

LORAL SPACE & COMMUNICATIONS INC.

Form 10-Q

August 09, 2007

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

Form 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2007

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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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 No

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

As of July 31, 2007, there were 20,260,570 shares of Loral Space & Communications Inc. common stock outstanding.

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PART 1.
FINANCIAL INFORMATION

Item 1. Financial Statements

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 421,618	\$ 186,542
Short-term investments	104,720	106,588
Accounts receivable, net	12,277	76,420
Contracts-in-process	110,384	40,433
Inventories	92,762	82,183
Other current assets	122,450	55,534
Total current assets	864,211	547,700
Property, plant and equipment, net	578,049	558,879
Long-term receivables	105,912	81,164
Investments in and advances to affiliates	92,310	97,202
Goodwill	288,472	305,691
Other assets	126,978	139,275
Total assets	\$ 2,055,932	\$ 1,729,911
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 73,133	\$ 67,604
Accrued employment costs	37,190	43,797
Customer advances and billings in excess of costs and profits	270,674	242,661
Income taxes payable	3,847	2,567
Accrued interest and preferred dividends	25,635	20,097
Other current liabilities	19,158	42,828
Total current liabilities	429,637	419,554
Pension and other post retirement liabilities	173,218	167,987
Long-term debt	128,024	128,084
Long-term liabilities	167,833	153,028

Total liabilities	898,712	868,653
Minority interest	225,343	214,256
Commitments and contingencies		
Shareholders' equity:		
Series A-1 Cumulative 7.5% convertible preferred stock, \$0.01 par value 2,200,000 shares authorized, 140,934 shares issued and outstanding	41,566	
Series B-1 Cumulative 7.5% convertible preferred stock, \$0.01 par value 2,000,000 shares authorized, 863,404 shares issued and outstanding	254,496	
Common stock, \$.01 par value	203	200
Paid-in capital	648,523	644,708
Accumulated deficit	(48,148)	(37,981)
Accumulated other comprehensive income	35,237	40,075
Total shareholders' equity	931,877	647,002
Total liabilities and shareholders' equity	\$ 2,055,932	\$ 1,729,911

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues from satellite manufacturing	\$ 191,327	\$ 155,810	\$ 379,004	\$ 292,302
Revenues from satellite services	34,674	37,073	67,529	72,557
Total revenues	226,001	192,883	446,533	364,859
Cost of satellite manufacturing	173,027	138,252	347,128	264,200
Cost of satellite services	25,572	23,456	50,539	47,286
Selling, general and administrative expenses	42,523	31,695	75,785	60,109
Operating loss	(15,121)	(520)	(26,919)	(6,736)
Interest and investment income	10,657	5,014	17,211	9,559
Interest expense	(2,233)	(5,495)	(5,046)	(10,663)
Unrealized gain on foreign exchange contracts (Note 6)	61,508		65,472	
Other income (expense)	179	(87)	261	926
Income (loss) before income taxes, equity income (losses) in affiliates and minority interest	54,990	(1,088)	50,979	(6,914)
Income tax provision	(28,363)	(2,423)	(31,764)	(5,017)
Income (loss) before equity income (losses) in affiliates and minority interest	26,627	(3,511)	19,215	(11,931)
Equity income (losses) in affiliates	487	(1,884)	(1,938)	(3,304)
Minority interest	(6,487)	(6,000)	(13,473)	(12,000)
Net income (loss)	20,627	(11,395)	3,804	(27,235)
Preferred dividends	(5,669)		(7,732)	
Beneficial conversion feature related to the issuance of Loral Series A-1 Preferred Stock (Note 11)	(927)		(25,404)	
Net income (loss) applicable to common shareholders	\$ 14,031	\$ (11,395)	\$ (29,332)	\$ (27,235)
Basic and diluted income (loss) per common share:				
Basic income (loss) per share	\$ 0.70	\$ (0.57)	\$ (1.46)	\$ (1.36)
Diluted income (loss) per share	\$ 0.67	\$ (0.57)	\$ (1.46)	\$ (1.36)
Weighted average shares outstanding:				
Basic	20,070	20,000	20,055	20,000

Diluted	30,594	20,000	20,055	20,000
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See notes to condensed consolidated financial statements.

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	Six Months Ended	
	June 30,	
	2007	2006
Operating activities:		
Net income(loss)	\$ 3,804	\$ (27,235)
Non-cash operating items	22,005	52,155
Changes in operating assets and liabilities:		
Accounts receivable, net	64,223	15,289
Contracts-in-process	(69,646)	(14,067)
Inventories	(10,959)	(9,896)
Long-term receivables	(212)	(323)
Other current assets and other assets	(1,875)	8,996
Accounts payable	3,838	(14,007)
Accrued expenses and other current liabilities	(24,063)	(19,180)
Customer advances	4,874	72,562
Income taxes payable	1,280	(126)
Pension and other postretirement liabilities	5,231	8,544
Long-term liabilities	7,011	6,995
Other	(60)	85
Net cash provided by operating activities	5,451	79,792
Investing activities:		
Capital expenditures	(52,673)	(20,590)
(Increase) decrease in restricted cash in escrow	(9,118)	1,194
Proceeds received from the disposition of an orbital slot		5,742
Distribution from equity investment	2,954	
Proceeds from the sale of short-term investments and available for sale securities	307,862	
Purchase of short-term investments	(303,489)	
Net cash used in investing activities	(54,464)	(13,654)
Financing activities:		
Proceeds from the sale of preferred stock	293,250	
Proceeds from the exercise of stock options	1,707	
Preferred stock issuance costs	(9,099)	
Cash dividends paid on preferred stock of subsidiary	(1,769)	
Net cash provided by financing activities	284,089	
Net increase in cash and cash equivalents	235,076	66,138

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Cash and cash equivalents	beginning of period	186,542	275,796
Cash and cash equivalents	end of period	\$ 421,618	\$ 341,934

See notes to condensed consolidated financial statements.

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Principal Business

Loral Space & Communications Inc. (*New Loral*), together with its subsidiaries is a leading satellite communications company with substantial activities in satellite manufacturing and satellite-based communications services. *New 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*).

The terms *Loral*, the *Company*, *we*, *our* and *us* when used in this report with respect to the period prior to our emergence, are references to *Old Loral*, and when used with respect to the period commencing after our emergence, are references to *New Loral*. These references include the subsidiaries of *Old Loral* or *New Loral*, as the case may be, unless otherwise indicated or the context otherwise requires.

Loral is organized into two operating segments:

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, wireless telephony, digital radio, digital mobile broadcasting, military communications, weather monitoring and air traffic management.

Satellite Services: Our subsidiary, Loral Skynet Corporation (*Loral Skynet*), operates a global fixed satellite services business. *Loral Skynet* leases transponder capacity to commercial and government customers for video distribution and broadcasting, high-speed data distribution, Internet access and communications, as well as provides managed network services to customers using a hybrid satellite and ground-based system. *Loral Skynet* has four in-orbit satellites and has one satellite under construction at *SS/L*. It also provides professional services to other satellite operators such as fleet operating services.

2. Reorganization

On July 15, 2003, *Old Loral* and certain of its subsidiaries (the *Debtor Subsidiaries* and collectively with *Old Loral*, the *Debtors*), including Loral Space & Communications Holdings Corporation (formerly known as Loral Space & Communications Corporation), Loral SpaceCom Corporation (*Loral SpaceCom*), *SS/L* and Loral Orion, Inc. (now known as Loral Skynet Corporation), filed voluntary petitions for reorganization under chapter 11 of title 11 (*Chapter 11*) of the United States Code (the *Bankruptcy Code*) in the U.S. Bankruptcy Court for the Southern District of New York (the *Bankruptcy Court*) (Lead Case No. 03-41710 (RDD), Case Nos. 03-41709 (RDD) through 03-41728 (RDD)) (the *Chapter 11 Cases*). Also on July 15, 2003, *Old Loral* and one of its Bermuda subsidiaries (the *Bermuda Group*) filed parallel insolvency proceedings in the Supreme Court of Bermuda (the *Bermuda Court*), and, on that date, the *Bermuda Court* entered an order appointing certain partners of KPMG as Joint Provisional Liquidators (*JPLs*) in respect of the *Bermuda Group*.

The *Debtors* emerged from Chapter 11 on November 21, 2005 pursuant to the terms of their fourth amended joint plan of reorganization, as modified (the *Plan of Reorganization*). The *Plan of Reorganization* had previously been confirmed by order (the *Confirmation Order*) of the *Bankruptcy Court* entered on August 1, 2005. Pursuant to the *Plan of Reorganization*, among other things, the business and operations of *Old Loral* were transferred to *New Loral*, and

Loral Skynet and SS/L emerged intact as separate subsidiaries of reorganized Loral.

Certain appeals (the Appeals) filed by Old Loral shareholders acting on behalf of the self-styled Loral Stockholders Protective Committee (LSPC) seeking, among other things, to revoke the Confirmation Order and to rescind the approval of the Federal Communications Commission (FCC) of the transfer of our FCC licenses from Old Loral to New Loral remain outstanding. We believe that these Appeals are completely without merit and will not have any effect on the completed reorganization (see Note 12).

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2006 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 Securities and Exchange Commission.

Cash and Cash Equivalents and Short-term Investments

As of June 30, 2007, the Company had \$547.5 million of cash, short-term investments and restricted cash, of which \$104.7 million is in the form of short-term investments and \$21.2 million is in the form of restricted cash (\$8.9 million included in other current assets and \$12.3 million included in other assets on our consolidated balance sheet). Cash and cash equivalents include investments of less than 90 days. Short-term investments consist of investments whose maturity at time of purchase was greater than 90 days and less than one year or investments which had been long-term whose final maturity is less than one year from June 30. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date. Our short-term investments include corporate bonds, Euro dollar bonds, certificates of deposit, commercial paper, Federal Agency notes and auction rate securities. Auction rate securities are long-term obligations that are sold and purchased through an auction process for a period of 7, 28, 35 or 49 days. Auction rate securities are considered to be short-term investments and are classified as available-for-sale securities. Auction rate securities and other available-for-sale securities are carried at fair value with unrealized gains and losses, if any, reported in accumulated other comprehensive income. The carrying value of our auction rate securities at June 30, 2007 approximates their cost.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts, contracts-in-process, long-term receivables and advances and loans to affiliates (see Note 6). Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Historically, our customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, we have added commercial customers that include companies in emerging markets or the development stage, some of which are highly leveraged or partially funded. Management believes that its credit evaluation, approval and monitoring processes combined with contractual billing arrangements provide for effective management of potential credit risks with regard to our current customer base.

Minority Interest

On November 21, 2005, Loral Skynet issued 1 million of its 2 million authorized shares of Series A 12% non-convertible preferred stock, \$0.01 par value per share (the Loral Skynet Preferred Stock), which were distributed in accordance with the Plan of Reorganization.

The Loral Skynet Preferred Stock is reflected as minority interest on our condensed consolidated balance sheet and accrued dividends of \$6.5 million and \$6.0 million for the three months ended June 30, 2007 and 2006,

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively, and \$13.5 million and \$12.0 million for the six months ended June 30, 2007 and June 30, 2006, respectively, are reflected as minority interest on our condensed consolidated statement of operations. On January 12, 2007, Loral Skynet paid a dividend on its Loral Skynet Preferred Stock of \$12.86 million, which covered the period from July 14, 2006 through January 11, 2007. The dividend consisted of \$1.77 million in cash and \$11.09 million through the issuance of 55,434 additional shares of Loral Skynet Preferred Stock. At June 30, 2007, 1,126,715 shares of Loral Skynet Preferred Stock, with a carrying value of \$225.3 million, were issued and outstanding. On July 13, 2007 Loral Skynet paid a dividend on its Loral Skynet Preferred Stock of \$13.5 million, which covered the period from January 15, 2007 through July 15, 2007. The dividend consisted of \$1.26 million in cash and \$12.26 million through the issuance of 61,282 additional shares of Loral Skynet Preferred Stock.

Income Taxes

Effective January 1, 2007, we adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For benefits to be recognized in the financial statements, a tax position must be more-likely-than-not to be sustained upon examination by the taxing authorities based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Based upon our analysis, the cumulative effects of adopting FIN 48 have been recorded as an increase of \$6.2 million to accumulated deficit, an increase of \$7.2 million to goodwill, a decrease of \$6.3 million to deferred income tax liabilities and an increase of \$19.7 million to long-term liabilities. As of January 1, 2007, we had unrecognized tax benefits relating to uncertain tax positions of \$60.8 million. We do not anticipate material changes to this liability for the next twelve months, other than additional accruals for interest.

The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense on a quarterly basis. As of January 1, 2007, we had accrued approximately \$5.7 million and \$12.6 million for the payment of 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 2003. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. While we intend to contest any future tax assessments for uncertain tax positions, no assurance can be provided that we would ultimately prevail.

The liability for uncertain tax positions is included in long-term liabilities in the Condensed Consolidated Balance Sheet as of June 30, 2007. For the three and six months ended June 30, 2007, we increased our FIN 48 liability for uncertain tax positions by \$2.1 million and \$3.3 million, respectively, for potential additional interest and penalties. As of June 30, 2007, we had accrued approximately \$8.5 million and \$13.1 million for the payment of potential tax-related interest and penalties, respectively. If our positions are sustained by the taxing authorities, approximately \$42.8 million would be treated as a reduction of goodwill and \$14.9 million would reduce the Company's effective tax rate. There were no significant changes to our uncertain tax positions during the six months ended June 30, 2007.

Prior to adopting FIN 48, our policy was to maintain tax contingency liabilities for potential audit issues. The tax contingency liabilities were based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits. At December 31, 2006, we had \$42.6 million of tax contingency liabilities included in long-term liabilities.

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During 2007 and 2006, we maintained a 100% valuation allowance against our net deferred tax assets except with regard to our deferred tax assets related to AMT credit carryforwards. We will continue to maintain the valuation allowance until sufficient positive evidence exists to support its reversal. If, in the future, we were to determine that we will be able to realize all or a portion of the benefit from our deferred tax assets, a reduction to the valuation allowance as of October 1, 2005 will first reduce goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital. For the three and six months ended June 30, 2007, we utilized the benefits from approximately \$24.8 million of deferred tax assets from Old Loral to reduce our cash tax liability imposed on current year income, which created an excess valuation allowance of \$24.8 million that was reversed as a reduction to goodwill.

The income tax provision for the three and six months ended June 30, 2007 and 2006 also includes our current provision for foreign income taxes and adjustment, if required, to our FIN 48 liabilities for uncertain tax positions and tax contingency liabilities for potential audit issues. The provision for 2007 also includes certain changes to the valuation allowance required as a result of having reversed deferred tax liabilities from accumulated other comprehensive income.

Pensions and Other Employee Benefits

The following table provides the components of net periodic benefit cost for our qualified and supplemental retirement plans (the Pension Benefits) and health care and life insurance benefits for retired employees and dependents (the Other Benefits) for the three and six months ended June 30, 2007 and 2006 (in thousands):

	Pension Benefits		Other Benefits	
	Three Months		Three Months	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Service cost	\$ 2,412	\$ 3,375	\$ 360	\$ 300
Interest cost	5,432	5,700	1,250	1,125
Expected return on plan assets	(5,837)	(5,425)	(10)	
Amortization of prior service credits and net actuarial gain	(700)		(75)	
	\$ 1,307	\$ 3,650	\$ 1,525	\$ 1,425

	Pension Benefits		Other Benefits	
	Six Months		Six Months	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Service cost	\$ 4,824	\$ 6,750	\$ 720	\$ 600
Interest cost	10,864	11,400	2,500	2,250

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Expected return on plan assets	(11,674)	(10,850)	(20)	
Amortization of prior service credits and net actuarial gain	(1,400)		(150)	
	\$ 2,614	\$ 7,300	\$ 3,050	\$ 2,850

Effective July 1, 2006, we amended our pension plan to standardize the future benefits earned at all company locations. These amendments did not change any benefits earned through June 30, 2006. As a result of the amendments, all locations now have a career average plan that requires a contribution in order to receive the highest level of benefits. All current participants now earn future benefits under the same formula and have the same early retirement provisions. The amendments did not apply to certain employees under a bargaining unit arrangement.

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Additionally, employees hired after June 30, 2006, do not participate in the defined benefit pension plan, but participate in our defined contribution savings plan with an enhanced benefit.

Additional Cash Flow Information

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

	Six Months Ended June 30,	
	2007	2006
Non-cash operating items:		
Equity losses in affiliates	\$ 1,938	\$ 3,304
Minority interest	13,473	12,000
Deferred taxes	25,808	
Depreciation and amortization	40,607	33,074
Stock based compensation	11,354	1,371
(Recoveries of) provisions for bad debts on billed receivables	(80)	499
Provisions for inventory obsolescence	380	1,678
Warranty expense accruals	(1,573)	1,351
Net gain on the disposition of an orbital slot		(1,149)
Amortization of prior service credits and net actuarial gain	(1,550)	
Gain on disposition of available for sale securities	(2,505)	
Withholding tax impact of cashless stock option exercises	(143)	
Non cash net interest and gain on foreign exchange contracts	(65,303)	
Other	(401)	27
Net non-cash operating items	\$ 22,005	\$ 52,155
Non-cash financing activities:		
Issuance of preferred stock by subsidiary as payment for dividend	\$ 11,087	\$
Issuance of Loral Series-1 Preferred Stock as payment for dividend	\$ 2,812	\$
Accrued dividends on Series A-1 and Series B-1 preferred stock	\$ 4,920	\$
Supplemental information:		
Capital expenditures incurred not yet paid	\$ 1,780	\$ 586
Interest paid	\$ 10,335	\$ 3,030
Taxes paid, net of refunds	\$ 1,726	\$ 1,574

Cash paid for reorganization items:

Professional fees \$ (160) \$ (9,177)

New Accounting Pronouncements

SFAS 157

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, (SFAS 157), to define fair value, establish a framework for measuring fair value in

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accordance with U.S. GAAP and expand disclosures about fair value measurements. SFAS 157 requires quantitative disclosures using a tabular format in all periods (interim and annual) and qualitative disclosures about the valuation techniques used to measure fair value in all annual periods. We are required to adopt the provisions of this statement as of January 1, 2008. We are currently evaluating the impact of adopting SFAS 157.

SFAS 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. We are required to adopt the provisions of this statement as of January 1, 2008. We are currently evaluating the impact of adopting SFAS 159.

4. Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income (loss)	\$ 20,627	\$ (11,395)	\$ 3,804	\$ (27,235)
Cumulative translation adjustment	29	97	59	137
Amortization of prior service credits and net actuarial gains, net of taxes	(469)		(938)	
Unrealized loss on available-for-sale securities, net of taxes	(1,618)		(3,959)	
Less: Reclassification adjustment for gains included in net income	1,475		1,475	
Comprehensive income (loss)	\$ 20,044	\$ (11,298)	\$ 441	\$ (27,098)

In the consolidated statement of shareholders' equity for the year ended December 31, 2006 and in the related notes in our 2006 Annual Report on Form 10-K, we disclosed and included the \$30.0 million adjustment to initially apply SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, in the caption "Other Comprehensive Income." That caption includes changes in equity that are part of other comprehensive income for the period. We based that presentation on our interpretation of the principles in SFAS 130, *Reporting Comprehensive Income*, which requires accounting changes to be included in comprehensive income for the period. Subsequently, we became aware that transition provisions of SFAS 158 required that this cumulative effect be presented as a direct adjustment to the ending balance of Accumulated Other Comprehensive Income rather than as part of comprehensive income for the period. Consequently, the amount reported under the caption "Other Comprehensive Income" for 2006 should have been \$10.1 million, rather than the \$40.1 million we reported. The difference, \$30.0 million, should have been reported as a direct increase of accumulated other comprehensive income within equity. The amount reported as

Comprehensive Income for 2006 should have been \$(12.6) million rather than the \$17.3 million we reported. In our 2007 Annual Report on Form 10-K, we will restate our presentation to correct this error. This correction only affects the display of the cumulative effect of the adoption of SFAS 158 within the consolidated statement of shareholders equity and does not otherwise affect our financial statements.

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	June 30, 2007	December 31, 2006
	(In thousands)	
Amounts billed	\$ 55,643	\$ 18,289
Unbilled receivables	54,741	22,144
	\$ 110,384	\$ 40,433

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

6. Financial Instruments and Foreign Currency***Derivatives***

On December 16, 2006, a joint venture company formed by Loral and Public Sector Pension Investment Board (PSP) entered into a share purchase agreement with BCE Inc. and Telesat Canada for the acquisition of all the shares of Telesat Canada and certain other assets for CAD 3.25 billion (see Note 12). As part of the transaction, the acquisition company received financing commitments from a syndicate of banks for \$2.209 billion of senior secured credit facilities and \$910 million of a senior unsecured bridge facility (assuming an exchange rate of \$1.00/CAD 1.0654 as of June 30, 2007). The purchase price of Telesat Canada is in Canadian dollars, while most of the debt financing is in U.S. dollars. Accordingly, to insulate themselves from Canadian dollar versus US dollar fluctuations, Loral and PSP have entered into financial commitments to lock in exchange rates to convert some of the U.S. dollar denominated debt proceeds to Canadian dollars. To mitigate these risks, Loral entered into several transactions through its Loral Skynet subsidiary, pursuant to which Loral Skynet assumed certain exposures that would arise if the Telesat Canada acquisition does not close and the currency transactions are unwound. Any unrealized gain or loss on these transactions as a result of marking these investments to market, is recognized in the statement of operations and will be offset by a corresponding decrease or increase in the US dollar purchase price equivalent to be paid to BCE by New Telesat.

A summary of these transactions is as follows:

1) In December 2006, Loral Skynet entered into a currency basis swap with a single bank counterparty converting \$1.054 billion of U.S. debt into CAD 1.224 billion of Canadian debt for a seven year period beginning December 17, 2007. This debt amortizes 1% per year with a final maturity of December 17, 2014. No cash payment was made by Loral to the counterparty for entering into this transaction. This agreement can be closed at any point prior to

December 17, 2007 by simply moving all the terms forward to the closing date of the Telesat Canada acquisition without affecting terms. This agreement is assignable to the Canadian borrowing company on or prior to closing of the credit transaction. Loral Skynet's liability under this agreement shall not exceed \$10 million in the event of an early termination of this agreement resulting from an event of default or termination event. For the three and six months ended June 30, 2007, Loral recorded a gain of \$5.9 million and \$3.6 million respectively, reflecting the change in the fair value of the swap. Included in other current assets is \$1.2 million as of June 30, 2007 and \$2.4 million in other current liabilities as of December 31, 2006, reflecting the fair value of the swap.

2) In December 2006, Loral Skynet entered into forward foreign currency contracts with a single bank counterparty selling \$497.4 million for CAD 570.1 million (\$1.00/CAD 1.1461) with a settlement date of December 17, 2007. In January 2007, Loral Skynet entered into additional forward foreign currency contracts

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

with the same single bank counterparty selling \$200.0 million for CAD 232.8 million (\$1.00/CAD 1.1512) with a settlement date of December 17, 2007. No cash payments were made by Loral to the single bank counterparty for entering into these transactions. These agreements can be rolled forward to the closing date of the Telesat Canada acquisition with an adjustment in the exchange rate. These agreements are assignable to the Canadian borrowing company on or prior to closing of the credit transaction. For the three and six months ended June 30, 2007, Loral recorded a gain of \$55.6 million and \$61.9, respectively, reflecting the change in the fair value of the forward contracts. As of June 30, 2007, other current assets include \$58.6 million reflecting a mark-to-market exchange rate of \$1.00/CAD 1.0654. As of December 31, 2006, other current liabilities include \$3.3 million reflecting a mark-to-market exchange rate of \$1.00/CAD 1.1539. If the forward contracts were not used for the Telesat Canada transaction and had to be terminated, Loral Skynet could have a gain or loss on the termination depending upon the exchange rate at termination. Under the forward foreign currency contracts, Loral Skynet limited its maximum liability under these agreements to a maximum of \$107.5 million in the event of an early termination of these agreements resulting from an event of default or termination.

As detailed above, Loral Skynet assumed up to \$117.5 million of liability exposure which would arise only if the Telesat transaction does not close and the exchange rate moves against our position at the time we are required to settle these derivatives. Since these transactions were entered into, the Canadian dollar has strengthened and through June 30, 2007, Loral Skynet has a cumulative unrealized gain of \$59.8 million associated with these foreign exchange derivative transactions. If the Telesat transaction does not close and we had to settle these trades, there would need to be a weakening in the Canadian dollar from the June 30, 2007 exchange rate of US\$1.00/CAD 1.0654, of approximately 8% to eliminate our gains and in excess of 20%, for Loral Skynet to reach its full liability exposure.

Foreign Currency

We, in the normal course of business, are subject to the risks associated with fluctuations in foreign currency exchange rates.

As of June 30, 2007, SS/L had the following amounts denominated in Japanese Yen and EUROS (which have been translated into U.S. dollars based on the June 30, 2007 exchange rates) that were unhedged (in millions):

		Foreign Currency	U.S. \$
Future revenues	Japanese Yen	¥ 142.2	\$ 1.2
Future expenditures	Japanese Yen	¥ 3,781.7	\$ 30.7
Contracts-in-process, unbilled receivables/(customer advances)	Japanese Yen	¥ (9.5)	\$ (0.1)
Future expenditures	EUROS	3.7	\$ 5.0

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	June 30, 2007	December 31, 2006
	(In thousands)	
Land and land improvements	\$ 27,533	\$ 27,533
Buildings	54,134	53,572
Leasehold improvements	8,519	6,434
Satellites in-orbit, including satellite transponder rights of \$136.7 million	386,092	386,196
Satellites under construction	93,526	59,085
Earth stations	18,509	18,141
Equipment, furniture and fixtures	89,141	76,787
Other construction in progress	22,751	18,167
	700,205	645,915
Accumulated depreciation and amortization	(122,156)	(87,036)
	\$ 578,049	\$ 558,879

Depreciation and amortization expense for property, plant and equipment was \$17.9 million and \$17.0 million for the three months ended June 30, 2007 and 2006, respectively, and \$35.2 million and \$33.9 million for the six months ended June 30, 2007 and 2006, respectively. Accumulated depreciation and amortization as of June 30, 2007 and December 31, 2006 includes \$24.9 million and \$16.7 million, respectively, related to satellite transponders where Loral has the rights to the transponders for the remaining life of the related satellite.

8. Investment in and Advances to Affiliates

Investment in and advances to affiliates consists of (in thousands):

	June 30, 2007	December 31, 2006
XTAR equity investment	\$ 92,310	\$ 97,202

Equity income (losses) in affiliate, consists of (in thousands):

Three Months Ended June 30,	Six Months Ended June 30,
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	2007	2006	2007	2006
XTAR	\$ (2,366)	\$ (1,884)	\$ (4,892)	\$ (3,304)
Globalstar service provider partnerships	2,853		2,954	
	\$ 487	\$ (1,884)	\$ (1,938)	\$ (3,304)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	\$ 18	\$ 5,638	\$ 408	\$ 8,454
Elimination of our proportionate share of profit relating to affiliate transactions	(20)	(53)	(31)	(287)
Profit relating to affiliate transactions not eliminated	15	42	24	225

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****XTAR**

We own 56% of XTAR, L.L.C. (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 since we do not control certain of its significant operating decisions. Our interest in XTAR is currently held by Loral Skynet, however, this interest will be retained by Loral and not transferred to New Telesat (see Note 12).

XTAR and Loral Skynet have entered into agreements whereby Loral Skynet provides to XTAR (i) certain selling, general and administrative services, (ii) telemetry, tracking and control services for the XTAR satellite, (iii) transponder engineering and regulatory support services as needed and (iv) satellite construction oversight services. XTAR is currently not making payments under the agreements. We have agreed to defer amounts due from XTAR until March 31, 2008 and we have not recognized any revenue associated with providing these services to XTAR.

XTAR is currently not making payments under its lease agreement with Hisdesat. Hisdesat has agreed to defer amounts due from XTAR until March 31, 2008.

In connection with the Launch Services Agreement entered into between XTAR and Arianespace, S.A. (Arianespace) providing for launch of its satellite on Arianespace s Ariane 5 ECA launch vehicle, Arianespace provided a one-year, \$15.8 million, 10% interest paid-in-kind (i.e., paid in additional debt) loan for a portion of the launch price, secured by certain of XTAR s assets, including the XTAR-EUR satellite, ground equipment and rights to the orbital slot. The remainder of the launch price consists of a revenue-based fee to be paid over time by XTAR. Through a series of amendments to the loan agreement, XTAR and Arianespace agreed to extend the maturity date of the loan to September 30, 2007. As part of these amendments, XTAR agreed to make scheduled and excess cash payments, as well as foregoing the ability to incur secured debt with the Arianespace collateral. As of June 30, 2007, \$0.6 million was outstanding under the Arianespace loan and the loan was paid in full on July 6, 2007.

The following table presents summary financial data for XTAR (in millions):

Statement of Operations Data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	\$ 4.6	\$ 3.8	\$ 9.3	\$ 7.2
Operating loss	(3.8)	(2.2)	(7.4)	(3.4)
Net loss	(4.1)	(3.3)	(8.3)	(5.4)

Balance Sheet Data:

June 30, December 31,

	2007	2006
Current assets	\$ 6.6	\$ 6.4
Total assets	127.4	132.1
Current liabilities	22.4	20.1
Long-term liabilities	34.4	33.1
Members equity	70.6	78.9

Other

On April 14, 2004, Globalstar, L.P. announced the completion of its financial restructuring following the formal acquisition of its main business operations and assets by Thermo Capital Partners LLC (Thermo), effectively resulting in Globalstar, L.P. exiting from bankruptcy. Thermo invested \$43 million in the newly formed Globalstar company (Globalstar Inc.) in exchange for an 81.25% equity interest, with the remaining 18.75% of the equity distributed to the creditors of Globalstar, L.P. Our share of the equity interest was approximately 2.7% of

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Globalstar Inc., to which we assigned no value at the time. On November 2, 2006, Globalstar, Inc., completed an initial public offering, at which time we owned 1,609,896 shares of Globalstar, Inc. We had agreed not to sell 70% of our Globalstar Inc. holdings for at least 180 days following the completion of its offering. As of May 5, 2007, the lock-up was no longer in effect. For the three and six months ended June 30, 2007, we received and recorded a gain of \$2.5 million (included in interest and investment income in the condensed consolidated statements of operations) for the sale of 230,086 shares of Globalstar stock. As of June 30, 2007, we owned 938,848 shares of Globalstar, Inc. which are accounted for as available-for-sale securities. Unrealized gains on these shares were \$2.5 million, net of taxes as of June 30, 2007.

We hold various indirect ownership interests in three foreign companies that currently serve as exclusive service providers for Globalstar service in Brazil, Mexico and Russia. We account for these ownership interests using the equity method of accounting. We have written-off our 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. We are considering whether to make an additional investment of up to \$14 million in one of these companies. In the three months ended June 30, 2007, Loral recognized earnings of \$3.0 million from our Globalstar investment partnerships, which were primarily attributable to a cash distribution from one of our investments.

9. Goodwill and Other Intangible Assets***Goodwill***

Goodwill was established in connection with our adoption of fresh-start accounting on October 1, 2005. Effective January 1, 2007, we adopted FIN 48. The cumulative effects of adopting FIN 48 has resulted in the Company recording an increase of \$7.5 million to goodwill as adjusted in June 2007, offset by a reduction to goodwill of \$24.8 million during the three months ended June 30, 2007, as a result of the reversal of an excess valuation allowance (see *Income Taxes* in Note 3), as follows (in thousands):

Goodwill	December 31, 2006	\$ 305,691
Cumulative effect of adopting FIN 48 (see Note 3)		7,541
Reversal of excess valuation allowance on deferred tax assets		(24,760)
Goodwill	June 30, 2006	\$ 288,472

Other Intangible Assets

Other Intangible Assets were established in connection with our adoption of fresh-start accounting and are included in Other Assets on our condensed consolidated balance sheet. Other Intangible Assets consists of (in millions, except years):

	Weighted Average Remaining Amortization Period (Years)	June 30, 2007		December 31, 2006	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Internally developed software and technology	4	\$ 59.0	\$ (18.9)	\$ 59.0	\$ (13.5)
Orbital slots	9	10.8	(2.6)	10.8	(1.8)
Trade names	18	13.2	(1.2)	13.2	(0.8)
Customer relationships	13	20.0	(2.3)	20.0	(1.7)
Customer contracts	8	33.0	(10.9)	33.0	(8.3)
Other intangibles	3	2.7	(1.1)	2.7	(0.8)
		\$ 138.7	\$ (37.0)	\$ 138.7	\$ (26.9)

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Total amortization expense for other intangible assets was \$5.0 million and \$5.3 million for the three months ended June 30, 2007 and 2006, respectively, and \$10.0 million and \$10.7 million for the six months ended June 30, 2007 and 2006, respectively. Annual amortization expense for intangible assets for the five years ended December 31, 2011 is estimated to be as follows (in millions):

2007	\$ 19.8
2008	19.2
2009	18.2
2010	14.6
2011	7.4

In connection with our adoption of fresh-start accounting, we recorded fair value adjustments of \$66.9 million relating to contracts-in-process, long-term receivables, customer advances and billings in excess of costs and profits and long-term liabilities. Net amortization of these fair value adjustments as a credit to income was \$1.6 million and \$5.5 million for the three months ended June 30, 2007 and 2006, respectively and \$4.9 million and \$12.0 million for the six months ended June 30, 2007 and 2006, respectively.

10. Debt

	June 30, 2006	December 31, 2006
	(In thousands)	
Loral Skynet 14.0% senior secured notes due 2015 (principal amount \$126 million)	\$ 128,024	\$ 128,084

Loral Skynet Notes

On November 21, 2005, pursuant to the Plan of Reorganization, Loral Skynet issued \$126 million principal amount of 14% Senior Secured Cash/PIK Notes due 2015 (the Loral Skynet Notes) under an Indenture, dated as of November 21, 2005 (the Indenture), which notes are guaranteed on a senior secured basis by our subsidiary Loral Asia Pacific Satellite (HK) Limited and all of Loral Skynet's existing domestic, wholly-owned subsidiaries. Prior to November 22, 2009, we may redeem the notes at a redemption price of 110% plus accrued and unpaid interest (see below). After this period, the notes are redeemable at our option at a redemption price of 110%, declining over time to 100% in 2014, plus accrued and unpaid interest. The Loral Skynet Notes bear interest at a rate of 14% per annum payable in cash semi-annually, except that interest will be payable in-kind to the extent that the amount of such interest would exceed certain adjusted EBITDA calculations for Loral Skynet, as detailed in the Indenture.

At June 30, 2007, accrued interest on the Loral Skynet Notes was \$8.2 million and is included in accrued interest and preferred dividends on our condensed consolidated balance sheet. Interest expense related to these notes was \$4.5 million for both the three months ended June 30, 2007 and 2006 and \$8.9 million for both the six months ended June 30, 2007 and 2006. Loral Skynet paid cash of \$8.8 million for accrued interest on the Loral Skynet Notes on January 15, 2007 and July 16, 2007, respectively.

The limitations contained in the Indenture impose restrictions on our operations and limit our ability to enter into financial transactions that we may wish to pursue. These restrictions will affect, and in many respects limit, among other things, Loral Skynet's and its subsidiaries' ability to pay dividends, make investments, sell assets, make loans, repurchase equity interests or engage in mergers or other like transactions.

The redemption of the Loral Skynet Notes is a condition to the consummation of our transfer of Loral Skynet's assets to New Telesat (see Note 12), and, at the request of Loral Skynet, the trustee (the "Trustee") under the Indenture issued an unconditional Notice of Full Redemption of the Loral Skynet Notes. Pursuant to this notice, the

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Loral Skynet Notes will be redeemed on September 5, 2007. The redemption price will be 110% of the principal amount of the Loral Skynet Notes, plus accrued and unpaid interest up to, but not including, the redemption date.

Certain holders of Loral Skynet Notes have commenced litigation with respect to the redemption of the Loral Skynet Notes (see Note 12).

SS/L Letter of Credit Facility

On October 31, 2006, SS/L entered into an amendment to its amended and restated letter of credit agreement with JP Morgan Chase Bank extending the maturity of the facility to December 31, 2007 and reducing the facility availability from \$20 million to \$15 million. Letters of credit are available until the earlier of the stated maturity of the letter of credit, the termination of the facility or December 31, 2007. Outstanding letters of credit are fully cash collateralized. As of June 30, 2007, \$6.1 million of letters of credit under this facility were issued and outstanding.

11. Shareholders Equity

Preferred Stock

On February 27, 2007 (the Issuance Date), Loral completed a \$300 million preferred stock financing pursuant to the Securities Purchase Agreement entered into with MHR Fund Management LLC (MHR) on October 17, 2006, as amended and restated on February 27, 2007 (the Securities Purchase Agreement). Pursuant to the Securities Purchase Agreement, Loral sold 136,526 shares of its Series A-1 cumulative 7.5% convertible preferred stock (the Series A-1 Preferred Stock) and 858,486 shares of its Series B-1 cumulative 7.5% convertible preferred stock (the Series B-1 Preferred Stock) and, together with the Series A-1 Preferred Stock, the Loral Series-1 Preferred Stock) at a purchase price of \$301.504 per share to various funds affiliated with MHR. Each share of the Series A-1 Preferred Stock is convertible, at the option of the holder, into ten shares of Loral common stock at a conversion price of \$30.1504 per share. Prior to the Majority Ownership Date (as defined below) and following stockholder approval of the creation of a new class of Class B-1 non-voting common stock, each share of the Series B-1 Preferred Stock will be convertible, at the option of the holder, into ten shares of this Class B-1 non-voting common stock at a conversion price of \$30.1504 per share. From and after the Majority Ownership Date, the Series B-1 Preferred Stock and the Class B-1 non-voting common stock may be converted by the holder into Loral common stock, in the case of the Series B-1 Preferred Stock, at the same conversion price, and in the case of the Class B-1 non-voting common stock, on a share for share basis. The conversion price reflects a premium of 12% to the closing price of Loral's common stock on October 16, 2006. The conversion price is subject to customary adjustments. Dividends on the Loral Series-1 Preferred Stock will be paid in kind (i.e., in additional shares of Loral Series-1 Preferred Stock) through April 2011. Thereafter, if Loral satisfies certain financial requirements, the dividends will be payable in cash or in kind at Loral's option. Pursuant to the terms of this financing, MHR has the right, which it has not exercised, to nominate one additional member to the Loral board of directors. Loral plans to use the proceeds from this financing, together with its existing resources, to pursue both internal and external growth opportunities in the satellite communications industry and strategic transactions or alliances, including completion of the Telesat Canada acquisition.

The terms of the Loral Series-1 Preferred Stock are designed so that, prior to the Majority Ownership Date, any shares of common stock issuable to MHR or its affiliates upon conversion of the Loral Series-1 Preferred Stock, when taken together with holdings by MHR or its affiliates of common stock at such time, will not represent more than 39.999%

of the aggregate voting power of the securities of Loral. The Company and MHR agreed on August 8, 2007 that, in calculating the percentage of the aggregate voting power of Loral securities held by MHR or its affiliates, (a) the number of shares of Series A-1 Preferred Stock and/or common stock deemed to be held by MHR entities shall be increased by a number of shares (i) equal to the number of shares of restricted stock and the number of shares subject to stock options of the Company then personally held by Dr. Mark H. Rachesky (as of July 31, 2007, Dr. Rachesky held 10,000 such shares), and (ii) equal to 50% of the number of shares of common stock reserved for issuance pending resolution of certain disputed third party claims under the Plan of Reorganization of Old Loral, such number of reserved shares not to exceed 71,500 shares and (b) the number of outstanding shares of

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common stock of the Company shall be decreased by a number of shares equal to 45% of the total number of shares of restricted stock (issued to persons other than directors pursuant to the Company's Amended and Restated 2005 Stock Incentive Plan) that are then subject to vesting but have not yet vested as of the date of the calculation, such numbers of shares of restricted stock not to exceed one million shares. See Exhibit 10.6 to this Quarterly Report for the full text of the agreement. The Majority Ownership Date means the earlier of the date that (i) the beneficial ownership of common stock by MHR and its affiliates, but not including any of the common stock issuable upon the conversion of the Loral Series-1 Preferred stock, represents more than 50% of the common stock of Loral, or (ii) a third party has acquired a majority of Loral's common stock on a fully diluted basis other than pursuant to certain prohibited transfers of the Series A-1 Preferred Stock from MHR or its affiliates. From and after the Majority Ownership Date, this restriction will no longer apply, and all shares of Loral Series-1 Preferred Stock will be convertible into common stock.

In the event of a liquidation, dissolution or winding up of the Company, the holders of the Loral Series-1 Preferred Stock are entitled to a liquidation preference per share equal to the greater of (i) the share purchase price plus accrued and unpaid dividends plus, during the first 66 months following the Issuance Date, a Make-Whole Amount (as defined below) and (ii) the amount that would be payable to a holder of the Loral Series-1 Preferred Stock if such holder had converted such share into common stock immediately prior to such liquidation, dissolution or winding up. Loral will be able to cause the Loral Preferred Stock (as defined below) to be converted into common stock or Class B non-voting common stock after 5.5 years from the Issuance Date if the common stock is trading above certain volume thresholds and above 125 percent of the conversion price for twenty trading days in a 30-day trading day period, but only if the Class B-1 and Class B-2 non-voting stock has been authorized by stockholders (the Class B Non-Voting Stock Authorization).

In the event of a Change of Control (as defined in the certificates of designation relating to the Loral Preferred Stock), a holder of Loral Series-1 Preferred Stock may at its option (i) redeem some or all of its shares of preferred stock for cash in an amount equal to the share purchase price plus accrued and unpaid dividends, (ii) convert some or all of its shares of Series-1 Preferred Stock, in the case of the Series A-1 Preferred Stock, into shares of common stock, and in the case of the Series B-1 Preferred Stock, into shares of Class B-1 non-voting common stock, or if on or after the Majority Ownership Date, shares of common stock, or (iii) if the holder of Loral Series-1 Preferred Stock does not elect to so redeem or convert, such shares of Loral Series-1 Preferred Stock will remain outstanding. In certain cases, a holder's option to redeem for cash is exercisable only following Board approval of the Change of Control event. Upon a Change of Control, a holder of Loral Series-1 Preferred Stock is also entitled to receive a Make-Whole Amount, provided that the Make-Whole Amount is not payable if the Change of Control involves either MHR acquiring more than 50% but less than 90% of the common stock or another person acquiring more than 50% of the common stock as a result of an acquisition of Loral shares from MHR, in either case so long as the Board has not approved such transaction. The Make-Whole Amount means an amount equal to all dividends that would have accrued and accumulated on each share of Loral Series-1 Preferred Stock (assuming payment of all accrued dividends on each dividend payment date) from the date of a Change of Control through the date that is 66 months after the Issuance Date. The Make-Whole Amount will be paid in either cash (if the holder elects a cash redemption, or if so elected by the Company in the event the Company is then eligible to pay dividends in cash) or shares of Class B-2 non-voting common stock (if the holder elects conversion). If on the Change of Control redemption date, the Class B Non-Voting Stock Authorization has not yet been obtained, then the Make-Whole Amount, if payable in shares, will be paid not in shares of Class B-2 non-voting common stock, but rather, in the case of the Series A-1 Preferred Stock, in shares of Series A-2 convertible preferred stock (the Series A-2 Preferred Stock) and in the case of the Series B-1 Preferred Stock, in shares of Series B-2 convertible preferred stock (the Series B-2 Preferred Stock).

Each share of the Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series B-1 Preferred Stock and Series B-2 Preferred Stock (collectively, the Loral Preferred Stock) entitles the holder to 1/10,000 vote for each share of preferred stock. If the Company (i) fails to pay three quarterly dividend payments on the Loral Series-1

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Preferred Stock when due or (ii) fails to make any dividend payment when due and there exists at such time assets or funds available to pay such dividends, then the holders of the Preferred Stock may elect two directors to the Company's board of directors, which directors shall serve until such time as the Company is once again current on its dividend payments on the Loral Series-1 Preferred Stock. In addition, there are certain actions that the Company may not undertake without the consent of the holders of a majority of the outstanding shares of the Loral Preferred Stock.

If the Class B Non-Voting Stock Authorization occurs at a time when no shares of Series A-2 Preferred Stock and Series B-2 Preferred Stock are issued and outstanding, the Series A-2 Preferred Stock and Series B-2 Preferred Stock will be eliminated from the authorized share capital of the Company.

The price of Loral's common stock on October 16, 2006, the day before we signed the Securities Purchase Agreement, was \$26.92 and the conversion price was \$30.1504. The price of Loral's common stock on February 27, 2007, when the financing closed was \$47.40. Because of the difference between the fair market value of the common stock on the date the financing closed, as compared to the conversion price, the Company is required to reflect a beneficial conversion feature of the Loral Series A-1 Preferred Stock as a component of its net income (loss) applicable to common shareholders for the three and six months ended June 30, 2007. We will also reflect a beneficial conversion feature in a similar manner for the Series B-1 Preferred Stock, in the period in which shareholder approval of the creation of the new class of Class B-1 non-voting common stock is received. This beneficial conversion feature is recorded as an increase to net loss applicable to common shareholders and results in a reduction of both basic and diluted earnings per share results. Accordingly, in the three months ended March 31, 2007, we have recorded an increase to net loss applicable to common shareholders of \$24.5 million. In the period in which shareholder approval of the new class of Class B-1 non-voting common stock is received, we expect that our net income (loss) applicable to common shareholders will be reduced (increased), as applicable, by approximately \$154 million reflecting the beneficial conversion feature (less discount, if any, for the class B-1 non-voting common stock because of its non-voting status). To the extent that dividends on the Loral Series-1 Preferred Stock are paid in additional shares of Loral Series A-1 Preferred Stock, we record an additional beneficial conversion feature that reduces our net income applicable to common shareholders. For the three months ended June 30, 2007, we recorded a beneficial conversion feature of \$0.9 million for the dividends in additional shares of Loral Series A-1 Preferred Stock. We will also record an additional beneficial conversion feature in a similar manner for dividends in additional shares of Loral Series B-1 Preferred Stock in the period in which shareholder approval of the class B-1 non-voting common stock is received, and thereafter. For dividends paid and accrued through June 30, 2007 on the Loral Series B-1 Preferred Stock, the beneficial conversion feature that will be recorded when shareholder approval of the class B-1 non-voting common stock is received, is approximately \$4 million.

In connection with the preferred stock financing, Loral agreed to present certain proposals to its stockholders at its next annual meeting but requested that MHR waive such undertaking with regard to Loral's 2007 annual meeting. MHR has agreed to Loral's request. Loral intends to seek stockholder approval for these proposals at its annual meeting in 2008 or at a special meeting of stockholders.

Loral incurred issuance costs of \$9 million in connection with this preferred stock financing. In addition, Loral paid MHR a placement fee of \$6.75 million.

A complete description of the terms of the Loral Preferred Stock is contained in the certificates of designation related to the Loral Preferred Stock attached as Exhibits 3.2 and 3.3 to the Company's Current Report on Form 8-K filed on February 28, 2007.

Stock Incentive Plan

On May 22, 2007, at the annual meeting of stockholders of Loral Space & Communications Inc., our stockholders approved the Company's Amended and Restated 2005 Stock Incentive Plan (the Plan) to increase by 1,582,000 the number of shares available for grant thereunder. These amendments cover the following grants that

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

were all subject to stockholder approval of the plan amendments: (w) the grant in March 2006 of options to purchase 825,000 shares to our Chief Executive Officer in connection with his entering into an employment agreement with us (the CEO March 2006 Option Grant), (x) the grant in June 2006 of options to purchase 20,000 shares to our Chief Financial Officer in connection with his entering into an amendment to his employment agreement, (y) the grant in June 2006 of options to purchase 120,000 shares to a director in connection with his entering into a consulting agreement and (z) grants of approximately 175,000 shares of restricted stock to employees of SS/L. In addition, these amendments cover 31,000 shares of restricted stock granted to our directors as part of their compensation and approximately 410,300 shares available for future grant. The shares available for future grant will be used for awards to our employees, to fulfill existing contractual obligations and to cover the equity component of our directors compensation. As a result of the approval of the amendments, we recorded compensation cost for the period May 22, 2007 to June 30, 2007 related to the first three grants of \$8.1 million, based on the estimated fair value of these grants, and stock compensation costs of \$2.2 million were recorded for the grant of restricted shares for the period May 22, 2007 to June 30, 2007. The remaining stock based compensation as a result of these grants, totaling \$19.4 million, will be recognized over the next three to four years.

12. Commitments and Contingencies***Financial Matters***

SS/L has deferred revenue and accrued liabilities for performance warranty obligations relating to satellites sold to customers, which could be affected by future performance of the satellites. These reserves for expected costs for warranty reimbursement and support are based on historical failure rates. However, in the event of a catastrophic failure of a satellite, which cannot be predicted, these reserves likely will not be sufficient. SS/L periodically reviews and adjusts the deferred revenue and accrued liabilities for warranty reserves based on the actual performance of each satellite and remaining warranty period. A reconciliation of such deferred amounts for the six months ended June 30, 2007, is as follows (in millions):

Balance of deferred amounts at January 1, 2007	\$ 53.9
Accruals for deferred amounts issued during the period	
Accruals relating to pre-existing contracts (including changes in estimates)	(1.6)
Balance of deferred amounts at June 30, 2007	\$ 52.3

Many of SS/L's satellite contracts permit SS/L's customers to pay a portion of the purchase price for the satellite over time subject to the continued performance of the satellite (orbitals), and certain of SS/L's satellite contracts require SS/L to provide vendor financing to its customers, or a combination of these contractual terms. Some of these arrangements are provided to customers that are start-up companies or companies in the early stages of building their businesses. There can be no assurance that these companies or their businesses will be successful and, accordingly, that these customers will be able to fulfill their payment obligations under their contracts with SS/L. We believe that these provisions will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided. Moreover, SS/L's receipt of orbital payments is subject to the continued performance of its satellites generally over the contractually stipulated life of the satellites. Since 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.

On July 30, 2007, SS/L entered into an Amended and Restated Customer Credit Agreement (the Credit Agreement) with Sirius Satellite Radio Inc. (Sirius). The Credit Agreement amends and restates in its entirety the Customer Credit Agreement entered into by SS/L and Sirius on June 7, 2006 (the Original Credit Agreement). The purpose of the amendment and restatement is to make available to Sirius financing for the purchase of a second satellite under the Amended and Restated Satellite Purchase Agreement between Sirius and SS/L dated as of July 23, 2007 (the Amended Satellite Purchase Agreement). Under the Credit Agreement, SS/L has agreed to make loans to Sirius in an aggregate principal amount of up to \$100,000,000 to finance the purchase of the Sirius FM-5 and

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FM-6 Satellites (the Sirius Satellites). Loans made under the Credit Agreement are secured by Sirius rights under the Amended Satellite Purchase Agreement, including its rights to the Sirius Satellites. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc., and, subject to certain exceptions, any future material subsidiary that may be formed by Sirius hereafter. The maturity date of the loans is the earliest to occur of (i) June 10, 2010, (ii) 90 days after the FM-6 Satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the FM-6 Satellite. Loans made under the Credit Agreement generally bear interest at a variable rate equal to three-month LIBOR plus a margin. The Credit Agreement permits Sirius to prepay all or a portion of the loans outstanding without penalty, and, upon the occurrence of certain events, Sirius is required to prepay the loans. As of June 30, 2007, no loans were outstanding under the Original Credit Agreement and Sirius was eligible to borrow \$45 million under the Original Credit Agreement, representing reimbursement of payments previously made by Sirius under the Amended Satellite Purchase Agreement.

Loral Skynet has in the past entered into prepaid leases, sales contracts and other arrangements relating to transponders on its satellites. Under the terms of these agreements, as of June 30, 2007, Loral Skynet continues to provide for a warranty for periods of two to eight years for sales contracts and other arrangements (seven transponders), and prepaid leases (two transponders). Depending on the contract, Loral Skynet may be required to replace transponders which do not meet operating specifications. Substantially all customers are entitled to a refund equal to the reimbursement value if there is no replacement, which is normally covered by insurance. In the case of the sales contracts, the reimbursement value is based on the original purchase price plus an interest factor from the time the payment was received to acceptance of the transponder by the customer, reduced on a straight-line basis over the warranty period. In the case of prepaid leases, the reimbursement value is equal to the unamortized portion of the lease prepayment made by the customer. For other arrangements, in the event of transponder failure where replacement capacity is not available on the satellite, one customer is not entitled to reimbursement, and the other customer's reimbursement value is based on contractually prescribed amounts that decline over time.

Telesat Canada Transaction

On December 16, 2006, a joint venture company (Acquireco) formed by Loral and its Canadian partner, PSP entered into a definitive agreement with BCE Inc. and Telesat Canada to acquire 100% of the stock of Telesat Canada and certain other assets from BCE Inc. for CAD 3.25 billion (approximately \$3.05 billion based on an exchange rate of \$1.00/CAD 1.0654 as of June 30, 2007), which purchase price is not subject to adjustment for Telesat Canada's performance during the pre-closing period. Under the terms of this purchase agreement, Telesat Canada's business is, subject to certain exceptions, being operated entirely for Acquireco's benefit beginning from December 16, 2006. Telesat Canada is the leading satellite services provider in Canada and earns its revenues principally through the provision of broadcast and business network services over eight in-orbit satellites. This transaction is subject to various closing conditions, including approvals of the relevant Canadian and U.S. government authorities, and is expected to close in the third quarter of 2007. Loral and PSP have agreed to guarantee 64% and 36%, respectively, of Acquireco's obligations under the Telesat share purchase agreement, up to CAD 200 million.

At the time of, or following the Telesat Canada acquisition, substantially all of Loral Skynet's assets and related liabilities are expected to be transferred to a subsidiary of Acquireco at an agreed upon enterprise valuation, subject to downward adjustment under certain circumstances (the Skynet Transaction). This subsidiary will be combined with Telesat Canada and the resulting new entity (New Telesat) will be a Canadian company that will be headquartered in Ottawa.

PSP has agreed to contribute approximately CAD 595.8 million in cash to the parent company of Acquireco (Holdings), of which \$150 million (or CAD 159.8 million based on an exchange rate of \$1.00/CAD 1.0654 as of June 30, 2007) will be for the purchase of a Holdings fixed rate senior non-convertible mandatorily redeemable preferred stock.

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We and PSP have arranged for Holdings to obtain \$3.1 billion of committed debt financing from a group of financial institutions, of which up to approximately \$2.8 billion is available to fund the purchase price of the Telesat Canada acquisition, if the acquisition were to close simultaneously with the Skynet Transaction, and \$2.4 billion in the event the Skynet Transaction is delayed. The remainder of the debt facilities would be available to fund New Telesat's post-closing capital expenditures and other requirements, including in the case of a delayed Skynet Transaction, up to \$386 million to fund a redemption of Loral Skynet's preferred stock and senior notes upon closing of the Skynet Transaction.

At closing of the Telesat Canada acquisition, assuming a simultaneous closing of the Skynet Transaction, we will hold equity interests in Holdings, the ultimate parent company of New Telesat, effectively representing 64% of the economic interests and 33 1/3% of the voting power, of New Telesat. PSP will in turn acquire the preferred stock described above, and equity interests effectively representing 36% of the economic interest, and together with two other Canadian investors, 66 2/3% of the voting power of New Telesat.

If the Telesat Canada acquisition and the Skynet Transaction were to occur at the same time, then on the closing date, Holdings will redeem the principal amount of Loral Skynet's outstanding 14% senior notes (\$126 million as of June 30, 2007) and Loral will redeem Loral Skynet's outstanding 12% preferred stock and accrued dividends thereon (approximately \$238 million as of June 30, 2007), as well as pay all interest and redemption premium (approximately \$21 million as of June 30, 2007) and any other amounts that may be due in respect of Loral Skynet's senior notes.

If the Skynet Transaction does not close simultaneously with the Telesat Canada acquisition, Loral will in place of funding the redemption of Loral Skynet's preferred stock and accrued dividends and interest and redemption premium on Loral Skynet's senior notes (approximately \$259 million as of June 30, 2007), make a cash equity contribution to Holdings of CAD 270.9 million (approximately \$254 million based on an exchange rate of \$1.00/CAD 1.0654) to acquire redeemable shares of Holdings. Upon the later closing of the Skynet Transaction, Holdings will draw upon its credit facilities to redeem the principal amount of Loral Skynet's senior notes and the redeemable shares issued to Loral. Loral will use the proceeds from Holdings to redeem Loral Skynet's preferred stock and pay the interest, premium and any other amounts due under the Loral Skynet Notes. Loral's economic interest in Holdings would be approximately 38%, assuming an exchange rate of \$1.00/CAD 1.0654, to reflect the fact that it has not contributed the Skynet assets into New Telesat, but would be adjusted to 64% upon the closing of the Skynet Transaction.

We will have a year from the closing of the Telesat Canada acquisition to complete the Skynet Transaction. If we are unable to close the Skynet Transaction during that period, we will then be required, under the terms of our agreement with PSP, to contribute our rights to the Telstar 11N satellite as well as \$175 million in cash (the Alternative Contribution) to New Telesat, in order to bring our economic interest in Holdings to 64%.

To the extent necessary, upon closing of the Telesat Canada acquisition, the Skynet Transaction and/or the Alternative Contribution, as the case may be, there will be an appropriate cash true-up between us, PSP and Holdings to reflect the amount of our relative contributions, after giving effect to among other things, the exchange rate then in effect, gains and/or losses on hedging transactions, the spending on Telstar 11N, in the event of a material adverse change to Loral Skynet's business during the interim period, the resulting diminution in the agreed upon value of Loral Skynet, and in the event the Alternative Contribution is effected in place of the Skynet Transaction, the extent to which the value of the Alternative Contribution, plus the CAD 270.9 million of Loral's equity contribution, is greater or less than the agreed upon value of the assets to be transferred in the Skynet Transaction. In July 2007, we increased our on-orbit insurance for Telstar 12 by \$150 million to \$340 million to provide us with sufficient liquidity to complete the Skynet

Transaction in the event of a failure of that satellite.

Loral Skynet has adopted a retention plan for its key employees to facilitate the transition. Payments to these employees will be paid six months after the close of the Skynet Transaction. Costs relating to this plan will be borne by New Telesat. We have incurred \$10.8 million of transaction related costs (included in other current assets on our

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condensed consolidated balance sheet), which will be reimbursed to us by New Telesat after the close of the transaction.

Satellite Matters

Satellites are built with redundant components or additional components to provide excess performance margins to permit their continued operation in case of component failure, an event that is not uncommon in complex satellites. Twenty-one of the satellites built by SS/L and launched since 1997, three of which are owned and operated by our subsidiaries or affiliates, have experienced losses 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. During the third quarter of 2006, due to power loss caused by solar array failures, Loral Skynet removed from service through the end of life certain unutilized transponders on one of its satellites and will remove additional transponders from service on this satellite in order to maintain sufficient power to operate the remaining transponders for its specified life. As of June 30, 2007, Loral Skynet does not believe the carrying value of this satellite has been impaired. Loral Skynet will, however, continue to evaluate the impact of the power loss caused by the solar array failures. A complete or partial loss of a satellite's capacity could result in a loss of orbital incentive payments to SS/L and, in the case of satellites owned by Loral Skynet and its affiliates, a loss of revenues and profits. With respect to satellites under construction and the construction of new satellites, based on its investigation of the matter, SS/L has identified and has implemented remediation measures that SS/L believes will prevent newly launched satellites from experiencing similar anomalies. SS/L does not expect that implementation of these measures will cause any significant delay in the launch of satellites under construction or the construction of new satellites. Based upon information currently available, including design redundancies to accommodate small power losses, and that no pattern has been identified as to the timing or specific location within the solar arrays of the failures, 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.

In November 2004, Intelsat Americas 7 (formerly Telstar 7) experienced an anomaly which caused it to completely cease operations for several days before it was partially recovered. Four other satellites manufactured by SS/L for other customers have designs similar to Intelsat Americas 7 and, therefore, could be susceptible to similar anomalies in the future. A partial or complete loss of these satellites could result in the incurrence of warranty payments by SS/L.

Certain of our satellites are currently operating using back-up components because of the failure of primary components. If the back-up components fail and we are unable to restore redundancy, these satellites could lose capacity or be total losses, which would result in a loss of revenues and profits. For example, in July 2005, in the course of conducting our normal operations, we determined that the primary command receivers on two of our satellites had failed. These satellites, which are equipped with redundant command receivers designed to provide full functional capability through the full design life of the satellite, continue to function normally and service to customers has not been affected. Moreover, on one of these satellites, SS/L has successfully completed implementation of a software workaround that fully restores the redundant command receiver functionality. On the other satellite, SS/L has successfully completed implementation of an interim software workaround that partially restores the redundant command receiver functionality, and SS/L expects to implement a permanent software

workaround that will fully restore the redundant command receiver functionality, although no assurance can be provided.

Two satellites owned by us have the same solar array configuration as one other 1300-class satellite manufactured by SS/L that has experienced an event with a large loss of solar power. SS/L believes that this

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

failure is an isolated event and does not reflect a systemic problem in either the satellite design or manufacturing process. Accordingly, we do not believe that this anomaly will affect our two satellites with the same solar array configuration. The insurance coverage for these satellites, however, provides for coverage of losses due to solar array failures only in the event of a capacity loss of 75% or more for one satellite and 80% or more for the other satellite.

Loral currently insures the on-orbit performance of substantially all of the satellite capacity in its Satellite Services segment. Typically such insurance is for a policy period of one year subject to renewal. It has been difficult, however, to obtain full insurance coverage for satellites that have, or are part of a product line of satellites that have, experienced problems in the past. Insurers have required either exclusions of certain components or have placed limitations on coverage in connection with insurance renewals for such satellites in the future. We cannot assure, upon the expiration of an insurance policy, that we will be able to renew the policy on terms acceptable to us or that we will not elect to self-insure and forego commercial insurance for the satellite. The loss of a satellite would have a material adverse effect on Loral Skynet's financial performance and may not be adequately mitigated by insurance. In October 2006, we renewed our on-orbit performance policy under substantially the same terms as the previously expired policy.

SSL 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.

Regulatory Matters

To prevent frequency interference, the regulatory process requires potentially lengthy and costly negotiations with third parties who operate or intend to operate satellites at or near the locations of our satellites. For example, as part of our coordination efforts on Telstar 12, we agreed to provide four 54 MHz transponders on Telstar 12 to Eutelsat for the life of the satellite and have retained risk of loss with respect to those transponders. In the event of an unrestored failure, under Loral Skynet's related warranty obligation, Eutelsat would be entitled to compensation on contractually prescribed amounts that decline over time. We also granted Eutelsat the right to acquire, at cost, four transponders on the replacement satellite for Telstar 12. We continue to be in discussions with other operators on coordination issues. We may be required to make additional financial concessions in the future in connection with our coordination efforts. The failure to reach an appropriate arrangement with a third party having priority rights at or near one of our orbital slots may result in substantial restrictions on the use and operation of our satellite at that location.

Loral Skynet operates Telstar 10 and Telstar 18 pursuant to agreements with a third party that has licenses to use orbital slots controlled by China and Tonga, respectively. Although Loral Skynet's agreements with this third party provide Loral Skynet with renewal rights with respect to replacement satellites, because of the control of the orbital slots by foreign governments, there can be no assurance that renewal rights will be granted. Should Loral Skynet be unsuccessful in obtaining renewal rights for either or both of the orbital slots, or otherwise fail to enter into agreements with the third party with respect to such replacement satellites, all revenue obtained from the affected satellite or satellites would cease and Loral Skynet's Asian franchise would be seriously weakened.

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 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

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cancellation of contracts by its customers, the incurrence of penalties or the loss of incentive payments under these contracts.

Legal Proceedings

Informal SEC Inquiry

In June and July 2007, we received letters from the Staff of the Division of Enforcement of the SEC informing the Company that it is conducting an informal inquiry and requesting that the Company provide certain documents and information relating primarily to the Securities Purchase Agreement, dated as of October 17, 2006, as amended and restated on February 27, 2007, between Loral and MHR Fund Management LLC and activities before and after its execution as well as documents and information relating to the redemption of Loral Skynet's Notes (see Note 10) and documents and information regarding the directors and officers of Loral. The letter advised that the informal inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred, or as an adverse reflection upon any person or security. The Company is cooperating with the SEC staff. In addition, the Company has received requests for indemnification and advancement of expenses from certain of its advisors with respect to costs they may incur as a result of compliance with SEC document requests.

Skynet Noteholders Litigation

On November 21, 2005, Loral Skynet issued \$126 million principal amount of Loral Skynet Notes under the Indenture. The Loral Skynet Notes may be redeemed prior to October 15, 2009 (an Early Redemption) at a redemption price of 110% of the principal amount plus accrued and unpaid interest if two-thirds of the holders do not object to the redemption. On June 13, 2007, at the request of Loral Skynet, the trustee (the Trustee) under the Indenture issued a Notice of Provisional Redemption. The notice provided that, unless objections to the redemption from holders of more than two-thirds of the outstanding Loral Skynet Notes were received on or prior to July 12, 2007, the Loral Skynet Notes would be redeemed on September 5, 2007.

Also on June 13, 2007, GPC XLI L.L.C., Rockview Trading, Ltd., KS Capital Partners L.P., Murray Capital Management, Inc. Watershed Capital Institutional Partners L.P., Watershed Capital Partners (Offshore), Ltd. and Watershed Capital Partners L.P. (collectively, the Skynet Noteholder Plaintiffs) as holders of Loral Skynet Notes commenced an action in the Court of Chancery of the State of Delaware in and for the County of New Castle against Loral, Loral Skynet and the subsidiaries of Loral Skynet that are obligors under the Indenture (collectively, Defendants) alleging that Defendants breached the Indenture and the implied covenant of good faith and fair dealing in the Indenture and the Loral Skynet Notes.

Specifically, the Skynet Noteholder Plaintiffs' complaint relates to the Securities Purchase Agreement, dated as of October 17, 2006, as amended and restated on February 27, 2007, between Loral and MHR, pursuant to which, in February 2007, funds affiliated with MHR purchased \$300 million of Loral Series-1 Preferred Stock from Loral as described in Note 11. In that agreement, among other things, MHR also agreed to cause its affiliated funds, which collectively hold more than one-third of the outstanding Loral Skynet Notes, not to object to a proposed Early Redemption of the Loral Skynet Notes in connection with a transaction such as the Skynet Transaction. The Skynet Noteholder Plaintiffs assert that Loral bought the consent of MHR and its affiliated funds to the Early Redemption covenant by paying to MHR in excess of \$8.25 million in placement and legal and advisory fees resulting in an unequal exit consent payment not offered to other holders and that this covenant violates an implied covenant of good

faith and fair dealing that the Skynet Noteholder Plaintiffs believe the Indenture should be deemed to contain. The Skynet Noteholder Plaintiffs have proposed a number of theories of damages, including one in which they allege that the value of the Loral Skynet Notes if they are not redeemable prior to October 15, 2009 would be at least 126% of par value and that the difference between paying approximately 126% versus the proposed Early Redemption amount of 110% is an additional \$20.2 million. The portion of this amount that would be applicable to Loral Skynet Notes held by holders other than affiliates of MHR is approximately \$11 million, which the Skynet Noteholder Plaintiffs have described as a floor on their damage claim. The Skynet Noteholder Plaintiffs also claim

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to be entitled to a portion of the excess of the current value of the Loral Series-1 Preferred Stock over its cost, to the extent it constitutes a consent fee paid to MHR.

In their complaint, the Skynet Noteholder Plaintiffs are seeking (i) a declaratory judgment that Defendants violated the terms of the Indenture by paying MHR for its consent to redemption of the Loral Skynet Notes below the make-whole value and not paying equal consideration to all holders; (ii) a declaratory judgment that Defendants pay equal redemption consideration to all holders, in an amount to be determined at trial; (iii) to enjoin Defendants from consummating the Early Redemption unless equal consideration is paid to all holders for their non-objection to, and redemption of, the Loral Skynet Notes; (iv) to enjoin Defendants from counting the Loral Skynet Notes held by funds affiliated with MHR in its calculation of whether the holders constituting two-thirds of the outstanding principal amount object to the redemption, absent equal consideration to all holders for such non-objection to, and redemption of, the Loral Skynet Notes; (v) an award of damages in an amount to be determined at trial; (vi) an award of pre-judgment interest, attorneys' fees and costs; and (vii) the grant such other relief as the court deems proper.

The Skynet Noteholder Plaintiffs also moved for a preliminary injunction and for expedited proceedings, including a hearing on their preliminary injunction motion in advance of any redemption of the Loral Skynet Notes or discharge of the Indenture. At a hearing on the Skynet Noteholder Plaintiffs' motion to expedite proceedings held on July 16, 2007, Loral agreed to place \$12 million (representing the \$11 million incremental amount claimed by the Skynet Noteholder Plaintiffs in their complaint above the 110% Early Redemption amount plus an allowance for reasonable expenses) in escrow prior to the date the Indenture is discharged for the benefit of holders of Loral Skynet Notes other than funds affiliated with MHR, and the court declined to schedule a hearing on the Skynet Noteholder Plaintiffs' motion for a preliminary injunction prior to the redemption date or any earlier discharge of the Indenture. At the hearing, the court also granted the motion for expedited proceedings and indicated that it would schedule a trial on the merits in coordination with the trial of a matter related to the Loral Series-1 Preferred Stock pending before the court and currently scheduled for trial in October 2007.

On July 12, 2007, the Trustee reported that objections to the proposed redemption had been received from holders of Loral Skynet Notes representing less than two-thirds of the outstanding Loral Skynet Notes, and, on July 16, 2007, at the request of Loral Skynet, the Trustee issued an unconditional Notice of Full Redemption. Consequently, the Loral Skynet Notes will be redeemed on September 5, 2007, and the Indenture may be discharged at any time prior to that date by deposit of the redemption price with the Trustee. As a result, Loral does not believe that the litigation filed by the Skynet Noteholder Plaintiffs will cause a delay in the redemption of the Loral Skynet Notes which would have the effect of delaying the closing of the Skynet Transaction beyond the closing of the Telesat Transaction.

Although Loral believes that the September 5, 2007 Early Redemption is proper in accordance with the terms of the Indenture and intends to vigorously defend against the Skynet Noteholder Plaintiffs' claims, the outcome of this litigation can not be determined at this time, and, as such, no liability, if any, is estimable or probable.

Rainbow DBS Litigation

In March 2001, Loral entered into an agreement (the "Rainbow DBS Sale Agreement") with Rainbow DBS Holdings, Inc. ("Rainbow Holdings") pursuant to which Loral agreed to sell to Rainbow Holdings its interest in Rainbow DBS Company, LLC (formerly R/L DBS Company, LLC, "Rainbow DBS") for a purchase price of \$33 million plus interest at an annual rate of 8% from April 1, 2001. Loral's receipt of this purchase price was, however, contingent on the occurrence of certain events, including without limitation, the sale of substantially all of the assets of Rainbow DBS.

At the time of the Rainbow DBS Sale Agreement, Loral's investment in Rainbow DBS had been recorded at zero and Loral did not record a receivable or gain from this sale. In November 2005, Rainbow DBS sold its Rainbow 1 satellite and related assets to EchoStar Communications Corporation. Rainbow Holdings, however, informed Loral that it did not believe that Loral was entitled to receive an immediate payment of the purchase price under the Rainbow DBS Sale Agreement as a result of the EchoStar sale transaction. Loral disputed Rainbow Holdings' interpretation of the agreement and, in September 2005, commenced a lawsuit in the

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Supreme Court of the State of New York to enforce its rights thereunder. After a jury trial held in January 2007, the jury returned a verdict in favor of Loral, and a final judgment in the amount of \$52 million (representing the \$33 million purchase price plus interest at 8% from April 1, 2001 through the date of the judgment) was entered by the court on March 12, 2007. Rainbow DBS filed a motion to set aside the verdict or, in the alternative, a new trial, which motion was denied by the court by order dated March 30, 2007. Rainbow DBS has appealed the final judgment and the court's order denying Rainbow DBS's motion to set aside the verdict or for a new trial and, in connection with this appeal, has posted a bond in the full amount of the judgment. A third party has asserted a prepetition claim against the Company in the amount of \$3 million with respect to the purchase price.

New York Shareholder Litigation

On or about November 3, 2006, plaintiff Maxine Babus, derivatively on behalf of Loral Space & Communications Inc., filed a shareholder derivative complaint in the Supreme Court of the State of New York, County of New York, against all the members of the Loral board of directors and against Loral as a nominal defendant. On or about April 4, 2007, as contemplated by the Memorandum of Understanding described below, the plaintiff filed an amended shareholder class and derivative complaint against all members of the Loral board of directors, MHR and certain funds (the "MHR Funds") and other entities affiliated with MHR (collectively, MHR, the MHR Funds and such other entities, the "MHR Entities") and Loral as a nominal defendant. The amended complaint alleges, among other things, that, in connection with the Company's Securities Purchase Agreement dated October 17, 2006, as amended and restated on February 27, 2007, pursuant to which the Company sold to the MHR Funds \$300 million in new convertible preferred stock, the directors and the MHR Entities breached their fiduciary duties to the Company, including the fiduciary duties of care and loyalty, and that the MHR Entities and Dr. Mark H. Rachesky have aided and abetted the directors' breach of fiduciary duty. The amended complaint seeks, among other things, both as to the derivative claims and the class action claims, preliminary and permanent injunctive relief, an award of compensatory damages in an amount to be determined, rescission of the Securities Purchase Agreement and plaintiff's costs and disbursements, including attorneys' and experts' fees and expenses.

On March 21, 2007, a Memorandum of Understanding (the "MOU") was entered into providing for the settlement of the *Babus* lawsuit. Pursuant to the terms of the MOU, the MHR Funds will pay to Loral \$4 million in cash after entry of a court order approving the terms of the MOU that is finally approved on appeal or no longer subject to appeal. In addition, the MHR Funds may be obligated to pay to Loral between \$9.5 million and \$26.5 million depending on the amount of net cash or cash equivalent proceeds actually received from the sale by the MHR Funds of (i) the preferred stock, (ii) shares issued in respect of and pursuant to the terms of the preferred stock or (iii) securities issued or delivered in exchange for the preferred stock or the shares referred to in clause (ii) above.

The parties to the *Babus* lawsuit have agreed to use their best efforts to agree upon and execute a stipulation of settlement and such other documentation as may be required to obtain court approval of the settlement and dismissal of the lawsuit (the "Settlement Documents"). The consummation of the settlement is subject to: (a) the drafting and execution of the Settlement Documents; (b) the completion by the plaintiff of confirmatory discovery in the lawsuit reasonably satisfactory to plaintiff's counsel; and (c) a court order approving the settlement in accordance with the terms of the Settlement Documents and that such order is finally affirmed on appeal or is no longer subject to appeal and dismissal of the lawsuit in its entirety with prejudice and without awarding costs to any party (except for attorneys' fees, costs and expenses to be awarded to plaintiff's counsel subject to approval by the court as provided in the MOU). To date, the parties have not engaged in negotiating the Settlement Documents, plaintiff's counsel has not engaged in confirmatory discovery, and court approval of the settlement has not been sought.

The terms of the MOU are more fully described in the Company's Report on Form 8-K filed on March 21, 2007 and the description herein and therein is qualified in its entirety by reference to the full text of the MOU, which was attached as Exhibit 10.1 to such Report on Form 8-K.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On April 27, 2007, the plaintiffs in the Delaware shareholder litigation (discussed below) served a motion to intervene in the *Babus* lawsuit. In their intervention motion, the Delaware plaintiffs claimed that an automatic stay of the *Babus* lawsuit went into effect on November 12, 2006, by virtue of the death on that day of the New York plaintiff, Maxine Babus. Among other things, the prospective intervenors claimed that all developments in the *Babus* lawsuit subsequent to November 12, 2006, including the execution of the MOU, the filing of the amended complaint and the pursuit of confirmatory discovery, are null and void.

At a hearing in June 2007, the plaintiffs in the Delaware shareholder litigation withdrew their motion to intervene in the *Babus* lawsuit, and counsel for Maxine Babus produced a stipulation substituting Mrs. Babus' son as plaintiff in place of his deceased mother. The court ruled that it would so order the substitution contingent upon Mr. Babus filing ancillary proceedings in New York, which he has not done to date.

In addition, the Company has received requests for indemnification and advancement of expenses from its directors pursuant to their indemnification agreements with the Company for any losses or costs they may incur as a result of the *Babus* lawsuit.

Delaware Shareholder Litigation

On or about May 14, 2007, the Court of Chancery of the State of Delaware in and for New Castle County entered an order consolidating two civil actions previously commenced by certain stockholders of the Company against the Company, the MHR Entities and the individual members of the Company's board of directors under the caption *In re: Lorol Space and Communications Inc. Consolidated Litigation*. Plaintiffs in this action are certain stockholders of the Company who allege that they hold over 18% of the outstanding common stock of the Company (the Blackrock Plaintiffs) and Highland Crusader Offshore Partners, L.P. (Highland, and, together with the Blackrock Plaintiffs, the Delaware Plaintiffs), the purported owner of approximately 5% of Lorol's outstanding common stock. The Blackrock Plaintiffs have brought the case derivatively on behalf of the Company and directly on behalf of the Blackrock Plaintiffs individually. The case has also been brought by Highland as a class action on behalf of a class of Lorol stockholders consisting of all security holders of the Company (except the defendants and persons or entities related to or affiliated with the defendants) who, as alleged in the amended and consolidated complaint, are or will be threatened with injury arising from Defendants' actions as described in the amended and consolidated complaint.

In the amended and consolidated complaint, the Blackrock Plaintiffs have brought derivative claims alleging, among other things, that, in connection with the Securities Purchase Agreement, the directors and the MHR Entities breached their fiduciary duties to the Company, including the fiduciary duties of care and loyalty, the MHR Entities have aided and abetted the directors' breach of fiduciary duty, and the directors have engaged in conduct, or intentionally or recklessly approved conduct, that has caused the Company to waste valuable corporate assets. In addition, the Blackrock Plaintiffs have brought a direct claim against the MHR Entities and Dr. Rachesky alleging breach of their fiduciary duties to the Blackrock Plaintiffs, and a claim alleging that, by approving, engaging in and closing the transactions contemplated by the Securities Purchase Agreement, defendants violated the restriction on transactions between companies and their interested stockholders contained in Section 203 of the Delaware General Corporation Law. The Blackrock Plaintiffs are seeking, among other things, rescission of the Securities Purchase Agreement, a judgment declaring that the Securities Purchase Agreement, and the process by which it was negotiated, approved and completed, violated Delaware law and constituted a breach of defendants' fiduciary duties and awarding plaintiffs their expenses and costs, including reasonable legal fees.

In the amended and consolidated complaint, Highland has brought class claims alleging, among other things, that, in connection with the Securities Purchase Agreement pursuant to which the Company sold \$300 million of preferred stock to the MHR Funds, MHR and the individual defendants breached their fiduciary duties in negotiating and approving the Securities Purchase Agreement, MHR and the individual defendants breached their fiduciary duties by failing to terminate and re-negotiate the Securities Purchase Agreement after it was announced, the individual defendants committed an ultra vires abdication of their statutory authority, MHR and the individual defendants breached their fiduciary duty of disclosure by stating publicly that they would seek to renegotiate the

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Securities Purchase Agreement after it was announced or to obtain an alternative and instead proceeding with the Securities Purchase Agreement, and MHR aided and abetted the individual defendants in their breach of fiduciary duty. Highland is seeking, among other things, rescission of the preferred stock transaction, imposition of a constructive trust on any profits MHR earned through the transaction, to compel MHR to distribute a portion of the preferred stock or resulting shares into which the preferred stock converts to the class, to invalidate a portion of the preferred stock or resulting shares into which the preferred stock converts, imposition of a permanent injunction on MHR's right to convert the preferred stock or to exercise the voting power conferred by the preferred stock or the shares into which it converts, an award of damages to the class in an amount to be determined at trial, an award of pre-judgment and post-judgment interest and an award of costs and disbursements, including reasonable attorneys' fees and experts' fees.

Discovery in the consolidated action has commenced, and a trial has been set for October 2007.

In addition, the Company has received requests for indemnification and advancement of expenses from certain of its directors under their indemnification agreements with the Company for any losses or costs they may incur as a result of the *Blackrock* and *Highland* lawsuits.

Indemnification Claims of Directors and Officers of Old Lorai

Old Lorai was obligated to indemnify its directors and officers for any losses or costs they may incur as a result of the lawsuits described below in Class Action Securities Litigations, Class Action ERISA Litigation and Globalstar Related Class Action Securities Litigations. The Plan of Reorganization provides that the direct liability of New Lorai post-emergence in respect of such indemnity obligation is limited to the *In re: Lorai Space ERISA Litigation* and *In re: Lorai Space & Communications Ltd. Securities Litigation* cases and then only in an aggregate amount of \$2.5 million (the Direct Indemnity Liability). In addition, most directors and officers have 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, including Mr. Bernard L. Schwartz, Lorai's Chairman of the Board and Chief Executive Officer until his retirement effective March 1, 2006, with respect to all claims he may have other than the Globalstar settlement for which he has a separate indemnity claim of up to \$25 million as described below, have agreed that in no event will their indemnity claims against Old Lorai and Lorai Orion 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 New Lorai 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 New Lorai common stock distributed under the Plan of Reorganization to other creditors. Instead of issuing such additional shares, New Lorai 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 New Lorai will not incur any substantial losses as a result of these claims.

Class Action Securities Litigations

In August 2003, plaintiffs Robert Beleson and Harvey Matcovsky filed a purported class action complaint against Bernard L. Schwartz in the United States District Court for the Southern District of New York. The complaint seeks, among other things, damages in an unspecified amount and reimbursement of plaintiffs' reasonable costs and expenses. The complaint alleges (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 to Intelsat and our 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with him. In November 2003, three other complaints against Mr. Schwartz with substantially similar allegations were consolidated into the *Beleson* case. In February 2004, a motion to dismiss the complaint in its entirety was denied by the court. The defendant filed an answer in March 2004. In January 2006, the case was stayed, and after a status conference in March 2007, the stay was lifted and discovery is proceeding. Since this case was not brought against Old Lorol, but only against one of its officers, we believe, although no assurance can be given, that, to the extent that any award is ultimately granted to the plaintiffs in this action, the liability of New Lorol, if any, with respect thereto is limited solely to the D&O Claims as described above under Indemnification Claims.

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 in the United States District Court for the Southern District of New York. The complaint seeks, among other things, damages in an unspecified amount and reimbursement of plaintiffs' reasonable costs and expenses. The complaint alleges (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 Lorol'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 Lorol. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Lorol 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 October 2004, a motion to dismiss the complaint in its entirety was denied by the court. The defendants filed an answer to the complaint in December 2004. In January 2006, the case was stayed, and after a status conference in March 2007, the stay was lifted and discovery is proceeding. Since this case was not brought against Old Lorol, but only against certain of its officers, we believe, although no assurance can be given, that to the extent that any award is ultimately granted to the plaintiffs in this action, the liability of New Lorol, if any, with respect thereto is limited solely to the D&O Claims as described above under Indemnification Claims.

Class Action ERISA Litigation

In April 2004, two separate purported class action lawsuits filed in the United States District Court for the Southern District of New York by former employees of Old Lorol and participants in the Old Lorol Savings Plan (the Savings Plan) were consolidated into one action titled *In re: Lorol Space ERISA Litigation*. In July 2004, plaintiffs in the consolidated action filed an amended consolidated complaint against the members of the Lorol Space & Communications Ltd. Savings Plan Administrative Committee and certain existing and former members of the Board of Directors of SS/L, including Bernard L. Schwartz. The amended complaint seeks, among other things, damages in the amount of any losses suffered by the Savings Plan to be allocated among the participants' individual accounts in proportion to the accounts' losses, an order compelling defendants to make good to the Savings Plan all losses to the Savings Plan resulting from defendants' alleged breaches of their fiduciary duties and reimbursement of costs and attorneys' fees. The amended complaint alleges (a) that defendants violated Section 404 of the Employee Retirement Income Security Act (ERISA), by breaching their fiduciary duties to prudently and loyally manage the assets of the Savings Plan by including Old Lorol common stock as an investment alternative and by providing matching contributions under the Savings Plan in Old Lorol stock, (b) that the director defendants violated Section 404 of ERISA by breaching their fiduciary duties to monitor the committee defendants and to provide them with accurate information, (c) that defendants violated Sections 404 and 405 of ERISA by failing to provide complete and accurate information to Savings Plan participants and beneficiaries, and (d) that defendants violated Sections 404 and 405 of

ERISA by breaching their fiduciary duties to avoid conflicts of interest. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all participants in or beneficiaries of the Savings Plan at any time between November 4, 1999 and the present and whose accounts included investments in Old Loral stock. In September 2005, the plaintiffs agreed in principle to settle this case for \$7.5 million payable

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solely from proceeds of insurance coverage and without recourse to the individual defendants. The District Court has suspended further proceedings in this case pending the outcome of the insurance litigation referred to below and final approval of the settlement. Plaintiffs have also filed a proof of claim against Old Lorol with respect to this case and have agreed that in no event will their claim against Old Lorol with respect to this case exceed \$22 million. If the settlement of this case does not, for whatever reason, go forward and plaintiffs' claim ultimately becomes an allowed claim under the Plan of Reorganization, plaintiffs would be entitled to a distribution under the Plan of Reorganization of New Lorol 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 New Lorol common stock being distributed under the Plan of Reorganization to other creditors. Instead of issuing such additional shares, New Lorol 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.

In addition, two insurers under Old Lorol's directors and officers liability insurance policies have denied coverage with respect to the case titled *In re: Lorol Space ERISA Litigation*, each claiming that coverage should be provided under the other's policy. In December 2004, one of the defendants in that case filed a lawsuit in the United States District Court for the Southern District of New York seeking a declaratory judgment as to his right to receive coverage under the policies. In March 2005, the insurers filed answers to the complaint and one of the insurers filed a cross claim against the other insurer which such insurer answered in April 2005. In August and October 2005, each of the two potentially responsible insurers moved separately for judgment on the pleadings, seeking a court ruling absolving it of liability to provide coverage of the ERISA action. In March 2006, the court granted the motion of one of the insurers and denied the motion of the other insurer. Discovery with regard to defenses to coverage asserted by the potentially responsible insurer has ended, and the defendant insurer has moved for summary judgment, which motion is fully briefed and pending before the court. We believe, although no assurance can be given, that the liability of New Lorol, if any, with respect to the *In re: Lorol Space ERISA Litigation* case or with respect to the related insurance coverage litigation is limited solely to the Direct Indemnity Liability and the D&O Claims as described above under Indemnification Claims and, to the extent that any award is ultimately granted to the plaintiffs in this action, to distributions under the Plan of Reorganization as described above.

Globalstar Related Class Action Securities Litigations

On September 26, 2001, the nineteen separate purported class action lawsuits filed in the United States District Court for the Southern District of New York by various holders of securities of Globalstar Telecommunications Limited (GTL) and Globalstar, L.P. (Globalstar) against GTL, Old Lorol, Bernard L. Schwartz and other defendants were consolidated into one action titled *In re: Globalstar Securities Litigation*. In November 2001, plaintiffs in the consolidated action filed a consolidated amended class action complaint against Globalstar, GTL, Globalstar Capital Corporation, Old Lorol and Bernard L. Schwartz seeking, among other things, damages in an unspecified amount and reimbursement of plaintiffs' costs and expenses. The complaints alleged (a) that all defendants (except Old Lorol) 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 Globalstar's business and prospects, (b) that defendants Old Lorol and Mr. Schwartz are secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as alleged controlling persons of Globalstar, (c) that defendants GTL and Mr. Schwartz are liable under Section 11 of the Securities Act of 1933 (the Securities Act) for untrue statements of material facts in or omissions of material facts from a registration statement relating to the sale of shares of GTL common stock in January 2000, (d) that defendant GTL is liable under Section 12(2)(a) of the Securities Act for untrue statements of material facts in or omissions of material facts from a prospectus and prospectus supplement relating to the sale of shares of GTL

common stock in January 2000, and (e) that defendants Old Loral and Mr. Schwartz are secondarily liable under Section 15 of the Securities Act for GTL's primary violations of Sections 11 and 12(2)(a) of the Securities Act as alleged controlling persons of GTL. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of securities of Globalstar, Globalstar Capital and GTL during the period from December 6, 1999 through October 27, 2000, excluding the defendants and certain

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persons related to or affiliated with them. This case was preliminarily settled by Mr. Schwartz in July 2005 for \$20 million with final approval of the settlement in December 2005. In September 2006, two objectors to the settlement who had filed appeals concerning the attorneys' fees awarded to the plaintiffs withdrew their appeals with prejudice. Mr. Schwartz has commenced a lawsuit against Globalstar's directors and officers liability insurers seeking to recover the full settlement amount plus legal fees and expenses incurred in enforcing his rights under Globalstar's directors and officers liability insurance policy. In January 2007, two of the four insurers settled with Mr. Schwartz and paid him the remaining limits under their policies and, after a jury trial, the jury returned a verdict against the other two insurers in favor of Mr. Schwartz awarding him the remaining \$9.1 million balance of his claim. The insurers' motion to set aside the verdict or, in the alternative, for a new trial, was denied, and they have appealed the verdict. In addition, Mr. Schwartz has filed a proof of claim against Old Loral asserting a general unsecured prepetition claim for, among other things, indemnification relating to this case. Mr. Schwartz and Old Loral have agreed that in no event will his claim against Old Loral with respect to the settlement of this case exceed \$25 million. If Mr. Schwartz's claim ultimately becomes an allowed claim under the Plan of Reorganization and assuming he is not reimbursed by Globalstar's insurers, Mr. Schwartz would be entitled to a distribution under the Plan of Reorganization of New 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 New Loral common stock distributed under the Plan of Reorganization to other creditors. Instead of issuing such additional shares, New 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 New Loral will not incur any material loss as a result of this settlement.

On March 2, 2002, the seven separate purported class action lawsuits filed in the United States District Court for the Southern District of New York by various holders of Old Loral common stock against Old Loral, Bernard L. Schwartz and Richard J. Townsend were consolidated into one action titled *In re: Loral Space & Communications Ltd. Securities Litigation*. On May 6, 2002, plaintiffs in the consolidated action filed a consolidated amended class action complaint seeking, among other things, damages in an unspecified amount and reimbursement of plaintiffs' costs and expenses. The complaint alleged (a) that all 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 and its investment in Globalstar 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 November 4, 1999 through February 1, 2001, excluding the defendants and certain persons related to or affiliated with them. After oral argument on a motion to dismiss filed by Old Loral and Messrs. Schwartz and Townsend, in June 2003, the plaintiffs filed an amended complaint alleging essentially the same claims as in the original amended complaint. In February 2004, a motion to dismiss the amended complaint was granted by the court insofar as Messrs. Schwartz and Townsend are concerned. Pursuant to the Plan of Reorganization, plaintiffs received no distribution with respect to their claims in this lawsuit.

In addition, the primary insurer under the directors and officers liability insurance policy of Old Loral has denied coverage under the policy for the *In re: Loral Space & Communications Ltd. Securities Litigation* case and, on March 24, 2003, filed a lawsuit in the Supreme Court of New York County seeking a declaratory judgment upholding its coverage position. In May 2003, Old Loral and the other defendants served an answer and filed counterclaims seeking a declaration that the insurer is obligated to provide coverage and damages for breach of contract and the implied covenant of good faith. In May 2003, Old Loral and the other defendants also filed a third party complaint against the excess insurers seeking a declaration that they are obligated to provide coverage. In April 2006, the

primary insurer suggested that it may wish to reactivate this litigation, in which case, we would object to any attempt to do so. We believe that the insurers have wrongfully denied coverage and, although no assurance can be given, that the liability of New Loral, if any, with respect to the *In re: Loral Space & Communications Ltd. Securities Litigation* case or with respect to the related insurance coverage litigation is

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

limited solely to the Direct Indemnity Liability and the D&O Claims as described above under Indemnification Claims.

Reorganization Matters

In connection with our Plan of Reorganization, certain claims have been filed against Old Loral and its Debtor Subsidiaries, the validity or amount of which we dispute. We are in the process of resolving these disputed claims, which may involve litigation in the Bankruptcy Court. To the extent any disputed claims become allowed claims, the claimants would be entitled to distributions under the Plan of Reorganization based upon the amount of the allowed claim, payable either in cash for claims against SS/L or Loral SpaceCom or in New Loral common stock for all other claims. We have accrued only the amount we believe is valid for disputed claims payable in cash, although there can be no assurance that this amount will be sufficient to cover all such claims that ultimately become allowed claims. The remaining claims from the Plan of Reorganization payable in cash and the expenses associated with completing the reorganization activity aggregate approximately \$110,000 at June 30, 2007. As of June 30, 2007, we reserved approximately 107,000 of the 20 million shares of New Loral common stock distributable under the Plan of Reorganization for disputed claims that may ultimately be payable in common stock. To the extent that disputed claims do not become allowed claims, shares held in reserve on account of such claims will be distributed pursuant to the Plan of Reorganization pro rata to claimants with allowed claims.

Confirmation of our Plan of Reorganization was opposed by the Official Committee of Equity Security Holders (the Equity Committee) appointed in the Chapter 11 Cases and by the self-styled Loral Stockholders Protective Committee (LSPC). Shortly before the hearing to consider confirmation of the Plan of Reorganization, the Equity Committee also filed a motion seeking authority to prosecute an action on behalf of the estates of Old Loral and its Debtor Subsidiaries seeking to unwind as fraudulent, a guarantee provided by Old Loral in 2001, of certain indebtedness of Loral Orion, Inc. (the Motion to Prosecute). By separate Orders dated August 1, 2005, the Bankruptcy Court confirmed the Plan of Reorganization (the Confirmation Order) and denied the Motion to Prosecute (the Denial Order). On or about August 10, 2005, the LSPC appealed (the Confirmation Appeal) to the United States District Court for the Southern District of New York (the District Court) the Confirmation Order and the Denial Order. On February 3, 2006, we filed with the District Court a motion to dismiss the Confirmation Appeal. On May 26, 2006, the District Court granted our motion to dismiss the Confirmation Appeal. The LSPC subsequently filed a motion for reconsideration of such dismissal, which the District Court denied on June 14, 2006 (the Reconsideration Order). On or about July 12, 2006, a person purportedly affiliated with the LSPC appealed the dismissal of the Confirmation Appeal and the Reconsideration Order to the United States Court of Appeals for the Second Circuit. (the Second Circuit Confirmation Appeal). The Second Circuit Confirmation Appeal is currently fully briefed and awaiting decision by the Court of Appeals.

In November 2005, a shareholder of Old Loral on behalf of the LSPC filed with the FCC a petition for reconsideration of the FCC's approval of the transfer of our FCC licenses from Old Loral to New Loral in connection with the implementation of our Plan of Reorganization and a request for investigation by the FCC into the financial matters and actions of the Company (the FCC Appeal). In December 2005, we filed with the FCC our opposition to the FCC Appeal.

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.

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A reconciliation of basic and diluted income (loss) per share is presented below (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Basic:				
Net income (loss) applicable to common shareholders	\$ 14,031	\$ (11,395)	\$ (29,332)	\$ (27,235)
Weighted average common shares outstanding	20,070	20,000	20,055	20,000
Basic income (loss) per share	\$ 0.70	\$ (0.57)	\$ (1.46)	\$ (1.36)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Diluted:				
Net income (loss) applicable to common shareholders	\$ 14,031	\$ (11,395)	\$ (29,332)	\$ (27,235)
Plus:				
Dividends on Loral Series-1 Preferred Stock	5,669			
Beneficial conversion feature related to dividends on Loral Series-1 Preferred Stock	927			
Net income (loss) for diluted	\$ 20,627	\$ (11,395)	\$ (29,332)	\$ (27,235)
Common and potential common shares:				
Weighted average common shares outstanding	20,070	20,000	20,055	20,000
Assumed exercise of stock options	473			
Unvested restricted stock awards	20			
Assumed conversion of Loral Series-1 Preferred Stock	10,031			
Common and potential common shares	30,594	20,000	20,055	20,000
Diluted income (loss) per share	\$ 0.67	\$ (0.57)	\$ (1.46)	\$ (1.36)

The assumed exercise of stock options and unvested restricted stock awards are not included in the calculation of diluted loss per share for the three months ended June 30, 2006 and the six months ended June 30, 2007 and 2006,

because their effect would have been antidilutive. Additionally, the Loral Series-1 Preferred Stock, issued February 27, 2007, was not included in the calculation of diluted loss per share for the six months ended June 30, 2007, because their effect would have been antidilutive. As of June 30, 2007, there were 2,190,452 stock options outstanding, 198,700 shares of unvested restricted stock and the Loral Series A-1 Preferred Stock was convertible into 1,409,340 shares of common stock.

14. Segments

We are organized into two operating segments: Satellite Manufacturing and Satellite Services (see Note 1 regarding our operating segments). We use Adjusted EBITDA to evaluate operating performance of our segments, to allocate resources and capital to such segments, to measure performance for incentive compensation programs, and to evaluate future growth opportunities.

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LORAL SPACE & COMMUNICATIONS INC.

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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 and amortization (including stock based compensation), and reorganization expenses due to bankruptcy (Adjusted EBITDA) as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before: reorganization expenses due to bankruptcy; gain on discharge of pre-petition obligations and fresh-start adjustments; gain (loss) on investments; other income (expense); equity in net income (losses) of affiliates; and minority interest, net of tax.

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, reorganization expenses due to bankruptcy, other income (expense), net losses of affiliates and minority interest. 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. 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 (in millions):

Three Months Ended June 30, 2007

	Satellite Manufacturing	Satellite Services	Corporate⁽¹⁾	Total
Revenues and Adjusted EBITDA:				
Revenues ⁽²⁾	\$ 191.3	\$ 34.7		\$ 226.0
Intersegment revenues	18.9	0.7		19.6
Operating segment revenues	\$ 210.2	\$ 35.4		245.6
Eliminations ⁽³⁾				(19.6)
Operating revenues as reported				\$ 226.0
Segment Adjusted EBITDA before eliminations	\$ 12.8	\$ 13.7	\$ (8.5)	\$ 18.0
Eliminations ⁽³⁾				(0.9)
Adjusted EBITDA				17.1
Depreciation and amortization ⁽⁴⁾	\$ (10.1)	\$ (13.1)	\$ (9.0)	(32.2)
Operating loss				(15.1)
Interest and investment income				10.6
Interest expense				(2.2)
Unrealized gain on foreign exchange contracts				61.5
Other income (expense)				0.2
Income tax provision				(28.4)
Equity income in affiliates				0.5
Minority Interest				(6.5)
Net income				\$ 20.6

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
Six Months Ended June 30, 2007

	Satellite Manufacturing	Satellite Services	Corporate⁽¹⁾	Total
Revenues and Adjusted EBITDA:				
Revenues ⁽²⁾	\$ 379.0	\$ 67.5		\$ 446.5
Intersegment revenues	31.6	1.4		33.0
Operating segment revenues	\$ 410.6	\$ 68.9		479.5
Eliminations ⁽³⁾				(33.0)
Operating revenues as reported				\$ 446.5
Segment Adjusted EBITDA before eliminations	\$ 20.2	\$ 25.6	\$ (17.2)	\$ 28.6
Eliminations ⁽³⁾				(3.6)
Adjusted EBITDA				25.0
Depreciation and amortization ⁽⁴⁾	\$ (16.2)	\$ (26.2)	\$ (9.5)	(51.9)
Operating loss				(26.9)
Interest and investment income				17.2
Interest expense				(5.0)
Unrealized gain on foreign exchange contracts				65.5
Other income (expense)				0.2
Income tax provision				(31.8)
Equity loss in affiliates				(1.9)
Minority Interest				(13.5)
Net income				\$ 3.8
Other Data:				
Total assets ⁽⁵⁾	\$ 964.9	\$ 789.2	\$ 301.8	\$ 2,055.9

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
Three Months Ended June 30, 2006

	Satellite Manufacturing	Satellite Services	Corporate⁽¹⁾	Total
Revenues and Adjusted EBITDA:				
Revenues ⁽²⁾	\$ 155.9	\$ 37.0		\$ 192.9
Intersegment revenues	7.4	0.9		8.3
Operating segment revenues	\$ 163.3	\$ 37.9		201.2
Eliminations ⁽³⁾				(8.3)
Operating revenues as reported				\$ 192.9
Segment Adjusted EBITDA before eliminations	\$ 11.8	\$ 14.1	\$ (7.3)	\$ 18.6
Eliminations ⁽³⁾				(1.5)
Adjusted EBITDA				17.1
Depreciation and amortization	\$ (6.1)	\$ (10.9)	\$ (0.6)	(17.6)
Operating loss				(0.5)
Interest and investment income				5.0
Interest expense				(5.5)
Other income (expense)				(0.1)
Income tax provision				(2.4)
Equity loss in affiliates				(1.9)
Minority Interest				(6.0)
Net loss				\$ (11.4)

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
Six Months Ended June 30, 2006

	Satellite Manufacturing	Satellite Services	Corporate⁽¹⁾	Total
Revenues and Adjusted EBITDA:				
Revenues ⁽²⁾	\$ 292.3	\$ 72.6		\$ 364.9
Intersegment revenues	10.3	1.5		11.8
Operating segment revenues	\$ 302.6	\$ 74.1		376.7
Eliminations ⁽³⁾				(11.8)
Operating revenues as reported				\$ 364.9
Segment Adjusted EBITDA before eliminations	\$ 17.6	\$ 26.7	\$ (14.2)	\$ 30.1
Eliminations ⁽³⁾				(2.3)
Adjusted EBITDA				27.8
Depreciation and amortization	\$ (11.6)	\$ (21.8)	\$ (1.1)	(34.5)
Operating loss from continuing operations				(6.7)
Interest and investment income				9.6
Interest expense				(10.7)
Other income (expense)				0.9
Income tax provision				(5.0)
Equity loss in affiliates				(3.3)
Minority Interest				(12.0)
Net loss				\$ (27.2)
Other Data:				
Total assets ⁽⁵⁾	\$ 951.2	\$ 722.1	\$ 61.5	\$ 1,734.8

(1) Represents corporate expenses incurred in support of our operations and continuing expenses related to the remaining bankruptcy matters.

(2) Includes revenues from affiliates of nil and \$5.6 million for the three months ended June 30, 2007 and 2006, respectively, and \$0.4 million and \$8.4 million for the six months ended June 30, 2007 and 2006, respectively.

- (3) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA, primarily for satellites under construction by SS/L for Satellite Services.
- (4) Includes non-cash stock based compensation of \$10.3 million for the three and six months ended June 30, 2007, respectively, as a result of shareholder approval of the Stock Incentive Plan amendments on May 22, 2007 (see Note 11).
- (5) Amounts are presented after the elimination of intercompany profit. Total assets include \$220.8 million and \$67.7 million of goodwill for Satellite Manufacturing and Satellite Services, respectively, as of June 30, 2007.

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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.

Loral Space & Communications Inc. (New Loral), together with its subsidiaries is a leading satellite communications company with substantial activities in satellite manufacturing and satellite-based communications services. New 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).

The terms Loral, the Company, we, our and us when used in this report with respect to the period prior to our emergence, are references to Old Loral, and when used with respect to the period commencing after our emergence, are references to New Loral. These references include the subsidiaries of Old Loral or New Loral, as the case may be, unless otherwise indicated or the context otherwise requires.

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 New 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 is a leading satellite communications company organized into two operating segments: Satellite Manufacturing and Satellite Services.

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, wireless telephony, digital radio, digital mobile broadcasting, military communications, weather monitoring and air traffic management.

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 five to six satellite awards a year depending on the size, power, pricing and complexity of the satellite. Satellite manufacturing has relatively few programs (less than twenty five) under construction at any one time. These programs generally take from two to three years to complete and each represents a significant portion of the financial results of SS/L. The programs are accounted for on a percentage of completion basis, based on actual costs incurred compared with estimated costs to complete the program, which by its nature can produce uneven financial results during the period of performance. These factors when combined can yield fluctuating results in revenue and Adjusted EBITDA from quarter-to-quarter. Cash flow in the satellite manufacturing business tends to be uneven. It

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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 estimates that, absent alternative arrangements with third parties, facilities expansion to enable the booking of, on average, seven to nine satellite awards per year could require incremental capital expenditures of up to \$150 million over the next three years and has initiated planning efforts to accomplish this. SS/L is currently exploring these alternative arrangements that could substantially reduce these expenditures. 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 2,200 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 the provisions reduce profitability and may result in losses to SS/L, which may be material. The highly competitive satellite manufacturing industry has recently recovered from a several year period in the early part of this decade when order levels reached an unprecedented low level. Buyers, as a result, have had the advantage over suppliers in negotiating prices, terms and conditions resulting in reduced margins and increased assumptions of risk by SS/L. SS/L was further handicapped while it was in Chapter 11, because of buyers' reluctance to purchase satellites from a company in bankruptcy.

Satellite Services

Our subsidiary, Loral Skynet Corporation (Loral Skynet), operates a global fixed satellite services business. Loral Skynet leases transponder capacity to commercial and governmental customers for video distribution and broadcasting, high-speed data distribution, Internet access and communications, as well as provides managed network services to customers using a hybrid satellite and ground-based system. Loral Skynet has four in-orbit satellites and has one satellite under construction at SS/L. It also provides professional services to other satellite operators such as fleet operating services. While we compete with fiber optic cable and other terrestrial delivery systems, primarily for point-to-point applications, Loral Skynet has been able to combine the inherent advantages of each technology to provide its customers with complete end-to-end services. Since FSS satellites remain in a fixed point above the earth's equator and can provide service to wide geographic regions, they provide inherent advantages over terrestrial systems for certain applications, such as broadcast or point-to-multipoint transmission of video and broadband data. A satellite offers instant infrastructure. It can cover large geographic areas, sometimes entire hemispheres, and can not only provide services to populated areas, but also can better serve areas with inadequate terrestrial infrastructures, low-density populations or difficult geographic terrain.

The satellite services business is capital intensive and the build-out of a satellite fleet requires substantial time and investment. Once these investments are made, however, the costs to maintain and operate the fleet are relatively low. The upfront investments are earned back through the leasing of transponders to customers over the life of the satellite. Given the harsh and unpredictable environment in which the satellites operate, another major cost factor is in-orbit insurance. Annual receipts from this business are fairly predictable because they are derived from an established base of long-term customer contracts and high contract renewal rates.

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 fiber. This competition puts

pressure on prices, depending on market conditions in various geographic regions and frequency bands. A stronger economy and an increase in capital available for expanded consumer and enterprise-level services have more recently led to an improvement in demand in certain markets. Much of Loral Skynet's currently unleased capacity, however, is over geographic regions where the market is characterized by excess capacity, coupled with weak demand, or where regulatory obstacles are such that we find ourselves at a competitive disadvantage as compared to local operators.

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On December 16, 2006, a joint venture formed by Loral and its Canadian partner, the Public Sector Pension Investment Board (PSP) entered into a definitive agreement with BCE Inc. to acquire 100 percent of the stock of Telesat Canada and certain other assets from BCE Inc. for CAD 3.25 billion (approximately \$3.05 billion based on an exchange rate of \$1.00/CAD 1.0654 at June 30, 2007). In connection with the Telesat Canada transaction, Loral will be responsible for funding certain cash requirements as well as, contributing substantially all of Loral Skynet's assets to Telesat Canada's business in return for a 64% economic interest in the ultimate parent company of New Telesat, which will hold both Telesat Canada and the Loral Skynet assets. See the "Telesat Canada Transaction" in Note 12 to the financial statements and "Telesat Canada Transaction" below.

Bankruptcy Reorganization

During the years 2001-2003, the sustained and unprecedented decline in demand for our satellites and the transponder over-capacity in our satellite services business exacerbated Old Loral's already strained financial condition brought on primarily by the investments we had previously made in Globalstar, L.P. (Globalstar) that we subsequently wrote-off. Globalstar filed voluntary bankruptcy petitions under Chapter 11 in February 2002. On July 15, 2003, Old Loral and certain of its subsidiaries (the Debtor Subsidiaries and collectively with Old Loral, the Debtors) filed voluntary petitions for reorganization under Chapter 11. During the ensuing two-and-a-half year period we further increased our emphasis on cash conservation by reducing operating expenses and closely monitoring capital expenditures.

On August 1, 2005, the Bankruptcy Court entered its confirmation order confirming the Plan of Reorganization. On September 30, 2005, the Federal Communications Commission (the FCC) approved the transfer of FCC licenses from Old Loral to New Loral, which represented satisfaction of the last material condition precedent to emergence. The Debtors emerged from their reorganization proceeding under Chapter 11 on November 21, 2005 pursuant to the Plan of Reorganization. Pursuant to Statement of Position No. 90-7, *Financial Reporting of Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7) we adopted fresh-start accounting as of October 1, 2005.

Future Outlook

We have reorganized around SS/L's satellite manufacturing operations and Loral Skynet's fleet of satellites. Following our emergence from Chapter 11, we have focused primarily on taking advantage of the years of experience and superior expertise of our professional senior management team to capture opportunities in our markets and maintain an efficient stream-lined operation.

Construction of Telstar 11N, a powerful new multi-region Ku-band communications satellite for Loral Skynet, has begun at SS/L and upon completion will be launched into the 37.55° W.L. orbital location. Scheduled to enter service in late 2008, Telstar 11N will provide commercial and governmental customers with broadband connectivity within and among the American, European and African regions. Our customers will also use Telstar 11N for video distribution and high-speed data and voice services. This satellite will be transferred to New Telesat as part of the Skynet Transaction (as detailed below).

Upon closing of the Telesat Canada acquisition and the Skynet Transaction, Loral will hold a 64% economic interest in the world's fourth largest satellite operator with more than CAD 5 billion of backlog. The integration of Loral Skynet's and Telesat Canada's operations and the combined satellite fleet of this new Telesat Canada and Loral Skynet company, comprised of 12 in-orbit satellites and three satellites under construction, will offer customers expanded satellite and terrestrial coverage and continue to offer superior customer service. We believe that this transaction will allow New Telesat to compete more effectively in the FSS industry.

Critical success factors for both of our segments include maintaining our reputation for reliability, quality and superior customer service. These factors are vital to securing new customers and retaining current ones. At the same time, we

must continue to contain costs and maximize efficiencies. Loral Skynet is focused on planning the integration of Loral Skynet's and Telesat Canada's operations and identifying opportunities for cost reductions while managing Loral Skynet's on-going operations. SS/L is focused on increasing bookings and backlog, while maintaining the cost efficiencies and process improvements realized over the past several years. In addition, SS/L must continue to align its direct workforce with the level of awards. In order to complete construction of all the

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satellites in backlog and to accommodate long-term growth, SS/L will need, and is in the process of hiring additional staff. Long-term growth at SS/L will also require expanded facilities, and working capital requirements, primarily for the orbital component of the satellite contract which is payable to SS/L over the life of the satellite.

We regularly explore and evaluate possible 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 would require additional funds. There can be no assurance that we will enter into any strategic transactions or alliances and, if so, on what terms or that we will be able to obtain such financing or favorable terms, if at all.

On February 27, 2007, Loral completed a \$300 million preferred stock financing pursuant to the Securities Purchase Agreement entered into with MHR Fund Management LLC (MHR) on October 17, 2006 (see Note 12 to the financial statements). Loral plans to use the proceeds from this financing, together with its existing resources, to pursue both internal and external growth opportunities in the satellite communications industry and strategic transactions or alliances, including completion of the Telesat Canada acquisition.

Consolidated Operating Results

See Critical Accounting Matters in our latest Annual Report on Form 10-K filed with the SEC and Note 3 to the financial statements.

Changes in Critical Accounting Policies There have been no changes in the company's critical accounting policies during the six months ended June 30, 2007, except for the treatment of tax contingency accruals.

Effective January 1, 2007, the company began to measure and record tax contingency accruals in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). The expanded disclosure requirements of FIN 48 are presented in Note 3 to the financial statements

FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Only tax positions meeting the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of this Interpretation. FIN 48 also provides guidance on accounting for de-recognition, interest and penalties, and classification and disclosure of matters related to uncertainty in income taxes.

Prior to January 1, 2007, our policy was to maintain tax contingency liabilities for potential audit issues. The tax contingency liabilities were based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits.

Consolidated Operating Results The following discussion of revenues and Adjusted EBITDA (see Note 14 to the financial statements) reflects the results of our operating business segments for the three and six months ended June 30, 2007 and 2006. 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 and amortization (including stock based compensation) and reorganization expenses due to bankruptcy (Adjusted EBITDA) as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before: reorganization

expenses due to bankruptcy; gain on discharge of pre-petition obligations and fresh-start adjustments; gain (loss) on investments; other income (expense); equity in net income (losses) of affiliates; and minority interest, net of tax.

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, reorganization expenses due to bankruptcy, other income (expense), net losses of affiliates and minority interest. 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

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(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.

Revenues:

	Three Months Ended		Six Months	
	June 30,		Ended June 30,	
	2007	2006	2007	2006
	(In millions)		(In millions)	
Satellite Manufacturing	\$ 210.2	\$ 163.3	\$ 410.6	\$ 302.6
Satellite Services	35.4	37.9	68.9	74.1
Segment revenues	245.6	201.2	479.5	376.7
Eliminations ⁽¹⁾	(19.6)	(8.3)	(33.0)	(11.8)
Revenues as reported ⁽²⁾	\$ 226.0	\$ 192.9	\$ 446.5	\$ 364.9

Adjusted EBITDA:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
	(In millions)		(In millions)	
Satellite Manufacturing	\$ 12.8	\$ 11.8	\$ 20.2	\$ 17.6
Satellite Services	13.7	14.1	25.6	26.7
Corporate expenses ⁽³⁾	(8.5)	(7.3)	(17.2)	(14.2)
Segment Adjusted EBITDA before eliminations	18.0	18.6	28.6	30.1
Eliminations ⁽¹⁾	(0.9)	(1.5)	(3.6)	(2.3)
Adjusted EBITDA	\$ 17.1	\$ 17.1	\$ 25.0	\$ 27.8