certain of its subsidiaries (collectively with Old Loral, the Debtors) filed voluntary petitions for reorganization under chapter 11 of title 11 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 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 District Court granted defendant s motion and denied plaintiffs cross motion. In March 2009, plaintiffs filed a notice of appeal with respect to the District 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 had been consolidated with the *Christ* case, was withdrawn, provided however, that plaintiffs could reinstate the appeal on or before November 19, 2010. In November 2010, plaintiffs did reinstate the appeal, and, in April 2011, the Second Circuit affirmed the decision of the District Court. As a result of this decision, unless plaintiffs successfully appeal to the United States Supreme Court within the applicable time period for filing such an appeal and prevail on such an appeal, Loral will not incur any liability as a result of this case.

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. In February 2011, the court approved distribution of the settlement proceeds. As a result of the settlement and final dismissal of all appeals, Loral will not incur any liability as a result of this case.

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.

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 March 31, 2011
Net income attributable to Loral common shareholders basic	$	67,819
Less: Adjustment for dilutive effect of Telesat stock options		(1,969)
Net income attributable to Loral common shareholders diluted	$	65,850

Telesat stock options were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2010 because they did not have a significant dilutive effect.

Table of Contents

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 March 31,	
	2011	2010
	(In thousands)	
Common and potential common shares:		
Weighted average common shares outstanding	30,637	29,862
Stock options	474	249
Unvested restricted stock units	224	189
Unvested restricted stock	3	9
Unvested SARS		79
Common and potential common shares	31,338	30,388

For the three months ended March 31, 2010, the effect of certain stock options outstanding, which would be calculated using the treasury stock method and certain non-vested restricted stock units were excluded from the calculation of diluted loss per share, as the effect would have been antidilutive. The following summarizes stock options outstanding and non-vested restricted stock units excluded from the calculation of diluted income (loss) per share:

	Three Months Ended March 31, 2010
Stock options outstanding	125,000
Non-vested restricted stock units	8,250

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 months ended March 31, 2011 and 2010. 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 as equity in net income of affiliates. Our investment in XTAR, for which we use the equity method of accounting, is included in Corporate.

The common definition of EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization. In evaluating financial performance, we use revenues and operating income (loss) before depreciation, amortization and stock-based compensation (excluding stock-based compensation from SS/L Phantom SARs expected to be settled in cash) 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: gains or losses on litigation not related to our operations; 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 gains or losses on litigation not related to our operations, 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 income (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. 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.

Table of Contents

Intersegment revenues primarily consists of satellites under construction by satellite manufacturing for satellite services and the leasing of transponder capacity by satellite manufacturing from satellite services. Summarized financial information concerning the reportable segments is as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(In thousands)	
Revenues		
Satellite manufacturing:		
External revenues	$ 237,655	$ 206,739
Intersegment revenues[1]	43,074	24,115
Satellite manufacturing revenues	280,729	230,854
Satellite services revenues[2]	205,722	191,519
Operating segment revenues before eliminations	486,451	422,373
Intercompany eliminations[3]	(830)	(1,940)
Affiliate eliminations[2]	(205,722)	(191,519)
Total revenues as reported	$ 279,899	$ 228,914
Segment Adjusted EBITDA[4]		
Satellite manufacturing	$ 40,515	$ 12,730
Satellite services[2]	158,947	142,833
Corporate[5]	(4,798)	(3,901)
Adjusted EBITDA before eliminations	194,664	151,662
Intercompany eliminations[3]	(279)	(318)
Affiliate eliminations[2]	(158,947)	(142,833)
Adjusted EBITDA	35,438	8,511
Reconciliation to Operating Income		
Depreciation, Amortization and Stock-Based Compensation[4]		
Satellite manufacturing	(7,691)	(9,504)
Satellite services[2]	(62,191)	(61,308)
Corporate	(295)	(917)
Segment depreciation before affiliate eliminations	(70,177)	(71,729)
Affiliate eliminations[2]	62,191	61,308
Depreciation, amortization and stock-based compensation as reported	(7,986)	(10,421)
Directors indemnification expense[6]		(14,357)
Operating income (loss) as reported	$ 27,452	$ (16,267)

	March 31,	December 31,

	2011	2010
	(In thousands)	
Total Assets[7]		
Satellite manufacturing	$ 956,250	$ 920,647
Satellite services[2] [8]	5,887,442	5,605,239
Corporate[4]	555,915	538,464
Total assets before affiliate eliminations	7,399,607	7,064,350
Affiliate eliminations[2]	(5,545,952)	(5,309,441)
Total assets as reported	$ 1,853,655	$ 1,754,909

(1) Intersegment revenues include $42.2 million and $22.2 million for the three months ended March 31, 2011 and 2010, respectively, of revenue from affiliates.

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

(5) Includes corporate expenses incurred in support of our operations and includes our equity investments in XTAR and Globalstar service providers.

(6) Represents indemnification expense, in connection with defense costs incurred by MHR affiliated directors in the Delaware Shareholder derivative case (see Note 14).

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

(8) Includes $2.5 billion and $2.4 billion of satellite services goodwill related to Telesat as of March 31, 2011 and December 31, 2010, respectively.

17. Related Party Transactions

Transactions with Affiliates

Telesat

As described in Note 8, we own 64% of Telesat and account for our investment 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 October 31, 2011, 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.

As of March 31, 2011, SS/L had contracts with Telesat for th