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

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

Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended 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

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.

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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.

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

	Common Stock					Retained	Accumulated		
	Voting		Non-Voting			Earnings/	Other		
	Shares Issued	Amount	Shares Issued	Amount	Paid-In Capital	(Accumulated Deficit)	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.

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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.

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.

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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.

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4. Comprehensive Income

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 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

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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.

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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

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.

Cash Flow Hedges

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

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

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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 Balance Sheet Location	Fair Value	Liability Derivatives 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) Location	Amount	Gain (Loss) on Derivative Ineffectiveness and Amounts Excluded from Effectiveness Testing 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.

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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.

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.

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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.

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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.

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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	Three Months Ended March 31, 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.

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.

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.

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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.

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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.

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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 the construction of the Telstar 14R, Nimiq 6 and Anik G1 satellites. Information related to satellite construction contracts with Telesat is as follows:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Revenues from Telesat satellite construction contracts	$ 42,238	$ 22,169
Milestone payments received from Telesat	30,997	19,269

There were no amounts receivable by SS/L from Telesat related to satellite construction contracts as of March 31, 2011 and December 31, 2010.

On October 31, 2007, Loral and Telesat entered into a consulting services agreement (the Consulting Agreement). Pursuant to the terms of the Consulting Agreement, Loral provides to Telesat certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat as part of the Telesat transaction as well as with respect to certain aspects of the satellite communications business of Telesat. The Consulting Agreement has a term of seven years with an automatic renewal for an additional seven year term if certain conditions are met. In exchange for Loral s services under the Consulting Agreement, Telesat will pay Loral an annual fee of US $5.0 million, payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. If the terms of Telesat s bank or bridge facilities or certain other debt obligations prevent Telesat from paying such fees in cash, Telesat may issue junior subordinated promissory notes to Loral in the amount of such payment, with interest on such promissory notes payable at the rate of 7% per annum, compounded quarterly, from the date of issue of such promissory note to the date of payment thereof. Our selling, general and administrative expenses included income related to the Consulting Agreement of $1.25 million for each of the three month periods ended March 31, 2011 and 2010. We also had a long-term receivable related to the Consulting Agreement from Telesat of $19.1 million and $17.6 million as of March 31, 2011 and December 31, 2010, respectively.

In connection with the Telesat transaction, Loral has indemnified Telesat for certain liabilities including Loral Skynet s tax liabilities arising prior to January 1, 2007. As of both March 31, 2011 and December 31, 2010 we had recognized liabilities of approximately $6.2 million representing our estimate of the probable outcome of these matters. These liabilities are offset by tax deposit assets of $6.6 million relating to periods prior to January 1, 2007. There can be no assurance, however, that the eventual payments required by us will not exceed the liabilities established.

ViaSat/Telesat

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

A Beam Sharing Agreement between us and ViaSat provided for, among other things, (i) the purchase by us of a portion of the ViaSat-1 satellite payload providing coverage into Canada (the Loral Payload) and (ii) payment by us of 15% of the actual costs of launch and associated services, launch insurance and telemetry, tracking and control services for the ViaSat-1 satellite. SS/L commenced construction of the Viasat-1 satellite in January 2008. We recorded sales to ViaSat under this contract of $4.7 million and $11.0 million for the three months ended March 31, 2011 and 2010, respectively. Loral s cumulative costs for the Loral Payload were $41.0 million as of March 31, 2011.

In February 2010, a subsidiary of Loral entered into a contract with ViaSat for the procurement of certain RF equipment and services to be integrated into the gateways constructed and owned by Loral to enable commercial service using the Loral Payload. As of March 31, 2011, the contract was valued at approximately $7.9 million before the exercise of options. Loral guaranteed the financial obligations of the subsidiary that entered into the contract. As of March 31, 2011, Loral had paid $3.9 million under this agreement.

In January 2010, we entered into a Consulting Services Agreement with Telesat for Telesat to provide services related to gateway construction, regulatory and licensing support and preparation for satellite traffic operations for the Loral Payload. Payments under the agreement were on a time and materials basis. As of March 31, 2011, Loral had paid $0.2 million under this agreement.

In September 2010, we entered into an agreement with Telesat for Telesat to provide us with project management, engineering and integration services for three gateway sites including engineering and installation of the civil works, design and integration of the shelters and associated shelter infrastructure and monitoring the delivery and installation of equipment. The agreement was valued at approximately CAD 4.2 million plus taxes and insurance. As of March 31, 2011, Loral had incurred cumulative costs under this agreement of $1.2 million.

On April 11, 2011, Loral assigned to Telesat and Telesat assumed from Loral all of Loral s rights and obligations with respect to the Loral Payload and all related agreements. In consideration for the assignment, Loral received from Telesat $13 million and was reimbursed for approximately $48.2 million of net costs incurred through closing of the sale, including costs for the satellite, launch and insurance, and costs of the gateways and related equipment. Also, in connection with the assignment, Telesat agreed that if it obtains certain supplemental capacity on the payload, Loral will be entitled to receive one-half of any net revenue actually earned by Telesat in connection with the leasing of such supplemental capacity to its customers during the first four years after the commencement of service using the supplemental capacity. In connection with the sale, Loral also assigned to Telesat and Telesat assumed Loral s 15-year contract with Barrett Xplore Inc. for delivery of high throughput satellite Ka-band capacity and gateway services for broadband services in Canada. The gain on the transaction adjusted for our retained ownership interest will be recorded in the second quarter of 2011.

Assets assigned to Telesat were included in assets held for sale, and liabilities assumed by Telesat, primarily customer deposits, were included in liabilities held for sale on our condensed consolidated balance sheet as of March 31, 2011.

Costs of satellite manufacturing for sales to related parties were $33.9 million and $29.5 million for the three months ended March 31, 2011 and 2010, respectively.

In connection with an agreement reached in 1999 and an overall settlement reached in February 2005 with ChinaSat relating to the delayed delivery of ChinaSat 8, SS/L has provided ChinaSat with usage rights to two Ku-band transponders on Telesat s Telstar 10 for the life of such transponders (subject to certain restoration rights) and to one Ku-band transponder on Telesat s Telstar 18 for the life of the Telstar 10 satellite plus two years, or the life of such transponder (subject to certain restoration rights), whichever is shorter. Pursuant to an amendment to the agreement executed in June 2009, in lieu of rights to one of the Ku-band transponders on Telstar 10, ChinaSat has rights to an equivalent amount of Ku-band capacity on Telstar 18 (the Alternative Capacity). The Alternative Capacity may be utilized by ChinaSat until April 30, 2019 subject to certain conditions. Under the agreement, SS/L makes monthly payments to Telesat for the transponders allocated to ChinaSat. Effective with the termination of Telesat s leasehold interest in Telstar 10 in July 2009, SS/L makes monthly payments with respect to capacity used by ChinaSat on Telstar 10 directly to APT, the owner of the satellite. As of March 31, 2011 and December 31, 2010, our consolidated balance sheet included a liability of $5.4 million and $6.0 million, respectively, for the future use of these transponders. For the three months ended March 31, 2011 we made payments of $0.7 million to Telesat pursuant to the agreement.

XTAR

As described in Note 8 we own 56% of XTAR, a joint venture between Loral and Hisdesat and account for our investment in XTAR under the equity method of accounting. SS/L constructed XTAR s satellite, which was successfully launched in February 2005. XTAR and Loral have entered into a management agreement whereby Loral provides general and specific services of a technical, financial, and administrative nature to XTAR. For the services provided by Loral, XTAR is charged a quarterly management fee equal to 3.7% of XTAR s quarterly gross revenues. Amounts due to Loral under the management agreement as of March 31, 2011 and December 31, 2010 were $3.3 million and $3.0 million, respectively. During the quarter ended March 31, 2009, Loral and XTAR agreed to defer amounts owed to Loral under this agreement and XTAR has agreed that its excess cash balance (as defined) will be applied at least quarterly towards repayment of receivables owed to Loral, as well as to Hisdesat and Telesat. No cash was received under this agreement for the three months ended March 31, 2011 and 2010.

MHR Fund Management LLC

Two of the managing principals of MHR, Mark H. Rachesky and Hal Goldstein, and a former managing principal of MHR, Sai Devabhaktuni, are members of Loral s board of directors.

Various funds affiliated with MHR held, as of March 31, 2011 and December 31, 2010, approximately 38.4% and 38.9%, respectively, of the outstanding Voting Common stock and as of both March 31, 2011 and December 31, 2010 had a combined ownership of Voting and Non-Voting Common Stock of Loral of 57.4% and 58.0%, respectively.
As of March 31, 2011, funds affiliated with MHR hold $83.7 million in principal amount of Telesat 11% senior notes and $29.75 million in principal amount of Telesat 12.5% senior subordinated notes.

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

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

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

Disclosure Regarding Forward-Looking Statements

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

Overview

Businesses

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

Satellite Manufacturing

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

As of March 31, 2011, SS/L had $1.5 billion in backlog for 21 satellites for customers including Intelsat Global S.A., SES S.A., Telesat Holdings Inc., Hispasat, S.A., EchoStar Corporation, Sirius-XM Satellite Radio, TerreStar Corporation, Asia Satellite Telecommunications Co. Ltd., Hughes Network Systems, LLC, ViaSat, Inc., Eutelsat/ictQatar, DIRECTV, SingTel Optus, Satélites Mexicanos, S.A. de C.V. and Asia Broadcast Satellite.

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

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

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

While its requirement for ongoing capital investment to maintain its current capacity is relatively low, SS/L is initiating a two-year infrastructure campaign that will result in capital expenditures over this period of approximately $135 million. Also, over the past several years SS/L has modified and expanded its manufacturing facilities to accommodate an expanded backlog. SS/L can now accommodate as many as nine to 13 satellite awards per year, depending on the complexity and timing of the specific satellites, and can accommodate the integration and test of 13 to 14 satellites at any given time in its Palo Alto facility. The expansion has also reduced the company s reliance on outside suppliers for certain RF components and sub-assemblies.

The satellite manufacturing industry is a knowledge-intensive business, the success of which relies heavily on its technological heritage and the skills of its workforce. The breadth and depth of talent and experience resident in SS/L s workforce of approximately 2,700 personnel is one of our key competitive resources.

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

Satellite Services

Loral holds a 64% economic interest and a 33$^1/_3$% voting interest in Telesat, the world s fourth largest satellite operator with approximately $5.8 billion of backlog as of March 31, 2011.

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

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

At March 31, 2011, Telesat had 12 in-orbit satellites. Telesat currently has three satellites under construction, all by SS/L.

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

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

Revenue growth is also expected from the Canadian broadband business on the ViaSat-1 satellite, which Telesat purchased from Loral in April 2011. This satellite is expected to be launched later in 2011.

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

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

For 2011, Telesat remains focused on increasing utilization of its existing satellites, constructing and launching the satellites it is currently procuring, securing additional customer requirements to support the procurement of additional satellites and maintaining cost and operating discipline.

Telesat s operating results are also subject to fluctuations as a result of exchange rate variations. Approximately 46% of Telesat s revenues received in Canada for the three months ended March 31, 2011, certain of its expenses and a substantial portion of its indebtedness and capital expenditures were denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at March 31, 2011 would have increased or decreased Telesat s net income for the three months ended March 31, 2011 by approximately $155 million. During the period from October 31, 2007 to March 31, 2011, Telesat s U.S. term loan facility, senior notes and senior subordinated notes have increased by approximately $59 million due to the stronger U.S. dollar. During that same time period, however, the liability created by the fair value of the currency basis swap, which synthetically converts $1.054 billion of the U.S. term loan facility debt into CAD 1.224 billion of debt, decreased by approximately $104 million.

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General

Telesat s board of directors and shareholders have authorized a process to explore an initial public offering or other strategic alternatives. To minimize the tax impact to the Company, thereby maximizing the benefits to Loral shareholders of any strategic transaction that takes the form of a sale, Loral will endeavor to structure the sale in the form of a transaction for the Parent Company. To accommodate such a structure, Loral would first separate SS/L and its other remaining non-Telesat assets. Accordingly, in the event of any such transaction, Loral would, prior to the transaction, likely contribute its remaining non-Telesat assets to SS/L and then spin-off or sell its interest in SS/L (or its remaining interest if there has first been an SS/L initial public offering).

SS/L Holdings, Inc. is a newly-formed subsidiary of Loral established for the purpose of facilitating an initial public offering or spin-off of SS/L. SS/L Holdings, Inc. previously filed a registration statement with the SEC for an initial public offering. The determination of how Loral will proceed with respect to SS/L, i.e. whether to proceed with an initial public offering, spin-off, combination of an initial public offering and subsequent spin-off, sale or other strategic transaction or no transaction at all, will depend on a number of factors, including the outcome of the Telesat process described above and business and market conditions.

We believe that the operating strength and prospects of both SS/L and Telesat provide the Company with a number of favorable alternatives ranging from sale or public offerings to staying the course, with or without recapitalization or other internal restructuring alternatives that would seek to take advantage of the favorable credit markets. We expect to make further announcements during the second quarter of 2011. There can be no assurance whether or when any transaction involving any or all of Loral, Telesat or SS/L may occur or when any additional announcements will be made.

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

In 2008, Loral agreed to purchase the Canadian coverage portion of the ViaSat-1 satellite that is currently being constructed by SS/L. The ViaSat-1 satellite is a high capacity Ka-band spot beam satellite for broadband services that is scheduled to be launched in mid-2011 into the 115º West longitude orbital location. Loral also entered into an agreement with Barrett Xplore Inc. (Barrett), Canada s largest rural broadband provider, to deliver high throughput satellite Ka-band capacity for broadband services in Canada. Under the agreement, Barrett agreed to lease from Loral the Canadian capacity on the ViaSat-1 satellite and associated gateway services for the expected life of the satellite, projected to commence in 2011 and Loral agreed to construct and operate four gateways in Canada. Approximately $50 million has been invested by Loral through March 31, 2011. A portion of these costs was funded by prepayments in 2010 from Barrett of CAD 2.5 million as required under the agreement. On April 11, 2011, Loral assigned its investment in the Canadian broadband business, including the Canadian coverage portion of the ViaSat-1 satellite, to Telesat for $13 million plus reimbursement of approximately $48 million, representing Loral s net costs incurred through the closing date (see Note 17 to the financial statements). In addition, in connection with the assignment, Telesat agreed that if it obtains certain supplemental capacity on the payload, Loral will be entitled to receive, for four years, one-half of any net revenue actually earned by Telesat on such supplemental capacity.

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

Consolidated Operating Results

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

Changes in Critical Accounting Policies There have been no changes in our critical accounting policies during the three months ended March 31, 2011.

Consolidated Operating Results The following discussion of revenues and Adjusted EBITDA (see Note 16) reflects the results of our business segments for the three months ended March 31, 2011 and 2010. The balance of the discussion relates to our consolidated results, unless otherwise noted.

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

Loral has two segments: Satellite Manufacturing and Satellite Services. Our segment reporting data includes unconsolidated affiliates that meet the reportable segment criteria. The Satellite Services segment includes 100% of the results reported by Telesat. Although we analyze Telesat s revenue and expenses under the Satellite Services segment, we eliminate its results in our consolidated financial statements, where we report our 64% share of Telesat s results under the equity method of accounting.

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

Revenues:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(In millions)	
Satellite Manufacturing	$ 280.7	$ 230.8
Satellite Services	205.7	191.5
Segment revenues	486.4	422.3
Eliminations(1)	(0.8)	(1.9)
Affiliate eliminations(2)	(205.7)	(191.5)
Revenues as reported(3)	$ 279.9	$ 228.9

See explanations below for Notes 1, 2 and 3.

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

Revenues from Satellite Manufacturing before eliminations increased $50 million for the three months ended March 31, 2011 as compared to 2010, due to improved factory efficiency (which reduces the estimated cost to complete and increases the percentage of completion and the revenue recognized) of $26 million and $24 million of higher revenues generated by increased satellite contract awards resulting in greater factory input. Eliminations for the three months ended March 31, 2011 and 2010 consist primarily of revenue applicable to Loral s interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (see Note 17 to the financial statements).

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Satellite Services segment revenue increased by $14 million for the three months ended March 31, 2011 as compared to 2010 due to the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenues, higher equipment sales, additional service revenue from the sale of excess capacity on certain of Telesat s existing in-orbit satellites and increased consulting revenue, partially offset by lower revenue from occasional use services and the resale of capacity by Telesat s SpaceConnection subsidiary. Satellite Services segment revenues excluding foreign exchange impact would have increased by approximately $8 million for the three months ended March 31, 2011 as compared with 2010.

Adjusted EBITDA:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(In millions)	
Satellite Manufacturing	$ 40.5	$ 12.7
Satellite Services	158.9	142.8
Corporate expenses	(4.8)	(3.9)
Segment Adjusted EBITDA before eliminations	194.6	151.6
Eliminations(1)	(0.3)	(0.3)
Affiliate eliminations(2)	(158.9)	(142.8)
Adjusted EBITDA	$ 35.4	$ 8.5

See explanations below for Notes 1 and 2.

Satellite Manufacturing segment Adjusted EBITDA increased $28 million for the three months ended March 31, 2011 compared with the three months ended March 31, 2010. The increase was primarily due to a margin increase of $29 million from improved factory efficiency.

Satellite Services segment Adjusted EBITDA increased by $16 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 primarily due to the revenue increase described above, expense reductions related to ongoing efficiencies gained from prior restructuring activities, reduction of third party satellite capacity cost, reduction of capital taxes and optimization of inventory, partially offset by the impact of U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses and the increase in cost of equipment sales due to higher sales activities. Satellite Services segment Adjusted EBITDA excluding foreign exchange impact would have increased by approximately $12 million for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010.

Corporate expenses increased by approximately $1 million for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to fringe expenses related to stock-based compensation.

Reconciliation of Adjusted EBITDA to Net Income:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(In millions)	
Adjusted EBITDA	$ 35.4	$ 8.5
Depreciation, amortization and stock-based compensation(4)	(8.0)	(10.4)
Directors indemnification expense(5)		(14.4)
Operating income (loss)	27.4	(16.3)
Interest and investment income	7.6	3.3

Interest expense	(0.6)	(0.6)
Gain on litigation, net	4.5	
Other expense	(1.9)	(0.1)
Income tax provision	(15.4)	(1.5)
Equity in net income of affiliates	46.2	44.6
Net income	$ 67.8	$ 29.4

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(1) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA, primarily for satellites under construction by SS/L for Loral and its wholly owned subsidiaries.

(2) Represents the elimination of amounts attributed to Telesat whose results are reported in our consolidated statements of operations as equity in net income of affiliates (see Note 8 to the financial statements).

(3) Includes revenues from affiliates of $42.2 million and $22.2 million for the three months ended March 31, 2011 and 2010, respectively.

(4) Includes non-cash stock-based compensation of $0.3 million and $1.7 million for the three months ended March 31, 2011 and 2010, respectively.

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

Three Months Ended March 31, 2011 Compared With Three Months Ended March 31, 2010

The following compares our consolidated results for the three months ended March 31, 2011 and 2010 as presented in our financial statements:

Revenues from Satellite Manufacturing

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	% Increase/ (Decrease)
	(In millions)		
Revenues from Satellite Manufacturing	$ 281	$ 231	22%
Eliminations	(1)	(2)	(50)%
Revenues from Satellite Manufacturing as reported	$ 280	$ 229	22%

Revenues from Satellite Manufacturing before eliminations increased $50 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, due to improved factory efficiency of $26 million and $24 million of higher revenues generated by increased satellite contract awards resulting in greater factory input. Eliminations for the three months ended March 31, 2011 and 2010 consist primarily of revenue applicable to Loral s interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (see Note 17 to the financial statements). As a result, revenues from Satellite Manufacturing as reported increased $51 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010.

Cost of Satellite Manufacturing

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	% Increase/ (Decrease)
	(In millions)		
Cost of Satellite Manufacturing	$ 232	$ 210	10%
Cost of Satellite Manufacturing as a % of Satellite Manufacturing revenues as reported	83%	92%	

Cost of Satellite Manufacturing increased by $22 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 primarily as a result of a $24 million increase from the higher sales volume, partially offset by a $3 million decrease from improved factory efficiency.

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Selling, General and Administrative Expenses

	Three Months Ended March 31, 2011	2010	% Increase/ (Decrease)
	(In millions)		
Selling, general and administrative expenses	$ 21	$ 20	5%
% of revenues as reported	8%	9%	

Selling, general and administrative expenses increased by $1 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, primarily due to a $1 million increase in Corporate expenses.

Directors Indemnification Expense

Directors indemnification expense for the three months ended March 31, 2010 represents our indemnification of legal expenses incurred by MHR affiliated directors in defense of claims asserted against them in their capacity as directors of Loral (see Note 14 to the financial statements).

Interest and Investment Income

	Three Months Ended March 31, 2011	2010
	(In millions)	
Interest and investment income	$ 8	$ 3

Interest and investment income increased by $5 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, primarily due to interest income on directors and officers liability insurance claims and increased orbital interest income on long-term orbital receivables as a result of satellite launches.

Interest Expense

	Three Months Ended March 31, 2011	2010
	(In millions)	
Interest expense	$ 1	$ 1

Interest expense for the three months ended March 31, 2011 and 2010 consists primarily of fees and amortization of issuance costs related to the SS/L credit agreement and interest related to the ChinaSat transponders.

Gain on Litigation

Gain on litigation for the three months ended March 31, 2011 represents the recovery under our directors and officers liability insurance coverage of plaintiffs legal fees related to shareholder litigation based on a court decision in February 2011 (see Note 14 to the financial statements).

Other Expense

Other expense includes expenses related to the evaluation of strategic alternatives for SS/L and gains and losses on foreign currency transactions.

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Income Tax Provision

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.

The additional provision of $13.8 million in 2011 is primarily attributable to the benefit in 2010 from the release of valuation allowance, partially offset by the benefit in 2011 from having settled various state and local UTPs during the three months ended March 31, 2011.

Equity in Net Income of Affiliates

Equity in net income of affiliates consists of:

	Three Months Ended March 31, 2011	2010
	(In millions)	
Telesat	$ 48.0	$ 47.1
XTAR	(1.8)	(2.4)
Other		(0.1)
	$ 46.2	$ 44.6

Loral s equity in net income of Telesat is based on our proportionate share of Telesat s results in accordance with U.S. GAAP and in U.S. dollars. The amortization of Telesat fair value adjustments applicable to the Loral Skynet assets and liabilities acquired by Telesat in 2007 is proportionately eliminated in determining our share of the net income of Telesat. Our equity in net income of Telesat also reflects the elimination of our profit, to the extent of our beneficial interest, on satellites we are constructing for Telesat.

Summary financial information for Telesat in accordance with U.S. GAAP and in Canadian dollars (CAD) and U.S. dollars ($) for the three months ended March 31, 2011, 2010 and the year ended December 31, 2010 follows (in millions):

	Three Months Ended March 31,		Three Months Ended March 31,	
	2011	2010	2011	2010
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	202.8	199.2	205.7	191.5
Operating expenses	(46.1)	(50.6)	(46.8)	(48.7)
Depreciation, amortization and stock-based compensation	(61.3)	(63.8)	(62.2)	(61.3)
Loss on disposition of long lived assets	(0.8)		(0.7)	
Operating income	94.6	84.8	96.0	81.5
Interest expense	(55.5)	(62.3)	(56.3)	(59.9)
Foreign exchange gains	82.1	113.4	83.3	109.0
Losses on financial instruments	(29.3)	(44.8)	(29.7)	(43.1)
Other income (expense)	1.2	(0.3)	1.1	(0.3)
Income tax provision	(15.5)	(10.7)	(15.7)	(10.3)
Net income	77.6	80.0	78.7	76.9
Average exchange rate for translating Canadian dollars to U.S. dollars			0.9857	1.0403

	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
	(In Canadian dollars)		(In U.S. dollars)	
Balance Sheet Data:				
Current assets	327.9	290.8	337.8	291.4
Total assets	5,382.9	5,298.8	5,546.0	5,309.4
Current liabilities	367.6	293.9	378.7	294.5
Long-term debt, including current portion	2,837.8	2,923.0	2,923.8	2,928.9
Total liabilities	4,140.3	4,137.1	4,265.7	4,145.3
Redeemable preferred stock	141.4	141.4	145.7	141.7
Shareholders equity	1,101.2	1,020.4	1,134.5	1,022.4
Period end exchange rate for translating Canadian dollars to U.S. dollars			0.9706	0.9980

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat s main currency exposures as of March 31, 2011, lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. We estimated that, after considering the impact of hedges, a five percent change in the value of the Canadian dollar against the U.S. dollar at March 31, 2011 would have increased or decreased Telesat s net income for the three months ended March 31, 2011 by approximately $155 million. During the period from October 31, 2007 to March 31, 2011, Telesat s U.S. Term Loan Facility, senior notes and senior subordinated notes have increased by approximately $59 million due to the stronger U.S. dollar. During that same time period, however, the liability created by the fair value of the currency basis swap, which synthetically converts $1.054 billion of the U.S. Term Loan Facility debt into CAD 1.224 billion of debt, decreased by approximately $104 million.

The equity losses in XTAR, L.L.C. (XTAR), our 56% owned joint venture, represent our share of XTAR losses incurred in connection with its operations.

Backlog

Backlog as of March 31, 2011 and December 31, 2010 was as follows (in millions):

	March 31, 2011	December 31, 2010
Satellite Manufacturing	$ 1,467	$ 1,625
Satellite Services	5,802	5,477
Total backlog before eliminations	7,269	7,102
Satellite Manufacturing eliminations	(3)	(4)
Satellite Services eliminations	(5,802)	(5,477)
Total backlog	$ 1,464	$ 1,621

The decrease in Satellite Manufacturing backlog as of March 31, 2011 compared with December 31, 2010 was the result of revenues recognized partially offset by one satellite award during the first quarter of 2011. The increase in Satellite Services backlog as of March 31, 2011 compared with December 31, 2010 was the result of additional bookings and exchange rate changes, partially offset by revenues recognized during the quarter.

Liquidity and Capital Resources

Loral

As described above, the Company s principal assets are 100% of the capital stock of SS/L and a 64% economic interest in Telesat. In addition, the Company has a 56% economic interest in XTAR. SS/L s operations are consolidated in the Company s financial statements, while the operations of Telesat and XTAR are not consolidated but are presented using the equity method of accounting.

The Parent Company has no debt. SS/L amended and restated its revolving credit facility on December 20, 2010, increasing the facility amount to $150 million, extending the maturity to January 24, 2014 and removing the Parent Company guarantee. At March 31, 2011, there were no outstanding borrowings and $5 million of letters of credit was outstanding. Telesat has third party debt with financial institutions, and XTAR has debt to its LLC member, Hisdesat, Loral s joint venture partner in XTAR. The Parent Company has not provided a guarantee for the debt of Telesat or XTAR.

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

The Parent Company s cash flow is fairly predictable. SS/L s cash flow, however, is subject to substantial timing fluctuation of receipts and expenditures and is difficult to forecast on a quarter to quarter basis. A typical satellite production contract takes two to three years to complete. SS/L s cash receipts are tied to the achievement of contract milestones which are negotiated for each contract, and the timing of milestone receipts does not necessarily match the timing of cash expenditures. Revenues and profits under these long-term contracts are recognized using the cost-to-cost percentage of completion method, so the timing of revenue recognition and cash receipts do not match, creating fluctuations in certain balance sheet accounts including contracts-in-process, long-term receivables and customer advances. In addition, the timing of satellite awards is difficult to predict, contributing to the unevenness of revenues and cash flow.

Cash and Available Credit

At March 31, 2011, the Company had $107 million of cash and cash equivalents, $18 million of restricted cash and no debt. The Company s cash and cash equivalents decreased $59 million from December 31, 2010 while restricted cash increased $12 million. SS/L entered into a satellite manufacturing contract during the first quarter of 2011 that requires certain payments to go into escrow until the satellite is delivered. We anticipate the escrow amount of $12 million to grow by an additional $24 million over the construction period until the satellite is delivered, whereupon the funds with interest earned will be released to SS/L. The use of cash during the first quarter of 2011 was mainly the result of capital expenditures, funding by the Company of withholding taxes on employee cashless stock option exercises and an increase in inventories and net contract assets, including orbital receivables. These cash uses were partially offset by Adjusted EBITDA for the Company of approximately $35 million for the first quarter of 2011. During the quarter, SS/L did not borrow any funds under its revolving credit agreement.

As discussed above, SS/L s revolving credit facility was amended and restated on December 20, 2010 to increase the facility from $100 million to $150 million, extend the maturity to January 24, 2014 and eliminate the Parent Company guarantee. A $50 million letter of credit sub-limit was maintained. As of March 31, 2011, SS/L had borrowing availability of approximately $145 million under the facility after giving effect to approximately $5 million of outstanding letters of credit. SS/L was in compliance with all the covenants of its revolving credit facility as of March 31, 2011 and December 31, 2010 and anticipates that over the next 12 months it will be in compliance with all covenants and have full availability of the facility. The amended and restated revolving credit facility allows for a spin-off of SS/L from Loral or an initial public offering of SS/L.

Cash Management

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

Orbital Receivables

As of March 31, 2011, SS/L had orbital receivables of approximately $326 million, net of fresh-start fair value adjustments of $17 million. Of the gross orbital receivables as of March 31, 2011, approximately $197 million are related to satellites launched and $146 million are related to satellites that are under construction. This represents an increase in gross orbital receivables of approximately $14 million from December 31, 2010.

We anticipate that this orbital receivable asset will continue to grow, deferring the receipt of cash. We will generate positive cash flow from orbital receivables once principal and interest payments received for the in-orbit satellites become greater than the amount being deferred for satellites under construction. The timing of when we will have positive cash flow from orbital receivables is dependent on a number of factors including the number of new satellite awards with the requirement for orbital incentive payments, the timing of the completion of contracts under construction, interest rates associated with orbital incentive payments, the performance of on-orbit satellites and the number of satellites in operation as compared to the number of satellites under construction.

Liquidity

The $59 million decrease in cash for the Company from December 31, 2010 to March 31, 2011, consisted of a $37 million increase for the Parent Company and a $96 million decrease for SS/L.

During the first quarter of 2011, the Parent Company s unrestricted cash position increased approximately $37 million to $64 million. In January 2011, as permitted by the SS/L revolving credit facility, the Parent Company received a $50 million dividend from SS/L and paid SS/L $1 million in settlement of net intercompany account balances. Cash of $16 million was used to fund withholding taxes on employee cashless stock option exercises. The Parent Company also received $14 million in cash from the settlement of directors and officers liability insurance claims and received an additional $1.5 million in April 2011.

On March 1, 2011, Loral entered into agreements to sell its investment in the Canadian broadband business, including the Canadian coverage portion of the ViaSat-1 satellite, to Telesat for $13 million plus reimbursement of approximately $48 million, representing Loral s net costs incurred through the closing date. This transaction closed on April 11, 2011 with the Parent Company receiving the cash proceeds. In addition, in connection with this transaction, Telesat agreed that if it obtains certain supplemental capacity on the payload, Loral will be entitled to receive, for four years, one-half of any net revenue actually earned by Telesat on such supplemental capacity.

Also in March 2011, Loral agreed that it intends to make a capital contribution in XTAR in proportion to its equity interest that will be used to repay a convertible loan and related interest to Hisdesat (see Note 8). This amount is anticipated to be paid by the Parent Company in June 2011 and is expected to be approximately $10 million.

At the Parent Company, we expect that our cash and cash equivalents will be sufficient to fund projected expenditures for the next 12 months. In addition to our cash on hand, we believe that, given the substantial value of our assets, which include our 64% economic interest in Telesat and our 56% equity interest in XTAR, we have the ability, if appropriate, to access the financial markets for debt or equity at the Parent Company. Given the continuously changing financial environment, however, there can be no assurance that the Parent Company would be able to obtain such financing on acceptable terms.

During the first quarter of 2011, SS/L s unrestricted cash position decreased approximately $96 million to $43 million. Much of the decrease is due to the non-operating activities described above: the $50 million dividend paid to the Parent Company, receipt of $1 million from the Parent Company to settle intercompany account balances and the reclassification of $12 million into the restricted cash balance. From an operating standpoint, SS/L s cash decreased $35 million mainly as a result of capital expenditures and increased inventories and contract assets, including orbital receivables, partially offset by $41 million in Adjusted EBITDA during the first quarter of 2011.

SS/L s projected use of cash for the remainder of 2011 includes capital expenditures and continued growth in its orbital receivables balance. With regard to capital expenditures, SS/L is initiating a two-year infrastructure campaign that includes the building of a second thermal vacuum chamber, completing certain building and systems modifications and purchasing additional test and satellite handling equipment to meet its contractual obligations more efficiently. Capital expenditures are estimated to be approximately $135 million over the two-year period before returning to a more customary level of annual capital expenditures of $30 million to $40 million. The orbital receivable asset will continue to grow in 2011, though at a lower rate than in 2010, as there were fewer satellite construction awards requiring orbital receivables in 2010. In addition, we anticipate that an additional $12 million of cash received in each of 2011 and 2012 will be added to the restricted escrow account as required by the contract that was signed in the first quarter of 2011. The uncertainty as to the timing and nature of new construction contract awards, milestone receipts and cash flow related to contract assets can change our cash requirements. SS/L believes that, absent unforeseen circumstances, with its cash on hand and cash flow from operations, it has sufficient liquidity to fulfill its obligations for the next 12 months. The borrowing capacity under the revolving credit facility also enhances SS/L s liquidity position.

Risks to Cash Flow

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

There can be no assurance that SS/L s customers will not default on their obligations to SS/L in the future and that such defaults will not materially and adversely affect SS/L and Loral. In the event of an uncured payment default by a customer during the pre-launch construction phase of the satellite, SS/L s construction contracts generally provide SS/L with significant rights even if its customers (or their successors) have paid significant amounts under the contract. These rights typically include the right to stop work on the satellite and the right to terminate the contract for default. In the latter case, SS/L would generally have the right to retain, and sell to other customers, the satellite or satellite components that are under construction. The exercise of such rights, however, could be impeded by the assertion by customers of defenses and counterclaims, including claims of breach of performance obligations on the part of SS/L, and our recovery could be reduced by the lack of a ready resale market for the affected satellites or their components. In either case, our liquidity could be adversely affected pending resolution of such customer disputes.

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

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

Many of SS/L s customer contracts include performance incentives, structured as warranty payback or orbital receivables. If a satellite sold under a contract with performance incentives experiences an anomaly that leads to a degradation in performance as defined in each particular contract, then in the case of warranty payback, SS/L would be obligated to return to the customer a portion of the performance incentive payments received and, in the case of orbital receivables, SS/L would no longer be entitled to a portion of the future orbital receivable payments owed. The amount SS/L would either need to return to the customer in case of warranty payback, or would no longer be entitled to receive from the customer in the case of orbital receivables, would depend on various factors including the specific contractual specifications, the satellite performance and life remaining, among other items. Our liquidity could be adversely affected by failure to achieve contractual performance incentives.

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.

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.

SS/L booked seven satellite awards in both 2008 and 2009. SS/L booked six satellite awards in 2010 and one satellite during the first quarter of 2011, resulting in backlog of $1.5 billion at March 31, 2011. SS/L has high fixed costs relating primarily to labor and overhead. Based on SS/L s current cost structure which has been sized to accommodate six to eight satellite contract awards per year, SS/L estimates that it covers its fixed costs, including depreciation and amortization, with an average of four to five satellite awards a year depending on the size, power, pricing and complexity of the satellite. If SS/L s satellite awards fall below four to five awards per year, SS/L would be required to phase in a reduction of costs to accommodate this lower level of activity. The timing of any reduced demand for satellites, if it were to occur, is difficult to predict. It is, therefore, difficult to anticipate the need to reduce costs to match any such slowdown in business, especially when SS/L has significant backlog business to perform. A delay in matching the timing of a reduction in business with a reduction in expenditures could adversely affect our liquidity. We believe that SS/L s current backlog, existing liquidity and availability under the Credit Agreement are sufficient to finance SS/L, even if SS/L receives fewer than four awards over the next 12 months. If SS/L were to experience a shortage of orders below four awards per year for multiple years, SS/L could require additional financing, the amount and timing of which would depend on the magnitude of the order shortfall coupled with the timing of a reduction in costs. There can be no assurance that SS/L could obtain such financing on favorable terms, if at all.

Telesat

Cash and Available Credit

As of March 31, 2011, Telesat had CAD 246 million of cash and short-term investments as well as approximately CAD 153 million of borrowing availability under its Revolving Facility. This cash balance at the end of March did not factor in CAD 61 million paid to Loral in April in respect of the acquisition of the Canadian payload on ViaSat-1. Telesat believes that cash and short-term investments as of March 31, 2011, cash flow from operations, including amounts provided by operating activities, cash flow from customer prepayments, and drawings on the available lines of credit under the Senior Secured Credit Facility (as defined below) will be adequate to meet its expected cash requirement for the next 12 months for activities in the normal course of business, including interest and required principal payments on debt as well as planned capital expenditures.

Liquidity

A large portion of Telesat s annual cash receipts are reasonably predictable because they are primarily derived from an existing backlog of long-term customer contracts and high contract renewal rates. Telesat believes its cash flow from operations will be sufficient to provide for its capital requirements and to fund its interest and debt payment obligations for the next 12 months. Cash required for the construction of the Telstar 14R/Estrela do Sul 2, Nimiq 6 and the Anik G1 satellites plus the acquisition of the Canadian payload on ViaSat 1 will be funded from some or all of the following: cash and short-term investments, cash flow from operations, proceeds from the sale of assets, cash flow from customer prepayments or through borrowings on available lines of credit under the Senior Secured Credit Facility.

Debt

Telesat has entered into agreements with a syndicate of banks to provide Telesat with a series of term loan facilities denominated in Canadian dollars and U.S. dollars, and a revolving facility (collectively, the Senior Secured Credit Facilities) as outlined below. In addition, Telesat has issued two tranches of notes.

	Maturity	Currency	March 31, 2011	December 31, 2010
			(In CAD millions)	
Senior Secured Credit Facilities:				
Revolving facility	October 31, 2012	CAD or USD equivalent		
Canadian term loan facility	October 31, 2012	CAD	165	170
U.S. term loan facility	October 31, 2014	USD	1,648	1,699
U.S. term loan II facility	October 31, 2014	USD	142	146
Senior notes	November 1, 2015	USD	672	691
Senior subordinated notes	November 1, 2017	USD	211	217
		CAD	2,838	2,923
Less: deferred financing costs and repayment options			(52)	(54)
			2,786	2,869
Current portion		CAD	(131)	(97)
Long term portion		CAD	2,655	2,772

The outstanding debt balances above, with the exception of the revolving credit facility and the Canadian term loan, are presented net of related debt issuance costs. The debt issuance costs in the amount of CAD 5 million related to the revolving credit facility and the Canadian term loan are included in other assets and are amortized to interest expense on a straight-line basis. All other debt issuance costs are amortized to interest expense using the effective interest method.

The Senior Secured Credit Facilities are secured by substantially all of Telesat s assets. Each tranche of the Senior Secured Credit Facilities is subject to mandatory principal repayment requirements. Borrowings under the Senior Secured Credit Facilities bear interest at a base interest rate plus margins of 275 300 basis points. The required repayments on the Canadian term loan facility will be CAD 85 million for the remainder of 2011. For the U.S. term loan facilities, required repayments in 2011 are 1/4 of 1% of the initial aggregate principal amount which is approximately $5 million per quarter. Telesat is required to comply with certain covenants which are usual and customary for highly leveraged transactions, including financial reporting, maintenance of certain financial covenant ratios for leverage and interest coverage, a requirement to maintain minimum levels of satellite insurance, restrictions on capital expenditures, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions and restrictions on transactions with affiliates.

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

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

Interest Expense

An estimate of the interest expense on the facilities is based upon assumptions of LIBOR and Bankers Acceptance rates and the applicable margin for the Senior Secured Credit Facilities. Telesat s estimated interest expense for the remainder 2011 is approximately CAD 192 million.

Derivatives

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

Telesat uses forward contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites and interest payments. At March 31, 2011, Telesat had CAD 127.3 million of outstanding foreign exchange contracts which require the Company to pay Canadian dollars to receive $125 million for future capital expenditures and interest payments. At March 31, 2011, the fair value of these derivative contract liabilities was a liability of CAD 5.7 million, and at December 31, 2010, the fair value of these derivative contracts was a CAD 2.6 million liability.

Telesat has also entered into a cross currency basis swap to hedge the foreign currency risk on a portion of its US dollar denominated debt. Telesat uses mostly natural hedges to manage the foreign exchange risk on operating cash flows. At March 31, 2011, the Company had a cross currency basis swap of CAD 1,184.4 million which requires the Company to pay Canadian dollars to receive $1,019.7 million. At March 31, 2011, the fair value of this derivative contract was a liability of CAD 220.7 million. This non-cash loss will remain unrealized until the contract is settled. This contract is due on October 31, 2014. At December 31, 2010, the fair value of this derivative contract was a liability of CAD 192.5 million.

Interest

Telesat is exposed to interest rate risk on its cash and cash equivalents and its long term debt which is primarily variable rate financing. Changes in the interest rates could impact the amount of interest Telesat is required to pay. Telesat uses interest rate swaps to hedge the interest rate risk related to variable rate debt financing. At March 31, 2011, the fair value of these derivative contract liabilities was CAD 36.6 million, and at December 31, 2010 there was a liability of CAD 49.4 million. These contracts are due between October 31, 2010 and October 31, 2014.

Capital Expenditures

Telesat has entered into contracts with SS/L for the construction of Telstar 14R/Estrela do Sul 2 (targeted to be launched later in May) Nimiq 6, a direct broadcast satellite to be used by Telesat s customer, Bell TV, and Anik G1. Telesat also acquired the Canadian payload on ViaSat-1. These expenditures will be funded from some or all of the following: cash and short-term investments, cash flow from operations, proceeds from the sale of assets, cash flow from customer prepayments or through borrowings on available lines of credit under the Credit Facility.

Contractual Obligations

There have not been any significant changes to the contractual obligations as previously disclosed in our latest Annual Report on Form 10-K filed with the SEC. As of March 31, 2011, we have recorded liabilities for uncertain income tax positions in the amount of $120 million. We do not expect to make any significant payments regarding such liabilities during the next 12 months.

Statement of Cash Flows

Net Cash Used In Operating Activities

Net cash used in operations was $25 million for the three months ended March 31, 2011

The major driver of cash used in operations was an increase in program related assets (contracts-in-process and customer advances) of $48 million. Contracts-in-process consumed $97 million of cash due to advance spending on programs that customers are obligated to reimburse us for in the future. Customer advances provided $50 million of cash due to the timing of awards and progress on new satellite programs.

Net income adjusted for non-cash items provided $44 million of cash for the three months ended March 31, 2011.

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Other factors affecting cash from operating activities: Changes in inventories, accounts payable, accrued expenses and other current liabilities used $15 million of cash for the three months ended March 31, 2011.

Net cash used in operations was $16 million for the three months ended March 31, 2010.

The major driver of this change was net cash used in program related assets of $26 million. Contracts-in-process consumed $8 million of cash due to advance spending on programs that customers were obligated to reimburse us for in the future. Customer advances consumed $19 million of cash due to the timing of awards and progress on new satellite programs.

Net loss adjusted for non-cash items used $7 million of cash for the three months ended March 31, 2010.

Other factors affecting cash from operating activities: Changes in accounts payable, accrued expenses and other current liabilities provided $16 million of cash for the three months ended March 31, 2010.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2011 was $19 million relating to capital expenditures of $7 million and a $12 million increase in restricted cash.

Net cash used in investing activities for the three months ended March 31, 2010 was $10 million relating to capital expenditures.

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months ended March 31, 2011 was $15 million mainly relating to funding by the Company of withholding taxes on employee cashless stock option exercises.

Affiliate Matters

Loral has made certain investments in joint ventures in the satellite services business that are accounted for under the equity method of accounting. Note 8 to the financial statements for further information on affiliate matters.

Commitments and Contingencies

Our business and operations are subject to a number of significant risks, the most significant of which are summarized in Item 1A Risk Factors and also in Note 14 to the financial statements.

Other Matters

Recent Accounting Pronouncements

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

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

Foreign Currency

Loral

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.

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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 millions)			
Future revenues Japanese yen	¥	51.1	$	0.6
Future expenditures Japanese yen	¥	2,980.5	$	36.0
Future revenues euros		12.3	$	17.5
Future expenditures euros		8.7	$	12.3

Derivatives

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 At Contract Rate		At Market Rate
			(In millions)		
2011	103.0	$	132.0	$	145.4
2012	27.0		32.6		37.6
2013	27.0		32.9		37.1
	157.0	$	197.5	$	220.1

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

Telesat

Telesat s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Approximately 46% of Telesat s revenues for the three months ended March 31, 2011, certain of its expenses and a substantial portion of its indebtedness and capital expenditures are denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the US dollar denominated debt financing. A five percent change in the value of the Canadian dollar against the U.S. dollar at March 31, 2011 would have increased or decreased Telesat s net income for the three months ended March 31, 2011 by approximately $155 million.

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

Interest

Loral

The Company had no borrowings outstanding under the SS/L Credit Agreement at March 31, 2011. Borrowings under this facility are limited to Eurodollar Loans for periods ending in one, two, three or six months or daily loans for which the interest rate is adjusted daily based upon changes in the Prime Rate, Federal Funds Rate or one month

Eurodollar Rate. Because of the nature of the borrowing under a revolving credit facility, the borrowing rate adjusts to changes in interest rates over time. For a $150 million credit facility, if it were fully borrowed, a one percent change in interest rates would effect the Company s interest expense by $1.5 million for the year. The Company had no other long-term debt or other exposure to changes in interest rates with respect thereto.

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Telesat

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

Other

As of March 31, 2011, the Company held 984,173 shares of Globalstar Inc. common stock and $1.9 million of non-qualified pension plan assets that were mainly invested in equity and bond funds. During the first quarter of 2011 year, our excess cash was invested in money market securities; we did not hold any other marketable securities.

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

(a) *Disclosure Controls and Procedures.* Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended (the Exchange Act)) as of March 31, 2011, have concluded that our disclosure controls and procedures were effective and designed to ensure that information relating to Loral and its consolidated subsidiaries required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission rules and forms.

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

PART II.
OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

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

Our business and operations are subject to a significant number of risks. The most significant of these risks are summarized in, and the reader s attention is directed to, the section of our Annual Report on Form 10-K for the year ended December 31, 2010 in Item 1A. Risk Factors. There are no material changes to those risk factors except as set forth in Note 14 (Commitments and Contingencies) of the financial statements contained in this report, and the reader is specifically directed to that section. The risks described in our Annual Report on Form 10-K, as updated by this report, are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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Item 6. ***Exhibits***

The following exhibits are filed as part of this report:

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

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SIGNATURES

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

Registrant

Loral Space & Communications Inc.

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

Date: May 9, 2011

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