

LORAL SPACE & COMMUNICATIONS INC.

Form 10-Q

May 10, 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 March 31, 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 April 30, 2007, there were 20,065,856 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)

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 390,345	\$ 186,542
Short-term investments	116,540	106,588
Accounts receivable, net	12,633	76,420
Contracts-in-process	128,781	40,433
Inventories	93,036	82,183
Other current assets	55,909	55,534
Total current assets	797,244	547,700
Property, plant and equipment, net	562,535	558,879
Long-term receivables	92,985	81,164
Investments in and advances to affiliates	94,676	97,202
Goodwill	312,861	305,691
Other assets	131,930	139,275
Total assets	\$ 1,992,231	\$ 1,729,911
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 68,833	\$ 67,604
Accrued employment costs	33,501	43,797
Customer advances and billings in excess of costs and profits	256,576	242,661
Income taxes payable	1,584	2,567
Accrued interest and preferred dividends	11,606	20,097
Other current liabilities	25,327	42,828
Total current liabilities	397,427	419,554
Pension and other post retirement liabilities	170,656	167,987
Long-term debt	128,054	128,084
Long-term liabilities	165,009	153,028

Total liabilities	861,146	868,653
Minority interest	225,617	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, 136,526 shares issued and outstanding	40,237	
Series B-1 Cumulative 7.5% convertible preferred stock, \$0.01 par value 2,000,000 shares authorized, 858,486 shares issued and outstanding	253,013	
Common stock, \$.01 par value	201	200
Paid-in capital	637,828	644,708
Accumulated deficit	(63,106)	(37,981)
Accumulated other comprehensive income	37,295	40,075
Total shareholders' equity	905,468	647,002
Total liabilities and shareholders' equity	\$ 1,992,231	\$ 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	
	March 31,	
	2007	2006
Revenues from satellite manufacturing	\$ 187,677	\$ 136,492
Revenues from satellite services	32,855	35,484
Total revenues	220,532	171,976
Cost of satellite manufacturing	174,101	125,948
Cost of satellite services	24,967	23,830
Selling, general and administrative expenses	33,262	28,414
Operating loss	(11,798)	(6,216)
Interest and investment income	6,554	4,544
Interest expense	(2,813)	(5,168)
Other income	4,046	1,014
Loss before income taxes, equity losses in affiliates and minority interest	(4,011)	(5,826)
Income tax provision	(3,401)	(2,594)
Loss before equity losses in affiliates and minority interest	(7,412)	(8,420)
Equity losses in affiliates	(2,425)	(1,420)
Minority interest	(6,986)	(6,000)
Net loss	(16,823)	(15,840)
Preferred dividends	(2,063)	
Beneficial conversion feature related to the issuance of Loral Series A-1 Preferred Stock (Note 11)	(24,476)	
Net loss applicable to common shareholders	\$ (43,362)	\$ (15,840)
Basic and diluted loss per common share:		
Basic loss per share	\$ (2.16)	\$ (0.79)
Diluted loss per share	\$ (2.16)	\$ (0.79)
Weighted average shares outstanding:		
Basic	20,041	20,000
Diluted	20,041	20,000

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2007	2006
Operating activities:		
Net loss	\$ (16,823)	\$ (15,840)
Non-cash operating items	26,435	24,977
Changes in operating assets and liabilities:		
Accounts receivable, net	63,926	48,849
Contracts-in-process	(89,159)	22,706
Inventories	(11,233)	1,221
Long-term receivables	(106)	(2,261)
Other current assets and other assets	3,807	4,646
Accounts payable	656	(15,835)
Accrued expenses and other current liabilities	(31,117)	(11,875)
Customer advances	4,894	20,692
Income taxes payable	(983)	181
Pension and other postretirement liabilities	1,894	4,295
Long-term liabilities	621	3,668
Other		15
Net cash (used in) provided by operating activities	(47,188)	85,439
Investing activities:		
Capital expenditures	(20,447)	(6,066)
Increase in restricted cash in escrow	(2,796)	
Proceeds received from the disposition of an orbital slot		5,742
Proceeds received from the sale of short-term investments	107,670	
Purchase of short-term investments	(117,622)	
Net cash used in investing activities	(33,195)	(324)
Financing activities:		
Proceeds from the sale of preferred stock	293,250	
Proceeds from the exercise of stock options	1,653	
Preferred stock issuance costs	(8,948)	
Cash dividends paid on preferred stock of subsidiary	(1,769)	
Net cash provided by financing activities	284,186	
Net increase in cash and cash equivalents	203,803	85,115

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Cash and cash equivalents	beginning of period	186,542	275,796
Cash and cash equivalents	end of period	\$ 390,345	\$ 360,911

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 financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three months ended March 31, 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 March 31, 2007, the Company had \$521.7 million of cash, short-term investments and restricted cash, of which \$116.5 million is in the form of short-term investments and \$15 million is in the form of restricted cash (\$3 million included in other current assets and \$12 million included in other assets on our consolidated balance sheet). 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 March 31. 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. 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 March 31, 2007 approximates their cost.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts, contracts-in-process, 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 which 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 \$6.7 million and \$6.0 million for the three months ended March 31, 2007 and 2006,

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31, 2007, 1,126,715 shares of Loral Skynet Preferred Stock, with a carrying value of \$225.3 million, were issued and outstanding.

Income Taxes

Effective January 1, 2007, we adopted 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, the estimated value of our uncertain tax positions is a liability 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 that materially exceed our FIN 48 liability 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 March 31, 2007. For the three months ended March 31, 2007, we increased our FIN 48 liability for uncertain tax positions by \$1.2 million for additional interest. If our positions are sustained by the taxing authorities, approximately \$42.5 million would be treated as a reduction of goodwill and \$13.1 million would reduce the Company's effective tax rate. There were no significant changes to our uncertain tax positions in the first quarter of 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.

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

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with any excess treated as an increase to paid-in-capital. The income tax provision for the three months ended March 31, 2007 and 2006 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.

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) (in thousands):

	Pension Benefits		Other Benefits	
	Three Months Ended March 31,		Three Months Ended March 31,	
	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

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. 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.

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

	Three Months Ended March 31,	
	2007	2006
Non-cash operating items:		
Equity losses in affiliates	\$ 2,526	\$ 1,420
Minority interest	6,986	6,000
Deferred taxes	1,834	
Depreciation and amortization	19,118	16,288
Stock option compensation	559	583
(Recoveries of) provisions for bad debts on billed receivables	(139)	540
Provisions for inventory obsolescence	380	1,678
Warranty expense accruals	(722)	(390)
Net gain on the disposition of an orbital slot		(1,149)
Withholding tax impact of cashless stock option exercises	(143)	
Non cash net interest and (gain) loss on foreign currency transactions	(3,964)	7
Net non-cash operating items	\$ 26,435	\$ 24,977
Non-cash financing activities:		
Issuance of preferred stock by subsidiary as payment for dividend	\$ 11,087	\$
Accrued dividends on Series A-1 and Series B-1 preferred stock	\$ 2,063	\$
Supplemental information:		
Interest paid, net of capitalized interest	\$ 10,011	\$ 757
Taxes paid, net of refunds	\$ 1,365	\$ 628
Cash paid for reorganization items:		
Professional fees	\$	\$ (4,342)

New Accounting Pronouncements

SFAS 157

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

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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 Loss

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

	Three Months Ended March 31,	
	2007	2006
Net loss	\$ (16,823)	\$ (15,840)
Cumulative translation adjustment	30	40
Amortization of prior service credits and net actuarial gain, net of taxes	(469)	
Unrealized gains on available-for-sale securities, net of taxes	(2,341)	
Comprehensive loss	\$ (19,603)	\$ (15,800)

5. Contracts-in-Process

	March 31, 2007	December 31, 2006
	(In thousands)	
Amounts billed	\$ 92,362	\$ 18,289
Unbilled receivables	36,419	22,144
	\$ 128,781	\$ 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 \$2.173 billion of senior secured credit facilities and \$910 million of a senior unsecured bridge facility. The purchase price of Telesat Canada is in Canadian dollars, while most of the debt financing is in U.S. dollars. Accordingly, 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. As such, Loral entered into several transactions through its Loral Skynet subsidiary, whereby Loral Skynet guaranteed certain exposures should the Telesat Canada acquisition not close and the transactions are unwound.

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

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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 for the early termination of this agreement resulting from an event of default or termination event. For the three months ended March 31, 2007, Loral recorded a \$2.3 million charge to other income reflecting the change in the fair value of the swap. Included in other current liabilities is \$4.7 million and \$2.4 million as of March 31, 2007 and December 31, 2006, respectively, reflecting the fair value of the swap.

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 1.1462) with a settlement date of December 17, 2007. In January 2007, Loral Skynet entered into additional forward foreign currency contracts with the same single bank counterparty selling \$200.0 million for CAD 232.8 million (\$1.00/CAD 1.1640) 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 months ended March 31, 2007, Loral recorded a \$6.3 million gain in other income reflecting the change in the fair value of the forward contracts. As of March 31, 2007, other current assets include \$3.0 million reflecting a mark-to-market exchange rate of \$1.00/CAD 1.1464. 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, (assuming an exchange rate of \$1.00/CAD 1.3611) for the early termination of these agreements resulting from an event of default or termination.

Foreign Currency

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

As of March 31, 2007, SS/L had the following amounts denominated in Japanese Yen and EUROS (which have been translated into U.S. dollars based on the March 31, 2007 exchange rates) that were unhedged (in millions):

	Foreign Currency	U.S. \$
Future revenues Japanese Yen	¥ 251.4	\$ 2.1
Future expenditures Japanese Yen	¥ 3,172.8	\$ 26.9
Contracts-in-process, unbilled receivables Japanese Yen	¥ 29.6	\$ 0.3
Future expenditures EUROS	3.7	\$ 5.0

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	March 31, 2007	December 31, 2006
	(In thousands)	
Land and land improvements	\$ 27,533	\$ 27,533
Buildings	53,901	53,572
Leasehold improvements	6,693	6,434
Satellites in-orbit, including satellite transponder rights of \$136.7 million	386,196	386,196
Satellites under construction	72,050	59,085
Earth stations	18,117	18,141
Equipment, furniture and fixtures	78,507	76,787
Other construction in progress	23,911	18,167
	666,908	645,915
Accumulated depreciation and amortization	(104,373)	(87,036)
	\$ 562,535	\$ 558,879

Depreciation and amortization expense for property, plant and equipment was \$17.4 million and \$16.9 million for the three months ended March 31, 2007 and 2006, respectively. Accumulated depreciation and amortization as of March 31, 2007 and December 31, 2006 includes \$20.8 million and \$16.7 million, respectively, related to satellite transponders where Loral has the rights to 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):

	March 31, 2007	December 31, 2006
XTAR equity investment	\$ 94,676	\$ 97,202

Equity losses in affiliates consists of (in thousands):

Three Months Ended March 31,	
2007	2006

XTAR	\$ (2,526)	\$ (1,420)
Globalstar service provider partnerships	101	
	\$ (2,425)	\$ (1,420)

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	
	March 31,	
	2007	2006
Revenues	\$ 390	\$ 2,816
Elimination of our proportionate share of (profits) losses relating to affiliate transactions	(11)	367
Profit (loss) relating to affiliate transactions not eliminated	9	(289)

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 of the benefit of 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 March 31, 2007, \$2.7 million was outstanding under the Arianespace loan.

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

Statement of Operations Data:

	Three Months Ended March 31,	
	2007	2006
Revenues	\$ 4.7	\$ 3.4
Operating loss	(3.6)	(1.2)
Net loss	(4.2)	(2.1)

Balance Sheet Data:

March 31, 2007	December 31, 2006
---------------------------	------------------------------

Current assets	\$	5.9	\$	6.4
Total assets		129.1		132.1
Current liabilities		20.7		20.1
Long-term liabilities		33.7		33.1
Members' equity		74.7		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 is no longer in effect. As of March 31, 2007, we owned 1,168,934 shares of Globalstar, Inc. which are accounted for as available-for-sale securities. Unrealized gains on these shares were \$7.5 million, net of taxes as of March 31, 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 \$15 million in one of these companies.

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 \$7.2 million to goodwill (see *Income Taxes* in Note 3).

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)	March 31, 2007		December 31, 2006	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Internally developed software and technology	4	\$ 59.0	\$ (16.2)	\$ 59.0	\$ (13.5)
Orbital slots	9	10.8	(2.2)	10.8	(1.8)
Trade names	18	13.2	(1.0)	13.2	(0.8)
Customer relationships	13	20.0	(2.0)	20.0	(1.7)
Customer contracts	8	33.0	(9.6)	33.0	(8.3)
Other intangibles	3	2.7	(0.9)	2.7	(0.8)

\$ 138.7 \$ (31.9) \$ 138.7 \$ (26.9)

Total amortization expense for intangible assets was \$5.0 million and \$5.4 million for the three months ended March 31, 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

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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 \$3.3 million and \$6.1 million for the three months ended March 31, 2007 and 2006, respectively.

10. Debt

The Company's debt consists of:

	March 31, 2007	December 31, 2006
	(In thousands)	
Loral Skynet 14.0% senior secured notes due 2015 (principal amount \$126 million)	\$ 128,054	\$ 128,084

Loral Skynet Notes

On November 21, 2005, pursuant to the Plan of Reorganization, Loral Skynet issued \$126 million of 14% Senior Secured Notes due 2015 (the "Loral Skynet Notes"), 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, but only if we do not receive an objection notice from holders of two-thirds of the principal amount of the notes. 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.

On January 15, 2007, Loral Skynet paid \$8.8 million in cash of accrued interest on the Loral Skynet Notes. At March 31, 2007, accrued interest on the Loral Skynet Notes was \$3.7 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 each of the three month periods ended March 31, 2007 and 2006.

The limitations contained in the indenture relating to the Loral Skynet Notes 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 contribution of Loral Skynet's assets into New Telesat (see Note 12), and, pursuant to the terms of Loral's convertible preferred stock financing (see Note 11), MHR Fund Management LLC ("MHR") has agreed that it and its affiliated funds, which hold approximately 44.6% of the Loral Skynet Notes, will not object to an optional redemption of the Loral Skynet Notes effected in connection with such transaction. A self-described committee of holders of Loral Skynet Notes, however, has stated its objection to the proposed redemption of these notes and asserted that funds affiliated with MHR should be excluded for purposes of determining whether an objection to redemption has been received from two-thirds of the

outstanding principal amount of the notes. This committee has also alleged that payment of consideration by Loral to MHR in connection with the preferred stock financing without offering equal consideration to the other noteholders constitutes a breach of the indenture's implied covenant of good faith and fair dealing under applicable law and therefore an event of default under the indenture. The committee has requested that the indenture trustee initiate an action against Loral Skynet seeking declaratory and injunctive relief preventing redemption of the notes. We believe that the proposed redemption is proper in accordance with the terms of the indenture, but any litigation resulting from the committee's assertions could delay our redemption of the Loral Skynet Notes, which may in turn have the effect of delaying the Skynet Transaction (see Note 12).

Table of Contents**LORAL SPACE & COMMUNICATIONS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***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 March 31, 2007, \$5.9 million of letters of credit under this facility were issued and outstanding.

11. Shareholders Equity

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 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 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

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 earnings per share calculation for the three months ended March 31, 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 will be recorded as an increase to net loss applicable to common shareholders and will result in a reduction of both basic and diluted earnings per share results. Accordingly, in the period 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

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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). In the future, to the extent that dividends on the Loral Series-1 Preferred Stock are paid in additional shares of Loral Series-1 Preferred Stock, we may incur additional beneficial conversion features that reduce our net income applicable to common shareholders.

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 as more specifically set forth in Exhibit 10.2 hereto. 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 \$8.95 million in connection with this preferred stock financing. In addition, Loral paid MHR a placement fee of \$6.75 million.

The foregoing description of the terms of the Loral Preferred Stock is not intended to be complete and is qualified in its entirety by reference to 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.

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 three months ended March 31, 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)	(0.7)
Balance of deferred amounts at March 31, 2007	\$ 53.2

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 (or 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 June 7, 2006, SS/L entered into a Customer Credit Agreement (the "Credit Agreement") with Sirius Satellite Radio Inc. ("Sirius"), effective as of May 31, 2006. Under the Credit Agreement, SS/L has agreed, if requested, to make loans to Sirius in an aggregate principal amount of up to \$100 million to finance the purchase of the Sirius FM-5 Satellite (the "Satellite"), including to reimburse Sirius for certain payments made by it under the satellite purchase agreement with SS/L dated May 31, 2006 (the "Purchase Agreement"). Any loans made under the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Agreement will be secured by Sirius' rights under the Purchase Agreement, including its rights to the Satellite. The loans also will be guaranteed by Satellite CD Radio, a subsidiary of Sirius, and, subject to certain exceptions, will be guaranteed by any future material subsidiary that may be formed by Sirius thereafter. The maturity date of any loans will be the earliest to occur of (i) April 6, 2009, (ii) 90 days after the Satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the 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. As of March 31, 2007, no loans were outstanding under the Credit Agreement and Sirius was eligible to borrow \$30 million under the Credit Agreement, representing reimbursement of payments previously made by Sirius under the 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 March 31, 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. to acquire 100% of the stock of Telesat Canada and certain other assets from BCE Inc. for CAD 3.25 billion (approximately \$2.82 billion based on an exchange rate of \$1.00/CAD 1.154 as of March 31, 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 mid-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 Holdings, of which \$150 million (or CAD 173.1 million based on an exchange rate of \$1.00/CAD 1.154) will be for the purchase of a Holdings fixed rate senior

non-convertible mandatorily redeemable preferred stock.

We and PSP have arranged for the parent company of Acquireco (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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 would 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 would 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 (approximately \$126 million as of March 31, 2007) and Loral will redeem Loral Skynet's outstanding 12% preferred stock and accrued dividends thereon (approximately \$231 million as of March 31, 2007), as well as pay all interest and redemption premium (approximately \$16 million as of March 31, 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 would 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 \$247 million as of March 31, 2007), make a cash equity contribution to Holdings of CAD 270.9 million (approximately \$235 million based on an exchange rate of \$1.00/CAD 1.154) 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 39%, assuming an exchange rate of \$1.00/CAD 1.154, 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 would 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 would 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.

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.

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 of the satellites built by SS/L and launched since 1997, three of which are owned and operated by

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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 March 31, 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 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,

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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.

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

Legal Proceedings

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

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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 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).

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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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 claim 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 claim 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.

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 March 20, 2007, certain stockholders of the Company who alleged that they hold over 18% of the outstanding common stock of the Company filed a complaint, derivatively on behalf of the Company and directly on their own behalf, against the Company, the MHR Entities and the individual members of the Company's board of directors. The complaint was filed in the Court of Chancery of the State of Delaware in and for New Castle County and is captioned Blackrock Corporate High Yield Fund, Inc., et al. v. Mark H. Rachesky, et al. On or about April 11, 2007, plaintiffs in this lawsuit filed an amended complaint. The amended complaint alleges, 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, the directors have engaged in conduct, or intentionally or recklessly approved conduct, that has caused the Company to waste valuable corporate assets, and 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 amended complaint seeks, 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.

On March 21, 2007, Highland Crusader Offshore Partners, L.P. (*Highland*), the purported owner of approximately 5% of Loral's outstanding common stock, commenced a civil action in the Court of Chancery of the State of Delaware in and for New Castle County by filing a complaint alleging that it brings the action directly on behalf of a class of Loral stockholders against the individual members of the board of directors of Loral, MHR and the Company. Highland has sued the defendants on behalf of a purported class 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 complaint, are or will be threatened with injury arising from Defendants' actions as described in the complaint. The complaint alleges, among other things, that, in connection with the sale by the Company to funds affiliated with MHR of \$300 million of preferred stock, MHR and the individual defendants breached their fiduciary duties under Delaware law, the individual defendants committed an ultra vires abdication of their statutory authority and MHR aided and abetted the individual defendants in their breach of fiduciary duty. The complaint seeks, 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.

The Delaware Chancery Court has directed that the plaintiffs in the *Blackrock* and *Highland* lawsuits file a consolidated complaint. Discovery in these actions has commenced, and a trial has been set for October 2007.

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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 Loral

Old Loral 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 Loral post-emergence in respect of such indemnity obligation is limited to the *In re: Loral Space ERISA Litigation* and *In re: Loral 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, Loral'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 Loral and Loral 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 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 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 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 Loral, but only against one of its officers, we believe, although no assurance can be given, that, to the extent that any award is ultimately granted to the plaintiffs in this action, the liability of New Loral, 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

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promulgated thereunder, by making material misstatements or failing to state material facts about Old Loral's financial condition relating to the restatement in 2003 of the financial statements for the second and third quarters of 2002 to correct accounting for certain general and administrative expenses and the alleged improper accounting for a satellite transaction with APT Satellite Company Ltd. and (b) that each of the defendants is secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as an alleged controlling person of Old Loral. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Loral common stock during the period from July 31, 2002 through June 29, 2003, excluding the defendants and certain persons related to or affiliated with them. In 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 Loral, 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 Loral, 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 Loral and participants in the Old Loral Savings Plan (the Savings Plan) were consolidated into one action titled *In re: Loral Space ERISA Litigation*. In July 2004, plaintiffs in the consolidated action filed an amended consolidated complaint against the members of the Loral 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 Loral common stock as an investment alternative and by providing matching contributions under the Savings Plan in Old Loral 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 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 Loral with respect to this case and have agreed that in no event will their claim against Old Loral 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 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 being 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.

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In addition, two insurers under Old Loral's directors and officers liability insurance policies have denied coverage with respect to the case titled *In re: Loral 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 Loral, if any, with respect to the *In re: Loral 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 Loral, 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 Loral 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 Loral) 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 Loral 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 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 have moved to set aside, and may also appeal, 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

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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 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 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. We believe, although no assurance can be given, that New Lorol 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 Lorol common stock against Old Lorol, Bernard L. Schwartz and Richard J. Townsend were consolidated into one action titled *In re: Lorol 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 Lorol'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 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 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 Lorol 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 Lorol has denied coverage under the policy for the *In re: Lorol 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 Lorol 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 Lorol 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 Lorol, if any, with respect to the *In re: Lorol Space & Communications Ltd. Securities 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.

Reorganization Matters

In connection with our Plan of Reorganization, certain claims have been filed against Old Lorol 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 \$2 million at March 31, 2007. As of March 31,

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LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

13. Loss Per Share

Basic loss per share is computed based upon the weighted average number of shares of common stock outstanding. For the three months ended March 31, 2007 and 2006, there were 1,227,327 and 1,390,452 stock options, respectively, outstanding that were excluded from the calculation of diluted loss per share, as their effect would have been antidilutive. In addition, for the three months ended March 31, 2007 the Loral Series A-1 Preferred Stock which is convertible into 1,365,260 shares of common stock was not included in the calculation of diluted loss per share because its effect would have been antidilutive.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31, 2007

	Satellite Manufacturing	Satellite Services	Corporate⁽¹⁾	Total
Revenues and Adjusted EBITDA:				
Revenues ⁽²⁾	\$ 187.6	\$ 32.9		\$ 220.5
Intersegment revenues	12.7	0.7		13.4
Operating segment revenues	\$ 200.3	\$ 33.6		233.9
Eliminations ⁽³⁾				(13.4)
Operating revenues as reported				\$ 220.5
Segment Adjusted EBITDA before eliminations	\$ 7.4	\$ 11.9	\$ (8.7)	\$ 10.6
Eliminations ⁽³⁾				(2.7)
Adjusted EBITDA				7.9
Depreciation and amortization	\$ (6.1)	\$ (13.1)	\$ (0.5)	(19.7)
Operating loss				(11.8)
Interest and investment income				