

LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
August 11, 2008

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

Form 10-Q

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

For the quarterly period ended June 30, 2008

Commission file number 1-14180

Loral Space & Communications Inc.

**600 Third Avenue
New York, New York 10016
Telephone: (212) 697-1105**

Jurisdiction of incorporation: Delaware

IRS identification number: 87-0748324

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

As of July 31, 2008, there were 20,292,363 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)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 135,064	\$ 314,694
Contracts-in-process	142,733	109,376
Inventories	105,156	96,968
Restricted cash	13,005	12,816
Receivable from litigation settlement	58,295	
Other current assets	40,441	36,034
Total current assets	494,694	569,888
Property, plant and equipment, net	165,723	147,828
Long-term receivables	146,559	132,400
Investments in affiliates	504,130	566,196
Goodwill	226,437	227,058
Intangible assets, net	37,216	42,854
Other assets	18,406	16,715
Total assets	\$ 1,593,165	\$ 1,702,939
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 68,144	\$ 69,205
Accrued employment costs	37,260	42,890
Customer advances and billings in excess of costs and profits	205,521	251,954
Income taxes payable	6,425	31,239
Accrued interest and preferred dividends	5,166	4,979
Other current liabilities	37,257	39,512
Total current liabilities	359,773	439,779
Pension and other post retirement liabilities	146,253	152,341
Long-term liabilities	131,125	137,261

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Total liabilities	637,151	729,381
Commitments and contingencies		
Shareholders' equity:		
Series A-1 Cumulative 7.5% convertible preferred stock, \$0.01 par value; 2,200,000 shares authorized, 144,509 and 141,953 shares issued and outstanding	42,644	41,873
Series B-1 Cumulative 7.5% convertible preferred stock, \$0.01 par value; 2,000,000 shares authorized, 937,730 and 900,821 shares issued and outstanding	276,906	265,777
Common stock, \$.01 par value; 40,000,000 shares authorized, 20,296,407 and 20,292,746 shares issued and outstanding	203	203
Paid-in capital	667,050	663,127
Accumulated deficit	(65,293)	(33,939)
Accumulated other comprehensive income	34,504	36,517
Total shareholders' equity	956,014	973,558
Total liabilities and shareholders' equity	\$ 1,593,165	\$ 1,702,939

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		Six Months	
	Ended June 30,		Ended June 30,	
	2008	2007	2008	2007
Revenues from satellite manufacturing	\$ 208,061	\$ 191,327	\$ 426,598	\$ 379,004
Revenues from satellite services		34,674		67,529
Total revenues	208,061	226,001	426,598	446,533
Cost of satellite manufacturing	184,103	173,027	391,115	347,128
Cost of satellite services		25,572		50,539
Selling, general and administrative expenses	25,562	42,523	47,897	75,785
Gain on recovery from customer bankruptcy	(6,140)		(6,140)	
Operating income (loss)	4,536	(15,121)	(6,274)	(26,919)
Interest and investment income	1,952	10,657	8,282	17,211
Interest expense	(305)	(2,233)	(656)	(5,046)
Gain on foreign exchange contracts		61,508		65,472
Gain on litigation recovery	58,295		58,295	
Impairment of available for sale securities	(3,500)		(3,500)	
Other income (expense)	(223)	179	(296)	261
Income before income taxes, equity in net income				
(losses) of affiliates and minority interest	60,755	54,990	55,851	50,979
Income tax provision	(11,643)	(28,363)	(13,419)	(31,764)
Income before equity in net income (losses) of affiliates				
and minority interest	49,112	26,627	42,432	19,215
Equity in net income (losses) of affiliates	2,838	487	(61,699)	(1,938)
Minority interest		(6,487)		(13,473)
Net income (loss)	51,950	20,627	(19,267)	3,804
Preferred dividends	(6,099)	(5,669)	(12,087)	(7,732)
Beneficial conversion feature related to the issuance of				
Loral Series A-1 Preferred Stock		(927)		(25,404)
Net income (loss) applicable to common shareholders	\$ 45,851	\$ 14,031	\$ (31,354)	\$ (29,332)
Basic and diluted income (loss) per common share:				
Basic income (loss) per share	\$ 2.27	\$ 0.70	\$ (1.56)	\$ (1.46)
Diluted income (loss) per share	\$ 2.16	\$ 0.67	\$ (1.56)	\$ (1.46)

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Weighted average shares outstanding:

Basic	20,169	20,070	20,162	20,055
Diluted	21,614	30,594	20,162	20,055

See notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2008	2007
Operating activities:		
Net (loss) income	\$ (19,267)	\$ 3,804
Non-cash operating items	25,541	22,005
Changes in operating assets and liabilities:		
Accounts receivable, net		64,223
Contracts-in-process	(82,213)	(69,646)
Inventories	(8,188)	(10,959)
Long-term receivables	19,140	(212)
Other current assets and other assets	(3,142)	(1,875)
Accounts payable	(6,462)	3,838
Accrued expenses and other current liabilities	(20,343)	(24,063)
Customer advances	(29,087)	4,874
Income taxes payable	(24,815)	1,280
Pension and other postretirement liabilities	(6,127)	5,231
Long-term liabilities	(1,856)	7,011
Other		(60)
Net cash (used in) provided by operating activities	(156,819)	5,451
Investing activities:		
Capital expenditures	(23,095)	(52,673)
(Increase) decrease in restricted cash	622	(9,118)
Distribution from equity investment		2,954
Proceeds from the sale of short-term investments and available-for-sale securities	162	307,862
Purchase of short-term investments	(500)	(303,489)
Net cash used in investing activities	(22,811)	(54,464)
Financing activities:		
Proceeds from the sale of preferred stock		293,250
Proceeds from the exercise of stock options		1,707
Preferred stock issuance costs		(9,099)
Cash dividends paid on preferred stock of subsidiary		(1,769)
Net cash provided by financing activities		284,089
Net (decrease) increase in cash and cash equivalents	(179,630)	235,076
Cash and cash equivalents beginning of period	314,694	186,542

Cash and cash equivalents	end of period	\$ 135,064	\$ 421,618
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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 investments in 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*) pursuant to the terms of the fourth amended joint plan of reorganization, as modified (*the Plan of Reorganization*).

The terms *Loral*, *the Company*, *we*, *our* and *us* when used in these financial statements with respect to the period to the *Effective Date*, are references to *Old Loral*, and when used with respect to the period commencing on and after the *Effective Date*, are references to *New Loral*. These references include the subsidiaries of *Old Loral* or *New Loral*, as the case may be, unless otherwise indicated or the context otherwise requires.

Loral is organized into two 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: Until October 31, 2007, the operations of our satellite services segment were conducted through Loral Skynet Corporation (*Loral Skynet*), which leased transponder capacity to commercial and government customers for video distribution and broadcasting, high-speed data distribution, Internet access and communications, and provided managed network services to customers using a hybrid satellite and ground-based system. It also provided professional services such as fleet operating services to other satellite operators. At October 31, 2007, Loral Skynet had four in-orbit satellites and had one satellite under construction at *SS/L*.

On October 31, 2007, Loral and its Canadian partner, Public Sector Pension Investment Board (*PSP*), through Telesat Holdings Inc. (*Telesat Holdco*), a newly-formed joint venture, completed the acquisition of Telesat Canada from BCE Inc. (*BCE*). In connection with this acquisition, Loral transferred on that same date substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada. Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat Holdco, the ultimate parent company of the resulting new entity (see Note 7). We use the equity method of accounting for our investment in Telesat Canada.

We refer to the acquisition of Telesat Canada and the related transfer of Loral Skynet to Telesat Canada as the Telesat Canada transaction. References to Telesat Canada with respect to periods prior to the closing of this transaction are references to the subsidiary of BCE and with respect to the period after the closing of this transaction are references to Telesat Holdco and/or its subsidiaries, as appropriate. Similarly, unless otherwise indicated, references to Loral Skynet with respect to periods prior to the closing of this transaction are references to the operations of Loral's satellite services segment as conducted through Loral Skynet 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 Telesat Canada.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2007 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the SEC.

As noted above, we emerged from bankruptcy on November 21, 2005 and pursuant to Statement of Position No. 90-7, *Financial Reporting of Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7), we adopted fresh-start accounting as of October 1, 2005 and determined the fair value of our assets and liabilities. Upon emergence, our reorganization equity value was allocated to our assets and liabilities, which were stated at fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* (SFAS 141). In addition, our accumulated deficit was eliminated, and our new debt and equity were recorded in accordance with distributions pursuant to the Plan of Reorganization.

Investments in Telesat Canada and XTAR, L.L.C. (XTAR) are accounted for using the equity method of accounting. Income and losses of affiliates are recorded based on our beneficial interest. Intercompany profit arising from transactions with affiliates is eliminated to the extent of our beneficial interest. Equity in losses of affiliates is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist. We capitalize interest cost on our investments, until such entities commence commercial operations. The Company monitors its equity method investments for factors indicating other-than-temporary impairment. An impairment loss would be recognized when there has been a loss in value of the affiliate that is other than temporary.

Cash and Cash Equivalents, Restricted Cash and Available For Sale Securities

As of June 30, 2008, the Company had \$135 million of cash and cash equivalents and \$24.0 million of restricted cash (\$13.0 million included in total current assets and \$11.0 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. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date. Investments in publicly traded common stock are classified as available for sale securities. Available for sale securities are carried at fair value with unrealized gains and losses, if any, reported in accumulated other comprehensive income.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts, contracts-in-process, long-term receivables and advances and loans to affiliates. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Historically, our customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, we have added commercial customers which are highly leveraged, as well as those in the development stage which are partially funded. Management believes, giving consideration to the current difficult credit environment, 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.

Inventories

Inventories consist principally of parts and subassemblies used in the manufacture of satellites which have not been specifically identified to contracts-in-process, and are valued at the lower of cost or market. Cost is determined

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

using the first-in-first-out (FIFO) or average cost method. As of June 30, 2008 and December 31, 2007, inventory was reduced by an allowance for obsolescence of \$27.9 million and \$28.4 million, respectively.

Fair Value Measurements

All available for sale securities are measured at fair value based on quoted market prices at the end of the reporting period. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), to define fair value, establish a framework for measuring fair value in accordance with U.S. GAAP and expand disclosures about fair value measurements. SFAS 157 establishes a fair value measurement hierarchy to price a particular asset or liability. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*, which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and liabilities (such as goodwill), except those that are recognized or disclosed in the Company's financial statements at fair value at least annually. Accordingly, the Company adopted the provisions of SFAS 157 only for its financial assets and liabilities recognized or disclosed at fair value on a recurring basis effective January 1, 2008. The Company's financial assets measured at fair value on a recurring basis as of June 30, 2008 consist of marketable securities which were valued at \$2.6 million and a currency option contract valued at \$0.1 million. The marketable securities were classified as Level 1 and the currency option contract was classified as Level 2 in the fair value measurement hierarchy under SFAS 157 as of June 30, 2008. We did not have any financial liabilities as of June 30, 2008 which required the application of SFAS 157 for valuation purposes.

A Level 1 fair value represents a fair value that is derived from unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

A Level 2 fair value represents a fair value which is derived from observable market data (i.e. benchmark yields, spot rates and other industry and economic events).

Level 1 Loral's marketable securities, which are included in other current assets, consisted entirely of an investment in the common stock of Globalstar Inc. (see Note 7). Loral's investment in Globalstar Inc. is accounted for as an available for sale security under the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). Generally, unrealized gains and losses on this investment are recorded as a component of accumulated other comprehensive income. During the three months ended June 30, 2008, we recorded an impairment charge of \$3.5 million for an other-than-temporary decline in the value of our investment in Globalstar Inc. common stock (see Note 7).

Level 2 Loral entered into a currency option contract for \$0.5 million to manage the risks of exchange fluctuation. The currency option contract has been accounted for under the provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as an economic hedge requiring the contract to be marked to fair value at the end of the reporting period with the change in value charged or credited to income. During the three months ended June 30, 2008, we recorded a charge of \$0.4 million to mark this asset, which is included in other current assets, to fair value (see Note 5).

In addition, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) was effective for us on January 1, 2008. 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 did not elect the fair value option for any of our qualifying financial instruments.

Goodwill

Goodwill represents the amount by which the Company's reorganization equity value exceeded the fair value of its tangible assets and identified intangible assets less its liabilities, as of October 1, 2005, the date we adopted fresh-start accounting. Goodwill has been reduced by the decreases to the valuation allowance as of October 1, 2005 and other tax adjustments (see Income Taxes, below) and the transfer in October 2007 of substantially all of the assets and related liabilities of Loral Skynet in connection with the Telesat Canada transaction. For the three and six

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

months ended June 30, 2008 we recorded a reduction to goodwill in the amount of \$0.6 million related to the reduction of our valuation allowance as of October 1, 2005. Pursuant to the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill is not amortized. Goodwill is subject to an annual impairment test which the Company performs in the fourth quarter of each fiscal year, or if events and circumstances change and indicators of impairment are present, goodwill will be tested for impairment between annual tests. As a result of the decline of Loral's stock price since the most recent goodwill impairment test in 2007, in June 2008 we were required to initiate an interim impairment test which we expect to complete in the third quarter of 2008. Testing goodwill for impairment requires significant subjective judgments by management. If we are required to record an impairment charge to goodwill, it could have a material effect on our financial statements.

Minority Interest

Dividends on Loral Skynet's Series A preferred stock were reflected as minority interest on our consolidated statement of operations for the three and six months ended June 30, 2007. On November 5, 2007 all of the issued and outstanding shares of Loral Skynet's Series A preferred stock were redeemed in connection with the completion of the Telesat Canada transaction (See Note 7).

Income Taxes

During 2008 and 2007, we continued to maintain the 100% valuation allowance against our net deferred tax assets except with regard to our deferred tax assets related to AMT credit carryforwards and certain state tax benefits. We will 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, any reduction to the balance of our valuation allowance as of October 1, 2005 will first reduce goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital. For the three and six months ended June 30, 2008 we recorded a reduction to goodwill in the amount of \$0.6 million related to the reduction of our valuation allowance as of October 1, 2005.

As of June 30, 2008, we had unrecognized tax benefits relating to uncertain tax positions of \$59.9 million. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense on a quarterly basis. As of June 30, 2008, we have accrued approximately \$10.5 million and \$13.6 million for the payment of tax-related interest and penalties, respectively.

Generally, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2004. 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. During the next twelve months, the statute of limitations for assessment of additional tax will expire with regard to several of our U.S. income tax returns filed for 2004, potentially resulting in a \$1.8 million reduction to our unrecognized tax benefits.

The liability for uncertain tax positions is included in long-term liabilities in the condensed consolidated balance sheets. For the three months ended June 30, 2008 and 2007, we increased our liability for uncertain tax positions from \$69.5 million to \$71.3 million and from \$62.0 million to \$64.1 million, respectively. The increase of \$1.8 million for

the three months ended June, 30, 2008 and \$2.1 million for the three months ended June, 30, 2007 related to our current provision for potential additional interest and penalties. For the six months ended June 30, 2008 and 2007, we increased our liability for uncertain tax positions from \$68.0 million to \$71.3 million and from \$60.8 million to \$64.1 million, respectively. The increase of \$3.3 million for the six months ended June, 30, 2008 and \$3.3 million for the six months ended June, 30, 2007 related to our current provision for potential additional interest and penalties.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of June 30, 2008, if our positions are sustained by the taxing authorities, approximately \$37.2 million would be treated as a reduction of goodwill, \$31.9 million would reduce the Company's effective tax rate and \$2.2 million would reduce deferred tax assets. Other than as described above, there were no significant changes to our uncertain tax positions during the six months ended June 30, 2008, and we do not anticipate any other significant increases or decreases to our unrecognized tax benefits during the next twelve months.

Pensions and Other Employee Benefits

The following table provides the components of net periodic benefit cost for our qualified and supplemental retirement plans (the Pension Benefits) and health care and life insurance benefits for retired employees and dependents (the Other Benefits) for the three and six months ended June 30, 2008 and 2007 (in thousands):

	Pension Benefits Three Months Ended June 30,		Other Benefits Three Months Ended June 30,	
	2008	2007	2008	2007
Service cost	\$ 2,039	\$ 2,412	\$ 335	\$ 360
Interest cost	5,787	5,432	1,164	1,250
Expected return on plan assets	(6,157)	(5,837)	(20)	(10)
Amortization of prior service credits and net actuarial gain or loss	(707)	(700)	(122)	(75)
	\$ 962	\$ 1,307	\$ 1,357	\$ 1,525

	Pension Benefits Six Months Ended June 30,		Other Benefits Six Months Ended June 30,	
	2008	2007	2008	2007
Service cost	\$ 4,078	\$ 4,824	\$ 670	\$ 720
Interest cost	11,574	10,864	2,328	2,500
Expected return on plan assets	(12,314)	(11,674)	(40)	(20)
Amortization of prior service credits and net actuarial gain or loss	(1,414)	(1,400)	(244)	(150)
	\$ 1,924	\$ 2,614	\$ 2,714	\$ 3,050

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):

	Six Months Ended June 30,	
	2008	2007
Non-cash operating items:		
Equity in net losses of affiliates	\$ 61,699	\$ 1,938
Minority interest		13,473
Deferred taxes	797	25,808
Depreciation and amortization	16,374	40,607
Stock based compensation	4,155	11,354
Recoveries of bad debts on billed receivables		(80)
Provisions for inventory obsolescence		380
Warranty expense accruals (reversals)	1,187	(1,573)
Amortization of prior service credits and net actuarial gain	(1,658)	(1,550)
Gain on disposition of available-for-sale securities	(162)	(2,505)
Gain on litigation recovery	(58,295)	
Withholding tax impact of cashless stock option exercises		(143)
Non-cash net interest	429	169
Loss (gain) on foreign currency transactions and contracts	291	(65,472)
Amortization of fair value adjustments related to orbital incentives	(2,839)	
Loss on disposition of assets	63	
Impairment of available for sale securities	3,500	
Other		(401)
Net non-cash operating items	\$ 25,541	\$ 22,005
Non-cash investing activities:		
Available for sale securities received in connection with the sale of Globalstar do Brazil	\$ 6,000	\$
Capital expenditures incurred not yet paid	\$ 5,832	\$ 1,780
Non-cash financing activities:		
Issuance of preferred stock by subsidiary as payment for dividend	\$	\$ 11,087
Issuance of Loral Series-1 Preferred Stock as payment for dividend	\$ 11,900	\$ 2,812
Accrued dividends on Series A-1 and Series B-1 preferred stock	\$ 5,166	\$ 4,920

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Supplemental information:

Interest paid	\$ 773	\$ 10,335
Taxes paid, net of refunds	\$ 34,104	\$ 1,726

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New Accounting Pronouncements

SFAS 141(R)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)). SFAS 141(R) broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS 141(R) expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS 141(R) requires the acquirer to recognize as an adjustment to income tax expense, changes in the valuation allowance for acquired deferred tax assets. SFAS 141(R) is effective for the Company on January 1, 2009. We are currently evaluating the impact adopting SFAS 141(R) will have on our consolidated financial statements.

FSP FAS 142-3

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP FAS 142-3 is effective for the Company on January 1, 2009. We do not anticipate that the adoption of FSP FAS 142-3 will have a material impact on our consolidated financial statements.

SFAS 160

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS 160). SFAS 160 requires that a non-controlling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the non-controlling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any non-controlling equity investment retained in a deconsolidation. SFAS 160 is effective for the Company on January 1, 2009. We are currently evaluating the impact adopting SFAS 160 will have on our consolidated financial statements.

SFAS 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS 107, *Disclosure about Fair Value of Financial Instruments* by requiring increased qualitative, quantitative and credit-risk disclosures about an entity's derivative instruments and hedging activities but does not change SFAS 133's scope or accounting. SFAS 161 is effective for the Company on January 1, 2009. We are currently evaluating the impact adopting SFAS 161 will have on the disclosures included in our consolidated financial statements.

SFAS 162

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC 's approval of the Public Company Accounting Oversight Board amendments to AU

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

Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. We are currently evaluating the impact adopting SFAS 162 will have on our consolidated financial statements.

3. Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income (loss)	\$ 51,950	\$ 20,627	\$ (19,267)	\$ 3,804
Proportionate share of Telesat Holdco other comprehensive income	673		(367)	
Cumulative translation adjustment		29	(498)	59
Amortization of prior service credits and net actuarial gains, net of taxes	(494)	(469)	(988)	(938)
Unrealized gain (loss) on available-for-sale securities arising during the period, net of taxes	(2,401)	(1,618)	(2,159)	(3,959)
Reclassification adjustment for gains included in net income	2,041	1,475	1,999	1,475
Comprehensive income (loss)	\$ 51,769	\$ 20,044	\$ (21,280)	\$ 441

4. Contracts-in-Process

	June 30, 2008	December 31, 2007
	(In thousands)	
Amounts billed	\$ 63,900	\$ 60,548
Unbilled receivables	78,833	48,828
	\$ 142,733	\$ 109,376

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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Financial Instruments and Foreign Currency

Foreign Currency

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

As of June 30, 2008, SS/L had the following amounts denominated in Japanese Yen and EUROS (which have been translated into U.S. dollars based on the June 30, 2008 exchange rates) that were unhedged (in millions):

		Foreign Currency	U.S.\$
Future revenues Japanese Yen	¥	123	\$ 1.2
Future expenditures Japanese Yen	¥	3,997	\$ 37.7
Contracts-in-process, unbilled receivables Japanese Yen	¥	30	\$ 0.3
Future expenditures EUROS		3.7	\$ 5.9

Derivatives

On July 9, 2008, SS/L announced that it was awarded a satellite contract denominated in EUROS. On June 20, 2008, Loral entered into a currency option transaction expiring on July 10, 2008 that allowed Loral to convert 97.7 million into \$149.5 million. Loral paid a premium of \$500,000 for this option. At June 30, 2008, the EURO had strengthened against the U.S. Dollar and the value of the option was \$92,800, representing a loss of \$407,200. On July 10, 2008, the option expired unused and Loral wrote-off the remaining value of the option. In July 2008, SS/L entered into a series of foreign exchange forward transactions converting 119 million into \$184 million. These foreign exchange forward transactions cover the period from July 2008 through March 2011 at exchange rates ranging from \$1.5897 to \$1.51736 per 1.0000.

As part of the Telesat Canada transaction, Telesat Holdco received financing commitments from a syndicate of banks for \$2.279 billion (based on an exchange rate of \$1.00/CAD 0.9429 as of October 31, 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 was in Canadian dollars, while most of the debt financing was 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. On October 23, 2007, Loral Skynet transferred its financial commitments under these contracts to Telesat Holdco.

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 effectively 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 Skynet for entering into this transaction. For the three and six months ended June 30, 2007, Loral recorded gains of \$5.9 million and \$3.6 million, respectively, reflecting the change in the fair value of the swap. Loral Skynet recognized cumulative losses of \$39.0 million through the date of transfer of the swap to Telesat Holdco on October 23, 2007.

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 Skynet to the single bank counterparty for entering into these transactions. For the three and six months ended June 30, 2007, Loral recorded a gain of \$55.6 million and \$61.9 million, respectively, reflecting the change in the fair value of the

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

forward contracts. Loral Skynet recognized cumulative gains of \$122.6 million through the date of transfer of the foreign currency contracts to Telesat Holdco on October 23, 2007.

6. Property, Plant and Equipment

	June 30, 2008	December 31, 2007
	(In thousands)	
Land and land improvements	\$ 26,799	\$ 26,799
Buildings	52,137	49,917
Leasehold improvements	10,407	8,691
Equipment, furniture and fixtures	106,558	94,844
Satellite capacity under construction (see Note 14)	2,924	
Other construction in progress	28,836	18,552
	227,661	198,803
Accumulated depreciation and amortization	(61,938)	(50,975)
	\$ 165,723	\$ 147,828

Depreciation and amortization expense for property, plant and equipment was \$5.8 million and \$17.9 million for the three months ended June 30, 2008 and 2007, respectively, and \$11.0 million and \$35.2 million for the six months ended June 30, 2008 and 2007, respectively.

7. Investments in Affiliates

Investments in affiliates consists of (in thousands):

	June 30, 2008	December 31, 2007
Telesat Holdings Inc	\$ 425,869	\$ 479,579
XTAR, LLC	78,261	86,617
	\$ 504,130	\$ 566,196

In accordance with SFAS 130, *Reporting Comprehensive Income*, we recorded our proportionate share of Telesat Holdco's other comprehensive income (loss) as an adjustment to the investment account with a corresponding adjustment to other comprehensive income (loss).

Equity in net income (losses) of affiliates consists of (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Telesat Holdings Inc.	\$ 6,959	\$	\$ (53,343)	\$
XTAR	(4,121)	(2,366)	(8,356)	(4,892)
Globalstar service provider partnerships		2,853		2,954
	\$ 2,838	\$ 487	\$ (61,699)	\$ (1,938)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 29,085	\$ 18	\$ 48,434	\$ 408
Elimination of Loral's proportionate share of profits relating to affiliate transactions	(2,625)	(20)	(3,814)	(31)
Profits relating to affiliate transactions not eliminated	1,471	15	2,140	24

Telesat Canada

On December 16, 2006, a subsidiary of Telesat Holdco, a joint venture formed by Loral and its Canadian partner, PSP, entered into a definitive agreement (the Share Purchase Agreement) with BCE and Telesat Canada to acquire 100% of the stock of Telesat Canada from BCE for CAD 3.25 billion. The Telesat Canada transaction closed on October 31, 2007. We hold equity interests in Telesat Holdco representing 64% of the economic interests and 33 1/3% of the voting interests. Our Canadian partner, PSP, holds 36% of the economic interests and 66 2/3% of the voting interests in Telesat Holdco (except with respect to the election of directors as to which it holds a 30% voting interest; the remaining 36 2/3% voting interest for directors is held by two independent directors who hold a nominal economic interest in Telesat Holdco).

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 Telesat Holdco, and an asset purchase agreement (the Asset Purchase Agreement) with 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 Telesat 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 the Telesat Canada subsidiary in exchange for \$25.5 million in marketable securities. On August 7, 2007, we, Loral Skynet, PSP, Telesat Holdco and a subsidiary of Telesat Holdco also entered into an Ancillary Agreement providing, among other things, for the settlement of payments by and among us, PSP and Telesat Holdco in connection with the Telesat Canada acquisition, the transactions contemplated under the Asset Transfer Agreement, and related transactions. As a result, we received true-up payments of \$45 million from PSP in 2007 to bring the equity contributions into the required economic positions, which payment was subject to a post-closing adjustment process. Upon completion of this process, a final adjustment payment of approximately \$9.2 million was made by Loral to PSP on April 4, 2008 and is included as a payable in our condensed consolidated balance sheet as of December 31, 2007.

The following table presents summary financial data for Telesat Canada in accordance with U.S. GAAP (in U.S. \$ millions):

Statement of Operations Data:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Revenues	\$ 172.4	\$ 338.9
Operating expenses	(123.5)	(249.1)
Operating income	48.9	89.8
Interest expense	(53.3)	(115.5)
Other income (expense)	39.8	(48.5)
Income tax provision	(20.3)	(3.3)
Net income (loss)	15.1	(77.5)

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

Balance Sheet Data:

	June 30, 2008	December 31, 2007
Current assets	\$ 121.6	\$ 143.7
Total assets	5,401.5	5,610.0
Current liabilities	185.6	229.5
Total liabilities	4,076.9	4,156.7
Redeemable preferred stock	138.5	143.1
Shareholders' equity	1,186.1	1,310.2

Other income (expense) included a non-cash foreign exchange gain of \$21 million for the three months ended June 30, 2008 and a non-cash foreign exchange loss of \$102 million for the six months ended June 30, 2008 and a non-cash gain on financial instruments of \$18 million and \$50 million for the three and six months ended June 30, 2008, respectively.

We use the equity method of accounting for our investment in Telesat Canada because we own 33 1/3% of the voting stock and do not exercise control via other means. Loral's equity in net income (loss) of Telesat Canada is based on our proportionate share of its results in accordance with U.S. GAAP and in U.S. dollars. Our proportionate share of Telesat Canada's net income (loss) is based on our 64% economic interest as our holdings consist of common stock and non-voting participating preferred shares that have all the rights of common stock with respect to dividends, return of capital and surplus distributions but have no voting rights.

The contribution of Loral Skynet to Telesat Canada has been recorded by Loral at the historical book value of our retained interest combined with the gain recognized on the contribution. However, the contribution has been recorded by Telesat Canada at fair value. Accordingly, the amortization of fair value adjustments applicable to the Loral Skynet assets and liabilities have been proportionately eliminated in determining our share of the earnings of Telesat Canada. Our equity in the net loss of Telesat Canada also reflects the elimination of our profit, to the extent of our economic interest, on satellites we are constructing for them.

XTAR

We own 56% of XTAR, a joint venture between us and Hisdesat Servicios Estrategicos, S.A. (Hisdesat) of Spain. We account for our investment in XTAR under the equity method of accounting because we do not control certain of its significant operating decisions. Our interest in XTAR has been retained by Loral and was not transferred to Telesat Canada as part of the Telesat Canada transaction.

XTAR owns and operates an X-band satellite, XTAR-EUR, located at 29o E.L., which entered service in March 2005. The satellite is designed to provide X-band communications services exclusively to United States, Spanish and allied government users throughout the satellite's coverage area, including Europe, the Middle East and Asia. The government of Spain granted XTAR rights to an X-band license, normally reserved for government and military use, to develop a commercial business model for supplying X-band capacity in support of military, diplomatic and security

communications requirements. XTAR also leases up to eight 72 MHz X-band transponders on the Spainsat satellite located at 30o W.L., owned by Hisdesat, which entered commercial service in April 2006. These transponders, designated as XTAR-LANT, allow XTAR to provide its customers in the U.S. and abroad with additional X-band services and greater flexibility.

In January 2005, Hisdesat provided XTAR with a convertible loan in the amount of \$10.8 million due 2011, for which Hisdesat received enhanced governance rights in XTAR. If Hisdesat were to convert the loan into XTAR equity, our equity interest in XTAR would be reduced to 51%.

XTAR's lease obligation to Hisdesat for the XTAR-LANT transponders is \$23.0 million in 2008, with increases thereafter to a maximum of \$28 million per year through the end of the useful life of the satellite. Under

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

this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. XTAR has agreed that XTAR's excess cash balance (as defined) would be applied towards making limited payments on these lease obligations, as well as payments of other amounts owed to Hisdesat, Telesat Canada and Loral in respect of services provided by them to XTAR. XTAR is currently making payments in accordance with this agreement. During the first quarter of 2008, we also agreed with Hisdesat that interest on XTAR's outstanding lease obligations to Hisdesat will be paid through the issuance of a class of non-voting membership interests in XTAR, which would enjoy priority rights with respect to dividends and distributions over the ordinary membership interests currently held by us and Hisdesat.

In May 2005, XTAR signed a contract with the U.S. Department of State for the lease of transponder capacity for a period of three years with two one-year options. The State Department is authorized pursuant to its procurement guidelines to lease up to \$137.0 million for a specified capacity under this contract, to the extent that capacity is available. As of June 30, 2008, the U.S. Department of State has committed to lease three transponders under this contract, having a total lease value of \$40.5 million, and has the right, at its option, to renew the leases for additional terms, which, if fully exercised, would bring the total value of the leases to \$45.0 million. There can be no assurance as to how much, if any, additional capacity the U.S. Department of State may lease from XTAR under this contract. XTAR also has contracts to provide services to the U.S. Department of Defense, the Spanish Ministry of Defense, the Belgium Ministry of Defense and the Danish armed forces.

XTAR-EUR was launched on Arianespace, S.A.'s Ariane ECA launch vehicle in 2005. The price for this launch had two components—the first, consisting of a \$15.8 million 10% interest paid-in-kind loan provided by Arianespace, was repaid in full by XTAR on July 6, 2007. The second component of the launch price consists of a revenue-based fee to be paid to Arianespace over XTAR-EUR's 15 year in orbit operations. This fee, also referred to as an incentive fee, equals 3.5% of XTAR's annual operating revenues, subject to a maximum threshold (the Incentive Cap). The Incentive Cap was set at \$20 million through December 2007 and increases by \$208,000 each month beginning January 2008 to a maximum of \$50 million on December 1, 2019. XTAR has the option to prepay some or all of this incentive portion, and once the incentive payments actually paid to Arianespace equal the Incentive Cap at any point in time, XTAR will have no further payment obligation to Arianespace. At the end of XTAR-EUR's useful life, XTAR will have no further obligation to Arianespace on the incentive portion, even if the aggregate amount of the incentive fee payments shall not have reached the \$50 million Incentive Cap. The carrying value of the incentive fee payable to Arianespace is arrived at by accreting interest on the previous years' outstanding balance at a rate that equates the 3.5% fee payable on the projected revenue through the end of the life of the XTAR-EUR satellite. On February 29, 2008, XTAR paid Arianespace \$1.54 million representing the incentive fee through December 31, 2007.

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

Statement of Operations Data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 4.7	\$ 4.6	\$ 9.4	\$ 9.3

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Operating loss	(6.3)	(3.8)	(12.6)	(7.4)
Net loss	(7.4)	(4.1)	(15.0)	(8.3)

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Balance Sheet Data:

	June 30, 2008	December 31, 2007
Current assets	\$ 7.2	\$ 8.9
Total assets	118.4	124.9
Current liabilities	36.2	29.6
Total liabilities	72.9	64.4
Members' equity	45.5	60.5

Other

On December 21, 2007, Loral and certain of its subsidiaries and DASA Globalstar LLC entered into an agreement to sell their respective interests in Globalstar do Brasil S.A. (GdB), the Globalstar Brazilian service provider, to Globalstar Inc. Closing of the transaction occurred on March 25, 2008. Pursuant to the sale agreement, Loral received 883,393 shares of common stock of Globalstar Inc. in consideration for the sale of its interest. The shares have been registered under the Securities Act of 1933 and may be sold by Loral without restriction. In addition, Loral agreed to indemnify Globalstar Inc. for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. Loral has agreed that proceeds from the sale of the Globalstar Inc. common stock received in the transaction will be kept in a segregated account and may be used only for payment of the indemnified liabilities. As a result of the sale and taking into account our estimate of the indemnified liabilities, we recorded a loss of \$11.3 million during the year ended December 31, 2007.

As of June 30, 2008, we owned 904,493 shares of Globalstar Inc. common stock, which are accounted for as available-for-sale securities, with a fair value of \$2.6 million. During the second quarter of 2008, management determined that there has been an other-than-temporary impairment in the fair value of the Globalstar Inc. stock obtained in the sale of GdB. Accordingly, in accordance with SFAS 115, an impairment charge of \$3.5 million was included in our condensed consolidated statement of operations for the three and six months ended June 30, 2008. Unrealized gains (losses) on other Globalstar shares were \$(0.1) million and \$0.3 million, net of taxes for the three and six months ended June 30, 2008, respectively.

For the three months ended June 30, 2007, Loral recognized earnings of \$3.0 million from our Globalstar investment partnerships, which were primarily attributable to a cash distribution from one of our investments.

8. Intangible Assets*Intangible Assets*

Intangible Assets were established in connection with our adoption of fresh-start accounting and consist of (in millions, except years):

	Weighted Average Remaining Amortization Period (Years)	June 30, 2008		December 31, 2007	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Internally developed software and technology	3	\$ 59.0	\$ (29.7)	\$ 59.0	\$ (24.3)
Trade names	17	9.2	(1.3)	9.2	(1.0)
		\$ 68.2	\$ (31.0)	\$ 68.2	\$ (25.3)

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

Total amortization expense for intangible assets was \$2.8 million and \$5.0 million for the three months ended June 30, 2008 and 2007, respectively, and \$5.6 million and \$10.0 million for the six months ended June 30, 2008 and 2007, respectively. Annual amortization expense for intangible assets for the five years ending December 31, 2012 is estimated to be as follows (in millions):

2008	\$ 11.3
2009	11.3
2010	9.2
2011	2.9
2012	2.3

As of June 30, 2008, our condensed consolidated balance sheet reflects gross fair value adjustments of \$36.9 million recorded in connection with our adoption of fresh start accounting 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 was a credit to expense of \$0.5 million and \$1.6 million for the three months ended June 30, 2008 and June 30, 2007, respectively, and \$3.1 million and \$4.9 million for the six months ended June 30, 2008 and June 30, 2007, respectively. Accumulated amortization of fair value adjustments was \$20.4 million as of June 30, 2008.

9. Debt*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. 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 cost related to these notes was \$4.5 million and \$8.9 million for the three and six months ended June 30, 2007, respectively. Loral Skynet made cash interest payments of \$8.8 million on these notes on January 15, 2007 and July 16, 2007, respectively.

Certain holders of Loral Skynet Notes have commenced litigation with respect to the redemption of the Loral Skynet Notes (see Note 11).

SS/L Letter of Credit Facility

On November 30, 2007, SS/L entered into a second amendment to its amended and restated letter of credit agreement with JP Morgan Chase Bank extending the maturity of the \$15.0 million facility to December 31, 2008. 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, 2008. Outstanding letters of credit are fully cash collateralized. As of June 30, 2008, \$5.4 million of

letters of credit under this facility were issued and outstanding.

10. 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

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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. 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 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.

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 June 30, 2008, Dr. Rachesky held 15,000 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).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Each share of the Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series B-1 Preferred Stock and Series B-2 Preferred Stock (collectively, the Loral Preferred Stock) entitles the holder to 1/10,000 vote for each share of preferred stock. If the Company (i) fails to pay three quarterly dividend payments on the Loral Series-1 Preferred Stock when due or (ii) fails to make any dividend payment when due and there exists at such time assets or funds available to pay such dividends, then the holders of the Loral 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 \$6.0 million through the issuance of 19,915 shares of Series B-1 Preferred Stock during the three months ended June 30, 2008. During the six months ended June 30, 2008, the Company paid dividends of \$11.9 million through the issuance of 2,556 shares of Series A-1 Preferred Stock and 36,909 shares of Series B-1 Preferred Stock. Accrued but unpaid dividends for Loral Series-1 Preferred Stock as of June 30, 2008 were \$5.2 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 value of the common stock on the date the financing closed, as compared to the conversion price, the Company was required to reflect a beneficial conversion feature of the Loral Series A-1 Preferred Stock as a component of its net loss applicable to common shareholders for the three and six months ended June 30, 2007. We will also reflect a beneficial conversion feature in a similar manner for the Series B-1 Preferred Stock, in the period in which shareholder approval of the

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creation of the new class of Class B-1 non-voting common stock is received. This beneficial conversion feature is recorded as an increase or decrease to net (loss) income applicable to common shareholders and results in a reduction of both basic and diluted earnings per share. For 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 may be required to record additional beneficial conversion features that increase or decrease our net (loss) income applicable to common shareholders. Due to the fact that the fair value of Loral's common stock on March 31, 2008 and June 30, 2008 was less than the conversion price, we did not record any beneficial conversion feature for the three and six months ended June 30, 2008. For the three months ended June 30, 2007, we recorded a beneficial conversion feature of \$0.9 million for the dividends in additional shares of Loral Series A-1 Preferred Stock. We will also record an additional beneficial conversion feature in a similar manner for dividends paid in additional shares of Loral Series B-1 Preferred Stock in the period in which shareholder approval of the class B-1 non-voting common stock is received, and thereafter. For cumulative dividends paid and accrued through June 30, 2008 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 \$7 million.

In connection with the preferred stock financing, Loral agreed to present certain proposals to its stockholders at its annual meeting but requested that MHR waive such undertaking with regard to Loral's 2008 annual meeting. MHR has agreed to Loral's request as set forth on its April 28, 2008 letter agreement entered into with Loral. Loral intends to seek stockholder approval for these proposals at its annual meeting in 2009 or at a special meeting of stockholders.

Loral incurred issuance costs of \$8.9 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.

Loral Skynet Series A Preferred Stock

On November 21, 2005, Loral Skynet issued 1.0 million of its 2.0 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. Dividends on the Loral Skynet Preferred Stock (if not paid or accrued as permitted under certain circumstances) were payable in kind (in additional shares of Loral Skynet Preferred Stock) if the amount of any dividend payment would exceed certain thresholds.

The dividends on Loral Skynet Preferred Stock of \$6.5 million and \$13.5 million for the three and six months ended June 30, 2007, respectively, were reflected as minority interest on our consolidated statements of operations.

On November 5, 2007, in connection with the completion of the Telesat Canada transaction, all issued and outstanding shares of Loral Skynet Preferred Stock were redeemed.

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 covered the following grants that were all subject to stockholder approval of the plan amendments: (a) 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"), (b) the grant in June 2006 of options to purchase 20,000 shares to our former Chief Financial Officer in connection with his entering into an amendment to his employment agreement, (c) the grant in June 2006 of options

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to purchase 120,000 shares to a former director in connection with his entering into a consulting agreement and (d) grants of approximately 175,700 shares of restricted stock to employees of SS/L and others. In addition, these amendments covered 31,000 shares of restricted stock granted to our directors as part of their compensation. These grants were recognized and measured upon stockholder approval of the amendments. As a result of the approval of the amendments, we recorded compensation cost for the period May 22, 2007 to June 30, 2007 related to the first three grants of \$8.1 million, based on the estimated fair value of these grants, and stock compensation costs of \$2.2 million were recorded for the grant of restricted shares for the period May 22, 2007 to June 30, 2007. As of June 30, 2008 there were 641,800 shares available for future grant, which shares will be used for awards to our employees, to fulfill existing contractual obligations and to cover the equity component of our directors compensation.

11. Commitments and Contingencies***Financial Matters***

We paid \$1.7 million in January 2008 and are obligated to pay \$1.7 million in January 2009 to the U.S. Department of State pursuant to a consent agreement entered into by Old Loral and SS/L.

SS/L has deferred revenue and accrued liabilities for performance warranty obligations relating to satellites sold to customers, which could be affected by future performance of the satellites. These reserves for expected costs for warranty reimbursement and support are based on historical failure rates. However, in the event of a catastrophic failure of a satellite, which cannot be predicted, these reserves likely will not be sufficient. SS/L periodically reviews and adjusts the deferred revenue and accrued liabilities for warranty reserves based on the actual performance of each satellite and remaining warranty period. A reconciliation of such deferred amounts for the six months ended June 30, 2008, is as follows (in millions):

Balance of deferred amounts at January 1, 2008	\$ 35.0
Warranty costs incurred including payments	(0.4)
Accruals relating to pre-existing contracts (including changes in estimates)	2.4
Balance of deferred amounts at June 30, 2008	\$ 37.0

In connection with the Telesat Canada transaction, Loral initiated a restructuring of its corporate functions. Through 2008 Loral will reduce the number of employees at its headquarters, consolidating some functions at SS/L. In the fourth quarter of 2007, Loral charged approximately \$7.0 million to selling, general and administrative expenses, mainly for severance and related costs, and expects to make cash payments related to the restructuring primarily during 2008 and 2009. Loral has paid restructuring costs of approximately \$0.7 million, \$3.5 million and \$3.8 million for the three and six months ended June 30, 2008 and cumulative to date, respectively. At June 30, 2008, the liability recorded in the condensed consolidated balance sheet for the restructuring was \$3.2 million.

Many of SS/L's satellite contracts permit SS/L's customers to pay a portion of the purchase price for the satellite over time subject to the continued performance of the satellite (or orbitals), and certain of SS/L's satellite contracts require SS/L to provide vendor financing to its customers, or a combination of these contractual terms. Some of these

arrangements are provided to customers that are start-up companies or companies in the early stages of building their businesses. There can be no assurance that these companies or their businesses will be successful and, accordingly, that these customers will be able to fulfill their payment obligations under their contracts with SS/L. We believe that these provisions will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided. Moreover, SS/L's receipt of orbital payments is subject to the continued performance of its satellites generally over the contractually stipulated life of the satellites. Because these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/L will be able to collect all or a portion of these receivables. Orbital receivables and vendor financing receivables included in our condensed consolidated balance sheet as of June 30, 2008 were \$148 million and \$0, respectively.

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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. Pursuant to an amendment dated May 22, 2008, Sirius is required to prepay any loans outstanding upon the occurrence of certain events, including the failure to obtain its FCC license for FM-6 by September 30, 2008. As of June 30, 2008, no loans were outstanding under the *Credit Agreement*. Sirius is currently eligible to borrow \$100 million under the *Credit Agreement*, representing reimbursement of payments previously made by Sirius under the *Amended Satellite Purchase Agreement*.

During the three months ended June 30, 2008, we recorded income of \$6.1 million for cash received related to a distribution from a bankruptcy claim against a former customer of Loral Skynet. The receivables underlying the claim had previously been written-off or not recognized due to the customer's bankruptcy. Additional amounts which may be recovered in the future have not been recognized in our statement of operations as their realization has not been assured beyond a reasonable doubt.

See Note 14 *Related Party Transactions - Transactions with Affiliates - Telesat Canada* for commitments and contingencies relating to our agreement to indemnify Telesat Canada for certain liabilities and our arrangements with ViaSat, Inc. and Telesat Canada.

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-five of the satellites built by SS/L and launched since 1997 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. A complete or partial loss of a satellite's capacity could result in a loss of orbital incentive payments to SS/L. 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

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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.

SSL is building a satellite known as CMBStar under a contract with EchoStar Corporation (EchoStar). Satellite construction is substantially complete. EchoStar and SSL have agreed to suspend final construction of the satellite pending, among other things, further analysis relating to efforts to meet the satellite performance criteria and/or confirmation that alternative performance criteria would be acceptable. EchoStar has also stated that it is currently evaluating potential alternative uses for the CMBStar satellite. There can be no assurance that a dispute will not arise as to whether the satellite meets its technical performance specifications or if such a dispute did arise that SSL would prevail. SSL believes that it will not incur a material loss with respect to this program.

In November 2004, Galaxy 27 (formerly Telstar 7) experienced an anomaly which caused it to completely cease operations for several days before it was partially recovered. In June 2008, Galaxy 26 (formerly Telstar 6) experienced a similar anomaly which caused the loss of power to one of the satellite's solar arrays. Three other satellites manufactured by SSL for other customers have designs similar to Galaxy 27 and Galaxy 26 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 SSL of up to \$5 million, of which \$0.8 million has been accrued as of June 30, 2008.

SSL relies, in part, on patents, trade secrets and know-how to develop and maintain its competitive position. There can be no assurance that infringement of existing third party patents has not occurred or will not occur. In the event of infringement, we could be required to pay royalties to obtain a license from the patent holder, refund money to customers for components that are not useable or redesign our products to avoid infringement, all of which would increase our costs. We may also be required under the terms of our customer contracts to indemnify our customers for damages.

See Note 14 Related Party Transactions *Transactions with Affiliates Telesat Canada* for commitments and contingencies relating to SSL's obligation to make payments to Telesat Canada for transponders on Telstar 10.

Regulatory Matters

SSL 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 SSL'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

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, 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

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sold to the MHR Funds \$300 million in new convertible preferred stock, the directors and the MHR Entities breached their fiduciary duties to the Company, including the fiduciary duties of care and loyalty, and that the MHR Entities and Dr. Mark H. Rachesky have aided and abetted the directors' breach of fiduciary duty. The amended complaint seeks, among other things, both as to the derivative claims and the class action claims, preliminary and permanent injunctive relief, an award of compensatory damages in an amount to be determined, rescission of the Securities Purchase Agreement and plaintiff's costs and disbursements, including attorneys' and experts' fees and expenses.

The plaintiff, Mrs. Babus, died in November 2006, and, in August 2007, her son was substituted as plaintiff in place of his deceased mother. After discussions between the parties in which it was decided not to proceed with a Memorandum of Understanding entered into in March 2007 in light of a further advanced Delaware shareholder litigation (discussed below), the parties have agreed, and the court in an order dated December 5, 2007 ordered, that the *Babus* lawsuit be stayed pending final resolution of such Delaware shareholder litigation.

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

Delaware Shareholder Litigation

On or about May 14, 2007, the Court of Chancery of the State of Delaware in and for New Castle County entered an order consolidating two civil actions previously commenced by certain stockholders of the Company against the Company, the MHR Entities and the individual members of the Company's board of directors under the caption *In re: Lorol Space and Communications Inc. Consolidated Litigation*. Plaintiffs in this action are certain stockholders of the Company who allege that they hold over 25% of the outstanding common stock of the Company (the Blackrock Plaintiffs) and Highland Crusader Offshore Partners, L.P. (Highland, and, together with the Blackrock Plaintiffs, the Delaware Plaintiffs), the purported owner of over 7% of Lorol's outstanding common stock. The Blackrock Plaintiffs have brought the case derivatively on behalf of the Company and directly on behalf of the Blackrock Plaintiffs individually. The case has also been brought by Highland as a class action on behalf of a class of Lorol stockholders consisting of all security holders of the Company (except the defendants and persons or entities related to or affiliated with the defendants) who, as alleged in the amended and consolidated complaint, are or will be threatened with injury arising from Defendants' actions as described in the amended and consolidated complaint.

In the amended and consolidated complaint, the Blackrock Plaintiffs have brought derivative claims alleging, among other things, that, in connection with the Securities Purchase Agreement, pursuant to which the Company sold \$300 million of preferred stock to the MHR Funds, the directors and the MHR Entities breached their fiduciary duties to the Company, including the fiduciary duties of care and loyalty, the MHR Entities have aided and abetted the directors' breach of fiduciary duty, and the directors have engaged in conduct, or intentionally or recklessly approved conduct, that has caused the Company to waste valuable corporate assets. In addition, the Blackrock Plaintiffs have brought a direct claim against the MHR Entities and Dr. Rachesky alleging breach of their fiduciary duties allegedly owed to the Blackrock Plaintiffs, and a claim alleging that, by approving, engaging in and closing the transactions contemplated by the Securities Purchase Agreement, defendants violated the restriction on transactions between companies and their interested stockholders contained in Section 203 of the Delaware General Corporation Law.

In the amended and consolidated complaint, Highland has brought class claims alleging, among other things, that, in connection with the Securities Purchase Agreement, MHR and the individual defendants breached their fiduciary duties in negotiating and approving the Securities Purchase Agreement, MHR and the individual defendants breached their fiduciary duties by failing to terminate and re-negotiate the Securities Purchase Agreement after it was announced, the individual defendants committed an ultra vires abdication of their statutory authority, MHR and the individual defendants breached their fiduciary duty of disclosure by stating publicly that

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they would seek to renegotiate the Securities Purchase Agreement after it was announced or to obtain an alternative and instead proceeding with the Securities Purchase Agreement, and MHR aided and abetted the individual defendants in their breach of fiduciary duty.

In May 2007, the defendants filed answers, denying any allegations of wrongdoing and asserting various defenses. On February 20, 2008, the court entered an order (i) certifying a class action as to the class claims for a class of all record and beneficial owners of common stock of Loral as of October 17, 2006 and their successors, representatives, trustees, executors, administrators, heirs, assigns or transferees, (ii) appointing Highland as class representative and (iii) designating counsel to the class.

A trial in this action commenced in early March 2008. Fact testimony was completed in March, expert testimony was completed on May 12, 2008, and oral argument was held on June 20, 2008.

In their post-trial briefs, the Delaware Plaintiffs stated that the relief they were seeking was, among other things, (a) conversion of the preferred stock purchased pursuant to the Securities Purchase Agreement into non-voting common stock at a fair price as of October 16, 2006; (b) an order directing MHR to repay the difference between the \$300 million it paid for the preferred stock and the fair value of the non-voting common stock it will receive, with interest; (c) rescission of the Securities Purchase Agreement and elimination of the preferred stock designations from the Loral capital structure; (d) an order directing MHR to disgorge, with interest, the \$6.75 million placement fee and other bankers' and lawyers' fees paid by Loral to MHR in connection with the preferred stock issuance; (e) an award of attorneys' fees, costs and expenses, including expert fees, to the Delaware Plaintiffs' counsel; (f) an order holding the individual director defendants jointly and severally liable for any monetary remedy imposed by the court, including any amounts that MHR does not pay under the proposed remedy; and (g) such other and further relief as the court deems just and proper. If there is a determination of liability, however, the Court of Chancery, which is a court of equity, has wide latitude in determining remedies.

In addition, the Company has received requests for indemnification and advancement of expenses from certain of its directors under their indemnification agreements with the Company for any losses or costs they may incur as a result of the *In re: Loral Space and Communications Inc. Consolidated Litigation* lawsuit.

Although there can be no assurance as to the outcome of this litigation, we do not currently believe that the litigation will have a material adverse effect on our consolidated financial position or results of operations.

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 could 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 the holders of two-thirds of the principal amount of the Loral Skynet Notes did not object to the redemption. On June 13, 2007, at the request of Loral Skynet, the trustee under the Indenture (the Trustee) issued a Notice of Provisional Redemption. 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.

In connection with the redemption of the Loral Skynet Notes, 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.

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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 10. 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, subject to the consummation of that transaction. The Skynet Noteholder Plaintiffs allege that Loral compensated MHR for the Early Redemption covenant and that MHR did not waive its objection to the provisional call for free. The Skynet Noteholder Plaintiffs further allege that the payment to MHR for the Early Redemption covenant was not offered to any other noteholder, and was a way of paying MHR more than the stated redemption price for the Loral Skynet Notes and evading the non-MHR noteholders' rights to object to a redemption. The Skynet Noteholder Plaintiffs are seeking, among other things, an order (i) declaring that Defendants violated the covenant of good faith and fair dealing implied in all contracts; (ii) directing the Defendants to pay them a sum not less than \$17.9 million in lost interest; (iii) an award of attorneys fees, costs and expenses, including expert fees, to their counsel pursuant to the Indenture; and (iv) granting such other relief as the court deems just and proper.

In connection with a motion for a preliminary injunction brought by the Skynet Noteholder Plaintiffs prior to the redemption, which was denied by the court, Loral agreed to place \$12 million, which is included in restricted cash in other current assets in our consolidated balance sheet, in escrow for the benefit of holders of Loral Skynet Notes other than funds affiliated with MHR should they ultimately prevail.

A trial on the merits commenced in early March 2008 together with the trial in the *In re: Loral Space and Communications Inc. Consolidated Litigation* (discussed above). Fact testimony was completed in March, expert testimony was completed on May 12, 2008, and oral argument was held on June 20, 2008.

Loral believes that the September 5, 2007 Early Redemption is proper in accordance with the terms of the Indenture. Although there can be no assurance as to the outcome of this litigation, Loral believes that the likelihood of an unfavorable outcome is remote, and therefore the Company has not recorded a loss contingency related to this matter.

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 and activities before and after its execution as well as documents and information relating to the redemption of the Loral Skynet Notes (see Note 9) 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 has fully cooperated with the SEC staff during the investigation. 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.

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 a carrying value of zero and Loral did not record a receivable or gain from this sale. In November 2005,

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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 Holdings 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 appealed the final judgment and the court's order denying Rainbow DBS's motion to set aside the verdict or for a new trial. In February 2008, the Appellate Division, First Department, unanimously affirmed the final judgment and the court's order denying Rainbow Holdings' motion to set aside the verdict or for a new trial. Rainbow Holdings' motion for leave to appeal to the Court of Appeals was denied by the Appellate Division on April 8, 2008. On April 15, 2008, Rainbow Holdings moved for leave to appeal directly from the Court of Appeals, which motion was denied by the Court of Appeals on June 25, 2008. On July 1, 2008, Rainbow Holdings paid to Loral the judgment amount plus post-judgment interest for a total of approximately \$58 million. Because the realization of this judgment was assured beyond a reasonable doubt as of June 30, 2008, Loral's statements of operations for the three and six months ended June 30, 2008 include the \$58 million gain from this judgment. A third party has asserted a prepetition claim against the Company in the amount of \$3 million with respect to the purchase price, which the third party believes is payable in full in cash with interest. The Company believes that the claim is payable in common stock under its plan of reorganization (see *Reorganization Matters* below), although there can be no assurance that the Company will prevail. The effect of the issuance of this common stock was recorded in connection with our fresh-start accounting as of October 1, 2005.

Indemnification Claims of Directors and Officers of Old Loral

Old Loral was obligated to indemnify its directors and officers for any losses or costs they may incur as a result of the lawsuits described below in Class Action Securities Litigations, Class Action ERISA Litigation and Globalstar Related Class Action Securities Litigations. The Plan of Reorganization provides that the direct liability of New Loral post-emergence in respect of such indemnity obligation is limited to the *In re: Loral Space ERISA Litigation* and *In re: Loral Space & Communications Ltd. Securities Litigation* cases and then only in an aggregate amount of \$2.5 million (the Direct Indemnity Liability). In addition, most directors and officers have filed proofs of claim (the D&O Claims) in unliquidated amounts with respect to the prepetition indemnity obligations of the Debtors. The Debtors and these directors and officers, including Mr. Bernard L. Schwartz, Loral's Chairman of the Board and Chief Executive Officer until his retirement effective March 1, 2006, with respect to all claims he may have other than the Globalstar settlement for which he has a separate indemnity claim of up to \$25 million as described below, have agreed that in no event will their indemnity claims against Old Loral and Loral Orion in the aggregate exceed \$25 million and \$5 million, respectively. If any of these claims ultimately becomes an allowed claim under the Plan of Reorganization, the claimant would be entitled to a distribution under the Plan of Reorganization of New Loral common stock based upon the amount of the allowed claim. Any such distribution of stock would be in addition to the 20 million shares of New Loral common stock distributed under the Plan of Reorganization to other creditors. Instead of issuing such additional shares, New Loral may elect to satisfy any allowed claim in cash in an amount equal to the number of shares to which plaintiffs would have been entitled multiplied by \$27.75 or in a combination of additional shares and cash. We believe, although no assurance can be given, that New Loral will not incur any substantial losses as a result of these claims.

Class Action Securities Litigations

In August 2003, plaintiffs Robert Beleson and Harvey Matcovsky filed a purported class action complaint against Bernard L. Schwartz in the United States District Court for the Southern District of New York. The

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

complaint seeks, among other things, damages in an unspecified amount and reimbursement of plaintiffs' reasonable costs and expenses. The complaint alleges (a) that Mr. Schwartz violated Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act) and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about our financial condition relating to the sale of assets to Intelsat and our chapter 11 filing and (b) that Mr. Schwartz is secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as an alleged controlling person of Old Loral. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Loral common stock during the period from June 30, 2003 through July 15, 2003, excluding the defendant and certain persons related to or affiliated with him. In November 2003, three other complaints against Mr. Schwartz with substantially similar allegations were consolidated into the *Beleson* case. In February 2004, a motion to dismiss the complaint in its entirety was denied by the court. The defendant filed an answer in March 2004. Discovery in this case, other than expert discovery, has been completed. Plaintiffs' motion for class certification was granted on May 14, 2008. In July 2008, defendants filed a motion for summary judgment, plaintiffs' response is due in September 2008, and oral argument is scheduled for November 2008. Since this case was not brought against Old Loral, but only against one of its officers, we believe, although no assurance can be given, that, to the extent that any award is ultimately granted to the plaintiffs in this action, the liability of New Loral, if any, with respect thereto is limited solely to the D&O Claims as described above under Indemnification Claims.

In November 2003, plaintiffs Tony Christ, individually and as custodian for Brian and Katelyn Christ, Casey Crawford, Thomas Orndorff and Marvin Rich, filed a purported class action complaint against Bernard L. Schwartz and Richard J. Townsend in the United States District Court for the Southern District of New York. The complaint seeks, among other things, damages in an unspecified amount and reimbursement of plaintiffs' reasonable costs and expenses. The complaint alleges (a) that defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about Old Loral's financial condition relating to the restatement in 2003 of the financial statements for the second and third quarters of 2002 to correct accounting for certain general and administrative expenses and the alleged improper accounting for a satellite transaction with APT Satellite Company Ltd. and (b) that each of the defendants is secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as an alleged controlling person of Old Loral. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Loral common stock during the period from July 31, 2002 through June 29, 2003, excluding the defendants and certain persons related to or affiliated with them. In October 2004, a motion to dismiss the complaint in its entirety was denied by the court. The defendants filed an answer to the complaint in December 2004. Discovery in this case had been stayed, but the stay ended in June 2008. Since this case was not brought against Old Loral, but only against certain of its officers, we believe, although no assurance can be given, that to the extent that any award is ultimately granted to the plaintiffs in this action, the liability of New Loral, if any, with respect thereto is limited solely to the D&O Claims as described above under Indemnification Claims.

Class Action ERISA Litigation

In April 2004, two separate purported class action lawsuits filed in the United States District Court for the Southern District of New York by former employees of Old Loral and participants in the Old Loral Savings Plan (the Savings Plan) were consolidated into one action titled *In re: Loral Space ERISA Litigation*. In July 2004, plaintiffs in the consolidated action filed an amended consolidated complaint against the members of the Loral Space & Communications Ltd. Savings Plan Administrative Committee and certain existing and former members of the Board of Directors of SS/L, including Bernard L. Schwartz. The amended complaint seeks, among other things, damages in

the amount of any losses suffered by the Savings Plan to be allocated among the participants' individual accounts in proportion to the accounts' losses, an order compelling defendants to make good to the Savings Plan all losses to the Savings Plan resulting from defendants' alleged breaches of their fiduciary duties and reimbursement of costs and attorneys' fees. The amended complaint alleges (a) that defendants violated Section 404 of the Employee Retirement Income Security Act (ERISA), by breaching their fiduciary duties to prudently and

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loyally manage the assets of the Savings Plan by including Old Loral common stock as an investment alternative and by providing matching contributions under the Savings Plan in Old Loral stock, (b) that the director defendants violated Section 404 of ERISA by breaching their fiduciary duties to monitor the committee defendants and to provide them with accurate information, (c) that defendants violated Sections 404 and 405 of ERISA by failing to provide complete and accurate information to Savings Plan participants and beneficiaries, and (d) that defendants violated Sections 404 and 405 of ERISA by breaching their fiduciary duties to avoid conflicts of interest. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all participants in or beneficiaries of the Savings Plan at any time between November 4, 1999 and the present and whose accounts included investments in Old Loral stock. Plaintiffs have also filed a proof of claim against Old Loral with respect to this case and have agreed that in no event will their claim against Old Loral with respect to this case exceed \$22 million. If plaintiffs' claim ultimately becomes an allowed claim under the Plan of Reorganization, plaintiffs would be entitled to a distribution under the Plan of Reorganization of New Loral common stock based upon the amount of the allowed claim. Any such distribution of stock would be in addition to the 20 million shares of New Loral common stock being distributed under the Plan of Reorganization to other creditors. Instead of issuing such additional shares, New Loral may elect to satisfy any allowed claim in cash in an amount equal to the number of shares to which plaintiffs would have been entitled multiplied by \$27.75 or in a combination of additional shares and cash.

In addition, two insurers under Old Loral's directors and officers liability insurance policies have denied coverage with respect to the case titled *In re: Loral Space ERISA Litigation*, each claiming that coverage should be provided under the other's policy. In December 2004, one of the defendants in that case filed a lawsuit in the United States District Court for the Southern District of New York seeking a declaratory judgment as to his right to receive coverage under the policies. In March 2005, the insurers filed answers to the complaint and one of the insurers filed a cross claim against the other insurer which such insurer answered in April 2005. In August and October 2005, each of the two potentially responsible insurers moved separately for judgment on the pleadings, seeking a court ruling absolving it of liability to provide coverage of the ERISA action. In March 2006, the court granted the motion of one of the insurers and denied the motion of the other insurer. Discovery with regard to defenses to coverage asserted by the potentially responsible insurer has ended, and the defendant insurer moved for summary judgment with respect to one of its coverage defenses. This motion was denied by the court in September 2007.

In April 2008, the defendant insurer, the plaintiffs and the Company agreed in principle to a settlement of both the insurance coverage litigation and the *In re: Loral Space ERISA Litigation* case. Pursuant to this settlement, the settlement will be funded entirely by the defendant insurer, and New Loral will not be required to make any contribution toward the settlement. In addition, the bankruptcy claim filed by plaintiffs against Old Loral with respect to the *In re: Loral Space ERISA Litigation* case will be disallowed and expunged. The settlement is subject to execution of a definitive settlement agreement and approval by the court.

We believe, although no assurance can be given, that, should the settlement not be consummated, the liability of New Loral, if any, with respect to the *In re: Loral Space ERISA Litigation* case or with respect to the related insurance coverage litigation is limited solely to the Direct Indemnity Liability and the D&O Claims as described above under Indemnification Claims and, to the extent that any award is ultimately granted to the plaintiffs in this action, to distributions under the Plan of Reorganization as described above.

Globalstar Related Class Action Securities Litigations

On September 26, 2001, the nineteen separate purported class action lawsuits filed in the United States District Court for the Southern District of New York by various holders of securities of Globalstar Telecommunications Limited (GTL) and Globalstar, L.P. (Globalstar) against GTL, Old Loral, Bernard L. Schwartz and other defendants were consolidated into one action titled *In re: Globalstar Securities Litigation*. In November 2001, plaintiffs in the consolidated action filed a consolidated amended class action complaint against Globalstar, GTL, Globalstar Capital Corporation, Old Loral and Bernard L. Schwartz seeking, among other things, damages in an unspecified amount and reimbursement of plaintiffs' costs and expenses. The complaints alleged (a) that all

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defendants (except Old Loral) violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about Globalstar's business and prospects, (b) that defendants Old Loral and Mr. Schwartz are secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as alleged controlling persons of Globalstar, (c) that defendants GTL and Mr. Schwartz are liable under Section 11 of the Securities Act of 1933 (the Securities Act) for untrue statements of material facts in or omissions of material facts from a registration statement relating to the sale of shares of GTL common stock in January 2000, (d) that defendant GTL is liable under Section 12(2)(a) of the Securities Act for untrue statements of material facts in or omissions of material facts from a prospectus and prospectus supplement relating to the sale of shares of GTL common stock in January 2000, and (e) that defendants Old Loral and Mr. Schwartz are secondarily liable under Section 15 of the Securities Act for GTL's primary violations of Sections 11 and 12(2)(a) of the Securities Act as alleged controlling persons of GTL. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of securities of Globalstar, Globalstar Capital and GTL during the period from December 6, 1999 through October 27, 2000, excluding the defendants and certain persons related to or affiliated with them. This case was preliminarily settled by Mr. Schwartz in July 2005 for \$20 million with final approval of the settlement in December 2005. In September 2006, two objectors to the settlement who had filed appeals concerning the attorneys' fees awarded to the plaintiffs withdrew their appeals with prejudice. Mr. Schwartz has commenced a lawsuit against Globalstar's directors and officers liability insurers seeking to recover the full settlement amount plus legal fees and expenses incurred in enforcing his rights under Globalstar's directors and officers liability insurance policy. In January 2007, two of the four insurers settled with Mr. Schwartz and paid him the remaining limits under their policies and, after a jury trial, the jury returned a verdict against the other two insurers in favor of Mr. Schwartz awarding him the remaining \$9.1 million balance of his claim. The insurers' motion to set aside the verdict or, in the alternative, for a new trial, was denied, and they have appealed the verdict. In addition, Mr. Schwartz has filed a proof of claim against Old Loral asserting a general unsecured prepetition claim for, among other things, indemnification relating to this case. Mr. Schwartz and Old Loral have agreed that in no event will his claim against Old Loral with respect to the settlement of this case exceed \$25 million. If Mr. Schwartz's claim ultimately becomes an allowed claim under the Plan of Reorganization and assuming he is not reimbursed by Globalstar's insurers, Mr. Schwartz would be entitled to a distribution under the Plan of Reorganization of New Loral common stock based upon the amount of the allowed claim. Any such distribution of stock would be in addition to the 20 million shares of New Loral common stock distributed under the Plan of Reorganization to other creditors. Instead of issuing such additional shares, New Loral may elect to satisfy any allowed claim in cash in an amount equal to the number of shares to which plaintiffs would have been entitled multiplied by \$27.75 or in a combination of additional shares and cash. We believe, although no assurance can be given, that New Loral will not incur any material loss as a result of this settlement.

On March 2, 2002, the seven separate purported class action lawsuits filed in the United States District Court for the Southern District of New York by various holders of Old Loral common stock against Old Loral, Bernard L. Schwartz and Richard J. Townsend were consolidated into one action titled *In re: Loral Space & Communications Ltd. Securities Litigation*. On May 6, 2002, plaintiffs in the consolidated action filed a consolidated amended class action complaint seeking, among other things, damages in an unspecified amount and reimbursement of plaintiffs' costs and expenses. The complaint alleged (a) that all defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about Old Loral's financial condition and its investment in Globalstar and (b) that Mr. Schwartz is secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as an alleged controlling person of Old Loral. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Loral common stock

during the period from November 4, 1999 through February 1, 2001, excluding the defendants and certain persons related to or affiliated with them. After oral argument on a motion to dismiss filed by Old Loral and Messrs. Schwartz and Townsend, in June 2003, the plaintiffs filed an amended complaint alleging essentially the same claims as in the original amended complaint. In February 2004, a motion to dismiss the amended complaint was granted by the court insofar as Messrs. Schwartz and Townsend are concerned. Pursuant to the Plan of Reorganization, plaintiffs received no distribution with respect to their claims in this lawsuit.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, the primary insurer under the directors and officers liability insurance policy of Old Loral has denied coverage under the policy for the *In re: Loral Space & Communications Ltd. Securities Litigation* case and, on March 24, 2003, filed a lawsuit in the Supreme Court of New York County seeking a declaratory judgment upholding its coverage position. In May 2003, Old Loral and the other defendants served an answer and filed counterclaims seeking a declaration that the insurer is obligated to provide coverage and damages for breach of contract and the implied covenant of good faith. In May 2003, Old Loral and the other defendants also filed a third party complaint against the excess insurers seeking a declaration that they are obligated to provide coverage. We believe that the insurers have wrongfully denied coverage and, although no assurance can be given, that the liability of New Loral, if any, with respect to the *In re: Loral Space & Communications Ltd. Securities Litigation* case or with respect to the related insurance coverage litigation is limited solely to the Direct Indemnity Liability and the D&O Claims as described above under Indemnification Claims.

Reorganization Matters

In connection with our Plan of Reorganization, certain claims have been filed against Old Loral and certain of its subsidiaries, the validity or amount of which we dispute. We are in the process of resolving these disputed claims, which may involve litigation in the U.S. Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). To the extent any disputed claims become allowed claims, the claimants would be entitled to distributions under the Plan of Reorganization based upon the amount of the allowed claim, payable either in cash for claims against SS/L or Loral SpaceCom Corporation or in New Loral common stock for all other claims. As of June 30, 2008, we have resolved all disputed claims that we believe are payable in cash and have reserved approximately 71,000 of the 20 million shares of New Loral common stock distributable under the Plan of Reorganization for disputed claims that may ultimately be payable in common stock. To the extent that disputed claims do not become allowed claims, shares held in reserve on account of such claims will be distributed pursuant to the Plan of Reorganization pro rata to claimants with allowed claims.

Confirmation of our Plan of Reorganization was opposed by the Official Committee of Equity Security Holders (the Equity Committee) appointed in our chapter 11 cases and by the self-styled Loral Stockholders Protective Committee (LSPC). Shortly before the hearing to consider confirmation of the Plan of Reorganization, the Equity Committee also filed a motion seeking authority to prosecute an action on behalf of the estates of Old Loral and certain of its subsidiaries seeking to unwind as fraudulent, a guarantee provided by Old Loral in 2001, of certain indebtedness of Loral Orion, Inc. (the Motion to Prosecute). By separate Orders dated August 1, 2005, the Bankruptcy Court confirmed the Plan of Reorganization (the Confirmation Order) and denied the Motion to Prosecute (the Denial Order). On or about August 10, 2005, the LSPC appealed (the Confirmation Appeal) to the United States District Court for the Southern District of New York (the District Court) the Confirmation Order and the Denial Order. On February 3, 2006, we filed with the District Court a motion to dismiss the Confirmation Appeal. On May 26, 2006, the District Court granted our motion to dismiss the Confirmation Appeal. The LSPC subsequently filed a motion for reconsideration of such dismissal, which the District Court denied on June 14, 2006 (the Reconsideration Order). On or about July 12, 2006, a person purportedly affiliated with the LSPC appealed the dismissal of the Confirmation Appeal and the Reconsideration Order to the United States Court of Appeals for the Second Circuit (the Second Circuit Confirmation Appeal). On February 22, 2008, the Second Circuit affirmed the District Court's judgment dismissing the Confirmation Appeal and the Reconsideration Order, and, on May 16, 2008, the Second Circuit denied such person's petition for a rehearing. On August 2, 2008, such person filed, and, on August 6, 2008, the United States Supreme Court granted, an application to extend the time to file a petition for a writ of certiorari until October 13,

2008.

Other and Routine Litigation

We are subject to various other legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of these legal proceedings and claims cannot be predicted with

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certainty, we do not believe that any of these other existing legal matters will have a material adverse effect on our consolidated financial position or our results of operations.

12. Income (Loss) Per Share

The following table sets forth below the commutation of basic and diluted loss per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Basic:				
Net income (loss) applicable to common shareholders	\$ 45,851	\$ 14,031	\$ (31,354)	\$ (29,332)
Weighted average common shares outstanding	20,169	20,070	20,162	20,055
Basic income (loss) per share	\$ 2.27	\$ 0.70	\$ (1.56)	\$ (1.46)
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Diluted:				
Net income (loss) applicable to common shareholders	\$ 45,851	\$ 14,031	\$ (31,354)	\$ (29,332)
Plus:				
Dividends on Loral Series-1 Preferred Stock	814	5,669		
Beneficial conversion feature related to dividends on Loral Series-1 Preferred Stock		927		
Net income (loss) for diluted	\$ 46,665	\$ 20,627	\$ (31,354)	\$ (29,332)
Common and potential common shares:				
Weighted average common shares outstanding	20,169	20,070	20,162	20,055
Assumed exercise of stock options		473		
Unvested restricted stock awards		20		
Assumed conversion of Loral Series-1 Preferred Stock	1,445	10,031		
Common and potential common shares	21,614	30,594	20,162	20,055
Diluted income (loss) per share	\$ 2.16	\$ 0.67	\$ (1.56)	\$ (1.46)

The assumed exercise of stock options and restricted stock awards are not included in the calculation of diluted loss per share for the three months ended June 30, 2008 and the six months ended June 30, 2008 and 2007, because their effect would have been antidilutive. Additionally, the Loral Series-1 Preferred Stock, issued February 27, 2007, was not included in the calculation of diluted loss per share for the six months ended June 30, 2008 and 2007, because its effect would have been antidilutive. As of June 30, 2008, there were 2,034,202 stock options outstanding (the exercise price of all options outstanding exceeds the market price of our common stock as of June 30, 2008) and 118,312 shares of restricted stock. As of June 30, 2008, the 937,730 outstanding shares of Loral Series B-1 Preferred Stock are not convertible into common stock.

13. Segments

Loral is organized into two operating segments: Satellite Manufacturing and Satellite Services. Our segment reporting data includes unconsolidated affiliates that meet the reportable segment criteria of SFAS No. 131,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Disclosures about Segments of an Enterprise and Related Information. The satellite services segment includes 100% of the results reported by Telesat Canada for the three and six months ended June 30, 2008. Although we analyze Telesat Canada's revenue and expenses under the satellite services segment, we eliminate its results in our consolidated financial statements, where we report our 64% share of Telesat Canada's results as equity in net losses of affiliates.

Our investment in XTAR, for which we use the equity method of accounting, is included in Corporate for the three and six months ended June 30, 2008. We retained our investment in XTAR, and it was not transferred to Telesat Canada in connection with the Telesat Canada transaction.

We use Adjusted EBITDA to evaluate operating performance of our segments, to allocate resources and capital to such segments, to measure performance for incentive compensation programs, and to evaluate future growth opportunities. The common definition of EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization. In evaluating financial performance, we use revenues and operating income (loss) before depreciation and amortization (including amortization of stock based compensation) (Adjusted EBITDA) as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before: gain on foreign exchange contracts; gain on litigation recovery; impairment of available for sale securities; other income (expense); equity in net losses of affiliates; and minority interest.

Adjusted EBITDA allows us and investors to compare our operating results with that of competitors exclusive of depreciation and amortization, interest and investment income, interest expense, gain on foreign exchange contracts, gain on litigation recovery, impairment of available for sale securities, other income (expense), equity in net losses of affiliates and minority interest. Financial results of competitors in our industry have significant variations that can result from timing of capital expenditures, the amount of intangible assets recorded, the differences in assets' lives, the timing and amount of investments, the effects of other income (expense), which are typically for non-recurring transactions not related to the on-going business, and effects of investments not directly managed. The use of Adjusted EBITDA allows us and investors to compare operating results exclusive of these items. Competitors in our industry have significantly different capital structures. The use of Adjusted EBITDA maintains comparability of performance by excluding interest expense.

We believe the use of Adjusted EBITDA along with U.S. GAAP financial measures enhances the understanding of our operating results and is useful to us and investors in comparing performance with competitors, estimating enterprise value and making investment decisions. Adjusted EBITDA as used here may not be comparable to similarly titled measures reported by competitors. Adjusted EBITDA should be used in conjunction with U.S. GAAP financial measures and is not presented as an alternative to cash flow from operations as a measure of our liquidity or as an alternative to net income as an indicator of our operating performance.

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

Three Months Ended June 30, 2008

	Satellite Manufacturing	Satellite Services ⁽¹⁾	Corporate ⁽²⁾	Total
Revenues and Adjusted EBITDA:				
Revenues	\$ 178.8	\$ 172.4		\$ 351.2
Intersegment revenues ⁽³⁾	31.4			31.4
Operating segment revenues	\$ 210.2	\$ 172.4		382.6
Intercompany eliminations ⁽⁴⁾				(2.1)
Affiliate eliminations ⁽¹⁾				(172.4)
Revenues as reported				\$ 208.1
Segment Adjusted EBITDA before eliminations	\$ 10.2	\$ 111.8	\$ (1.5)	\$ 120.5
Intercompany eliminations ⁽⁴⁾				(0.4)
Affiliate eliminations ⁽¹⁾				(105.6)
Adjusted EBITDA				14.5
Depreciation and amortization				(10.0)
Operating income				4.5
Interest and investment income				1.9
Interest expense				(0.3)
Gain on litigation recovery				58.3
Impairment on available for sale securities				(3.5)
Other income (expense)				(0.2)
Income tax provision				(11.6)
Equity in net income (losses) of affiliates		\$ 7.0	\$ (4.1)	2.9
Net income				\$ 52.0

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Six Months Ended June 30, 2008

	Satellite Manufacturing	Satellite Services ⁽¹⁾	Corporate ⁽²⁾	Total
Revenues and Adjusted EBITDA:				
Revenues	\$ 378.1	\$ 338.9		\$ 717.0
Intersegment revenues ⁽³⁾	51.9			51.9
Operating segment revenues	\$ 430.0	\$ 338.9		768.9
Intercompany eliminations ⁽⁴⁾				(3.4)
Affiliate eliminations ⁽¹⁾				(338.9)
Revenues as reported				\$ 426.6
Segment Adjusted EBITDA before eliminations	\$ 14.9	\$ 211.2	\$ (6.3)	\$ 219.8
Intercompany eliminations ⁽⁴⁾				(0.6)
Affiliate eliminations ⁽¹⁾				(205.0)
Adjusted EBITDA				14.2
Depreciation and amortization				(20.5)
Operating loss				(6.3)
Interest and investment income				8.3
Interest expense				(0.7)
Gain on litigation recovery				58.3
Impairment on available for sale securities				(3.5)
Other income (expense)				(0.3)
Income tax provision				(13.4)
Equity in net losses of affiliates		\$ (53.3)	\$ (8.4)	(61.7)
Net loss				\$ (19.3)
Other Data:				
Segment total assets	\$ 905.3	\$ 5,827.4	\$ 262.0	\$ 6,994.7
Affiliate eliminations ⁽¹⁾		(5,401.5)		(5,401.5)
Total assets as reported ⁽⁵⁾	\$ 905.3	\$ 425.9	\$ 262.0	\$ 1,593.2

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three Months Ended June 30, 2007

	Satellite Manufacturing	Satellite Services	Corporate ⁽²⁾	Total
Revenues and Adjusted EBITDA:				
Revenues	\$ 191.3	\$ 34.7		\$ 226.0
Intersegment revenues	18.9	0.7		19.6
Operating segment revenues	\$ 210.2	\$ 35.4		245.6
Eliminations ⁽⁴⁾				(19.6)
Operating revenues as reported				\$ 226.0
Segment Adjusted EBITDA before eliminations	\$ 12.8	\$ 13.7	\$ (8.5)	\$ 18.0
Eliminations ⁽⁴⁾				(0.9)
Adjusted EBITDA				17.1
Depreciation and amortization ⁽⁵⁾	\$ (10.1)	\$ (13.1)	\$ (9.0)	(32.2)
Operating loss				(15.1)
Interest and investment income				10.6
Interest expense				(2.2)
Gain on foreign exchange contracts				61.5
Other income (expense)				0.2
Income tax provision				(28.4)
Equity income in affiliates				0.5
Minority Interest				(6.5)
Net income				\$ 20.6

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Six Months Ended June 30, 2007

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

(1) Satellite Services for 2008 represents Telesat Canada for the three and six months ended June 30, 2008. Affiliate eliminations represent the elimination of amounts attributable to Telesat Canada whose results are reported in our condensed consolidated statement of operations as equity in net losses of affiliates and in our condensed consolidated balance sheet as investment in affiliates.

- (2) Represents corporate expenses incurred in support of our operations. Corporate, for 2008, also includes our equity investment in XTAR.
- (3) In 2008, intersegment revenues includes \$29.1 million and \$48.4 million for the three and six months ended June 30, 2008, respectively, of revenue from affiliates.
- (4) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA, primarily for satellites under construction by SS/L for Satellite Services.
- (5) Amounts are presented after the elimination of intercompany profit. Total assets as of June 30, 2008 includes \$226.4 million of goodwill for Satellite Manufacturing. In addition, total assets as reported excludes \$2.4 billion of satellite services goodwill related to Telesat Canada as of June 30, 2008.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Related Party Transactions

Transactions with Affiliates

Telesat Canada

As described in Note 7, we own 64% of Telesat Canada and account for our investment under the equity method of accounting.

SS/L has contracts with Telesat Canada for the construction of the Nimiq 5 and Telstar 11N satellites. SS/L has also agreed to procure a launch vehicle on behalf of Telesat Canada for Telstar 11N. SS/L recorded revenues from Telesat of \$29.1 million and \$48.4 million for the three and six months ended June 30, 2008, respectively. SS/L received milestone payments from Telesat Canada totaling \$54 million for the six months ended June 30, 2008. Amounts receivable by SS/L from Telesat Canada as of June 30, 2008 were \$3.6 million related to the construction of these satellites.

On October 31, 2007, Loral and Telesat Canada entered into a consulting services agreement (the Consulting Agreement). Pursuant to the terms of the Consulting Agreement, Loral provides to Telesat Canada certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat Canada as part of the Telesat Canada transaction as well as with respect to certain aspects of the satellite communications business of Telesat Canada. The Consulting Agreement has a term of seven years with an automatic renewal for an additional seven year term if certain conditions are met. In exchange for Loral's services under the Consulting Agreement, Telesat Canada will pay Loral an annual fee of US\$5,000,000, payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. If the terms of Telesat Canada's bank or bridge facilities or certain other debt obligations prevent Telesat Canada from paying such fees in cash, Telesat Canada can issue junior subordinated promissory notes to Loral in the amount of such payment, with interest on such promissory notes payable at the rate of 7% per annum, compounded quarterly, from the date of issue of such promissory note to the date of payment thereof. Our selling, general and administrative expenses for the three and six months ended June 30, 2008, included income of \$1.25 million and \$2.5 million, respectively, related to the Consulting Agreement. We also have a receivable related to the Consulting Agreement from Telesat Canada of \$3.4 million as of June 30, 2008.

In connection with the Telesat Canada transaction, Loral has indemnified Telesat Canada for certain liabilities including Loral Skynet's tax liabilities arising prior to January 1, 2007. As of June 30, 2008 and December 31, 2007 we had recognized liabilities of approximately \$6.9 million representing our estimate of the probable outcome of these matters. These liabilities are offset by tax deposit assets of \$7.0 million relating to periods prior to January 1, 2007. There can be no assurance, however, that the eventual payments required by us will not exceed the liabilities established.

In connection with an agreement entered into between SS/L and ViaSat, Inc. (ViaSat) for the construction by SS/L for ViaSat of a high capacity broadband satellite called ViaSat-1, on January 11, 2008, we entered into certain agreements, described below, pursuant to which we are investing in the Canadian coverage portion of the ViaSat-1 satellite and granting to Telesat Canada an option to acquire our rights to the Canadian payload. Michael B. Targoff

and another Loral director serve as members of the ViaSat Board of Directors.

A Beam Sharing Agreement between us and ViaSat provides for, among other things, (i) the purchase by us of a portion of the ViaSat-1 satellite payload providing coverage into Canada (the Loral Payload) and (ii) payment by us of 15% of the actual costs of launch and associated services, launch insurance and telemetry, tracking and control services for the ViaSat-1 satellite. The aggregate cost to us for the foregoing is estimated to be approximately \$60 million. SS/L has commenced construction of the ViaSat-1 satellite. For the three and six months ended June 30, 2008 we recorded related party sales of \$12.4 million and \$19.5 million, respectively. Loral s share of costs incurred by SS/L on the ViaSat-1 satellite was \$2.9 million as of June 30, 2008 which is reflected as satellite capacity under construction in property, plant and equipment.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with an agreement reached in 1999 and an overall settlement reached in February 2005 with ChinaSat relating to the delayed delivery of ChinaSat 8, SS/L has provided ChinaSat with usage rights to two Ku-band transponders on Telesat's Telstar 10 for the life of such transponders (subject to certain restoration rights) and to one Ku-band transponder on Telesat's Telstar 18 for the life of the Telstar 10 satellite plus two years, or the life of such transponder (subject to certain restoration rights), whichever is shorter. Under the agreement, SS/L makes monthly payments to Telesat Canada for the transponders allocated to ChinaSat. As of June 30, 2008 and December 31, 2007, our consolidated balance sheet included a liability of \$10.7 million and \$11.5 million, respectively, for the future use of these transponders. During the three and six months ended June 30, 2008 we made payments of \$0.7 million and \$1.4 million, respectively, to Telesat Canada pursuant to the agreement.

Costs of satellite manufacturing for sales to related parties were \$35.5 million and \$59.0 million for the three and six months ended June 30, 2008, respectively. Costs of satellite manufacturing for sales to related parties were \$0 and \$0.4 million for the three and six months ended June 30, 2007, respectively.

XTAR

As described in Note 7 we own 56% of XTAR, a joint venture between us and Hisdesat and account for our investment in XTAR under the equity method of accounting. We constructed XTAR's satellite, which was successfully launched in February 2005. XTAR and Loral have entered into a management agreement whereby Loral provides general and specific services of a technical, financial, and administrative nature to XTAR. For the services provided by Loral, XTAR is charged a quarterly management fee equal to 3.7% of XTAR's quarterly gross revenues. Amounts due to Loral under the management agreement as of June 30, 2008 and December 31, 2007 were \$1.4 million and \$1.6 million, respectively. During the quarter ended March 31, 2008, Loral and XTAR agreed to defer receivable amounts owed to Loral under this agreement and XTAR has agreed that its excess cash balance (as defined) will be applied at least quarterly towards repayment of receivables owed to Loral, as well as to Hisdesat and Telesat Canada. Our selling, general and administrative expenses included income of \$0.4 million and \$0.6 million under this agreement for the three and six months ended June 30, 2008, respectively, and no amounts for the three and six months ended June 30, 2007, respectively.

MHR

Three of the managing principals of MHR, Mark H. Rachesky, Hal Goldstein and Sai S. Devabhaktuni, are members of Loral's board of directors and MHR has the right, which it has not exercised, to nominate one additional member to Loral's board. As of June 30, 2008, various funds affiliated with MHR held all issued and outstanding shares of Loral Series-1 Preferred Stock (issued in February 2007) which, if converted to common stock, would represent, when taken together with holdings by MHR or its affiliated funds of common stock of Loral at such time, approximately 57.9% of the common stock of Loral. However, the terms of the preferred stock are designed so that, prior to certain change of control events of Loral, any shares of common stock issuable to MHR or its affiliated funds upon conversion of such preferred stock, when taken together with holdings by MHR or its affiliated funds of common stock of Loral at such time, will not represent more than 39.999% of the aggregate voting power of the securities of Loral. Various funds affiliated with MHR held, as of June 30, 2008 and December 31, 2007, approximately 35.4% of the outstanding common stock of Loral. Information on dividends and interest paid to the funds affiliated with MHR, with respect to their holdings of the Loral Skynet Preferred Stock (redeemed

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 5, 2007), Loral Skynet Notes (redeemed September 5, 2007) and Loral Series-1 Preferred Stock for the three and six months ended June 30, 2008 and 2007, is as follows (in millions, except share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<u>Loral Skynet Preferred Stock</u>				
Dividends paid in cash	\$	\$	\$	\$ 0.7
Dividends paid in the form of additional shares				
Number of shares				21,140
Amount	\$	\$	\$	\$ 4.2
<u>Loral Skynet Notes</u>				
Interest payments on Loral Skynet Notes				\$ 3.9
<u>Loral Series-1 Preferred Stock</u>				
Dividends paid in cash	\$	\$	\$	\$
Dividends paid in the form of additional shares				
Number of shares	19,915	9,326	39,465	9,326
Amount	\$ 6.0	\$ 2.8	\$ 11.9	\$ 2.8

Funds affiliated with MHR own preferred stock convertible currently into approximately 18.2% of the common stock of Protostar Ltd. (Protostar) assuming the conversion of all issued and outstanding shares of preferred stock. Upon conversion of such preferred stock, such funds would own 8.9% of the common stock of Protostar on a fully-diluted basis assuming the exercise or conversion, as the case may be, of all currently outstanding shares of preferred stock, convertible notes and warrants. MHR has the right (which has not yet been exercised) to nominate one of nine directors to Protostar s board of directors. Such funds are also participants in Protostar s \$200,000,000 credit facility, dated March 19, 2008, with an aggregate participation of \$6,041,000. Protostar acquired the Chinasat 8 satellite from China Telecommunications Broadcast Satellite Corporation and China National Postal and Telecommunications Appliances Corporation under an agreement reached in 2006, and, pursuant to a contract with Protostar valued at \$26 million, SS/L is modified the satellite to meet Protostar s needs. This satellite, renamed Protostar I, was launched on July 8, 2008 from the European Spaceport in Kourou, French Guiana.

Other Relationships

During the first quarter of 2008, the Company paid a termination fee of \$285,000 under a consulting agreement with Dean A. Olmstead, who resigned from the Board of Directors on January 10, 2008. Mr. Olmstead earned total compensation of \$298,000 and \$438,000 for the three and six months ended June 30, 2007, respectively.

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

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

Loral Space & Communications Inc., a Delaware corporation, together with its subsidiaries is a leading satellite communications company with substantial activities in satellite manufacturing and investments in satellite-based communications services. Loral 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 the Effective Date, are references to Old Loral, and when used with respect to the period commencing on and after the Effective Date, are references to Loral Space & Communications Inc. These references include the subsidiaries of Old Loral or Loral Space & Communications Inc., 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 Telesat Holdings, Inc. ("Telesat Holdco"), a newly-formed joint venture, completed the acquisition of Telesat Canada from BCE Inc. ("BCE"). In connection with this acquisition, Loral transferred on that same date substantially all of the assets and related liabilities of Loral Skynet Corporation ("Loral Skynet") to Telesat Canada. Loral holds a 64% economic interest and 33 1/3% voting interest in Telesat Holdco, the ultimate parent company of the resulting new entity. Loral accounts for this investment using the equity method of accounting.

We refer to the acquisition of Telesat Canada and the related transfer of Loral Skynet to Telesat Canada as the Telesat Canada transaction. References to Telesat Canada with respect to periods prior to the closing of this transaction are references to the subsidiary of BCE and with respect to the period after the closing of this transaction are references to Telesat Holdco and/or its subsidiaries as appropriate. Similarly, unless otherwise indicated, references to Loral Skynet with respect to periods prior to the closing of this transaction are references to the operations of Loral's satellite services segment conducted through Loral Skynet 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 Telesat Canada.

Disclosure Regarding Forward-Looking Statements

Except for the historical information contained in the following discussion and analysis, the matters discussed below are not historical facts, but are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition, we or our representatives have made and may continue to make forward-looking statements, orally or in writing, in other contexts. These forward-looking statements can be identified by the use of words such as believes, expects, plans, may, will, would, could, should, anticipates, estimates, project, intend, or outlook or other variations of these words. These statements, including without limitation, those relating to Telesat Canada, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or quantify. Actual events or results may differ materially as a result of a wide variety of factors and conditions, many of which are beyond our control. For a detailed discussion of these and other factors and conditions, please refer to the Commitments and Contingencies section below and to our other periodic reports filed with the Securities and Exchange Commission ("SEC"). We operate in an industry sector in which the value of securities may be volatile and may be influenced by economic and other factors beyond our

control. We undertake no obligation to update any forward-looking statements.

Overview

Businesses

Loral is a leading satellite communications company with a satellite manufacturing unit and investments in satellite services businesses. Loral is organized into two operating segments, satellite manufacturing and satellite

services. For the final two months of 2007 and going forward, Loral participates in satellite services operations principally through its investment in Telesat Canada.

Satellite Manufacturing

Space Systems/Loral, Inc. (SS/L), designs and manufactures satellites, space systems and space system components for commercial and government customers whose applications include fixed satellite services (FSS), direct-to-home (DTH) broadcasting, mobile satellite services (MSS), broadband data distribution, wireless telephony, digital radio, digital mobile broadcasting, military communications, weather monitoring and air traffic management.

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

While its requirement for ongoing capital investment to maintain its current capacity is relatively low, in 2007 SS/L commenced a capacity expansion program through which SS/L is seeking to accommodate as many as 13 satellite awards per year depending on the complexity and timing of the specific satellites awarded. The expansion plan also provides for greater in-house manufacturing of RF components and subassemblies. This expansion, which includes the use of third party offsite capacity and the upgrading of existing SS/L satellite test operations and RF assembly and test operations, is estimated to require total incremental capital expenditures of approximately \$30 million. In February 2008, SS/L and Northrop Grumman announced that they are pursuing a group of initiatives to broaden each company's opportunities to provide the U.S. government with cost competitive satellite systems. As part of these initiatives, Northrop Grumman has agreed in principle to the use by SS/L of its satellite test facilities and services, which would allow Loral to better manage its capital expenditures for facilities expansion at SS/L and the related cash flow requirements associated with that expansion.

The satellite manufacturing industry is a knowledge-intensive business, the success of which relies heavily on its technological heritage and the skills of its workforce. The breadth and depth of talent and experience resident in SS/L's workforce of approximately 2,400 personnel is one of our key competitive resources.

Satellites are extraordinarily complex devices designed to operate in the very hostile environment of space. This complexity may lead to unanticipated costs during the design, manufacture and testing of a satellite. SS/L establishes provisions for costs based on historical experience and program complexity to cover anticipated costs. As most of SS/L's contracts are fixed price, cost increases in excess of these provisions reduce profitability and may result in losses to SS/L, which may be material. The highly competitive satellite manufacturing industry has recently recovered from a several-year period in the early part of this decade when order levels reached an unprecedented low level. Buyers, as a result, have had the advantage over suppliers in negotiating prices, terms and conditions resulting in reduced margins and increased assumptions of risk by manufacturers such as SS/L. SS/L was further handicapped while it was in chapter 11, because of buyers' reluctance to purchase satellites from a company in bankruptcy.

Satellite Services

On October 31, 2007, Loral and its Canadian partner, PSP, through a newly-formed joint venture, completed the acquisition of Telesat Canada from BCE. In connection with this acquisition, Loral transferred substantially all of the

assets and related liabilities of Loral Skynet to Telesat Canada. Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat Holdco, the ultimate parent company of the resulting new entity (see Note 7 to the financial statements).

The satellite services business is capital intensive and the build-out of a satellite fleet requires substantial time and investment. Once these investments are made, however, the costs to maintain and operate the fleet are relatively

low with the exception of in-orbit insurance. Upfront investments are earned back through the leasing of transponders to customers over the life of the satellite. After nearly 40 years of operation, Telesat Canada has established collaborative relationships with its customers so annual receipts from the satellite services business are fairly predictable with long term contracts and high contract renewal rates.

Competition in the satellite services market has been intense in recent years due to a number of factors, including transponder over-capacity in certain geographic regions and increased competition from fiber. This competition puts pressure on prices, depending on market conditions in various geographic regions and frequency bands. A stronger economy and an increase in capital available for expanded consumer and enterprise-level services have more recently led to an improvement in demand in certain markets.

Telesat Canada has twelve in-orbit satellites, comprised of nine owned and three leased satellites. The owned satellites have an average of approximately 54% of their manufacturer's expected total service life remaining, with an average remaining manufacturer's service life in excess of 7.5 years. Three additional satellites, two of which are under construction at SS/L, are currently scheduled for launch in 2008 and 2009. Nimiq 4, which is ready for launch, and Nimiq 5, one of the two satellites under construction, are already 100% contracted for 15 years or such later date as the customer may request: Nimiq 4 to Bell ExpressVu and Nimiq 5 to Bell Express Vu and EchoStar. The March 14, 2008 failure of a Proton rocket to lift its satellite payload to the appropriate orbit will cause a delay in the planned launch of the Nimiq 4 satellite, originally scheduled to be launched on a Proton rocket in mid-2008. Nimiq 4 is now scheduled for launch late in the third quarter of 2008, subject to the successful completion of the next Proton launch mission scheduled earlier in the third quarter. The launch of Nimiq 5, which had been planned for the second half of 2009, may likewise also be delayed as a result of this launch failure. These launch delays will adversely affect Telesat Canada's financial performance for 2008 and potentially 2009 and 2010 and will defer the backlog run-off previously anticipated. It is not possible to quantify the impact of these delays until more information about the Proton failure and the resumption of the launch schedule becomes available.

As a result of the closing of the Telesat Canada transaction, Loral holds a 64% economic interest and a 33 1/3% voting interest in the world's fourth largest satellite operator with approximately \$5.0 billion of backlog as of June 30, 2008. The integration of Loral Skynet's and Telesat Canada's operations offers customers expanded satellite and terrestrial coverage while continuing to offer superior customer service. We believe that this transaction allows the combined company to compete more effectively in the FSS industry than either Loral Skynet or Telesat Canada would have been able to do on its own.

Until the closing of the Telesat Canada transaction, Loral Skynet operated a global fixed satellite services business. As part of this business, Loral Skynet leased transponder capacity to commercial and government customers for video distribution and broadcasting, high-speed data distribution, Internet access and communications, and also provided managed network services to customers using a hybrid satellite and ground-based system. It also provided professional services to other satellite operators such as fleet operating services. At October 31, 2007, Loral Skynet had four in-orbit satellites and one satellite under construction at SS/L.

Future Outlook

Critical success factors for SS/L include maintaining its reputation for reliability, quality and superior customer service. These factors are vital to securing new customers and retaining current ones. At the same time, we must continue to contain costs and maximize efficiencies. SS/L is focused on increasing bookings and backlog, while maintaining the cost efficiencies and process improvements realized over the past several years. In addition, SS/L must continue to align its direct workforce with the level of awards. In order to complete construction of all the satellites in backlog and to accommodate long-term growth, SS/L will need, and is hiring additional staff. Long-term growth at SS/L will also require completion of the capacity expansion program and working capital, primarily for the

orbital component of the satellite contract which is payable to SS/L over the life of the satellite.

Telesat Canada is committed to continuing to provide the strong customer service and focus on innovation and technical expertise that has allowed it to successfully build its business to date. Building on its industry leading backlog and significant contracted growth, Telesat Canada's focus is on taking disciplined steps to grow the core business and sell existing in-construction satellite capacity; successfully integrate with Loral Skynet to improve

operating efficiency; and, in a disciplined manner, use the strong cash flow generated by existing business, contracted expansion satellites and cost savings to strengthen the business.

Telesat Canada believes its existing satellite fleet offers a strong combination of existing backlog, contracted revenue growth on the in-construction satellites Nimiq 4 and Nimiq 5 and additional capacity (on the existing satellites and Telstar 11N) that provides a solid foundation upon which it will seek to grow its revenues and cash flows.

When two satellite operators merge, there usually is significant overlap in their operations. Telesat Canada has implemented a comprehensive integration plan that has resulted in a substantial headcount reduction in certain areas of the company and consolidated a number of Loral Skynet and Telesat Canada facilities, including satellite and network operations centers, resulting in the achievement of significant cost synergies. Telesat Canada has targeted approximately CAD 55 million in annual cost savings; approximately two-thirds of these cost savings will result from the reduction in staffing levels. Telesat Canada believes that its integration activities are proceeding according to plan, that significant cost savings have been achieved, and that the balance of the projected cost savings will be achieved over a one to two year period.

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

The satellite industry is characterized by a relatively fixed cost base that allows significant revenue growth with relatively minimal increases in operating costs, particularly for sales of satellite capacity. Thus, Telesat Canada anticipates that it can increase its revenue without proportional increases in operating expenses, allowing for margin expansion. The fixed cost nature of the business, combined with contracted revenue growth, other growth opportunities and cost savings from integration synergies is expected to produce meaningful growth in operating income and cash flow.

For 2008, Telesat Canada is focused on the execution of its business plan to serve its customers and the markets in which it participates, the sale of capacity on its existing satellites, the continuing execution of its integration plan to achieve operating efficiencies, and on the launch of Nimiq 4 and the completion and launch of its two in-construction satellites (Telstar 11N and Nimiq 5).

We regularly explore and evaluate possible strategic transactions and alliances. We also periodically engage in discussions with satellite service providers, satellite manufacturers and others regarding such matters, which may include joint ventures and strategic relationships as well as business combinations or the acquisition or disposition of assets. For example, in connection with an agreement entered into between SS/L and ViaSat, Inc. (ViaSat) for the construction by SS/L for ViaSat of a high capacity broadband satellite called ViaSat-1 (the ViaSat-1 Satellite), on January 11, 2008, we entered into certain agreements (see Note 14 to the financial statements), pursuant to which we are investing in the Canadian coverage portion of the ViaSat-1 Satellite and granting to Telesat Canada an option to acquire our rights to the Canadian payload. In order to pursue certain of these opportunities, we will require additional funds. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for these transactions on favorable terms, if at all. In connection with the Telesat Canada transaction, Loral has agreed that, subject to certain exceptions described in Telesat Canada's shareholders agreement, for so long as Loral has an interest in Telesat Canada, it will not compete in the business of leasing, selling or otherwise furnishing fixed satellite service, broadcast satellite service or audio and video broadcast direct to home service using transponder capacity in the C-band, Ku-band and Ka-band (including in each case

extended band) frequencies and the business of providing end-to-end data solutions on networks comprised of earth terminals, space segment, and, where appropriate, networking hubs.

Consolidated Operating Results

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

Changes in Critical Accounting Policies There have been no changes in our critical accounting policies during the six months ended June 30, 2008.

Consolidated Operating Results The following discussion of revenues and Adjusted EBITDA (see Note 13 to the financial statements) reflects the results of our operating business segments for the three and six months ended June 30, 2008 and 2007. The balance of the discussion relates to our consolidated results, unless otherwise noted.

The common definition of EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization. In evaluating financial performance, we use revenues and operating income (loss) before depreciation and amortization (including amortization of stock based compensation) (Adjusted EBITDA) as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before: gain on foreign exchange contracts; gain on litigation recovery; impairment of available for sale securities; other income (expense); equity in net losses of affiliates; and minority interest.

Adjusted EBITDA allows us and investors to compare our operating results with that of competitors exclusive of depreciation and amortization, interest and investment income, interest expense, gain on foreign exchange contracts, gain on litigation recovery, impairment of available for sale securities, other income (expense), equity in net losses of affiliates and minority interest. Financial results of competitors in our industry have significant variations that can result from timing of capital expenditures, the amount of intangible assets recorded, the differences in assets lives, the timing and amount of investments, the effects of other income (expense), which are typically for non-recurring transactions not related to the on-going business, and effects of investments not directly managed. The use of Adjusted EBITDA allows us and investors to compare operating results exclusive of these items. Competitors in our industry have significantly different capital structures. The use of Adjusted EBITDA maintains comparability of performance by excluding interest expense.

We believe the use of Adjusted EBITDA along with U.S. GAAP financial measures enhances the understanding of our operating results and is useful to us and investors in comparing performance with competitors, estimating enterprise value and making investment decisions. Adjusted EBITDA as used here may not be comparable to similarly titled measures reported by competitors. We also use Adjusted EBITDA to evaluate operating performance of our segments, to allocate resources and capital to such segments, to measure performance for incentive compensation programs and to evaluate future growth opportunities. Adjusted EBITDA should be used in conjunction with U.S. GAAP financial measures and is not presented as an alternative to cash flow from operations as a measure of our liquidity or as an alternative to net income as an indicator of our operating performance.

Loral is organized into two segments: Satellite Manufacturing and Satellite Services. Our segment reporting data includes unconsolidated affiliates that meet the reportable segment criteria of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The satellite services segment includes 100% of the results reported by Telesat Canada for the three and six months ended June 30, 2008. Although we analyze Telesat Canada's revenue and expenses under the satellite services segment, we eliminate its results in our consolidated financial statements, where we report our 64% share of Telesat Canada's results as equity in net income (losses) of affiliates.

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

Revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In millions)		(In millions)	
Satellite Manufacturing	\$ 210.2	\$ 210.2	\$ 430.0	\$ 410.6
Satellite Services	172.4	35.4	338.9	68.9
Segment revenues	382.6	245.6	768.9	479.5
Eliminations ⁽¹⁾	(2.1)	(19.6)	(3.4)	(33.0)
Affiliate eliminations ⁽²⁾	(172.4)		(338.9)	
Revenues as reported ⁽³⁾	\$ 208.1	\$ 226.0	\$ 426.6	\$ 446.5

Revenues from Satellite Manufacturing before eliminations remained level for the three months ended June 30, 2008 as compared to 2007, primarily as a result of increased revenues from new orders offset by reduced revenue from programs completed or nearing completion. Satellite Services segment revenue increased by \$137 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007 primarily due to the inclusion of Telesat Canada's revenues in 2008.

Revenues from Satellite Manufacturing before eliminations increased by \$19 million for the six months ended June 30, 2008 as compared to 2007, primarily as a result of increased revenues from new orders received partially offset by reduced revenue from programs completed or nearing completion. Satellite Services segment revenue increased by \$270 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007 primarily due to the inclusion of Telesat Canada's revenues in 2008.

Adjusted EBITDA:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In millions)		(In millions)	
Satellite Manufacturing	\$ 10.2	\$ 12.8	\$ 14.9	\$ 20.2
Satellite Services	111.8	13.7	211.2	25.6
Corporate expenses ⁽⁴⁾	(1.5)	(8.5)	(6.3)	(17.2)
Segment Adjusted EBITDA before eliminations	120.5	18.0	219.8	28.6
Eliminations ⁽¹⁾	(0.4)	(0.9)	(0.6)	(3.6)
Affiliate eliminations ⁽²⁾	(105.6)		(205.0)	

Adjusted EBITDA	\$ 14.5	\$ 17.1	\$ 14.2	\$ 25.0
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Satellite Manufacturing segment Adjusted EBITDA decreased \$3 million for the three months ended June 30, 2008 compared with the three months ended June 30, 2007. The decrease was primarily due to increased research and development expenses of \$6 million for satellite control and product payload improvements and increased marketing related expenses of \$2 million due to a higher volume of bid opportunities in 2008, partially offset by forward loss recognition of \$3 million in 2007 related to satellite programs awarded in 2007 and other cost reductions of \$2 million in 2008. Satellite Services segment Adjusted EBITDA increased by \$98 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007 primarily due to the inclusion of Telesat Canada's operating results in 2008. Corporate expenses decreased \$7 million for the three months ended June 30, 2008 as compared to June 30, 2007, primarily due to reductions of \$2 million for deferred compensation due to the decline in the market price of our common stock, \$3 million of legal costs, and \$2 million of increased management fees earned for consulting services provided to affiliates.

Satellite Manufacturing segment Adjusted EBITDA decreased \$5 million for the six months ended June 30, 2008 compared with the six months ended June 30, 2007. The decrease was primarily due to increased research and development expenses of \$5 million for satellite control and product payload improvements and increased marketing related expenses of \$5 million due to a higher volume of bid opportunities, partially offset by the increased margin of \$3 million on higher sales volume in 2008, and decreased general and administrative expenses of \$2 million. Satellite Services segment Adjusted EBITDA increased by \$185 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007 primarily due to the inclusion of Telesat Canada's operating results in 2008. Corporate expenses decreased \$11 million for the six months ended June 30, 2008 as compared to June 30, 2007, primarily due to reductions of \$4 million for deferred compensation due to the decline in the market price of our common stock, \$4 million of legal costs, and \$3 million of increased management fees earned for consulting services provided to affiliates.

Reconciliation of Adjusted EBITDA to Net Income (Loss):

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
	2008	2007	2008	2007
	(In millions)		(In millions)	
Adjusted EBITDA	\$ 14.5	\$ 17.1	\$ 14.2	\$ 25.0
Depreciation and amortization ⁽⁵⁾	(10.0)	(32.2)	(20.5)	(51.9)
Operating income (loss)	4.5	(15.1)	(6.3)	(26.9)
Interest and investment income	1.9	10.6	8.3	17.2
Interest expense	(0.3)	(2.2)	(0.7)	(5.0)
Gain on foreign exchange contracts		61.5		65.5
Gain on litigation recovery	58.3		58.3	
Impairment of available for sale securities	(3.5)		(3.5)	
Other income (expense)	(0.2)	0.2	(0.3)	0.2
Income tax provision	(11.6)	(28.4)	(13.4)	(31.8)
Equity in net income (losses) of affiliates	2.9	0.5	(61.7)	(1.9)
Minority interest		(6.5)		(13.5)
Net income (loss)	\$ 52.0	\$ 20.6	\$ (19.3)	\$ 3.8

- (1) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA for satellites under construction by SS/L for Loral and its wholly owned subsidiaries and for Satellite Services leasing transponder capacity to SS/L.
- (2) Represents the elimination of amounts attributed to Telesat Canada whose results are reported in our consolidated statements of operations as equity in net losses of affiliates.
- (3) Includes revenues from affiliates of \$29.1 million and nil for the three months ended June 30, 2008 and 2007, respectively, and \$48.4 million and \$0.4 million for the six months ended June 30, 2008 and 2007, respectively.
- (4)

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

- (5) Includes non-cash stock based compensation of \$1.4 million and \$3.5 million for the three and six months ended June 30, 2008, respectively and \$10.3 million for the three and six months ended June 30, 2007, respectively, as a result of shareholder approval of the Stock Incentive Plan amendments on May 22, 2007 (see Note 10 to the financial statements).

Three Months Ended June 30, 2008 Compared With June 30, 2007

The following compares our consolidated results of operations for the three months ended June 30, 2008 and 2007 as presented in our financial statements (in millions):

Revenues from Satellite Manufacturing

	Three Months		
	Ended June 30,	2007	%
	2008	2007	Increase/ (Decrease)
	(In millions)		
Revenues from Satellite Manufacturing	\$ 210	\$ 210	
Eliminations	(2)	(19)	(88)%
Revenues from Satellite Manufacturing as reported	\$ 208	\$ 191	9%

Revenues from Satellite Manufacturing before eliminations remained even for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007, primarily as a result of \$56 million of revenue from \$720 million of new orders received subsequent to June 30, 2007, offset by \$56 million of reduced revenue from programs completed or nearing completion which were awarded in earlier periods. Eliminations for the three months ended June 30, 2008, consist primarily of revenues applicable to Loral's interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (See Note 14 to the financial statements). Eliminations for the three months ended June 30, 2007 consisted primarily of revenues recorded for the construction of Telstar 11N, a satellite being manufactured by SS/L for Loral Skynet. As a result, revenues from Satellite Manufacturing as reported increased \$17 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007.

Revenues from Satellite Services

	Three Months		
	Ended June 30,	2007	
	2008	2007	
	(In millions)		
Revenues from Satellite Services	\$	\$ 36	
Eliminations		(1)	
Revenues from Satellite Services as reported	\$	\$ 35	

The revenue decrease resulted from the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada on October 31, 2007.

Cost of Satellite Manufacturing

	Three Months		
	Ended June 30,	2007	%
	2008		Increase/ (Decrease)
	(In millions)		
Cost of Satellite Manufacturing includes:			
Cost of Satellite Manufacturing before the following specific identified charges	\$ 175	\$ 163	7%
Depreciation and amortization	9	10	(14)%
Total cost of Satellite Manufacturing as reported	\$ 184	\$ 173	6%
Cost of Satellite Manufacturing as a% of Satellite Manufacturing revenues as reported	88%	90%	

Cost of Satellite Manufacturing as reported increased \$11 million for the three months ended June 30, 2008 as compared to 2007. Cost of Satellite Manufacturing before specific identified charges shown above increased

\$12 million for the three months ended June 30, 2008 as compared to 2007, primarily due to costs of \$16 million for Telstar 11N which prior to the Telesat Canada transaction were eliminated, partially offset by the recognition of a forward loss in 2007 of \$3 million. Depreciation and amortization expense decreased \$1 million for the three months ended June 30, 2008 as compared to 2007 as a result of lower amortization of stock based compensation related to restricted stock grants made to employees in 2007.

Cost of Satellite Services

	Three Months Ended June 30, 2008 2007 (In millions)	
Cost of Satellite Services includes:		
Cost of Satellite Services before depreciation and amortization	\$	\$ 12
Depreciation and amortization		13
Total cost of Satellite Services as reported	\$	\$ 25
Cost of Satellite Services as a% of Satellite Services revenues as reported		74%

The decrease in cost of satellite services resulted from the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada on October 31, 2007.

Selling, General and Administrative Expenses

	Three Months Ended June 30, 2008 2007 (In millions)		% Increase/ (Decrease)
Selling, general and administrative expenses	\$ 26	\$ 43	(40)%
% of revenues as reported	12%	19%	

Selling, general and administrative expenses decreased by \$17 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007. This was due primarily to a decrease of \$9 million as a result of the contribution of Loral Skynet to Telesat Canada on October 31, 2007, decreased stock based compensation of \$8 million, primarily related to grants approved by our shareholders in May 2007 and lower Corporate expenses including reductions of \$3 million of legal costs, \$2 million for deferred compensation due to the decline in the market price of our common stock and \$2 million of increased management fees earned for consulting services provided to affiliates, partially offset by increases at SS/L for research and development expenses of \$6 million and marketing related expenses of \$2 million due to a higher volume of bid opportunities in 2008.

Gain on Recovery from Customer Bankruptcy

During the three months ended June 30, 2008 we recorded income of \$6 million related to a distribution from a bankruptcy claim against a former customer of Loral Skynet. The receivables underlying the claim had been previously written-off or not recognized due to the customer's bankruptcy.

Interest and Investment Income

	Three Months Ended June 30, 2008 2007 (In millions)	
Interest and Investment Income	\$ 2	\$ 11

Interest and investment income decreased \$9 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007. This decrease was due mainly to reduced cash and investment balances (\$135 million on the balance sheet at June 30, 2008 as compared to \$526 million on the balance sheet at June 30, 2007) as a result of the funding of the Telesat transaction, tax payments, pension plan funding and the use of cash

required to fund the operations of SS/L. The completion of the \$300 million preferred stock financing in February 2007 increased Loral's cash investment position in 2007 (see Note 10 to the financial statements). In addition, interest and investment income decreased due to the decline in investment rates of over 250 basis points for the 2008 period vs. the 2007 period.

Interest Expense

	Three Months Ended June 30,	
	2008	2007
	(In millions)	
Interest cost before capitalized interest	\$	\$ 5
Capitalized interest		(3)
Interest expense	\$	\$ 2

Interest cost before capitalized interest decreased by \$5 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007, primarily due to reduced interest expense as a result of Loral's contribution of Loral Skynet to Telesat Canada on October 31, 2007. Capitalized interest decreased \$3 million due to the contribution of the Telstar 11N satellite to Telesat Canada on October 31, 2007 in connection with the Telesat Canada transaction.

Gain on Foreign Exchange Contracts

In the three months ended June 30, 2007, we recorded an unrealized gain of \$62 million reflecting the change in the fair value of the currency swaps and the change in the fair value of the forward contracts entered into by Loral Skynet relating to the Telesat Canada transaction (See Note 5 to the financial statements).

Gain on Litigation Recovery

During the three months ended June 30, 2008, we recorded income of \$58 million related to a gain on litigation recovery from Rainbow DBS (see Note 11 to the financial statements).

Impairment of Available for Sale Securities

During the three months ended June 30, 2008, we recorded an impairment charge of \$3.5 million to reflect an other-than-temporary decline in the value of our investment in Globalstar Inc. common stock (see Note 7 to the financial statements).

Other Income (Expense)

Other income (expense) includes gains and (losses) on foreign currency transactions other than those related to the Telesat Canada transaction.

Income Tax Provision

During 2008 and 2007, we continued to maintain a 100% valuation allowance against our net deferred tax assets except with regard to our deferred tax assets related to AMT credit carryforwards and certain state tax benefits. We will 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, any reduction to the balance of our 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 months ended June 30, 2008 we recorded a reduction to goodwill in the amount of \$0.6 million related to the reduction of our valuation allowance as of October 1, 2005.

For the three months ended June 30, 2008 and 2007, our income tax provision was \$11.6 million and \$28.4 million, respectively. The decrease of \$16.8 million is primarily attributable to the benefits received in 2008 from the utilization of tax losses and certain state tax adjustments.

Equity in Net Income (Losses) of Affiliates

	Three Months Ended June 30, 2008 2007 (In millions)	
Telesat	\$ 7	\$
XTAR	(4)	(3)
Other		3
	\$ 3	\$

On October 31, 2007, Loral and its Canadian Partner, PSP, through a newly-formed joint venture, completed the acquisition of Telesat Canada from BCE. In connection with this acquisition, Loral transferred substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada. Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat Holdco, the ultimate parent company of the resulting new entity. Loral accounts for this investment using the equity method of accounting. During the three months ended June 30, 2007, Loral received a cash distribution of \$3.0 million from Globalstar de Mexico.

Summary financial information for Telesat Canada for the three months ended June 30, 2008 in accordance with U.S. GAAP follows (in U.S. \$ millions):

	Three Months Ended June 30, 2008	
Statement of Operations Data:		
Revenues	\$	172.4
Operating expenses		(123.5)
Operating income		48.9
Interest expense		(53.3)
Other income		39.8
Income tax provision		(20.3)
Net income		15.1

Other income included a non-cash foreign exchange gain of \$21 million and a non-cash gain on financial instruments of \$18 million for the three months ended June 30, 2008.

Telesat Canada's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat Canada's main currency exposures as of June 30, 2008, lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. A five percent weakening of the Canadian dollar against the U.S. dollar at June 30, 2008 would have decreased Telesat Canada's net income for the three months ended June 30, 2008 by approximately \$25 million, while a 5% strengthening of the Canadian dollar against the U.S. dollar at June 30, 2008 would have increased Telesat Canada's net income by approximately \$24 million.

As discussed in Note 7 to the financial statements, Loral's equity in net loss of Telesat Canada is based on our proportionate share of their results in accordance with U.S. GAAP and in U.S. dollars. In determining our equity in net loss of Telesat Canada, Telesat Canada's net loss has been proportionately adjusted to exclude the amortization of the fair value adjustments applicable to its acquisition of the Loral Skynet assets and liabilities. Our equity in net loss of Telesat Canada also reflects the elimination of our profit, to the extent of our beneficial interest, on satellites we are constructing for them.

See Note 7 to the financial statements for information related to XTAR.

Minority Interest

Minority interest decreased \$6 million for the three months ended June 30, 2008, as compared to the three months ended June 30, 2007, primarily due to the redemption of the Loral Skynet Preferred Stock in connection with the Telesat Canada transaction.

Six Months Ended June 30, 2008 Compared With June 30, 2007***Revenues from Satellite Manufacturing***

	Six Months		% Increase/ (Decrease)
	Ended June 30, 2008	2007	
	(In millions)		
Revenues from Satellite Manufacturing	\$ 430	\$ 411	5%
Eliminations	(3)	(32)	(89)%
Revenues from Satellite Manufacturing as reported	\$ 427	\$ 379	13%

Revenues from Satellite Manufacturing before eliminations increased \$19 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007, primarily as a result of \$80 million of revenue from \$720 million of new orders received subsequent to June 30, 2007, partially offset by \$61 million of reduced revenue from programs completed or nearing completion which were awarded in earlier periods. Eliminations for the six months ended June 30, 2008, consist primarily of revenues applicable to Loral's interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (See Note 14 to the financial statements). Eliminations for the six months ended June 30, 2007 consisted primarily of revenues recorded for the construction of Telstar 11N, a satellite being manufactured by SS/L for Loral Skynet. As a result, revenues from Satellite Manufacturing as reported increased \$48 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007.

Revenues from Satellite Services

	Six Months	
	Ended June 30, 2008	2007
	(In millions)	
Revenues from Satellite Services	\$	\$ 69
Eliminations		(1)
Revenues from Satellite Services as reported	\$	\$ 68

The revenue decrease resulted from the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada on October 31, 2007.

Cost of Satellite Manufacturing

	Six Months		
	Ended June 30,	2007	%
	2008		Increase/ (Decrease)
	(In millions)		
Cost of Satellite Manufacturing includes:			
Cost of Satellite Manufacturing before the following specific identified charges	\$ 374	\$ 331	13%
Depreciation and amortization	17	16	7%
Total cost of Satellite Manufacturing as reported	\$ 391	\$ 347	13%
Cost of Satellite Manufacturing as a % of Satellite Manufacturing revenues as reported	92%	92%	

Cost of Satellite Manufacturing as reported increased \$44 million for the six months ended June 30, 2008 as compared to 2007. Cost of Satellite Manufacturing before specific identified charges shown above increased \$43 million for the six months ended June 30, 2008 as compared to 2007. This increase is primarily due to \$13 million of increased costs from additional revenue during 2008 and \$27 million of costs for Telstar 11N which prior to the Telesat Canada transaction were eliminated. Depreciation and amortization expense increased \$1 million, primarily as a result of amortization of restricted stock units awarded in 2007.

Cost of Satellite Services

	Six Months Ended June 30, 2008 2007 (In millions)	
Cost of Satellite Services includes:		
Cost of Satellite Services before depreciation and amortization	\$	\$ 24
Depreciation and amortization		26
Total cost of Satellite Services as reported	\$	\$ 50
Cost of Satellite Services as a % of Satellite Services revenues as reported		75%

The decrease in cost of satellite services resulted from the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada on October 31, 2007.

Selling, General and Administrative Expenses

	Six Months Ended June 30, 2008 2007 (In millions)		% Increase/ (Decrease)
Selling, general and administrative expenses	\$ 48	\$ 76	(37)%
% of revenues as reported	11%	17%	

Selling, general and administrative expenses decreased by \$28 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007. This was due primarily to a decrease of \$19 million as a result of the contribution of Loral Skynet to Telesat Canada on October 31, 2007, and lower Corporate expenses including reductions of \$4 million for deferred compensation due to the decline in the market price of our common stock, \$4 million of legal costs, decreased stock based compensation of \$6 million related to grants approved by shareholders in May 2007, \$3 million of increased management fees earned for consulting services provided to affiliates, and \$2 million decreased general and administrative costs at SS/L, partially offset by increases at SS/L of \$5 million for research and development and increased marketing related expenses of \$5 million due to a higher volume of bid opportunities.

Gain on Recovery from Customer Bankruptcy

During the three months ended June 30, 2008 we recorded income of \$6 million related to a distribution from a bankruptcy claim against a former customer of Loral Skynet. The receivables underlying the claim had been previously written-off or not recognized due to the customer's bankruptcy.

Interest and Investment Income

	Six Months Ended June 30, 2008 2007 (In millions)	
Interest and investment income	\$ 8	\$ 17

Interest and investment income decreased \$8 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007. This decrease was due mainly to reduced cash and investment balances (\$135 million on the balance sheet at June 30, 2008 as compared to \$526 million on the balance sheet at June 30, 2007) as a result of the funding of the Telesat transaction, tax payments, pension plan funding and the use of cash required to fund the operations of SS/L. The completion of the \$300 million preferred stock financing in February 2007 increased Loral's cash investment position in 2007 (see Note 10 to the financial statements). In addition, interest and investment income decreased due to the decline in investment rates of over 200 basis points for the 2008 period vs. the 2007 period. This decrease was partially offset by an increase of \$3 million from accelerated amortization of fair value adjustments resulting from the early payment of orbital incentives by a customer in the first quarter of 2008.

Interest Expense

	Six Months Ended June 30, 2008 2007 (In millions)	
Interest cost before capitalized interest	\$ 1	\$ 11
Capitalized interest		(6)
Interest expense	\$ 1	\$ 5

Interest cost before capitalized interest decreased by \$10 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007, primarily due to reduced interest expense as a result of Loral's contribution of Loral Skynet to Telesat Canada on October 31, 2007. Capitalized interest decreased \$6 million due to the contribution of the Telstar 11N satellite to Telesat Canada on October 31, 2007 in connection with the Telesat Canada transaction.

Gain on Foreign Exchange Contracts

In the six months ended June 30, 2007, we recorded an unrealized gain of \$65 million reflecting the change in the fair value of the currency swaps and the change in the fair value of the forward contracts entered into by Loral Skynet relating to the Telesat Canada transaction (See Note 5 to the financial statements).

Gain on Litigation Recovery

During the six months ended June 30, 2008, we recorded income of \$58 million related to a gain on litigation recovery from Rainbow DBS (see Note 11 to the financial statements).

Impairment of Available for Sale Securities

During the six months ended June 30, 2008, we recorded an impairment charge of \$3.5 million to reflect an other-than-temporary decline in the value of our investment in Globalstar Inc. common stock (see Note 7 to the financial statements).

Other Income (Expense)

Other income (expense) includes gains and (losses) on foreign currency transactions other than those related to the Telesat Canada transaction.

Income Tax Provision

During 2008 and 2007, we continued to maintain a 100% valuation allowance against our net deferred tax assets except with regard to our deferred tax assets related to AMT credit carryforwards and certain state tax benefits. We will 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, any reduction to the balance of our valuation allowance as of October 1, 2005 will first reduce goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital. For the three and six months ending June 30, 2008 we recorded a reduction to goodwill in the amount of \$0.6 million related to the reduction of our valuation allowance as of October 1, 2005.

For the six months ended June 30, 2008 and 2007, our income tax provision was \$13.4 million and \$31.8 million, respectively. The difference of \$18.4 million is primarily attributable to the benefits received in 2008 from the utilization of tax losses and certain state tax adjustments and an additional valuation allowance required in 2007 as a result of having reversed deferred tax liabilities from accumulated other comprehensive income. The additional valuation allowance was \$0.8 million and \$3.2 million for 2008 and 2007, respectively.

Equity in Net Income (Losses) of Affiliates

	Six Months Ended June 30, 2008 2007 (In millions)	
Telesat	\$ (53)	\$
XTAR	(8)	(5)
Other		3
	\$ (61)	\$ (2)

Summary financial information for Telesat Canada for the six months ended June 30, 2008 in accordance with U.S. GAAP follows (in U.S. \$ millions):

	Six Months Ended June 30, 2008	
Statement of Operations Data:		
Revenues	\$ 338.9	
Operating expenses	(249.1)	
Operating income	89.8	
Interest expense	(115.5)	
Other expense	(48.5)	
Income tax provision	(3.3)	
Net loss	(77.5)	
	June 30, 2008	December 31, 2007
Balance Sheet Data:		
Current assets	\$ 121.6	\$ 143.7
Total assets	5,401.5	5,610.0

Current liabilities	185.6	229.5
Total liabilities	4,076.9	4,156.7
Redeemable preferred stock	138.5	143.1
Shareholders' equity	1,186.1	1,310.2

Other expense included a non-cash foreign exchange loss of \$102 million and a non-cash gain on financial instruments of \$50 million for the six months ended June 30, 2008.

Telesat Canada's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat Canada's main currency exposures as of June 30, 2008, lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. A five percent weakening of the Canadian dollar against the U.S. dollar at June 30, 2008 would have increased Telesat Canada's net loss for the six months ended June 30, 2008 by approximately \$159 million, while a five percent strengthening of the Canadian dollar against the U.S. dollar at June 30, 2008 would have decreased Telesat Canada's net loss for the six months ended June 30, 2008 by approximately \$151 million.

See Note 7 to the financial statements for information related to XTAR.

Minority Interest

Minority interest decreased \$13 million for the six months ended June 30, 2008, as compared to the six months ended June 30, 2007, primarily due to the redemption of the Loral Skynet Preferred Stock in connection with the Telesat Canada transaction.

Backlog

Backlog as of June 30, 2008 and December 31, 2007, was as follows (in millions):

	June 30, 2008	December 31, 2007
Satellite Manufacturing	\$ 1,162	\$ 1,025
Satellite Services	5,000	5,251
Total backlog before eliminations	6,162	6,276
Satellite Manufacturing eliminations	(33)	
Eliminations	(5,000)	(5,251)
Total backlog	\$ 1,129	\$ 1,025

Liquidity and Capital Resources

The Company ended 2007 with cash and cash equivalents of \$315 million, restricted cash of \$24 million and no debt. During the first six months of 2008, the Company used \$180 million of cash reducing its cash and cash equivalents balance to \$135 million. This decrease was primarily the result of pension funding, the reduction in customer advances and the increase in contract assets and inventories associated with our satellite construction contracts, and capital expenditures, all primarily related to SS/L; and the payment of taxes, and a post-closing final adjustment payment to PSP, both related to the Telesat Canada transaction. On July 1, 2008, we received \$58 million related to a judgment against Rainbow DBS (see Note 11 to the financial statements).

Over the next 12 months, we anticipate using a substantial portion of our existing cash to fund: our pension and retiree medical programs; additional tax payments; capital expenditures for our investment in ViaSat-1 and SS/L's expansion and equipment upgrades; and working capital requirements including working capital to fund anticipated growth in orbital receivables. Based on these needs, requirements for appropriate contingencies, and resources for future growth initiatives, the Company expects to require additional capital during this period. The Company is in the advanced stages of negotiating a secured revolving credit facility at SS/L for approximately \$100 million. This new bank financing will permit us to meet unexpected cash requirements due to unforeseen changes to our business as well as provide liquidity for working capital and capital expenditures and to fund orbital receivables, satisfying the requirements of SS/L's business plan for the foreseeable future. In addition, this debt financing will augment our ability to provide vendor financing for very selected customers of SS/L, or to make small equity investments in them which will also assist in obtaining awards. Although there can be no assurance, the Company expects to consummate this debt financing in the coming months.

In addition to the contemplated debt financing, the Company is considering raising additional financing in the form of equity to provide funding for strategic investments and growth initiatives not in the plan, as they arise. If the Company is not successful in obtaining the planned debt financing, and then is unable to obtain a replacement financing, either debt or equity, its ability to manage unforeseen cash requirements, to meet contingencies, to obtain new satellite construction contracts and to make strategic investments will be materially and adversely affected. There can be no assurance that it will be able to obtain such financing on favorable terms, if at all.

Telesat Canada is subject to covenants in its debt agreements that restrict cash payments, including dividends to its shareholders. Cash payments to Loral under our consulting agreement with Telesat Canada are also restricted by Telesat Canada's debt agreements. Loral does not believe that it will receive cash dividends nor that Telesat Canada will be permitted to make the \$5 million annual fee payment under the consulting agreement in cash in the near term.

The Company has an investment program that seeks a competitive return while maintaining a conservative risk profile. The Company's investment policy establishes what it believes to be conservative policies relating to and governing the investment of its surplus cash. The Company's investment policy allows it to invest in commercial paper, money market funds and other similar short term investments but does not permit the Company to engage in speculative or leveraged transactions, nor does it permit the Company to hold or issue financial instruments for trading purposes. The investment policy was designed to preserve capital and safeguard principal, to meet all liquidity requirements of the Company and to provide a competitive rate of return. The investment policy addresses dealer qualifications, lists approved securities, establishes minimum acceptable credit ratings, sets concentration limits, defines a maturity structure, requires all firms to safe keep securities on the Company's behalf, requires certain mandatory reporting activity and discusses review of the portfolio. The Company operates its investment program under the guidelines of its investment policy and continuously monitors its investments and policies. The Company believes that its policies and monitoring program mitigate the risks with regard to its current investments.

Loral currently maintains its cash in liquid money market funds. We do not currently hold any investments in auction rate securities or enhanced money market funds that have been subject to liquidity issues and price declines. We do not anticipate moving into short-term investments for the foreseeable future until liquidity returns to these markets.

Cash requirements at Satellite Manufacturing are driven primarily by working capital requirements to finance long-term receivables associated with satellite contracts, other vendor financing and capital spending required to maintain and expand the manufacturing facility. While its requirement for ongoing capital investment to maintain its current capacity is relatively low, in 2007, SS/L commenced a capacity expansion program through which SS/L is seeking to accommodate as many as 13 satellite awards per year depending on the complexity and timing of the specific satellites awarded. The expansion plan also provides for greater in-house manufacturing of RF components and subassemblies. This expansion, which includes the use of third party offsite capacity and the upgrading of existing SS/L satellite test operations and RF assembly and test operations, is estimated to require total incremental capital expenditures of approximately \$30 million. On February 27, 2008, SS/L and Northrop Grumman announced that they are pursuing a group of initiatives to broaden each company's opportunities to provide the U.S. government with cost competitive satellite systems. As part of these initiatives, Northrop Grumman has agreed in principle to the use by SS/L of its satellite test facilities and services, which would allow Loral to better manage its capital expenditures for facilities expansion at SS/L and the related cash flow requirements associated with that expansion.

Historically, a portion of Satellite Manufacturing revenues are paid to SS/L in the form of orbitals, receivable payments from its customers that are earned over the life of the satellite. These payments are contingent upon continued satellite performance. As of June 30, 2008, SS/L had orbital receivables of \$148 million, which will be received, generally, over 15 years from launch. Orbital receivables include \$29 million related to satellites in orbit and \$119 million for satellites under construction. Continued growth in the Satellite Manufacturing business will result in a corresponding growth in the amount of such orbital receivables. Though unusual, a customer may elect to prepay its orbitals balance while still requiring SS/L to maintain its liability for the performance of the spacecraft. One customer elected to prepay its orbitals balance against two spacecraft in March 2008 resulting in SS/L receiving \$21 million.

On November 30, 2007, SS/L entered into a second amendment to its \$15 million cash collateralized amended and restated letter of credit agreement with JP Morgan Chase Bank extending the maturity of the facility to December 31, 2008. 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, 2008. Outstanding letters of credit are fully cash collateralized. As of June 30, 2008, \$5.4 million of letters of credit under this facility were issued and outstanding.

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. Pursuant to an amendment dated May 22, 2008, Sirius is required to prepay any loans outstanding upon the occurrence of certain events, including the failure to obtain its FCC license for FM-6 by September 30, 2008. As of June 30, 2008, no loans were outstanding under the Credit Agreement. Sirius is currently eligible to borrow \$100 million under the Credit Agreement, representing reimbursement of payments previously made by Sirius under the Amended Satellite Purchase Agreement.

Telesat Canada

Cash and Available Credit

As of June 30, 2008, Telesat Canada had CAD 29 million of cash and short-term investments as well as CAD 153 million of borrowing availability under its Revolving Facility and \$42 million of borrowing availability under its U.S. Term II Loan Facility as discussed below. Telesat Canada believes that cash and short-term investments as of June 30, 2008, net cash provided by operating activities, cash flow from customer prepayments, and drawings on the available lines of credit under the Credit Facility (as defined below) will be adequate to meet its expected cash requirement for activities in the normal course of business, including interest and required principal payments on debt as well as planned capital expenditures through at least the next 12 months.

Telesat Canada has adopted what it believes are conservative policies relating to and governing the investment of its surplus cash. The investment policy does not permit Telesat Canada to engage in speculative or leveraged transactions, nor does it permit Telesat Canada to hold or issue financial instruments for trading purposes. The investment policy was designed to preserve capital and safeguard principal, to meet all liquidity requirements of Telesat Canada and to provide a competitive rate of return. The investment policy addresses dealer qualifications, lists approved securities, establishes minimum acceptable credit ratings, sets concentration limits, defines a maturity structure, requires all firms to safe keep securities, requires certain mandatory reporting activity and discusses review of the portfolio. Telesat Canada operates its investment program under the guidelines of its investment policy.

Liquidity

A large portion of Telesat Canada's annual cash receipts are reasonably predictable because they are primarily derived from an existing backlog of long-term customer contracts and high contract renewal rates. Telesat Canada believes its cash flow from operations will be sufficient to provide for a portion of its capital requirements and to fund its interest and debt payment obligations through 2008. Cash required for the construction and launch of the Nimiq 4, Nimiq 5 and Telstar 11N satellites will be funded from some or all of the following: cash and short-term investments, cash flow from operations, cash flow from customer prepayments or through borrowings on available lines of credit under the Credit Facility.

Telesat Canada maintains approximately CAD 25 million in cash and cash equivalents within its subsidiary operating entities for the management of its liquidity. Telesat Canada's intention is to maintain this level of cash and cash equivalents to assist with the day-to-day management of its cash flows.

Debt

Telesat Canada entered into agreements with a syndicate of banks to provide Telesat Canada with, in each case as described below, senior secured credit facilities (the Credit Facility), a senior bridge loan facility (the Senior

Bridge Loan) and a senior subordinated bridge loan facility (the Senior Subordinated Bridge Loan) (together the Facilities). The Facilities are also guaranteed by Telesat Holdings Inc. and certain Telesat Canada subsidiaries.

Senior Secured Credit Facilities

The Credit Facility consists of several tranches, which are described below.

The Credit Facility is secured by substantially all of Telesat Canada's assets. Under the terms of the Credit Facility, Telesat Canada is required to comply with certain covenants which are usual and customary for highly leveraged transactions, including financial reporting, maintenance of certain financial covenant ratios for leverage and interest coverage, a requirement to maintain minimum levels of satellite insurance, restrictions on capital expenditures, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions and restrictions on transactions with affiliates. Telesat Canada is also required to enter into swap agreements that will effectively fix or cap the interest rates on at least 50% of its funded debt for a 3 year period ending October 31, 2011. Each tranche of the Credit Facility is subject to mandatory principal repayment requirements, which, in the initial years, are generally 1/4 of 1% of the initial aggregate principal amount.

Revolving Facility

The Revolving Facility is a CAD 153 million loan facility with a maturity date of October 31, 2012. Loans under the Revolving Facility currently bear interest at a floating rate of the Bankers Acceptance borrowing rate plus an applicable margin of 275 basis points. The applicable margin is subject to a leverage pricing grid. The Revolving Facility currently has an unused commitment fee of 50 bps that is subject to adjustment based upon a leverage pricing grid. As of June 30, 2008, there were no drawings under this facility.

Canadian Term Loan Facility

The Canadian Term Loan Facility is a CAD 200 million loan with a maturity date of October 31, 2012. The Canadian Term Loan Facility bears interest at a floating rate of the Bankers Acceptance borrowing rate plus an applicable margin of 275 basis points.

U.S. Term Loan Facility

The U.S. Term Loan Facility is for \$1.905 billion with a final maturity date of October 31, 2014. The U.S. Term Loan Facility is made up of two facilities, a \$1.755 billion U.S. Term Loan I Facility and a \$150 million U.S. Term Loan II Facility that is a 12 month delayed draw facility for satellite capital expenditures. The U.S. Term Loan Facility bears interest at LIBOR plus an applicable margin of 300 basis points.

The U.S. Term Loan II Facility has an unused commitment fee of 1/2 the applicable margin which is 150 basis points. Telesat Canada anticipates that it will draw the full amount of this facility during the 12 month availability period. As of June 30, 2008, \$98 million of the facility was drawn.

In order to hedge the currency risk for Telesat Canada both at closing and over the life of the loans, Loral Skynet entered into an amortizing currency basis swap to synthetically convert \$1.054 billion of the US dollar commitment to CAD 1.224 billion and transferred the benefit of the basis swap to Telesat Canada prior to closing. The CAD 1.224 billion bears interest at a floating rate of Bankers Acceptance plus an applicable margin of approximately 387 basis points.

Senior Notes

On June 30, 2008, Telesat Canada exchanged its outstanding \$692.8 million Senior Bridge Loan for \$692.8 million Senior Notes. The Senior Notes bear interest at a rate of 11.0% and are due November 1, 2015. The Senior Notes include covenants or terms that restrict Telesat Canada's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel Telesat Canada's satellite

insurance, (vi) effect mergers with another entity, and (vii), redeem the Senior Notes prior to May 1, 2012, in each case subject to exceptions provided in the Senior Notes indenture.

Senior Bridge Loan

The Senior Bridge Loan was a \$692.8 million senior unsecured loan advanced on the closing date. The Senior Bridge Loan had a maturity of October 31, 2008 and an initial interest rate per annum equal to the greater of 9% or three-month LIBOR plus the applicable margin. The applicable margin increased over time subject to an interest rate cap of 11%. The lenders under the Senior Bridge Loan had a right, as early as April 28, 2008, to make a securities demand (after a road show and marketing period customary for similar offerings) whereby Telesat Canada would issue high yield notes with registration rights but subject to an interest rate at or below the 11% cap in exchange for the Senior Bridge Loan.

Senior Subordinated Notes

On June 30, 2008, Telesat Canada also exchanged its outstanding \$217.2 million Senior Subordinated Bridge Loan for \$217.2 million Senior Subordinated Notes. The Senior Subordinated Notes bear interest at a rate of 12.5% and are due November 1, 2017. The Senior Subordinated Notes include covenants or terms that restrict Telesat Canada's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel Telesat Canada's satellite insurance, (vi) effect mergers with another entity, and (vii), redeem the Senior Subordinated Notes prior to May 1, 2013, in each case subject to exceptions provided in the Senior Subordinated Notes indenture.

Senior Subordinated Bridge Loan

The Senior Subordinated Bridge Loan was a \$217.2 million senior subordinated unsecured loan advanced on the closing date. The Senior Subordinated Bridge Loan had a maturity of October 31, 2008 and an initial interest rate per annum equal to the greater of 10.5% or three-month LIBOR plus the applicable margin. The applicable margin increased over time subject to an interest rate cap of 12.5%. The lenders under the Senior Subordinated Bridge Loan had a right, as early as April 28, 2008, to make a securities demand (after a road show and marketing period customary for similar offerings) whereby Telesat Canada would issue high yield notes with registration rights but subject to an interest rate at or below the 12.5% cap in exchange for the Senior Subordinated Bridge Loan.

Interest Expense

An estimate of the interest expense on the Facilities is based upon assumptions of LIBOR and Bankers Acceptance rates and the applicable margin for the Credit Facility, the Senior Bridge Loan and the Senior Subordinated Bridge Loan. Telesat Canada's estimated interest expense for 2008 is approximately CAD 273 million.

Derivatives

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

Telesat Canada uses forward contracts to hedge its foreign currency risk on anticipated transactions, mainly related to the construction of satellites. At June 30, 2008, Telesat Canada had outstanding foreign exchange contracts which require them to pay Canadian dollars to receive \$U.S.152.4 million for future capital expenditures. The fair value of these derivative contract liabilities resulted in an unrealized loss of CAD 2.8 million as of June 30, 2008. Any gain or

loss on these forward contracts will remain unrealized until the contracts are settled. These forward contracts are due between July 16, 2008 and December 1, 2009.

In order to hedge the currency risk for Telesat Canada, both at the closing of the Telesat Canada transaction and over the life of the loans, Loral Skynet entered into a currency basis swap to synthetically convert \$1.054 billion of the U.S. Term Loan Facility debt into CAD 1.224 billion of debt. Loral Skynet transferred the currency basis swap

to Telesat Canada prior to closing. The fair value of this derivative contract at June 30, 2008 resulted in an unrealized loss of CAD 225 million. Any gain or loss on the basis swap will remain unrealized until the contract is settled. This contract is due on October 31, 2014.

On November 30, 2007, Telesat Canada entered into a series of five interest rate swaps to fix interest rates on \$600 million of U.S. dollar denominated debt and CAD 630 million of Canadian dollar denominated debt for an average term of 3.2 years. Average rates achieved, before any borrowing spread, were 4.12% on the U.S. dollar denominated swaps and 4.35% on the Canadian dollar denominated swaps. As of June 30, 2008, the fair value of these derivative contract liabilities was an unrealized loss of CAD 16 million. Any gain or loss will remain unrealized until the contracts are settled. These contracts are due between January 31, 2010 and November 28, 2011. With these transactions, Telesat Canada has met its requirement under the Credit Facility to effectively fix or cap at least 50% of its funded debt.

Contractual Obligations

There have not been any significant changes to the Contractual Obligations as previously disclosed in our latest Annual Report on Form 10-K filed with the SEC other than an agreement between us and ViaSat, Inc. that provides for the purchase by us of a portion of the ViaSat-1 satellite, which is being constructed by SS/L, for approximately \$60 million. Estimated payments under this agreement include \$15 million in 2008, \$33 million from 2009 to 2010, \$6 million from 2011 to 2012 and the remainder thereafter. As of June 30, 2008, we have recorded liabilities under FIN 48 in the amount of \$71.3 million. We do not expect to make any significant payments regarding such FIN 48 liabilities during the next twelve months.

Net Cash (Used in) Provided by Operating Activities

Net cash used in operating activities for the six months ended June 30, 2008 was \$157 million. This was primarily due to an increase in contracts-in-process of \$82 million, primarily resulting from progress on new satellite programs, a decrease in income taxes payable of \$25 million, primarily due to tax payments of \$34 million, a reduction in customer advances of \$29 million due to continued progress on the related programs and a decrease in accounts payable, accrued expenses and other current liabilities of \$27 million which includes a post Telesat Canada closing final adjustment payment to PSP of \$9 million, partially offset by net loss adjusted for non-cash items of \$6 million.

Net cash provided by operating activities for the six months ended June 30, 2007 was \$5 million. This was primarily due to an increase of contracts-in-process of \$70 million, primarily resulting from progress on new satellite programs, an increase in inventories of \$11 million, which will accommodate the increased volume and a decrease in accrued expenses and other current liabilities of \$24 million in part due to a vendor financing payment and employment cost payments, partially offset by a decrease in accounts receivable of \$64 million, net income adjusted for non-cash items of \$26 million and an increase in long-term liabilities of \$7 million, primarily due to the Company's adoption of FIN 48.

Net Cash Used in Investing Activities

Net cash used in investing activities for the six months ended June 30, 2008 was \$23 million, resulting from capital expenditures of \$23 million.

Net cash used in investing activities for the six months ended June 30, 2007 was \$54 million, resulting from capital expenditures of \$53 million and by an increase in restricted cash in escrow of \$9 million, partially offset by distributions from an equity investment of \$3 million and the Company's net effect of cash management of short-term investments of \$4 million.

Net Cash Provided by Financing Activities

There was no cash provided by (used in) financing activities for the six months ended June 30, 2008.

Net cash provided by financing activities for the six months ended June 30, 2007 was \$284 million, resulting primarily from the proceeds, net of expenses, from the sale of Loral Series 1 Preferred Stock of \$284 million and

proceeds from the exercise of stock options of \$2 million, partially offset by cash dividends paid on preferred stock of a subsidiary of \$2 million.

Affiliate Matters

Loral has investments in Telesat Canada and XTAR that are accounted for under the equity method of accounting. See Note 7 to the financial statements for further information on affiliate matters.

Commitments and Contingencies

Our business and operations are subject to a number of significant risks; see Item 1A Risk Factors and also Note 11 to the financial statements, Commitments and Contingencies.

Other Matters

Accounting Pronouncements

SFAS 141(R)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)). SFAS 141(R) broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS 141(R) expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS 141(R) requires the acquirer to recognize as an adjustment to income tax expense, changes in the valuation allowance for acquired deferred tax assets. SFAS 141(R) is effective for the Company on January 1, 2009. We are currently evaluating the impact adopting SFAS 141(R) will have on our consolidated financial statements.

FSP FAS 142-3

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP FAS 142-3 is effective for the Company on January 1, 2009. We do not anticipate that the adoption of FSP FAS 142-3 will have a material impact on our consolidated financial statements.

SFAS 160

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS 160). SFAS 160 requires that a non-controlling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the non-controlling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any non-controlling equity investment retained in a deconsolidation. SFAS 160 is effective for the Company on January 1, 2009. We are currently evaluating the impact adopting SFAS 160 will have on our consolidated financial statements.

SFAS 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS 107, *Disclosure about Fair Value of Financial Instruments* by requiring increased qualitative, quantitative and credit-risk disclosures about an entity's derivative instruments and hedging activities but does not change SFAS 133's scope or accounting. SFAS 161 is effective for

the Company on January 1, 2009. We are currently evaluating the impact adopting SFAS 161 will have on the disclosures included in our consolidated financial statements.

SFAS 162

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We are currently evaluating the impact adopting SFAS 162 will have on our consolidated financial statements.

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

Foreign Currency

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

As of June 30, 2008, SS/L had the following amounts denominated in Japanese Yen and EUROS (which have been translated into U.S. dollars based on the June 30, 2008 exchange rates) that were unhedged (in millions):

		Foreign Currency	U.S.\$
Future revenues	Japanese Yen	¥ 123	\$ 1.2
Future expenditures	Japanese Yen	¥ 3,997	\$ 37.7
Contracts-in-process, unbilled receivables	Japanese Yen	¥ 30	\$ 0.3
Future expenditures	EUROS	3.7	\$ 5.9

Derivatives

On July 9, 2008, SS/L announced that it was awarded a satellite contract denominated in EUROS. On June 20, 2008, Loral entered into a currency option transaction expiring on July 10, 2008 that allowed Loral to convert 97.7 million into \$149.5 million. Loral paid a premium of \$500,000 for this option. At June 30, 2008, the EURO had strengthened against the U.S. Dollar and the value of the option was \$92,800, representing a mark-to-market loss of \$407,200. On July 10, 2008, the option expired unused and Loral wrote-off the remaining value of the option. In July 2008, SS/L entered into a series of foreign exchange forward transactions converting 119 million into \$184 million. These foreign exchange forward transactions cover the period from July 2008 through March 2011 at exchange rates ranging from \$1.5897 to \$1.51736 per 1.0000.

Interest

The Company has no long-term debt or any exposure to changes in interest rates with respect thereto.

Marketable Securities

As of June 30, 2008, the Company held marketable securities consisting of approximately 904.5 thousand shares of Globalstar Inc. common stock with a market value of approximately \$2.6 million. The value of these Globalstar Inc. common shares is subject to market fluctuations in the stock price. During the second quarter of 2008, management determined that there has been an other-than-temporary impairment in the fair value of the Globalstar Inc. stock obtained in the sale of GdB. Accordingly, in accordance with SFAS 115, an impairment charge of \$3.5 million was included in our condensed consolidated statement of operations for the three and six months ended June 30, 2008. During the first six months of 2008, the Company did not invest in any other marketable securities. The Company invested its available cash in money market funds during this period.

Item 4. Disclosure Controls and Procedures

Disclosure controls and procedures. Our chief executive officer and our chief financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2008, to determine whether our disclosure controls and procedures ensure that information relating to Loral and its consolidated subsidiaries required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. In our Annual Report on Form 10-K for the year ended December 31, 2007, we reported a material weakness with respect to accounting for and disclosure of income taxes. Specifically, the Company did not maintain adequate processes and a sufficient number of technically qualified personnel to facilitate the timely resolution of issues associated with the Company's income tax closing process primarily relating to those issues attributable to the Telesat Canada transaction. As a result of this material weakness, management concluded that the Company's internal control over financial reporting as of December 31, 2007, was not effective based upon the criteria in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We indicated in our Form 10-K for the year ended December 31, 2007 that we are evaluating several remedial steps to improve controls surrounding our income tax closing process, including enhancing the technical resources in the income tax accounting function and conducting an evaluation of organizational processes and structure to identify and implement the appropriate solutions regarding our income tax closing process including retaining additional external resources.

We are implementing these remediation steps but we have concluded that our disclosure controls and procedures were not yet effective as of June 30, 2008. Additional review, evaluation and oversight have been undertaken to ensure that the condensed consolidated financial statements in this Form 10-Q present fairly, in all material respects, our financial position and results of operations.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

As noted above, the Company is to implementing remedial steps to improve controls surrounding our income tax closing process. We have already enhanced the technical capability of our income tax accounting function by retaining external resources, and we are continuing to evaluate other remedial steps including conducting an evaluation of organizational processes and structure and retaining additional internal and/or external resources.

**PART II.
OTHER INFORMATION**

Item 1. Legal Proceedings

We discuss certain legal proceedings pending against the Company in the notes to the financial statements and refer the reader to that discussion for important information concerning those legal proceedings, including the basis for such actions and relief sought. See Note 11 to the financial statements of this Quarterly Report on Form 10-Q for this discussion.

Item 1A. Risk Factors

Our business and operations are subject to a significant number of risks. The most significant of these risks are summarized in, and the reader's attention is directed to, the section of our Annual Report on Form 10-K for the year ended December 31, 2007 in Item 1A. Risk Factors. There are no material changes to those risk factors except as set forth in Note 11 (Commitments and Contingencies) of the financial statements contained in this report, and the reader is specifically directed to that section. The risks described in our Annual Report on Form 10-K, as updated by this report, are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we

currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 4. *Submission of Matters to a Vote of Security Holders*

We held our Annual Meeting of Stockholders on May 20, 2008. At the meeting, Mr. Michael B. Targoff (13,066,793 votes for and 5,904,771 votes against) was elected to continue to serve as a Class II director of the Company. In addition, stockholders approved the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2008, with 18,704,053 votes for the proposal, 267,109 against the proposal and 402 abstentions.

Item 6. *Exhibits*

The following exhibits are filed as part of this report:

Exhibit 10.1 First Amendment and Waiver to Amended and Restated Credit Agreement dated as of May 22, 2008 between Sirius Satellite Radio Inc. and Space Systems/Loral, Inc. (incorporated by reference from the Company's Current Report on Form 8-K filed May 28, 2008).

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

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

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

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

SIGNATURES

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

Registrant

Loral Space & Communications Inc.

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

Date: August 11, 2008

EXHIBIT INDEX

Exhibit No.	Description
Exhibit 10.1	First Amendment and Waiver to Amended and Restated Credit Agreement dated as of May 22, 2008 between Sirius Satellite Radio Inc. and Space Systems/Loral, Inc. (incorporated by reference from the Company's Current Report on Form 8-K filed May 28, 2008).
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Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.