LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
November 09, 2007

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

Form 10-Q

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

For the quarterly period ended September 30, 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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

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

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

As of October 31, 2007, there were 20,265,941 shares of Loral Space & Communications Inc. common stock outstanding.

PART 1.
FINANCIAL INFORMATION

Item 1. ***Financial Statements***

LORAL SPACE & COMMUNICATIONS INC.

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

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 319,878	$ 186,542
Short-term investments	22,085	106,588
Accounts receivable, net	13,269	76,420
Contracts-in-process	100,889	40,433
Inventories	86,359	82,183
Restricted cash	163,607	2,869
Foreign currency contracts (Note 6)	116,395	
Other current assets	48,505	52,665
Total current assets	870,987	547,700
Property, plant and equipment, net	582,472	558,879
Long-term receivables	119,104	81,164
Investments in and advances to affiliates	89,988	97,202
Goodwill	266,254	305,691
Intangible assets, net	96,786	111,749
Other assets	21,188	27,526
Total assets	$ 2,046,779	$ 1,729,911
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 76,543	$ 67,604
Accrued employment costs	40,479	43,797
Short-term debt	141,050	
Customer advances and billings in excess of costs and profits	217,360	242,661
Income taxes payable	5,330	2,567
Accrued interest and preferred dividends	11,549	20,097
Other current liabilities (Note 6)	23,285	42,828
Total current liabilities	515,596	419,554
Pension and other post retirement liabilities	175,830	167,987

Long-term debt		128,084
Long-term liabilities	161,165	153,028
Total liabilities	852,591	868,653
Minority interest	237,599	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, 141,814 shares issued and outstanding	41,832	
Series B-1 Cumulative 7.5% convertible preferred stock, $0.01 par value 2,000,000 shares authorized, 881,353 shares issued and outstanding	259,908	
Common stock, $.01 par value	203	200
Paid-in capital	650,462	644,708
Accumulated deficit	(27,989)	(37,981)
Accumulated other comprehensive income	32,173	40,075
Total shareholders equity	956,589	647,002
Total liabilities and shareholders equity	$ 2,046,779	$ 1,729,911

See notes to condensed consolidated financial statements.

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues from satellite manufacturing	$ 194,925	$ 175,297	$ 573,929	$ 467,599
Revenues from satellite services	40,715	51,497	108,244	124,054
Total revenues	235,640	226,794	682,173	591,653
Cost of satellite manufacturing	173,392	161,786	520,520	425,986
Cost of satellite services	26,966	25,397	77,505	72,683
Selling, general and administrative expenses	35,216	31,045	111,001	91,154
Gain on litigation settlement		(9,000)		(9,000)
Operating income (loss)	66	17,566	(26,853)	10,830
Interest and investment income	10,497	6,880	27,708	16,439
Interest expense	3,983	(8,042)	(1,063)	(18,705)
Unrealized gain on foreign exchange contracts (Note 6)	56,673		122,145	
Other income	3,377	68	3,638	994
Loss on extinguishment of debt	(16,155)		(16,155)	
Income before income taxes, equity income (loss) in affiliates and minority interest	58,441	16,472	109,420	9,558
Income tax provision	(23,112)	(6,345)	(54,877)	(11,363)
Income (loss) before equity income (loss) in affiliates and minority interest	35,329	10,127	54,543	(1,805)
Equity income (loss) in affiliates	(2,322)	(2,575)	(4,259)	(5,879)
Minority interest	(7,078)	(6,366)	(20,551)	(18,366)
Net income (loss)	25,929	1,186	29,733	(26,050)
Preferred dividends	(5,770)		(13,502)	
Beneficial conversion feature related to the issuance of Loral Series A-1 Preferred Stock (Note 11)	(171)		(25,575)	
Net income (loss) applicable to common shareholders	$ 19,988	$ 1,186	$ (9,344)	$ (26,050)
Basic and diluted income (loss) per common share (Note 13):				
Basic income (loss) per share	$ 0.99	$ 0.06	$ (0.47)	$ (1.30)
Diluted income (loss) per share	$ 0.96	$ 0.06	$ (0.47)	$ (1.30)

Weighted average shares outstanding:				
Basic	20,103	20,000	20,071	20,000
Diluted	21,881	20,000	20,071	20,000

See notes to condensed consolidated financial statements.

LORAL SPACE & COMMUNICATIONS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating activities:		
Net income (loss)	$ 29,733	$ (26,050)
Non-cash operating items	18,575	90,684
Changes in operating assets and liabilities:		
Accounts receivable, net	65,340	2,104
Contracts-in-process	(64,507)	12,780
Inventories	(4,556)	(15,292)
Long-term receivables	(318)	(392)
Deposits		9,031
Other current assets and other assets	(711)	(5,919)
Accounts payable	7,997	(23,135)
Accrued expenses and other current liabilities	(24,402)	(8,113)
Customer advances	(49,174)	61,835
Income taxes payable	2,763	3,488
Pension and other postretirement liabilities	7,843	(17,597)
Long-term liabilities	9,220	12
Other	(83)	114
Net cash (used in) provided by operating activities	(2,280)	83,550
Investing activities:		
Capital expenditures	(77,715)	(44,313)
(Increase) decrease in restricted cash	(165,012)	1,910
Proceeds received from the disposition of an orbital slot		5,742
Distribution from equity investment	2,955	
Proceeds from the sale of short-term investments and available-for-sale securities	440,698	
Purchase of short-term investments	(350,887)	(118,656)
Net cash used in investing activities	(149,961)	(155,317)
Financing activities:		
Proceeds from term loan (Skynet Notes refinancing facility)	141,050	
Repayment of Loral Skynet Notes	(126,000)	
10% redemption fee on extinguishment of Loral Skynet Notes	(12,600)	
Preferred stock issuance costs	(8,866)	
Proceeds from the sale of preferred stock	293,250	
Proceeds from the exercise of stock options	1,776	
Cash dividends paid on preferred stock of subsidiary	(3,033)	(1,278)

Net cash provided by (used in) financing activities	285,577	(1,278)
Net increase (decrease) in cash and cash equivalents	133,336	(73,045)
Cash and cash equivalents beginning of period	186,542	275,796
Cash and cash equivalents end of period	$ 319,878	$ 202,751

See notes to condensed consolidated financial statements.

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.

On October 31, 2007, Loral and its Canadian partner, Public Sector Pension Investment Board (PSP), through a newly formed joint venture, completed the acquisition of Telesat Canada. In connection with this acquisition, Loral transferred substantially all of the assets and related liabilities of Loral Skynet Corporation (Loral Skynet) to Telesat Canada. Loral holds a 64% economic interest and a 331/3% voting interest in the resulting new entity (New Telesat) (see Notes 6, 12 and 16). References to Loral Skynet with respect to periods prior to the closing of this transaction are references to the subsidiary of Loral and with respect to the period commencing on and after the closing of this transaction are, if related to the fixed satellite services business, references to the Loral Skynet operations within New Telesat. We refer to the acquisition of Telesat Canada and the related transfer of the Loral Skynet assets to Telesat Canada as the Telesat Canada transaction.

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 until the closing of the Telesat Canada transaction, 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

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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).

3. Basis of Presentation

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

The December 31, 2006 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Cash and Cash Equivalents, Short-term Investments and Restricted Cash

As of September 30, 2007, the Company had $519.0 million of cash, short-term investments and restricted cash, of which $22.1 million is in the form of short-term investments and $177.1 million is in the form of restricted cash ($163.6 million included in current assets (see Note 10) and $13.5 million included in other assets on our condensed consolidated balance sheet). Cash and cash equivalents include liquid investments with maturities of less than 90 days at the time of purchase. 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 September 30. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date. Our short-term investments include corporate bonds, Euro dollar bonds, certificates of deposit, commercial paper, Federal Agency notes and auction rate securities. All short-term investments are classified as available-for-sale 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 and other available-for-sale securities are carried at fair value with unrealized gains and losses, if any, reported in accumulated other comprehensive income. The carrying value of our auction rate securities at September 30, 2007 approximates their cost.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts, contracts-in-process, long-term receivables and advances and loans to affiliates (see Note 6). Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Historically, our customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, we have added commercial customers that include companies in emerging markets or the development stage, some of which are highly leveraged or partially

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $7.1 million and $6.4 million for the three months ended September 30, 2007 and 2006, respectively, and $20.6 million and $18.4 million for the nine months ended September 30, 2007 and 2006, respectively, are reflected as minority interest on our condensed consolidated statement of operations. On January 12, 2007, Loral Skynet paid a dividend on its Loral Skynet Preferred Stock of $12.86 million, which covered the period from July 14, 2006 through January 13, 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. On July 13, 2007 Loral Skynet paid a dividend on its Loral Skynet Preferred Stock of $13.5 million, which covered the period from January 14, 2007 through July 13, 2007. The dividend consisted of $1.26 million in cash and $12.26 million through the issuance of 61,282 additional shares of Loral Skynet Preferred Stock. At September 30, 2007, 1,187,997 shares of Loral Skynet Preferred Stock, with a carrying value of $237.6 million, were issued and outstanding. At September 30, 2007, accrued but unpaid dividends were $6.1 million.

Income Taxes

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

The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense on a quarterly basis. As of January 1, 2007, we had accrued approximately $5.7 million and $12.6 million for the payment of tax-related interest and penalties, respectively.

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2003. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. While we intend to contest any future tax assessments for uncertain tax positions, no assurance can be provided that we would ultimately prevail.

The liability for uncertain tax positions is included in long-term liabilities in the Condensed Consolidated Balance Sheet as of September 30, 2007. During September 2007, the Company settled its liability for an uncertain

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tax position with certain tax authorities resulting in the reversal of FIN 48 liabilities totaling $2.4 million, of which $2.0 million was recorded as a reduction to goodwill and $0.4 million was treated as a current income tax benefit. In addition to the reversal of these liabilities, for the three and nine months ended September 30, 2007, we increased our FIN 48 liability for uncertain tax positions by $1.2 million and $4.5 million, respectively, for potential additional interest and penalties. As of September 30, 2007, we had accrued approximately $9.0 million and $12.7 million for the payment of potential tax-related interest and penalties, respectively. If our positions are sustained by the taxing authorities, approximately $40.8 million would be treated as a reduction of goodwill and $15.8 million would reduce the Company s effective tax rate. Other than as described above, there were no significant changes to our uncertain tax positions during the nine months ended September 30, 2007.

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

During 2007 and 2006, we maintained a 100% valuation allowance against our net deferred tax assets except with regard to our deferred tax assets related to AMT credit carryforwards. We will continue to maintain the valuation allowance until sufficient positive evidence exists to support its reversal. If, in the future, we were to determine that we will be able to realize all or a portion of the benefit from our deferred tax assets, a reduction to the valuation allowance as of October 1, 2005 will first reduce goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital. For the three and nine months ended September 30, 2007, we utilized the benefits from approximately $20.2 million and $45.0 million, respectively, of deferred tax assets from Old Loral to reduce our cash tax liability imposed on current year income. Utilization of these benefits created an excess valuation allowance of $20.2 million and $45.0 million for the three and nine months ended September 30, 2007, respectively, that was reversed as a reduction to goodwill.

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

Pensions and Other Employee Benefits

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

	Pension Benefits Three Months Ended September 30,		Other Benefits Three Months Ended September 30,	
	2007	**2006**	**2007**	**2006**

Service cost	$ 2,412	$ 2,088	$ 360	$ 441
Interest cost	5,432	5,217	1,250	1,292
Expected return on plan assets	(5,837)	(5,689)	(10)	(26)
Amortization of prior service credits and net actuarial gain or loss	(700)	(699)	(75)	(56)
	$ 1,307	$ 917	$ 1,525	$ 1,651

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Pension Benefits Nine Months Ended September 30,		Other Benefits Nine Months Ended September 30,	
	2007	2006	2007	2006
Service cost	$ 7,236	$ 8,838	$ 1,080	$ 1,041
Interest cost	16,296	16,617	3,750	3,542
Expected return on plan assets	(17,511)	(16,539)	(30)	(26)
Amortization of prior service credits and net actuarial gain or loss	(2,100)	(699)	(225)	(56)
	$ 3,921	$ 8,217	$ 4,575	$ 4,501

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 participant 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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Additional Cash Flow Information

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

	Nine Months Ended September 30,	
	2007	**2006**
Non-cash operating items:		
Equity loss in affiliates	$ 4,259	$ 5,879
Minority interest	20,551	18,366
Deferred taxes	46,463	
Depreciation and amortization	62,714	50,972
Stock based compensation	13,802	2,025
(Recoveries of) provisions for bad debts on billed receivables	(2,189)	594
Provisions for inventory obsolescence	380	1,678
Warranty expense accruals	(10,769)	12,355
Net gain on the disposition of an orbital slot	(3,600)	(1,149)
Write-off of construction in progress	2,011	
Loss on extinguishment of debt	16,155	
Amortization of prior service credits and net actuarial gain	(2,325)	
Gain on disposition of available-for-sale securities	(5,308)	
Withholding tax impact of cashless stock option exercises	(955)	
Unrealized gain on foreign exchange contracts and non cash net interest	(121,723)	(36)
Other	(891)	
Net non-cash operating items	$ 18,575	$ 90,684
Non-cash financing activities:		
Issuance of preferred stock by subsidiary as payment for dividend	$ 23,343	$ 14,260
Issuance of Loral Series-1 Preferred Stock as payment for dividend	$ 8,490	$
Accrued dividends on Series A-1 and Series B-1 preferred stock	$ 5,013	$
Accrued dividends on preferred stock of subsidiary	$ 6,102	$
Supplemental information:		
Capital expenditures incurred not yet paid	$ 982	$
Interest paid	$ 34,500	$ 14,510

Taxes paid, net of refunds	$ 1,871	$ 2,512
Cash paid for reorganization items:		
Professional fees	$ (160)	$ (9,581)

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New Accounting Pronouncements

SFAS 157

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, (SFAS 157), to define fair value, establish a framework for measuring fair value in accordance with U.S. GAAP and expand disclosures about fair value measurements. SFAS 157 requires quantitative disclosures using a tabular format in all periods (interim and annual) and qualitative disclosures about the valuation techniques used to measure fair value in all annual periods. We are required to adopt the provisions of this statement as of January 1, 2008. We are currently evaluating the impact of adopting SFAS 157.

SFAS 159

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

4. Comprehensive Income (Loss)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income (loss)	$ 25,929	$ 1,186	$ 29,733	$ (26,050)
Cumulative translation adjustment	176	56	235	193
Amortization of prior service credits and net actuarial gains, net of taxes	(469)		(1,407)	
Unrealized gain (loss) on available-for-sale securities arising during the period, net of taxes	444		(3,515)	
Reclassification adjustment for gains included in net income	(4,690)		(3,215)	
Comprehensive income (loss)	$ 21,390	$ 1,242	$ 21,831	$ (25,857)

In the consolidated statement of shareholders equity for the year ended December 31, 2006 and in the related notes in our 2006 Annual Report on Form 10-K, we disclosed and included the $30.0 million adjustment to initially apply SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, in the caption Other Comprehensive Income. That caption includes changes in equity that are part of other comprehensive income for the period. We based that presentation on our interpretation of the principles in SFAS 130, *Reporting Comprehensive*

Income, which requires accounting changes to be included in comprehensive income for the period. Subsequently, we became aware that transition provisions of SFAS 158 required that this cumulative effect be presented as a direct adjustment to the ending balance of Accumulated Other Comprehensive Income rather than as part of comprehensive income for the period. Consequently, the amount reported under the caption Other Comprehensive Income for 2006 should have been $10.1 million, rather than the $40.1 million we reported. The difference, $30.0 million, should have been reported as a direct increase of accumulated other comprehensive income within equity. The amount reported as Comprehensive Income for 2006 should have been $(12.6) million rather than the $17.3 million we reported. In our 2007 Annual Report on Form 10-K, we will restate our presentation to correct this error. This correction only affects the display of the cumulative effect of the adoption of SFAS 158 within the consolidated statement of shareholders equity and does not otherwise affect our financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Contracts-in-Process

	September 30, 2007	December 31, 2006
	(In thousands)	
Amounts billed	$ 40,061	$ 18,289
Unbilled receivables	60,828	22,144
	$ 100,889	$ 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 (Acquireco) formed by Loral and 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 Notes 12 and 16). As part of the transaction, the acquisition company received financing commitments from a syndicate of banks for $2.26 billion (based on an exchange rate of $1.00/CAD 0.9923 as of September 30, 2007) of senior secured credit facilities, $692.8 million of a senior unsecured bridge facility and $217.2 million of a senior subordinated 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, to insulate themselves from Canadian dollar versus US dollar fluctuations, Loral, through Loral Skynet, and PSP entered into financial commitments to lock in exchange rates to convert some of the U.S. dollar denominated debt proceeds to Canadian dollars. As of September 30 2007, the unrealized gain on these transactions as a result of marking these investments to market, has been recognized in the statement of operations and avoided a corresponding increase in the US dollar purchase price equivalent that would have been paid to BCE for Telesat Canada.

A summary of these transactions is as follows:

1) In December 2006, Loral Skynet entered into a currency basis swap with a single bank counterparty converting $1.054 billion of U.S. debt into CAD 1.224 billion of Canadian debt for a seven year period beginning December 17, 2007. This debt amortizes 1% per year with a final maturity of December 17, 2014. No cash payment was made by Loral to the counterparty for entering into this transaction. This agreement could be closed at any point prior to December 17, 2007 by simply moving all the terms forward to the closing date of the Telesat Canada acquisition without affecting terms. For the three and nine months ended September 30, 2007, Loral recorded a gain of

$3.3 million and $6.8 million respectively, reflecting the change in the fair value of the swap. Included in foreign currency contracts on our condensed consolidated balance sheet is $4.4 million as of September 30, 2007, and $2.4 million is included in other current liabilities as of December 31, 2006, reflecting the fair value of the swap.

2) In December 2006, Loral Skynet entered into forward foreign currency contracts with a single bank counterparty selling $497.4 million for CAD 570.1 million ($1.00/CAD 1.1461) with a settlement date of December 17, 2007. In January 2007, Loral Skynet entered into additional forward foreign currency contracts with the same single bank counterparty selling $200.0 million for CAD 232.8 million ($1.00/CAD 1.1512) with a settlement date of December 17, 2007. No cash payments were made by Loral to the single bank counterparty for entering into these transactions. These agreements could be rolled forward to the closing date of the Telesat Canada acquisition with an adjustment in the exchange rate. For the three and nine months ended

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2007, Loral recorded a gain of $53.4 million and $115.3 million, respectively, reflecting the change in the fair value of the forward contracts. As of September 30, 2007, included in foreign currency contracts on our condensed consolidated balance sheet is $112.0 million reflecting a mark-to-market exchange rate of $1.00/CAD 0.9923. 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.

Foreign Currency

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

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

		Foreign Currency		U.S.$
Future revenues Japanese Yen	¥	122.9	$	1.1
Future expenditures Japanese Yen	¥	4,006.7	$	34.9
Contracts-in-process, unbilled receivables/(customer advances) Japanese Yen	¥	10.4	$	0.1
Future expenditures EUROs		3.7	$	5.3

7. Property, Plant and Equipment

	September 30, 2007	December 31, 2006
	(In thousands)	
Land and land improvements	$ 27,533	$ 27,533
Buildings	54,134	53,572
Leasehold improvements	8,526	6,434
Satellites in-orbit, including satellite transponder rights of $136.7 million	386,098	386,196
Satellites under construction	107,548	59,085
Earth stations	18,293	18,141
Equipment, furniture and fixtures	91,529	76,787
Other construction in progress	28,647	18,167
	722,308	645,915
Accumulated depreciation and amortization	(139,836)	(87,036)
	$ 582,472	$ 558,879

Depreciation and amortization expense for property, plant and equipment was $17.9 million and 17.5 million for the three months ended September 30, 2007 and 2006, respectively, and $53.1 million and $51.4 million for the nine months ended September 30, 2007 and 2006, respectively. During the three months ended September 30, 2007 the Company recorded a $2.0 million write-off of construction in progress associated with the redirection of the capacity expansion project. Accumulated depreciation and amortization as of September 30, 2007 and December 31, 2006 includes $29.0 million and $16.7 million, respectively, related to satellite transponders where Loral Skynet has the rights to the transponders for the remaining life of the related satellite.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Investments in and Advances to Affiliates

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

	September 30, 2007	December 31, 2006
XTAR equity investment	$ 89,988	$ 97,202

Equity income (loss) in affiliates consists of (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
XTAR	$ (2,322)	$ (2,575)	$ (7,214)	$ (5,879)
Globalstar service provider partnerships			2,955	
	$ (2,322)	$ (2,575)	$ (4,259)	$ (5,879)

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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	$ 8	$ 3,063	$ 416	$ 11,517
Elimination of our proportionate share of profit relating to affiliate transactions	(15)	(40)	(46)	(327)
Profit relating to affiliate transactions not eliminated	13	32	37	257

We had customer advances from XTAR relating to the construction of their satellite of $357,000 and $650,000, as of September 30, 2007 and December 31, 2006, respectively, on our condensed consolidated balance sheet.

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 was held by Loral Skynet. This interest, however, was retained by Loral and not transferred to New Telesat (see Notes 12 and 16).

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 making limited payments under the agreements. Loral Skynet has agreed to defer amounts due from XTAR until March 31, 2008. During the nine months ended September 30, 2007 and 2006, Loral Skynet has not recognized revenue associated with providing these services to XTAR. During the three months ended September 30, 2007, Loral Skynet reversed an allowance for doubtful accounts of $1.9 million related to outstanding accounts receivable from XTAR. During October 2007, Loral Skynet received a payment of $1.2 million from XTAR for outstanding accounts receivable. These agreements have been assigned to New Telesat.

XTAR has made limited 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 consisted 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. The loan was paid in full by XTAR on July 6, 2007.

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

Statement of Operations Data:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Revenues	$ 4.6	$ 2.6	$ 13.9	$ 9.8
Operating loss	(3.6)	(3.6)	(11.0)	(7.0)
Net loss	(4.1)	(4.5)	(12.4)	(9.9)

Balance Sheet Data:

	September30, 2007	December 31, 2006
Current assets	$ 9.0	$ 6.4
Total assets	127.4	132.1
Current liabilities	25.9	20.1
Long-term liabilities	35.0	33.1
Members equity	66.5	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 Globalstar Inc., to which we assigned no value at the time. On November 2, 2006, Globalstar Inc., completed an initial public offering, at which time we owned 1,609,896 shares of Globalstar Inc. We had agreed not to sell 70% of our Globalstar Inc. holdings for at least 180 days following the completion of its offering. As of May 5, 2007, the lock-up was no longer in effect. For the three and nine months ended September 30, 2007, we realized a gain of $2.8 million and $5.3 million, respectively, (included in interest and investment income in the condensed consolidated statements of operations) on the sale of 238,200 shares and 468,286 shares, respectively, of Globalstar Inc. stock. As of September 30, 2007, we owned 700,648 shares of Globalstar Inc. which are accounted for as available-for-sale securities. Unrealized gains on these shares were $3.1 million, net of taxes as of September 30, 2007.

We hold various indirect ownership interests in three foreign companies that currently serve as exclusive service providers for Globalstar service in Brazil, Mexico and Russia. We account for these ownership interests using the equity method of accounting. We have written-off our investments in these companies, and because we have no future funding requirements relating to these investments, there is no requirement for us to provide for our allocated share of these companies net losses. We are considering whether to make an additional investment of up to $13 million in one of these companies. In the nine months ended September 30, 2007, Loral recognized earnings of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$3.0 million from our Globalstar investment partnerships, which were primarily attributable to a cash distribution received from one of our investments.

9. Goodwill and Other Intangible Assets

Goodwill

Goodwill was established in connection with our adoption of fresh-start accounting on October 1, 2005. Effective January 1, 2007, we adopted FIN 48. The cumulative effects of adopting FIN 48 has resulted in the Company recording an increase of $7.5 million to goodwill in 2007, offset by a reduction to goodwill of $47.0 million, as a result of the reversal of FIN 48 liabilities no longer required and the reversal of an excess valuation allowance (see *Income Taxes* in Note 3), as follows (in thousands):

Goodwill December 31, 2006	$ 305,691
Cumulative effect of adopting FIN 48 (see Note 3)	7,542
Reversal of FIN 48 liabilities	(2,000)
Reversal of excess valuation allowance on deferred tax assets	(44,979)
Goodwill September 30, 2007	$ 266,254

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)	September 30, 2007		December 31, 2006	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Internally developed software and technology	4	$ 59.0	$ (21.6)	$ 59.0	$ (13.5)
Orbital slots	9	10.8	(3.0)	10.8	(1.8)
Trade names	18	13.2	(1.3)	13.2	(0.8)
Customer relationships	13	20.0	(2.7)	20.0	(1.7)
Customer contracts	8	33.0	(12.1)	33.0	(8.3)
Other intangibles	3	2.7	(1.2)	2.7	(0.8)

	$ 138.7	$ (41.9)	$ 138.7	$ (26.9)

Total amortization expense for other intangible assets was $4.9 million and $5.2 million for the three months ended September 30, 2007 and 2006, respectively, and $15.0 million and $15.9 million for the nine months ended September 30, 2007 and 2006, respectively. Annual amortization expense for intangible assets for the five years ended December 31, 2011 is estimated to be as follows (in millions):

2007	$ 19.8
2008	18.8
2009	17.5
2010	14.2
2011	7.8

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $0.7 million and $4.9 million for the three months ended September 30, 2007 and 2006, respectively and $5.6 million and $16.9 million for the nine months ended September 30, 2007 and 2006, respectively. During the three months ended September 30, 2007, the Company recognized as other income a previously deferred gain of $3.6 million in connection with the sale of an orbital slot in 2006.

10. Debt

	September 30, 2007	December 31, 2006
	(In thousands)	
Short-term:		
4.1% Loan payable to Valley National Bank	$ 141,050	$
Long-term:		
Loral Skynet 14.0% Senior Secured Notes due 2015 (principal amount $126 million)		128,084

Loan Payable Valley National Bank

On September 4, 2007, Loral Skynet entered into a Loan and Security Agreement (the Loan Agreement) with Valley National Bank (Valley National). The purpose of the Loan Agreement was to make available to Loral Skynet a loan (the Loan) to fund the redemption (the Note Redemption) of Loral Skynet s 14% Senior Secured Cash/PIK Notes due 2015. Pursuant to the Loan Agreement, Valley National made the Loan in a single advance of $141,050,000, which Loral Skynet used to fund the Note Redemption on September 5, 2007.

The maturity date of the Loan was the earlier of (i) December 17, 2007 or (ii) the date on which the assets of Loral Skynet were transferred in connection with the previously announced acquisition of Telesat Canada (see Notes 6, 12 and 16). The Loan Agreement permitted Loral Skynet to prepay all or a portion of the amounts outstanding under the Loan at any time prior to maturity without penalty or premium.

As security for repayment of the Loan, Loral Skynet granted security interests in certain of its assets. The repayment of the Loan was guaranteed by Loral (the Guaranty) with the Company s obligations under the Guaranty being secured pursuant to a pledge agreement (the Pledge Agreement) executed by the Company. Loral purchased a certificate of deposit (the CD) from Valley National in the initial principal amount of $142,720,659, such amount being equal to the sum of the principal of the Loan and accrued interest thereon from and including September 4, 2007 through, but not including, December 17, 2007. The CD accrued interest at a rate of 3.85% per annum. Pursuant to the terms of the Pledge Agreement, the money on deposit under the CD secured the obligations of Loral Skynet under the Loan Agreement and the Company under the Guaranty. As of September 30, 2007, this CD is included in restricted cash in the current assets section of our condensed consolidated balance sheet.

The interest rate on the Loan was 4.10% per annum. Interest expense related to the Loan was $538,000 for the three and nine months ended September 30, 2007. The Loan was repaid on October 31, 2007, in connection with the closing of the Telesat Canada transaction (see Note 16).

Loral Skynet Notes

On November 21, 2005, pursuant to the Plan of Reorganization, Loral Skynet issued $126 million principal amount of 14% Senior Secured Cash/PIK Notes due 2015 (the Loral Skynet Notes) under an Indenture, dated as of November 21, 2005 (the Indenture), which notes were 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On September 5, 2007 Loral Skynet paid $141.1 million in the aggregate to redeem the notes at a redemption price of 110% including accrued and unpaid interest from July 15, 2007 of $2.45 million.

Interest expense related to these notes was $3.1 million and $4.5 million for the three months ended September 30, 2007 and 2006, respectively and $12.1 million and $13.4 million for the nine months ended September 30, 2007 and 2006, respectively. In addition to the $2.45 million of cash interest paid on the redemption of the notes discussed above, Loral Skynet made cash interest payments of $8.8 million on the Loral Skynet Notes on each of January 15 and July 16, 2007.

As a result of the redemption of the Loral Skynet Notes, we incurred a loss on the early extinguishment of debt of $16.2 million, which is comprised of the redemption premium of $12.6 million and a $3.6 million write-off of deferred financing costs.

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

SS/L Letter of Credit Facility

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

11. Shareholders Equity

Preferred Stock

On February 27, 2007 (the Issuance Date), Loral completed a $300 million preferred stock financing pursuant to the Securities Purchase Agreement entered into with MHR Fund Management LLC (MHR) on October 17, 2006, as amended and restated on February 27, 2007 (the Securities Purchase Agreement). Pursuant to the Securities Purchase Agreement, Loral sold 136,526 shares of its Series A-1 cumulative 7.5% convertible preferred stock (the Series A-1 Preferred Stock) and 858,486 shares of its Series B-1 cumulative 7.5% convertible preferred stock (the Series B-1 Preferred Stock and, together with the Series A-1 Preferred Stock, the Loral Series-1 Preferred Stock) at a purchase price of $301.504 per share to various funds affiliated with MHR. Each share of the Series A-1 Preferred Stock is convertible, at the option of the holder, into ten shares of Loral common stock at a conversion price of $30.1504 per share. Prior to the Majority Ownership Date (as defined below) and following stockholder approval of the creation of a new class of Class B-1 non-voting common stock, each share of the Series B-1 Preferred Stock will be convertible, at the option of the holder, into ten shares of this Class B-1 non-voting common stock at a conversion price of $30.1504 per share. From and after the Majority Ownership Date, the Series B-1 Preferred Stock and the Class B-1 non-voting common stock may be converted by the holder into Loral common stock, in the case of the Series B-1 Preferred Stock, at the same conversion price, and in the case of the Class B-1 non-voting common stock, on a share for share basis. The conversion price reflects a premium of 12% to the closing price of Loral s common stock on October 16, 2006. The conversion price is subject to customary adjustments. Dividends on the Loral Series-1

Preferred Stock are 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 is using the proceeds from this financing, together with its existing resources, for general corporate purposes including the pursuit of both internal and external growth opportunities in the satellite communications industry and strategic transactions or alliances.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

The Company and MHR agreed on August 8, 2007 that, in calculating the percentage of the aggregate voting power of Loral securities held by MHR or its affiliates pursuant to the terms of the Loral Series-1 Preferred Stock, (a) the number of shares of Series A-1 Preferred Stock and/or common stock deemed to be held by MHR entities shall be increased by a number of shares (i) equal to the number of shares of restricted stock and the number of shares subject to stock options of the Company then personally held by Dr. Mark H. Rachesky (as of October 31, 2007, Dr. Rachesky held 10,000 such shares), and (ii) equal to 50% of the number of shares of common stock reserved for issuance pending resolution of certain disputed third party claims under the Plan of Reorganization of Old Loral, such number of reserved shares not to exceed 71,500 shares and (b) the number of outstanding shares of common stock of the Company shall be decreased by a number of shares equal to 45% of the total number of shares of restricted stock (issued to persons other than directors pursuant to the Company s Amended and Restated 2005 Stock Incentive Plan) that are then subject to vesting but have not yet vested as of the date of the calculation, such numbers of shares of restricted stock not to exceed one million shares.

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Company paid dividends of $5.7 million through the issuance of 880 shares of Series A-1 Preferred Stock and 17,949 shares of Series B-1 Preferred Stock during the three months ended September 30, 2007. The Company paid dividends of $8.5 million through the issuance of 5,288 shares of Series A-1 Preferred Stock and 22,867 shares of Series B-1 Preferred Stock during the nine months ended September 30, 2007. Accrued but unpaid dividends for Loral Series-1 Preferred Stock as of September 30, 2007 were $5.0 million.

The price of Loral s common stock on October 16, 2006, the day before we signed the Securities Purchase Agreement, was $26.92 and the conversion price was $30.1504. The price of Loral s common stock on February 27, 2007, when the financing closed was $47.40. Because of the difference between the fair market value of the common stock on the date the financing closed, as compared to the conversion price, the Company is required to reflect a beneficial conversion feature of the Loral Series A-1 Preferred Stock as a component of its net income (loss) applicable to common shareholders for the three and nine months ended September 30, 2007. We will also reflect a beneficial conversion feature in a similar manner for the Series B-1 Preferred Stock, in the period in which shareholder approval of the creation of the new class of Class B-1 non-voting common stock is received. This beneficial conversion feature is recorded as a decrease to net income applicable to common shareholders and results in a reduction of both basic and diluted earnings per share results. Accordingly, in the three months ended March 31, 2007, we recorded an increase to net loss applicable to common shareholders of $24.5 million. In the period in which shareholder approval of the new class of Class B-1 non-voting common stock is received, we expect that our net income (loss) applicable to common shareholders will be reduced (increased), as applicable, by approximately $154 million reflecting the beneficial conversion feature (less discount, if any, for the class B-1 non-voting common stock because of its non-voting status). To the extent that dividends on the Loral Series-1 Preferred Stock are paid in additional shares of Loral Series A-1 Preferred Stock, we record an additional beneficial conversion feature that reduces our net income applicable to common shareholders. For the three and nine months ended September 30, 2007, we recorded a beneficial conversion feature of $0.2 million and $1.1 million, respectively, for the dividends in additional shares of Loral Series A-1

Preferred Stock. We will also record an additional beneficial conversion feature in a similar manner for dividends in additional shares of Loral Series B-1 Preferred Stock in the period in

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which shareholder approval of the class B-1 non-voting common stock is received, and thereafter. For dividends paid and accrued through September 30, 2007 on the Loral Series B-1 Preferred Stock, the beneficial conversion feature that will be recorded when shareholder approval of the class B-1 non-voting common stock is received, is approximately $6 million.

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

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

A complete description of the terms of the Loral Preferred Stock is contained in the certificates of designation related to the Loral Preferred Stock attached as Exhibits 3.2 and 3.3 and the Securities Purchase Agreement attached as Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 28, 2007.

Stock Incentive Plan

On May 22, 2007, at our annual meeting of stockholders, our stockholders approved the Company s Amended and Restated 2005 Stock Incentive Plan (the Plan) to increase by 1,582,000 the number of shares available for grant thereunder. These amendments cover the following grants that were all subject to stockholder approval of the plan amendments: (w) the grant in March 2006 of options to purchase 825,000 shares to our Chief Executive Officer in connection with his entering into an employment agreement with us (the CEO March 2006 Option Grant), (x) the grant in June 2006 of options to purchase 20,000 shares to our Chief Financial Officer in connection with his entering into an amendment to his employment agreement, (y) the grant in June 2006 of options to purchase 120,000 shares to a director in connection with his entering into a consulting agreement and (z) grants of approximately 175,000 shares of restricted stock to employees of SS/L. In addition, these amendments cover 31,000 shares of restricted stock granted to our directors as part of their compensation and approximately 410,300 shares available for future grant. The shares available for future grant will be used for awards to our employees, to fulfill existing contractual obligations and to cover the equity component of our directors compensation. As a result of the approval of the amendments, we recorded compensation cost, related to the first three grants of $0.9 million and $9.0 million for the three and nine months ended September 30, 2007, respectively, based on the estimated fair value of these grants, and stock compensation costs of $1.0 million and $3.2 million for the three and nine months ended September 30, 2007, respectively, were recorded for the grant of restricted shares. The remaining stock based compensation as a result of these grants, totaling $17.5 million, will be recognized over the next three to four years.

12. Commitments and Contingencies

Financial Matters

SS/L has deferred revenue and accrued liabilities for performance warranty obligations relating to satellites sold to customers, which could be affected by future performance of the satellites. These reserves for expected costs for warranty reimbursement and support are based on historical failure rates. However, in the event of a catastrophic failure of a satellite, which cannot be predicted, these reserves likely will not be sufficient. SS/L periodically reviews and adjusts the deferred revenue and accrued liabilities for warranty reserves based on the actual

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performance of each satellite and remaining warranty period. A reconciliation of such deferred amounts for the nine months ended September 30, 2007, is as follows (in millions):

Balance of deferred amounts at January 1, 2007	$ 53.9
Accruals for deferred amounts issued during the period	
Accruals relating to pre-existing contracts (including changes in estimates)	(10.6)
Balance of deferred amounts at September 30, 2007	$ 43.3

The reduction of the deferred amounts was primarily attributable to a resolution of certain warranty obligations for less than previously estimated amounts. In connection with the reduction of the deferred amounts, interest expense was reduced by $5.5 million, for the three and nine months ended September 30, 2007.

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

On July 30, 2007, SS/L entered into an Amended and Restated Customer Credit Agreement (the Credit Agreement) with Sirius Satellite Radio Inc. (Sirius). The Credit Agreement amends and restates in its entirety the Customer Credit Agreement entered into by SS/L and Sirius on June 7, 2006 (the Original Credit Agreement). The purpose of the amendment and restatement is to make available to Sirius financing for the purchase of a second satellite under the Amended and Restated Satellite Purchase Agreement between Sirius and SS/L dated as of July 23, 2007 (the Amended Satellite Purchase Agreement). Under the Credit Agreement, SS/L has agreed to make loans to Sirius in an aggregate principal amount of up to $100,000,000 to finance the purchase of the Sirius FM-5 and FM-6 Satellites (the Sirius Satellites). Loans made under the Credit Agreement are secured by Sirius rights under the Amended Satellite Purchase Agreement, including its rights to the Sirius Satellites. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc., and, subject to certain exceptions, any future material subsidiary that may be formed by Sirius hereafter. The maturity date of the loans is the earliest to occur of (i) June 10, 2010, (ii) 90 days after the FM-6 Satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the FM-6 Satellite. Loans made under the Credit Agreement generally bear interest at a variable rate equal to three-month LIBOR plus a margin. The Credit Agreement permits Sirius to prepay all or a portion of the loans outstanding without penalty, and, upon the occurrence of certain events, Sirius is required to prepay the loans. As of September 30, 2007, no loans were outstanding under the Credit Agreement and Sirius was eligible to borrow $62 million under the Credit Agreement, representing reimbursement of payments previously made by Sirius under the Amended Satellite Purchase Agreement.

Loral Skynet has in the past entered into prepaid leases, sales contracts and other arrangements relating to transponders on its satellites. Under the terms of these agreements, as of September 30, 2007, Loral Skynet continues to provide for a warranty for periods of two to eight years for sales contracts and other arrangements (seven transponders), and prepaid leases (one transponder). 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

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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, Acquireco entered into a definitive agreement (the Share Purchase Agreement) with BCE Inc. and Telesat Canada to acquire 100% of the stock of Telesat Canada and certain safe income notes from BCE Inc. for CAD 3.25 billion. Acquireco is owned 100% by Telesat Holdings Inc. (Holdco), and we in turn hold equity interests in Holdco representing 64% of the economic interests and 331/3% of the voting interests. Our Canadian partner, PSP, holds 36% of the economic interests and 662/3% of the voting interests in Holdco (except with respect to the election of directors as to which it holds a 30% voting interest).

In connection with the transactions contemplated under the Share Purchase Agreement, on August 7, 2007, we and Loral Skynet entered into an asset transfer agreement (the Asset Transfer Agreement) with Holdco, and an asset purchase agreement (the Asset Purchase Agreement) with Skynet Satellite Corporation, a subsidiary of Telesat Canada. Pursuant to the Asset Transfer Agreement, we agreed, subject to certain exceptions, to transfer substantially all of Loral Skynet s assets and related liabilities to Telesat Canada in return for an equity interest in Holdco. In addition, pursuant to the Asset Purchase Agreement, we agreed to transfer certain of Loral Skynet s assets located in the U.S. and related liabilities to Skynet Satellite Corporation in exchange for $25,472,000 in marketable securities. On August 7, 2007, we, Loral Skynet, PSP, Holdco and a subsidiary of Holdco also entered into an Ancillary Agreement providing, among other things, for the settlement of payments by and among us, PSP and Holdco in connection with the Telesat Canada acquisition, the transactions contemplated under the Asset Transfer Agreement, and related transactions.

Telesat Canada, the leading satellite services provider in Canada, earns its revenues principally through the provision of broadcast and business network services over its eight in-orbit satellites. As of October 31, 2007, following the transfer of the assets of Loral Skynet s fixed satellite services business pursuant to the Asset Transfer Agreement and Asset Purchase Agreement (see Note 16), New Telesat operates a fleet of twelve in-orbit satellites.

Loral Skynet has adopted a retention plan for its key employees to facilitate the transition. Payments to these employees will be made six months after the close of the Telesat Canada transaction. Costs relating to this plan will be borne by New Telesat. We have incurred $14.2 million of transaction related costs as of September 30, 2007 (included in other current assets on our condensed consolidated balance sheet), which have been subsequently reimbursed to us 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-two of the satellites built by SS/L and launched since 1997, three of which are owned and operated by Loral Skynet or our 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

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transponders from service on this satellite in order to maintain sufficient power to operate the remaining transponders for its specified life. As of September 30, 2007, Loral Skynet does not believe the carrying value of this satellite has been impaired. Loral Skynet will, however, continue to evaluate the impact of the power loss caused by the solar array failures. A complete or partial loss of a satellite s capacity could result in a loss of orbital incentive payments to SS/L and, in the case of satellites owned by Loral Skynet and our 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 Loral Skynet s 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 Loral Skynet s 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, SS/L has successfully completed implementation of software workarounds that restore the redundant command receiver functionality.

Two satellites owned by Loral Skynet 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 Loral Skynet s 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 Skynet insures the on-orbit performance of substantially all of its satellite capacity. Typically such insurance is for a policy period of one year subject to renewal. It has been difficult, however, to obtain full insurance coverage for satellites that have, or are part of a product line of satellites that have, experienced problems in the past. Insurers have required either exclusions of certain components or have placed limitations on coverage in connection with insurance renewals for such satellites in the future. Loral Skynet cannot assure, upon the expiration of an insurance policy, that it will be able to renew the policy on terms acceptable to it or that it 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 2007, Loral Skynet renewed its 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

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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 Loral Skynet s satellites. For example, as part of Loral Skynet s coordination efforts on Telstar 12, it agreed to provide four 54 MHz transponders on Telstar 12 to Eutelsat for the life of the satellite and has 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. Loral Skynet also granted Eutelsat the right to acquire, at cost, four transponders on the replacement satellite for Telstar 12. Loral Skynet continues to be in discussions with other operators on coordination issues. Loral Skynet may be required to make additional financial concessions in the future in connection with its coordination efforts. The failure to reach an appropriate arrangement with a third party having priority rights at or near one of its orbital slots may result in substantial restrictions on the use and operation of its satellite at that location.

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

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

Legal Proceedings

Informal SEC Inquiry

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

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Skynet Noteholders Litigation

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

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

Specifically, the Skynet Noteholder Plaintiffs complaint relates to the Securities Purchase Agreement, dated as of October 17, 2006, as amended and restated on February 27, 2007, between Loral and MHR, pursuant to which, in February 2007, funds affiliated with MHR purchased $300 million of Loral Series-1 Preferred Stock from Loral as described in Note 11. In that agreement, among other things, MHR also agreed to cause its affiliated funds, which collectively hold more than one-third of the outstanding Loral Skynet Notes, not to object to a proposed Early Redemption of the Loral Skynet Notes in connection with a transaction such as the Telesat Canada transaction. The Skynet Noteholder Plaintiffs assert that Loral bought the consent of MHR and its affiliated funds to the Early Redemption covenant by paying to MHR in excess of $8.25 million in placement and legal and advisory fees resulting in an unequal exit consent payment not offered to other holders and that this covenant violates an implied covenant of good faith and fair dealing that the Skynet Noteholder Plaintiffs believe the Indenture should be deemed to contain. The Skynet Noteholder Plaintiffs have proposed a number of theories of damages, including one in which they allege that the value of the Loral Skynet Notes if they are not redeemable prior to October 15, 2009 would be at least 126% of par value and that the difference between paying approximately 126% versus the proposed Early Redemption amount of 110% is an additional $20.2 million. The portion of this amount that would be applicable to Loral Skynet Notes held by holders other than affiliates of MHR is approximately $11 million, which the Skynet Noteholder Plaintiffs have described as a floor on their damage claim. The Skynet Noteholder Plaintiffs also claim to be entitled to a portion of the excess of the current value of the Loral Series-1 Preferred Stock over its cost, to the extent it constitutes a consent fee paid to MHR.

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

The Skynet Noteholder Plaintiffs also moved for a preliminary injunction and for expedited proceedings, including a hearing on their preliminary injunction motion in advance of any redemption of the Loral Skynet Notes or discharge of the Indenture. At a hearing on the Skynet Noteholder Plaintiffs motion to expedite proceedings held on July 16, 2007, Loral agreed to place $12 million, which is included in restricted cash in the current assets section

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of our condensed consolidated balance sheet (representing the $11 million incremental amount claimed by the Skynet Noteholder Plaintiffs in their complaint above the 110% Early Redemption amount plus an allowance for reasonable expenses) in escrow prior to the date the Indenture is discharged for the benefit of holders of Loral Skynet Notes other than funds affiliated with MHR, and the court declined to schedule a hearing on the Skynet Noteholder Plaintiffs motion for a preliminary injunction prior to the redemption date or any earlier discharge of the Indenture. At the hearing, the court also granted the motion for expedited proceedings and indicated that it would schedule a trial on the merits in coordination with the trial of a matter related to the Loral Series-1 Preferred Stock pending before the court and currently scheduled for trial in March 2008.

On July 12, 2007, the Trustee reported that objections to the proposed redemption had been received from holders of Loral Skynet Notes representing less than two-thirds of the outstanding Loral Skynet Notes, and, on July 16, 2007, at the request of Loral Skynet, the Trustee issued an unconditional Notice of Full Redemption. Consequently, the Loral Skynet Notes were redeemed on September 5, 2007, and the Indenture was discharged.

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

Rainbow DBS Litigation

In March 2001, Loral entered into an agreement (the Rainbow DBS Sale Agreement) with Rainbow DBS Holdings, Inc. (Rainbow Holdings) pursuant to which Loral agreed to sell to Rainbow Holdings its interest in Rainbow DBS Company, LLC (formerly R/L DBS Company, LLC, Rainbow DBS) for a purchase price of $33 million plus interest at an annual rate of 8% from April 1, 2001. Loral s receipt of this purchase price was, however, contingent on the occurrence of certain events, including without limitation, the sale of substantially all of the assets of Rainbow DBS. At the time of the Rainbow DBS Sale Agreement, Loral s investment in Rainbow DBS had been recorded at zero and Loral did not record a receivable or gain from this sale. In November 2005, Rainbow DBS sold its Rainbow 1 satellite and related assets to EchoStar Communications Corporation. Rainbow Holdings, however, informed Loral that it did not believe that Loral was entitled to receive an immediate payment of the purchase price under the Rainbow DBS Sale Agreement as a result of the EchoStar sale transaction. Loral disputed Rainbow Holdings interpretation of the agreement and, in September 2005, commenced a lawsuit in the 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