

LORAL SPACE & COMMUNICATIONS INC.
Form 10-Q
May 19, 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 March 31, 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

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As of April 30, 2008, there were 20,281,971 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)

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 203,656	\$ 314,694
Contracts-in-process	151,606	109,376
Inventories	102,793	96,968
Restricted cash	12,945	12,816
Other current assets	47,905	36,034
Total current assets	518,905	569,888
Property, plant and equipment, net	156,540	147,828
Long-term receivables	131,900	132,400
Investments in affiliates	500,619	566,196
Goodwill	227,058	227,058
Intangible assets, net	40,035	42,854
Other assets	15,165	16,715
Total assets	\$ 1,590,222	\$ 1,702,939
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 75,995	\$ 69,205
Accrued employment costs	33,696	42,890
Customer advances and billings in excess of costs and profits	232,840	251,954
Income taxes payable	2,227	31,239
Accrued interest and preferred dividends	5,071	4,979
Other current liabilities	52,127	39,512
Total current liabilities	401,956	439,779
Pension and other post retirement liabilities	154,665	152,341
Long-term liabilities	130,943	137,261
Total liabilities	687,564	729,381

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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, 917,815 and 900,821 shares issued and outstanding	270,901	265,777
Common stock, \$0.01 par value; 40,000,000 shares authorized, 20,287,649 and 20,292,746 shares issued and outstanding	203	203
Paid-in capital	665,369	663,127
Accumulated deficit	(111,144)	(33,939)
Accumulated other comprehensive income	34,685	36,517
 Total shareholders' equity	 902,658	 973,558
 Total liabilities and shareholders' equity	 \$ 1,590,222	 \$ 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 Ended March 31,	
	2008	2007
Revenues from satellite manufacturing	\$ 218,537	\$ 187,677
Revenues from satellite services		32,855
Total revenues	218,537	220,532
Cost of satellite manufacturing	207,012	174,101
Cost of satellite services		24,967
Selling, general and administrative expenses	22,335	33,262
Operating loss	(10,810)	(11,798)
Interest and investment income	6,330	6,554
Interest expense	(351)	(2,813)
Gain on foreign exchange contracts		3,964
Other (expense) income	(73)	82
Loss before income taxes, equity in net losses of affiliates and minority interest	(4,904)	(4,011)
Income tax provision	(1,776)	(3,401)
Loss before equity in net losses of affiliates and minority interest	(6,680)	(7,412)
Equity in net losses of affiliates	(64,537)	(2,425)
Minority interest		(6,986)
Net loss	(71,217)	(16,823)
Preferred dividends	(5,988)	(2,063)
Beneficial conversion feature related to the issuance of Loral Series A-1 Preferred Stock		(24,476)
Net loss applicable to common shareholders	\$ (77,205)	\$ (43,362)
Basic and diluted loss per share	\$ (3.83)	\$ (2.16)
Basic and diluted weighted average common shares outstanding	20,156	20,041

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2008	2007
Operating activities:		
Net loss	\$ (71,217)	\$ (16,823)
Non-cash operating items	71,190	25,660
Changes in operating assets and liabilities:		
Accounts receivable, net		63,926
Contracts-in-process	(57,136)	(89,159)
Inventories	(5,825)	(11,233)
Long-term receivables	17,889	(106)
Other current assets and other assets	(4,999)	3,807
Accounts payable	1,616	656
Accrued expenses and other current liabilities	(7,934)	(31,117)
Customer advances	(18,910)	4,894
Income taxes payable	(29,012)	(983)
Pension and other postretirement liabilities	2,324	2,669
Long-term liabilities	(1,663)	621
Net cash used in operating activities	(103,677)	(47,188)
Investing activities:		
Capital expenditures	(8,317)	(20,447)
(Increase) decrease in restricted cash in escrow	884	(2,796)
Proceeds from the sale of short-term investments and available-for-sale securities	72	107,670
Purchase of short-term investments		(117,622)
Net cash used in investing activities	(7,361)	(33,195)
Financing activities:		
Proceeds from the sale of preferred stock		293,250
Proceeds from the exercise of stock options		1,653
Preferred stock issuance costs		(8,948)
Cash dividends paid on preferred stock of subsidiary		(1,769)
Net cash provided by financing activities		284,186
Net (decrease) increase in cash and cash equivalents	(111,038)	203,803
Cash and cash equivalents beginning of period	314,694	186,542
Cash and cash equivalents end of period	\$ 203,656	\$ 390,345

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 (U.S. GAAP) have been condensed or omitted pursuant to SEC rules. We

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three months ended March 31, 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 March 31, 2008, the Company had \$203.7 million of cash and cash equivalents and \$23.4 million of restricted cash (\$12.9 million included in other current assets and \$10.5 million included in other assets on our condensed consolidated balance sheet). Cash and cash equivalents include liquid investments with maturities of less than 90 days at the time of purchase. 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 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 using the first-in-first-out (FIFO) or average cost method. As of March 31, 2008 and December 31, 2007, inventory was reduced by an allowance for obsolescence of \$27.9 million and \$28.4 million, respectively.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 consist of marketable securities which were valued at \$6.7 million and were classified as Level 1 in the fair value measurement hierarchy under SFAS 157 as of March 31, 2008.

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. Marketable securities were the only financial assets on our condensed consolidated balance sheet as of March 31, 2008. We did not have any financial liabilities as of March 31, 2008 which required the application of SFAS 157 for valuation purposes. 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*. Therefore, unrealized gains and losses on this investment are recorded as a component of accumulated other comprehensive income.

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. 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.

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 months ended March 31, 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).

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

As of March 31, 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 March 31, 2008, we have accrued approximately \$9.4 million and \$13.0 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 March 31, 2008 and 2007, we increased our liability for uncertain tax positions from \$68.0 million to \$69.5 million and from \$60.8 million to \$62.0 million, respectively. The increase of \$1.5 million for 2008 and \$1.2 million for 2007 related to our current provision for potential additional interest and penalties. As of March 31, 2008, if our positions are sustained by the taxing authorities, approximately \$37.2 million would be treated as a reduction of goodwill, \$30.1 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 three months ended March 31, 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 months ended March 31, 2008 and 2007 (in thousands):

Pension Benefits		Other Benefits	
Three Months		Three Months	
Ended March 31,		Ended March 31,	
2008	2007	2008	2007

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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

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):

	Three Months Ended March 31,	
	2008	2007
Non-cash operating items:		
Equity in net losses of affiliates	\$ 64,537	\$ 2,526
Minority interest		6,986
Deferred taxes	200	1,834
Depreciation and amortization	8,182	19,118
Stock based compensation	2,381	559
Recoveries of bad debts on billed receivables		(139)
Provisions for inventory obsolescence		380
Warranty expense accruals	(479)	(722)
Amortization of prior service credits and net actuarial gain	(829)	(775)
Gain on disposition of available-for-sale securities	(72)	
Withholding tax impact of cashless stock option exercises		(143)
Unrealized gain (loss) on foreign exchange contracts and non cash net interest	28	(3,964)
Amortization of fair value adjustments related to orbital incentives	(2,758)	
Net non-cash operating items	\$ 71,190	\$ 25,660
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	\$ 5,894	\$
Accrued dividends on Series A-1 and Series B-1 preferred stock	\$ 5,988	\$ 2,063
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	\$ 5,600	\$
Supplemental information:		
Interest paid	\$ 471	\$ 10,011
Taxes paid, net of refunds	\$ 29,045	\$ 1,365

New Accounting Pronouncements

SFAS 141R

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R 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.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SFAS 141R expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS 141R requires the acquirer to recognize as an adjustment to income tax expense, changes in the valuation allowance for acquired deferred tax assets. SFAS 141R is effective for the Company on January 1, 2009. We are currently evaluating the impact of adopting SFAS 141R.

FSP FASB 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.

3. Comprehensive Loss

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

Three Months Ended March 31,	
2008	2007

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Net loss	\$ (71,217)	\$ (16,823)
Proportionate share of Telesat Holdco other comprehensive income	(1,040)	
Cumulative translation adjustment	(498)	30
Amortization of prior service credits and net actuarial gains, net of taxes	(494)	(469)
Unrealized gain (loss) on available-for-sale securities arising during the period, net of taxes	242	(2,341)
Reclassification adjustment for gains included in net income	(42)	
Comprehensive loss	\$ (73,049)	\$ (19,603)

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Contracts-in-Process

	March 31, 2008	December 31, 2007
	(In thousands)	
Amounts billed	\$ 71,632	\$ 60,548
Unbilled receivables	79,974	48,828
	\$ 151,606	\$ 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.

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 March 31, 2008, SS/L had the following amounts denominated in Japanese Yen and EUROS (which have been translated into U.S. dollars based on the March 31, 2008 exchange rates) that were unhedged (in millions):

	Foreign Currency	U.S.\$
Future revenues Japanese Yen	¥ 20	\$ 0.2
Future expenditures Japanese Yen	¥ 3,932	\$ 39.6
Contracts-in-process, unbilled receivables Japanese Yen	¥ 20	\$ 0.2
Future expenditures EUROS	3.7	\$ 5.9

Derivatives

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 to the counterparty for entering into this transaction. For the three months ended March 31, 2007, Loral recorded a \$2.3 million charge to gain on foreign exchange contracts 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.

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

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 months ended March 31, 2007, Loral recorded a \$6.3 million gain in gain on foreign exchange contracts reflecting the change in the fair value of the 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

	March 31, 2008	December 31, 2007
	(In thousands)	
Land and land improvements	\$ 26,799	\$ 26,799
Buildings	49,947	49,917
Leasehold improvements	8,688	8,691
Equipment, furniture and fixtures	96,824	94,844
Satellite capacity under construction (see Note 14)	1,076	
Other construction in progress	29,386	18,552
	212,720	198,803
Accumulated depreciation and amortization	(56,180)	(50,975)
	\$ 156,540	\$ 147,828

Depreciation and amortization expense for property, plant and equipment was \$5.2 million and \$17.4 million for the three months ended March 31, 2008 and 2007, respectively.

7. Investments in Affiliates

Investments in affiliates consists of (in thousands):

	March 31, 2008	December 31, 2007
Telesat Holdings Inc	\$ 418,237	\$ 479,579
XTAR, LLC	82,382	86,617

\$ 500,619 \$ 566,196

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

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended March 31,	
	2008	2007
Telesat Holdings Inc.	\$ (60,302)	\$
XTAR	(4,235)	(2,526)
Globalstar service provider partnerships		101
	\$ (64,537)	\$ (2,425)

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

	Three Months Ended March 31,	
	2008	2007
Revenues	\$ 19,349	\$ 390
Elimination of Loral's proportionate share of profits relating to affiliate transactions	(1,189)	(11)
Profits relating to affiliate transactions not eliminated	669	9

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 331/3% of the voting interests. Our Canadian partner, PSP, holds 36% of the economic interests and 662/3% of the voting interests in Telesat Holdco (except with respect to the election of directors as to which it holds a 30% voting interest).

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 \$9.0 million was made by Loral to PSP on April 4, 2008 and is included as a payable in our condensed consolidated balance sheets as of March 31, 2008 and December 31, 2007.

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

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 March 31, 2008	
Revenues	\$	166.5
Operating expenses		(125.6)
Operating income		40.9
Interest expense		(62.2)
Other expense		(88.3)
Income tax benefit		17.0
Net loss		(92.6)

Balance Sheet Data:

	March 31, 2008	December 31, 2007
Current assets	\$ 143.1	\$ 143.7
Total assets	5,402.2	5,610.0
Current liabilities	215.0	229.5
Total liabilities	4,099.0	4,156.7
Redeemable preferred stock	137.6	143.1
Shareholders' equity	1,165.6	1,310.2

Other expense included a non-cash foreign exchange loss of \$122 million and a non-cash gain on financial instruments of \$34 million.

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 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 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 29° E.L., which entered service in March 2005. The satellite is designed to provide X-band communications services exclusively to United States, Spanish

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 30° 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 this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. During the quarter ended March 31, 2008, 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 to Hisdesat in accordance with this agreement. 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 March 31, 2008, the U.S. Department of State has committed to lease three transponders under this contract, having a total lease value of \$30.2 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.

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

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

Statement of Operations Data:

	Three Months Ended March 31,	
	2008	2007
Revenues	\$ 4.7	\$ 4.7
Operating loss	(6.3)	(3.6)
Net loss	(7.6)	(4.2)

Balance Sheet Data:

	March 31, 2008	December 31, 2007
Current assets	\$ 9.1	\$ 8.9
Total assets	122.7	124.9
Current liabilities	34.2	29.6
Long-term liabilities	35.6	64.4
Shareholders' equity	52.9	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 March 31, 2008, we owned 916,493 shares of Globalstar Inc. common stock, which are accounted for as available-for-sale securities, with a fair value of \$6.7 million. Unrealized gains on these shares were \$0.6 million, net of taxes as of March 31, 2008.

8. Intangible Assets

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

	Weighted Average Remaining Amortization Period (Years)	March 31, 2008		December 31, 2007	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Internally developed software and technology	3	\$ 59.0	\$ (27.0)	\$ 59.0	\$ (24.3)
Trade names	17	9.2	(1.2)	9.2	(1.0)
		\$ 68.2	\$ (28.2)	\$ 68.2	\$ (25.3)

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

Total amortization expense for intangible assets was \$2.9 million for both the three months ended March 31, 2008 and 2007. 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 March 31, 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 charge to expense of \$2.6 million for the three months ended March 31, 2008 and a credit to expense of \$3.3 million for the three months ended March 31, 2007. Accumulated amortization of fair value adjustments was \$19.8 million as of March 31, 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 expense related to these notes was \$4.5 million for the three months ended March 31, 2007. Loral Skynet made a cash interest payment of \$8.8 million on these notes on January 15, 2007.

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 March 31, 2008, \$5.1 million of letters of credit under this facility were issued and outstanding.