# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

**OR**

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

**Commission file number 1-14180**

# LORAL SPACE & COMMUNICATIONS INC.

*(Exact name of registrant specified in the charter)*

**Successor registrant to**
**Loral Space & Communications Ltd.**

**Jurisdiction of incorporation: Delaware**

**IRS identification number: 87-0748324**

**600 Third Avenue**
**New York, New York 10016**
***(Address of principal executive offices)***
***Telephone: (212) 697-1105***
***(Registrant's telephone number, including area code)***

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common stock, $.01 par value | NASDAQ |

**Securities registered pursuant to Section 12(g) of the Act:**

**Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑**

**Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑**

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be

contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☑ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑

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

On November 21, 2005, the predecessor registrant's common stock, par value $0.10 per share, was cancelled and the registrant issued 20,000,000 shares of common stock, par value $0.01 per share. At March 1, 2006, 20,000,000 common shares of the registrant were outstanding.

As of March 1, 2006, the aggregate market value of the common stock, the only voting stock of the registrant currently issued and outstanding, held by non-affiliates of the registrant, was approximately $345,148,182.

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 ☐

## PART I

# Item 1. *Business*

## THE COMPANY

### Overview

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

We adopted fresh start accounting as of October 1, 2005, in accordance with Statement of Position No. 90-7, *Financial Reporting of Entities in Reorganization Under the Bankruptcy Code* ("SOP 90-7"). Accordingly, our financial information disclosed under the heading "Successor Registrant" for the period ended and as of December 31, 2005, is presented on a basis different from, and is therefore not comparable to, our financial information disclosed under the heading "Predecessor Registrant" for the period ended and as of October 1, 2005 (the date we adopted fresh start accounting) or for prior periods.

The terms, "Loral", the "Company," "we," "our," and "us," when used in this report with respect to the period prior to our emergence from Chapter 11, are references to Old Loral, and when used with respect to the period commencing after our emergence, are references to New Loral. These references include the subsidiaries of Old Loral or New Loral, as the case may be, unless otherwise indicated or the context otherwise requires.

Loral is organized into two operating segments:

*Satellite Services* , conducted by our subsidiary Loral Skynet Corporation ("Loral Skynet"), generates its revenues and cash flows from leasing satellite capacity on its four-satellite fleet to commercial and government customers for video and direct to home ("DTH") broadcasting, high-speed data distribution, Internet access and communications, as well as providing satellite-based networking services. It also provides professional services to other satellite operators including satellite construction oversight and fleet operating services.

*Satellite Manufacturing* , conducted by our subsidiary, Space Systems/ Loral, Inc. ("SS/L"), generates its revenues and cash flows from designing and manufacturing satellites, space systems and space system components for commercial and government customers whose applications include fixed satellite services, DTH broadcasting, broadband data distribution, wireless telephony, digital radio, military communications, weather monitoring and air traffic management.

Effective March 1, 2006, Bernard L. Schwartz retired from all officer and director positions he held with the Company and its subsidiaries and affiliates, including his positions as chairman of the board and chief executive officer. To succeed Mr. Schwartz, the Board of Directors has elected Michael B. Targoff, non-executive vice chairman of the Company, as chief executive officer, and Dr. Mark H. Rachesky as non-executive chairman of the Board, both elections effective as of March 1, 2006.

### Reorganization

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

date, the Bermuda Court entered an order appointing certain partners of KPMG, as Joint Provisional Liquidators ("JPLs") in respect of the Bermuda Group.

The Debtors emerged from Chapter 11 on November 21, 2005 pursuant to the terms of their fourth amended joint plan of reorganization, as modified (the "Plan of Reorganization"). The Plan of Reorganization had previously been confirmed by order (the "Confirmation Order") of the Bankruptcy Court entered on August 1, 2005.

Pursuant to the Plan of Reorganization:

- The business and operations of Old Loral have been transferred to New Loral, and Loral Skynet and SS/ L have emerged intact as separate subsidiaries of reorganized Loral.
- Our new common stock has been listed on NASDAQ under the symbol "LORL."
- SS/ L has emerged debt-free.
- The initial distributions to creditors of Old Loral and its subsidiaries have been completed in accordance with the Plan of Reorganization as follows:
  - All holders of allowed claims against SS/ L and Loral SpaceCom have been, or will be paid in cash in full, including interest from the petition date to the Effective Date.
  - 20 million shares of New Loral common stock were issued to our distribution agent on the Effective Date, 18.7 million of which have been distributed to creditors.
  - $200 million of Loral Skynet preferred stock was issued to our distribution agent on the Effective Date, $197.4 million of which has been distributed to creditors.
  - The remaining undistributed shares of New Loral common stock and Loral Skynet preferred stock have been reserved to cover disputed claims and will be distributed quarterly in accordance with the Plan of Reorganization upon resolutions of those claims.
  - Pursuant to a rights offering, Loral Skynet issued on the Effective Date $126 million, principal amount, of senior secured notes to certain creditors who subscribed for the notes and to certain creditors who committed to purchase any unsubscribed notes (i.e. "backstopped" the offering).
  - Old Loral will be liquidated by the JPLs in Bermuda; the common and preferred stock of Old Loral were cancelled on the Effective Date, and no distribution was made to the holders of such stock.

Old Loral shareholders acting on behalf of the self-styled Loral Stockholders Protective Committee ("LSPC") have filed appeals seeking to revoke the Confirmation Order, to overturn the Bankruptcy Court's denial of the LSPC's motion to compel Old Loral to hold a shareholders meeting and to rescind the approval of the Federal Communications Commission ("FCC") of the transfer of our FCC licenses from Old Loral to New Loral. We believe that these appeals are completely without merit and will not have any effect on the completed reorganization. For further details about these appeals see Note 19 to the consolidated financial statements.

**Segment Overview**

*Satellite Services Operations*

Through Loral Skynet, which manages and operates our Satellite Services business, we are a global satellite operator, providing our customers with a wide range of video and data transmission services. Our four globally-positioned satellites operate in geosynchronous earth orbit approximately 22,000 miles above the equator. In this orbit, satellites remain in a fixed position relative to points on the earth's surface. They provide reliable, high-bandwidth services anywhere in their coverage areas and serve as the backbone for many forms of telecommunications. Our satellites operate in the C-band and Ku-band frequencies, and through our affiliate XTAR, we operate in X-band.

### *Transponder Leasing*

Customers lease our C- and Ku-band transponder capacity for the distribution of video and data for television programming, direct-to-home (DTH) services, business communications, Internet connectivity and telephony. Our customers include some of the world's largest video and data service providers, including HBO, Disney, Cable & Wireless, Singapore Telecom (SingTel), Connexion by Boeing, Global Crossing, BT North America, Globecomm Systems, UPC and China Central Television (CCTV).

### *Network Services*

We also provide our customers with access services and transmission platforms that enable rapid and reliable networking solutions. Our hybrid satellite and ground-based network services capabilities allow our customers to address their communications requirements quickly and easily through a combination of applications that include broadband transport, bandwidth-on-demand, broadcast SCPC (single channel per carrier) platforms and teleport services. Loral Skynet's newest network services offering is SkyReach (SM) , a group of IP-based services that provide enterprise-level customers with access to regional and global private networking and public Internet services, including broadband WAN (wide area network) extension for terrestrial providers, Internet access for ISPs (Internet Service Providers), voice over IP (VoIP) and managed data services. Loral Skynet provides its SkyReach services through IP (Internet Protocol) hubs at facilities in North America, Europe and Asia, each with access to major satellite and terrestrial communications networks.

Loral Skynet's network services are provided through an integrated satellite and fiber network that interconnects terrestrially with customer networks through points of presence (POPs) in San Jose, California; Ashburn, Virginia; New York, New York; and London, England and interconnects via satellite and VSAT (very small aperture terminals) services through teleports in Mount Jackson, Virginia; Aflenz, Austria; Hong Kong; Kapolei, Hawaii; and London, England.

### *Professional Services*

Our team of world-class network architects, engineers, program managers and satellite operations professionals, provides customized services tailored to unique customer requirements for deploying satellites and network services, including providing other satellite operators with spacecraft operational services (TT&C), satellite construction oversight services, network architecture design, regulatory management including orbital slot acquisition and the coordination and customization of distribution solutions.

### *Market and Competition*

Loral Skynet operates in a highly competitive market with larger, well-established satellite service companies including Intelsat/ PanAmSat, SES Global/ New Skies Satellites and Eutelsat, as well as regional operators such as Telesat and AsiaSat. We also compete with companies such as Hughes Network Systems, Gilat and ViaSat in our network services business. While we also compete with fiber optic cable and other terrestrial delivery systems, primarily for point-to-point applications, Loral Skynet has been able to combine the inherent advantages of each technology to provide its customers with complete end-to-end services. Since FSS satellites remain in a fixed point above the earth, they are considerably more efficient than terrestrial systems for certain applications, such as broadcast or point-to-multipoint transmission of video and broadband data. A satellite offers instant infrastructure. It can cover large geographic areas, sometimes entire hemispheres, and can not only deliver services to populated areas, but can also better serve areas with inadequate terrestrial infrastructures, low-density populations or difficult geographic terrain.

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 has put further pressure on prices already depressed by the telecommunications industry downturn earlier this decade. A stronger economy and an increase in capital available for expanded consumer and enterprise-level services have led to an improvement in demand. Much of Loral Skynet's remaining available capacity, however, is over geographic regions where the market is characterized by excess capacity,

coupled with weak demand, or where regulatory obstacles are such that we find ourselves at a competitive disadvantage versus local operators. Loral Skynet's growth depends on its ability to successfully market the capacity available on its international fleet of satellites, to differentiate itself from its competition through customized product offerings and superior customer service and to fund additional satellite acquisitions.

Commencing on March 18, 2006, Loral Skynet resumed marketing satellite services to the North American market, a region in which it was precluded from doing business for two years pursuant to the terms of its sale of satellites to Intelsat in March 2004 (See Note 5 to the consolidated financial statements).

*Satellite Fleet*

The following chart provides details on the satellites that comprise Loral Skynet's fleet [1] .

| Satellite | Licensing Jurisdiction | Location | Frequency | Coverage | In Service Date | Expected End of Life |
|---|---|---|---|---|---|---|
| Telstar 10/ ApstarIIR | China | 76.5° E.L. | C/Ku-band | Asia and portions of Europe, portions of Africa and Australia | December 1997 | February 2014 |
| Telstar 12 | U.S. | 15°W.L. | Ku-band | Eastern U.S., SE Canada, Europe, Russia, Middle East, North Africa, portions of South and Central America | December 1999 | September 2016 |
| Telstar 14/ Estrela do Sul-1 | Brazil | 63°W.L. | Ku-band | Brazil and portions of Latin America, North America, Atlantic Ocean | April 2004 | July 2010 [2] |
| Telstar 18 [3] | China/Tonga | 138° E.L. | C/Ku-band | India, South East Asia, China, Australia and Hawaii | August 2004 | November 2018 |

[1] We also own and operate Telstar 11 at 37.5°W.L. and Brazil 1T at 63° W.L., both of which are in inclined orbit and generate minimal revenues.

[2] Estrela do Sul-1 was launched in January 2004 and did not fully deploy one of its solar arrays. At the end of March 2004, the satellite began commercial service operating 15 of its 41 transponders. The satellite's life expectancy is now approximately six years, as compared to its design life of 15 years. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

[3] Telstar 18 went into commercial service in September 2004. We have entered into a sales-type lease arrangement with an Asian satellite services company, initially for the lease of 37 transponders on the satellite (see Note 8 to the consolidated financial statements).

*Satellite Services Performance*

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | For the Years Ending December 31, 2004 | 2003 |
| | (in millions) | | | |
| Satellite services revenues | $ 37 | $ 115 | $141 | $154 |
| Satellite services sales-type lease arrangement [1] | — | — | 87 | — |
| Total segment revenues | 37 | 115 | 228 | 154 |
| Eliminations | (1) | (4) | (5) | (7) |
| Revenues from satellite services as reported | $ 36 | $ 111 | $223 | $147 |
| Segment Adjusted EBITDA before eliminations [2] | $ 12 | $ 40 | $ 23 | $ 8 |

(1) See Note 8 to the consolidated financial statements.

(2) See Management's Discussion and Analysis of Financial Condition and Results of Operations for significant items that affect comparability between the periods presented (see Note 20 to the consolidated financial statements for the definition of Adjusted EBITDA).

Total satellite services post-emergence assets were $741 million as of December 31, 2005 and pre-emergence assets were $781 million and $1.984 billion as of December 31, 2004 and 2003, respectively. Assets as of December 31, 2003, include the assets relating to the North American operations, which were sold to Intelsat (see Note 5 to the consolidated financial statements). As of December 31, 2005 and 2004, backlog was $453 million and $544 million, respectively, including intercompany backlog, representing business arrangements between SS/L and Loral Skynet, of $20 million and $33 million, respectively.

**Satellite Manufacturing Operations**

For more than 40 years, SS/L has been designing, manufacturing and integrating satellites and space systems for a wide variety of commercial and government customers. Our products include high-powered direct-to -home broadcast satellites, commercial weather satellites, digital audio radio satellites and spot-beam satellites for data networking applications. SS/L customers include such satellite service providers and government organizations as APT Satellite, DIRECTV, EchoStar, Hisdesat, ICO Satellite Management, Intelsat, Japan's Ministry of Transport and Civil Aviation Bureau, Loral Skynet, the National Oceanic & Atmospheric Administration (NOAA) of the U.S Department of Commerce, Optus (SingTel), PanAmSat, Shin Satellite, Sirius Satellite Radio, TerreStar Networks, XTAR and XM Satellite Radio. Since its inception, SS/L has delivered more than 220 satellites, which together have achieved more than 1,200 years of cumulative on-orbit service; many of these satellites significantly exceeded design life expectations. SS/L's broad product line meets the vast majority of customer requirements for satellites with up to 23 kilowatts of power. The capacity offered on these satellites ranges from one to as many as 150 transponders.

SS/L has a history of technical innovation that includes the first three-axis spin stabilized satellite, which has since become an industry standard for large communications satellites. In addition, SS/L has recently pioneered research in electric propulsion systems, lithium-ion power systems and the use of advanced composites on commercial satellites, which permit significant increases in the size and power of a satellite's payload and extend the satellite's on-orbit lifetime. SS/L is an industry leader in developing new service-enhancing technologies such as super power systems for direct-to -user applications and ground-based beam forming, a technology that uses both satellite and terrestrial assets to provide mobile users with increased coverage and capacity capabilities.

*Market and Competition*

SS/L competes in the highly competitive commercial satellite manufacturing industry principally on the basis of superior customer value, technical excellence, reliability and pricing with such manufacturers as Boeing, Lockheed Martin, Alcatel Alenia Space, EADS Astrium and Orbital Sciences. SS/L's continued success depends on its ability to perform on a cost-effective and timely basis. The number of annual satellite manufacturing contracts awarded varies annually and is difficult to predict. After a period of nearly two years without being awarded a new satellite construction contract, SS/L received orders for the construction of nine satellites between October 2003 and December 2005.

*Satellite Manufacturing Performance*

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | For the Years Ending December 31, 2004 | 2003 |
| | | (in millions) | | |
| Total segment revenues | $ 162 | $ 329 | $ 437 | $ 474 |
| Eliminations | (1) | (11) | (137) | (229) |
| Revenues from satellite manufacturing as reported | $ 161 | $ 318 | $ 300 | $ 245 |
| Segment Adjusted EBITDA before eliminations [1] | $ 12 | $ 15 | $ (14) | $ (159) |

[1] See Consolidated Operating Results in Management's Discussion and Analysis of Financial Condition and Results of Operations for significant items that affect comparability between the periods presented (see Note 20 to the consolidated financial statements for the definition of Adjusted EBITDA).

Total SS/L post-emergence assets are $872 million as of December 31, 2005 and pre-emergence assets were $382 million and $362 million as of December 31, 2004 and 2003, respectively. Backlog at December 31, 2005 was $815 million, including intercompany backlog of $0.3 million. Backlog at December 31, 2004 was $483 million, including intercompany backlog of $12 million.

## Investment in Affiliates

*XTAR*

We own 56% of XTAR, L.L.C. ("XTAR"), a joint venture between us and Hisdesat Servicios Estrategicos, S.A. ("Hisdesat") of Madrid. XTAR is accounted for under the equity method since we do not control certain of its significant operating decisions.

XTAR was formed to construct and launch an X-band satellite 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. 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. On February 12, 2005, XTAR's first satellite, XTAR-EUR, was launched and subsequently entered service in March 2005. On March 11, 2006, the Spainsat satellite, owned by Hisdesat, our partner in XTAR, was successfully launched and is expected to enter service in April 2006. XTAR is obligated to lease eight 72 MHz X-band transponders on Spainsat, to be designated XTAR-LANT. These transponders will provide its customers in the U.S. and abroad with additional X-band services and greater flexibility. XTAR currently has contracts to provide X-band services to the U.S. Department of State, the Spanish Ministry of Defense and the Danish armed forces. For more information on XTAR see Note 9 to the consolidated financial statements.

*Globalstar*

Loral owns approximately a 2.7% equity interest in Globalstar LLC ("New Globalstar"), a low-earth-orbit mobile satellite telephone operator. In addition, Loral holds various indirect ownership interests in three foreign companies that currently serve as exclusive service providers for Globalstar satellite telephone service in Brazil, Mexico and Russia and an indirect 25% ownership interest in a U.S.-based distributor that has the exclusive right to sell Globalstar services to certain government agencies in the United States. We do not currently intend to invest material amounts in the Globalstar joint ventures.

*Satmex*

We own 49% of Satelites Mexicanos, S.A. de C.V. ("Satmex"), a satellite communications company providing services in Mexico and Latin America. Satmex has two satellites in operation and a third, Satmex 6, scheduled for launch this year. In January 2006, Satmex reached an agreement in principle with its creditors to restructure its debt, which is currently in default. As a result, we expect our ownership in Satmex to be reduced to less than 5%. Separately, Loral reached a settlement agreement with Satmex in 2005 relating to the construction of the Satmex 6 satellite by SS/ L whereby Loral will acquire rights, upon launch, to four transponders on Satmex 6 for the life of the satellite. During 2003, Loral wrote off its remaining investment in Satmex. For more information on Satmex see Note 9 to the consolidated financial statements.

## REGULATION

### Telecommunications Regulation

As an operator of a privately owned global satellite system, we are subject to: the regulatory authority of the U.S. government; the regulatory authority of other countries in which we operate; and the frequency coordination process of the International Telecommunication Union ("ITU"). Our ability to provide satellite services in a particular country or region is subject also to the technical constraints of our satellites, international coordination, local regulatory approval and any limitation to those approvals.

### *U.S. Regulation*

The FCC regulates our U.S.-licensed satellites as well as our non-U.S. licensed satellites authorized to operate in the U.S. We are subject to the FCC's jurisdiction primarily for the licensing of satellites and earth stations, avoidance of interference with radio stations and compliance with FCC rules. Violations of the FCC's rules can result in various sanctions including fines, loss of authorizations, forfeiture of bonds, or the denial of new or renewal authorizations. We are not regulated as a common carrier and, therefore, are not subject to rate regulation or the obligation not to discriminate among customers. We must pay FCC filing fees in connection with our space station and earth station applications and annual fees to defray the FCC's regulatory expenses. We must file annual status reports with the FCC and, to the extent Loral is deemed to be providing interstate/international telecommunications, we must contribute funds supporting universal service. Loral has petitioned the FCC for exemptions from having to pay certain of such fees and contributions. These petitions are under review by the FCC.

#### *Authorization to Launch and Operate Satellites*

Pursuant to satellite licensing rules issued in 2003, the FCC grants satellite authorizations on a first-come, first-served basis to satellite operators that meet its legal and technical qualification requirements. The FCC often receives multiple applications to operate a satellite at a given orbital slot. There can be no assurance that applications will be granted. Most satellite authorizations include specific construction and launch milestones; failure to meet them may result in license revocation. Under licensing rules, we must post a bond for up to $3,000,000 when we are granted a satellite authorization. Some or the entire amount of the bond may be forfeited if we fail to meet any of the milestones for satellite construction, launch and commencement of operation. In accordance with the current licensing rules, the FCC will issue new satellite licenses for an initial fifteen-year term and will provide a licensee with an "expectancy" that a subsequent license will be granted for the replacement of an authorized satellite using the same frequencies. At the end of a fifteen-year term, a satellite that has not been replaced, or that has been relocated to another orbital location following its replacement, may be allowed to continue operations for a limited period of time subject to certain restrictions.

We have final FCC authorization for two existing satellites which operate in the Ku-band: Telstar 11 at 37.5°W.L. and Telstar 12 at 15° W.L. In addition, we have final FCC authorization for a planned satellite which will operate in the Ku-band at 37.5°W.L and replace Telstar 11. Certain of our authorizations may be subject to pending petitions for reconsideration or review submitted to the FCC by third parties. The final FCC authorizations for certain of the satellites that are not yet in orbit also do not cover certain possible design changes and require adherence with FCC milestones stated within the authorizations. There can be no assurance that any design changes or milestone extensions which may be sought will be granted by the FCC. The failure to obtain a requested milestone extension could result in the loss of the related FCC authorization. If we are unable to obtain FCC approval to implement requested technical modifications for any particular authorization, we will be obligated to operate the related satellite in accordance with the original authorization.

### *Coordination Requirements*

The FCC requires applicants to demonstrate that their proposed satellites would be compatible with the operations of adjacent satellites. Adjacent satellite operators must coordinate with one another to minimize frequency conflicts. The FCC reserves the right to require that an FCC-licensed satellite be relocated if it deems such a change to be in the public interest.

## ***Regulation by Non-U.S. National Telecommunications Authorities***

Foreign laws and regulatory practices governing the provision of satellite services to licensed entities and directly to end-users vary substantially from country to country. Some countries may require us to confirm that we have successfully completed technical consultation with other satellite service providers before offering services on a given satellite. In addition, we may be subject to varying communications and/or broadcasting laws with respect to our provision of international satellite services.

Foreign laws and regulatory practices may be applied or changed in ways that may adversely affect our ability to operate or provide service. There are no guarantees that other countries will grant our applications to construct, launch, operate or provide service via satellites, or extend construction or launch milestones, or that we will be permitted to retain or renew our authorizations. As in the U.S., violations of other countries' laws and rules may result in sanctions, fines, loss of authorizations or denial of applications for new or renewal authorizations. Application and other administrative fees may be required in other countries. License terms for non-U.S. authorizations held by Loral vary but generally authorize operation for at least the life of the satellite and include rights to operate a replacement satellite. Loral's failure to operate or maintain operation of a satellite pursuant to a non-U.S. authorization may result in revocation.

Many countries have liberalized their regulations for the provision of voice, data or video services. This trend should accelerate with the commitments by many World Trade Organization ("WTO") members, in the context of the WTO Agreement on Basic Telecommunications Services, to open their satellite markets to competition. Other countries, however, have maintained strict monopoly regimes. In such markets, the provision of service from Loral and other U.S.-licensed satellites may be more complicated.

In addition to the orbital slots licensed by the FCC, Loral has been assigned orbital slots by certain other countries. For example, we have been authorized to use numerous C-, Ku- and Ka-band orbital slots by the Isle of Man government. These Isle of Man authorizations are (1) at 15° W.L. and 47° W.L. for use of the Ka-band frequencies, and (2) at 9.9° E.L., 16.1° E.L., 22.3° E.L., 115.5° E.L., 37.5° W.L., 89° W.L., 97° W.L. and 115° W.L. for the use of C-, Ku- and Ka-band frequencies. We also have Isle of Man authorizations at 96.5° W.L. and 123.5° W.L. for Broadcast Satellite Service.

In March 1999, Loral won Brazil's auction for its 63° W.L. Ku-band orbital slot. Telstar 14/Estrela do Sul-1 is licensed by Brazil and is authorized to operate in the U.S. by the FCC from this orbital slot. Pursuant to a lease, Loral operates all of the capacity (with the exception of one transponder) on the Telstar 10/Apstar IIR C/Ku-band satellite licensed by China and located at 76.5° E.L. We also operate the C/extended C-band and Ku-band payloads on Telstar 18 at 138° E.L. using licenses provided by Tonga and China, respectively.

Access to certain of these international orbital slots and authorizations are subject to our payment of various ongoing fees to the applicable licensee or licensing authority, which in the case of the Isle of Man authorizations, include a revenue-based fee that would commence at the time we place a satellite into an Isle of Man slot.

### *The ITU Frequency Coordination Process*

All satellite systems are subject to ITU frequency coordination requirements and must obtain appropriate authority to provide service in a given territory. The required international coordination process may limit the extent to which all or some portion of a particular authorized orbital slot may be used for commercial operations, with a corresponding impact on the useable capacity of a satellite at that location.

All of our satellite registrations are or will be subject to the ITU coordination process. There may be more than one ITU filing submitted for a particular orbital slot, or one adjacent to it, thus requiring coordination between or among the affected operators. Loral cannot guarantee successful frequency coordination for its satellites.

**Export Regulation**

Commercial communication satellites and certain related items, technical data and services, are subject to United States export controls. These laws and regulations affect the export of products and services to foreign launch providers, subcontractors, insurers, customers, potential customers, and business partners, as well as to foreign Loral employees, foreign regulatory bodies, foreign national telecommunications authorities and to foreign persons generally. Commercial communications satellites and certain related items, technical data and services are on the United States Munitions List and are subject to the Arms Export Control Act and the International Traffic in Arms Regulations. Export jurisdiction over these products and services resides in the U.S. Department of State. Other Loral exports are subject to the jurisdiction of the U.S. Department of Commerce, pursuant to the Export Administration Act and the Export Administration Regulations.

U.S. Government licenses or other approvals generally must be obtained before satellites and related items, technical data and services are exported and may be required before they are re-exported or transferred from one foreign person to another foreign person. There can be no assurance that such licenses or approvals will be granted. Also, licenses or approvals may be granted with limitations, provisos or other requirements imposed by the U.S. Government as a condition of approval, which may affect the scope of permissible activity under the license or approval. See Item 1A — Risk Factors below.

## PATENTS AND PROPRIETARY RIGHTS

SS/L relies, in part, on patents, trade secrets and know-how to develop and maintain its competitive position. It holds 213 patents in the United States and has applications for 12 patents pending in the United States. SS/ L patents include those relating to communications, station keeping, power control systems, antennae, filters and oscillators, phased arrays and thermal control as well as assembly and inspections technology. The SS/L patents that are currently in force expire between 2006 and 2022.

Loral Skynet has 13 patents in the United States and has four patents abroad. Our satellite services segment has six patents pending in the United States and has one patent pending abroad. Satellite services patents that are currently in force expire between 2016 and 2020.

There can be no assurance that any of our pending patent applications will be issued. Moreover, because the U.S. patent application process is confidential, there can be no assurance that third parties, including competitors, do not have patents pending that could result in issued patents which we would infringe. In such an event, we could be required to pay royalties to obtain a license, which could increase costs.

## FOREIGN OPERATIONS

Sales to foreign customers, primarily in Asia, Europe and Mexico, represented 14%, 18% 42% and 39% of our consolidated revenues for the periods October 2, 2005 to December 31, 2005, and January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003, respectively. As of December 31, 2005 and 2004, substantially all of our long-lived assets were located in the United States with the exception of our in-orbit satellites. See Item 1A — Risk Factors below for a discussion of the risks related to operating internationally. See Note 20 to the consolidated financial statements for detail on our domestic and foreign sales.

## EMPLOYEES

As of December 31, 2005, we had approximately 1,700 full-time employees, approximately 2% of whom are subject to collective bargaining agreements. We consider our employee relations to be good.

## AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available without charge on our web site, www.loral.com, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. Copies of these documents also are available in print, without charge, from Loral's Investor Relations Department, 600 Third Ave, New York, NY 10016. Loral's web site is an inactive textual reference only, meaning that the information contained on the web site is not part of this report and is not incorporated in this report by reference.

## Item 1A. *Risk Factors*

### I. Financial Risk Factors

**We recently emerged from Chapter 11 and have a history of losses.**

We sought protection under chapter 11 of the Bankruptcy Code in July 2003. While we had $276 million of available cash and $12 million of restricted cash as of December 31, 2005 and believe that this cash, as well as net cash provided by operating activities, will be adequate to meet our expected cash requirements through at least the next 12 months, we have had a history of losses. We incurred net losses of approximately $15 million, $59 million (not including the gain on discharge of pre-petition obligations and fresh-start adjustments of $1.101 billion and the related interest expense of $13 million and a tax benefit of $15 million), for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 and net losses of $177 million and $389 million for the years ended December 31, 2004 and 2003, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." There can be no assurance that Loral will grow or achieve profitability in the near future. Although we have successfully consummated our Plan of Reorganization and emerged from bankruptcy on November 21, 2005, there is no assurance that negative publicity surrounding our Chapter 11 reorganization will not adversely affect our results of operations or business in the future. It may also adversely affect our ability to obtain financing, which would in turn affect our ability to grow our business.

**We are a holding company with no operations; we are dependent on cash flow from our operating subsidiaries to meet our financial obligations.**

Loral Space & Communications Inc. is a holding company whose assets consist principally of the equity interest we own in our subsidiaries, joint ventures and affiliates. We have no independent operations or operating assets. One of our principal operating subsidiaries, Loral Skynet, has outstanding $126 million in 14% senior secured notes due 2015 (the "Loral Skynet Notes") and $200 million in preferred stock which we do not own, and which is structurally senior to our Loral Skynet common stock. The ability of our subsidiaries to make payments or distributions to us, whether as dividends or as payments under applicable management and shared services agreements, will depend on their operating results, including their ability to satisfy their own cash flow requirements and obligations. Moreover, covenants contained in the indenture relating to the Loral Skynet Notes impose limitations on Loral Skynet's ability to upstream funds to us.

**The indenture governing Loral Skynet's 14% senior secured notes may restrict our current and future operations.**

The limitations contained in the indenture relating to the $126 million of senior secured notes issued by Loral Skynet upon its emergence from bankruptcy impose restrictions on our operations and limit our ability to enter into financial transactions that we may wish to pursue. These restrictions will affect, and in many respects limit, among other things, Loral Skynet's and its subsidiaries' ability to pay dividends, make investments, sell assets, make loans, repurchase equity interests or engage in mergers or other like transactions. These restrictions may limit our flexibility in planning for and reacting to changes in our business and the industry in which we operate. Our ability to redeem these notes in the near-term is limited. During the first two years after the Effective Date, we may redeem the notes at a redemption price of 110% plus accrued and unpaid interest, but only if we do not receive an objection notice from holders of two-thirds of the

principal amount of the notes. After this two-year period, the notes are redeemable at our option at a redemption price of 110%, declining over time to 100% in 2014, plus accrued and unpaid interest.

**The Loral Skynet Notes are collateralized by substantially all of Loral Skynet's assets.**

A breach of any of the restrictive covenants contained in the Loral Skynet indenture could result in an event of default, which would give the noteholders the ability to accelerate repayment of the Loral Skynet notes. If Loral Skynet is unable to repay the notes when due, the noteholders will have the right to proceed against the collateral granted to them to secure the Loral Skynet Notes, which consists of substantially all of the assets of Loral Skynet and its subsidiaries.

**We may in the future incur significant additional indebtedness, thereby making us more vulnerable to adverse developments.**

Although the indenture governing the Loral Skynet Notes contains restrictions on the incurrence of indebtedness by Loral Skynet and its subsidiaries, these restrictions are subject to a number of important qualifications and exceptions and the indebtedness incurred in compliance with these restrictions could be substantial, and in certain cases, may be secured by the same assets that secure the Loral Skynet Notes. Moreover, there are currently no restrictions on the ability of Loral or SS/ L to incur additional indebtedness. As a result, we may be able to incur significant additional debt in the future. If new debt is added, such indebtedness would likely impose more restrictive covenants, which may include financial ratios. If we incur significant additional indebtedness, we would be more vulnerable to, among other things, adverse changes in general economic, industry and competitive conditions.

**XTAR will have significant lease obligations, which may require us to make additional capital contributions to the venture.**

XTAR has agreed to lease certain transponders on Hisdesat's recently launched Spainsat satellite. These lease obligations initially amount to $6.2 million per year, growing to $23 million per year in 2008. XTAR's ability to fund these lease obligations is dependent on it generating a significant increase in customer orders. If XTAR is unable to do so, then XTAR would seek to restructure the terms of the Spainsat lease. If XTAR is unable to do so on terms that are acceptable to it, then we will be faced with the decision of either making additional cash contributions to XTAR to enable it to meet its obligations or allowing XTAR to default under the lease agreement, which may result in a loss of our investment in XTAR.

**Replacing a satellite upon the end of its useful life will require us to make significant expenditures.**

To ensure no disruption in Loral Skynet's business and to prevent loss of customers, we will be required to commence construction of a replacement satellite approximately two to three years prior to the end of life of the satellite then in orbit. For example, we will be required to commence construction of a replacement to our Estrela do Sul satellite in 2008 to ensure a continuation of our business on this satellite. We have also recently commenced construction of our Telstar 11N satellite and will incur substantial expenditures in connection with such effort. Typically, it costs in excess of $200 million to construct, launch and insure a satellite. We have in the past funded this cost from a combination of operating cash flow and financing proceeds. There is no assurance that we will be able to obtain financing to fund such expenditures on favorable terms, if at all.

**Significant changes in discount rates, actual investment return on pension assets, and other factors could affect our statement of operations, equity, and pension contributions in future periods.**

Our statement of operations may be positively or negatively impacted by the amount of expense we record for our pension and other postretirement benefit plans. Generally accepted accounting principles (GAAP) in the United States of America require that we calculate expense for the plans using actuarial valuations. These valuations reflect assumptions that we make relating to financial market and other economic conditions. Changes in key economic indicators can result in changes in the assumptions we use. The most significant year-end assumptions used to estimate pension or other postretirement expense for the following

year are the discount rate, the expected long-term rate of return on plan assets, and expected future medical inflation. In addition, we are required to make an annual measurement of plan assets and liabilities. Under certain circumstances, at the time of the measurement, we may be required to make a significant charge to equity through a reduction to other comprehensive income. For a discussion regarding how our financial statements can be affected by pension and other postretirement plan accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Matters — Pensions and other employee benefits. In 2005, we contributed $20 million to our pension plan. The amounts of our contributions in the future will depend, among other things, on the key economic factors underlying these assumptions.

## II. Operational Risk Factors

### • *Risk Factors Associated With Satellite Services*

**Launch delays or failures have delayed some of our operations in the past and may do so again in the future.**

We depend on third parties in the United States and abroad to launch our satellites. Delays in launching satellites are not uncommon and result from construction delays, the unavailability of appropriate launch vehicles and other factors. For example, the launch of the XTAR-EUR satellite was significantly delayed while we waited for Arianespace to complete work on its ECA launch vehicle.

Satellite launches are risky, and some launch attempts have ended in complete or partial failure. On January 10, 2004, for example, our Telstar 14/ Estrela do Sul-1 communications satellite was launched by Boeing Sea Launch, but only partially deployed its North solar array. Although the satellite was insured and we collected insurance proceeds of $205 million, the failed solar array deployment has resulted in the availability of only 15 of the satellite's 41 Ku-band transponders and a life expectancy of only six years as compared to a design life of 15 years. This reduced capacity and life will affect the roll out of our Brazilian business and will reduce operating revenues pending construction of a replacement satellite.

We ordinarily insure against launch failures but at considerable cost. The cost and the availability of insurance vary depending on market conditions and the launch vehicle used. Replacing a lost satellite typically requires at least two years from execution of a manufacturing contract to launch.

**After launch, our satellites remain vulnerable to in-orbit failures which may result in reduced revenues and profits and other financial consequences.**

In-orbit damage to or loss of a satellite before the end of its expected life results from various causes, some random, including component failure, degradation of solar panels, loss of power or fuel, inability to maintain the satellite's position, solar and other astronomical events, and space debris.

Satellites are built with redundant components or additional components to provide excess performance margins to permit their continued operation in case of a component failure, an event that is not uncommon in complex satellites. Certain of our satellites are currently operating using back-up components because of the failure of primary components. If the back-up components fail, however, and we are unable to restore redundancy, these satellites could lose capacity or be total losses, which would result in a loss of revenues and profits.

For example, in July 2005, in the course of conducting our normal operations, we determined that the primary command receiver on two of our satellites had failed. These satellites, which are equipped with redundant command receivers designed to provide full functional capability through the full design life of the satellite, continue to function normally and service to customers has not been affected. Moreover, SS/L, the manufacturer of the satellites, has successfully completed implementation of a software workaround that fully restored the redundant command receiver function on both of these satellites.

In addition, three satellites operated by Loral Skynet or its affiliates that were manufactured by SS/ L have experienced minor losses of power from their solar arrays. Although we believe the satellites will fulfill

their designed mission lives, there can be no assurance that one or more of the satellites will not experience an additional power loss that could lead to a lessening of transponder capacity and performance degradation. A partial or complete loss of a satellite would result in the loss of revenues and profit for Loral Skynet and us. For further details see Note 19 to the consolidated financial statements.

Loral Skynet has in the past entered into prepaid leases, sales contracts and other arrangements relating to transponders on its satellites. Under the terms of these agreements, Loral Skynet may be required to replace transponders that do not meet operating specifications. Failure to replace such transponders may result in a payment obligation on the part of Loral Skynet.

**It may be difficult to obtain full insurance coverage for satellites that have, or are part of a family of satellites that has, experienced problems in the past; moreover, not all satellite-related losses will be covered by our insurance.**

While we have in the past typically insured against launch and in-orbit failure of the satellites in our satellite services segment, insurance will not protect us against all losses. For example, insurance will not protect us against business interruption, lost revenues or delay of revenues. Our existing launch and in-orbit insurance policies also include, and future policies are expected to include, specified exclusions, deductibles and material change limitations. Typically, these insurance policies exclude coverage for damage arising from acts of war and other exclusions then customary in the industry. In addition, they typically exclude coverage for health-related problems affecting our satellites that are known at the time the policy is written.

We cannot assure that, upon the expiration of an in-orbit insurance policy, which typically has a term of one year, that we will be able to renew the policy on terms acceptable to us. As noted above, insurers may require either exclusions of certain components or may place similar limitations on coverage in connection with insurance renewals for satellites that have experienced problems in the past. For example, the insurance coverage for two of our satellites provides for coverage of losses due to solar array failures only in the event of a capacity loss of 75% or more for one satellite and 80% or more for the other. The loss of a satellite would likely have a material adverse effect on our financial performance and may not be adequately mitigated by insurance coverage. Moreover, if we were to determine in the future that the terms of any particular insurance renewal are uneconomic after taking into account factors such as cost of the insurance and scope of insurance exclusions and limitations, we may elect to self-insure against losses of a satellite. For further details see Note 19 to the consolidated financial statements.

**Like other satellite operators, we are faced with increased launch and in-orbit insurance premiums.**

The cost of obtaining insurance has increased significantly, primarily due to post-September 2001 insurance industry developments. This has increased our cost of doing business. For further details see Note 19 to the consolidated financial statements.

**Our satellite services businesses compete for market share, customers and orbital slots, against competitors that are significantly larger than us.**

We face significant competition in the transponder leasing business from companies such as Intelsat/ PanAmSat, SES Global/ New Skies Satellites and Eutelsat, all of which are larger and better capitalized than we are. We also face competition from smaller, regional operators, which may enjoy competitive advantages in their local markets. The supply of satellite capacity has increased in recent years, making it more difficult for us to sell our services in certain markets and to maintain our prices for the capacity that we do sell. Competition may cause further downward pressure on prices and further reduce the utilization of our fleet capacity, both of which may have an adverse effect on our financial performance. Our transponder leasing business also competes with fiber optic cable and other terrestrial delivery systems, which have a cost advantage in point-to-point applications.

Similarly, our network services business faces competition not only from other satellite-based providers, but also from providers of land-based data communications services, such as cable, DSL (digital subscriber

line), wireless local loop and traditional telephone service providers. We will face further price pressure from these companies as they continue to compete for our services.

As land-based telecommunications services expand and become more sophisticated, demand for some satellite-based services may be reduced. New technology could render satellite-based services less competitive by satisfying consumer demand in other ways. We also compete for local regulatory approval in places where more than one provider may want to operate, and for scarce frequency assignments and fixed orbital positions.

**The content of third-party transmissions over our satellites may affect us.**

Loral Skynet provides satellite capacity for transmissions by third parties. We do not decide what content is transmitted over our satellites, although our contracts generally provide us with rights to prohibit certain types of content or to cease transmission under certain circumstances. Issues arising from the content of transmissions by these third parties over our satellites could affect our future revenues, operations, or our relationship with certain governments or customers.

**Our business is regulated, causing uncertainty and additional costs.**

Multiple authorities regulate our business, including the FCC, the International Telecommunication Union (ITU) and the European Union. Regulatory authorities can modify, withdraw or impose charges or conditions upon, or deny or delay action on applications for the licenses we need, and so increase our costs.

To prevent frequency interference, the regulatory process requires potentially lengthy and costly negotiations with third parties who operate or intend to operate satellites at or near the locations of our satellites. For example, as part of our coordination effort on Telstar 12, we agreed to provide four 54 MHz transponders on Telstar 12 to Eutelsat for the life of the satellite and have retained risk of loss with respect to those transponders. We also granted Eutelsat the right to acquire, at cost, four transponders on the replacement satellite for Telstar 12. We continue to discuss coordination issues with other operators and may need to make additional financial concessions in connection with future coordination efforts. The failure to reach an appropriate arrangement with a third party having priority rights at or near one of our orbital slots may result in substantial restrictions on the use and operation of our satellite at that location. In addition, while the ITU rules require later-in-time systems to coordinate with us, there can be no assurance that other operators will conduct their operations so as to avoid transmitting any signals that would cause harmful interference to the operation of our satellites.

Failure to successfully coordinate our satellites' frequencies or to resolve other required regulatory approvals could have an adverse effect on our consolidated financial position and our results of operations, as well as the value of our business. For further details see Note 19 to the consolidated financial statements.

**The recent trend toward industry consolidation in the fixed satellite services industry may adversely affect us.**

The recent industry consolidation trend will result in the formation of competitors with greater financial resources and increased coverage and scale. While we may pursue strategic transactions on an opportunistic basis, we may not find or be able to take advantage of any suitable opportunities. We may therefore find it difficult to compete with our competitors, many of whom are substantially larger than we are and enjoy the benefits of the economies of scale from their fleets of satellites.

### • *Risk Factors Associated With Satellite Manufacturing*

**The satellite manufacturing market is highly competitive and fixed costs are high.**

SS/L competes with several large, well-capitalized companies such as Boeing, Lockheed Martin and Orbital Sciences in the United States, and Alcatel Alenia Space and EADS Astrium in Europe, nearly all of which are larger and better capitalized than we are. We may also face competition in the future from emerging low-cost competitors in India, Russia and China. The number of annual satellite manufacturing awards varies and is difficult to predict. In addition, U.S. satellite manufacturers must contend with export control

regulations that put them at a disadvantage when competing for foreign customers. Our financial performance is dependent on SS/L's ability to generate a sustainable order rate and to continue to increase its backlog. The satellite manufacturing industry has suffered from substantial overcapacity worldwide for a number of years, resulting in extreme competitive pressure on pricing terms and other material contractual terms, such as those allocating risk between the manufacturer and its customers.

SS/L is a large-scale systems integrator, requiring a large staff of highly-skilled and specialized workforce, as well as specialized manufacturing and test facilities in order to perform under its satellite construction contracts. Although overhead costs at SS/ L were cut substantially during our bankruptcy proceedings, SS/ L must continuously retain the services of a core group of specialists in a wide variety of disciplines for each phase of the design, development, manufacture and testing of its products in order to maintain its ability to compete as one of the leading prime contractors for technologically advanced space satellites.

**SS/L's contracts are subject to adjustments, cost overruns, risk of non-payment and termination.**

SS/L's major contracts are firm fixed-price contracts under which work performed and products shipped are paid for at a fixed price without adjustment for actual costs incurred. While cost savings under these fixed-price contracts result in gains to SS/L, cost increases result in reduction of margins or losses, borne solely by SS/L. Under such contracts, SS/L may receive progress payments, or it may receive partial payments upon the occurrence of certain program milestones. If performance on these milestones is delayed, SS/L's receipt of the corresponding payments will also be delayed.

Non-performance, including schedule delays, can increase costs and subject us to damages claims from customers, including liquidated damages and termination of the contract for our default. If a contract is terminated, we could be liable for a refund of payments made to date, excess re-procurement costs and other damages incurred by our customer, although SS/L would own the satellite under construction and attempt to recoup any losses through resale to another customer. A contract termination for default could have a material adverse effect on SS/L and us.

In addition, many of SS/L's contracts and subcontracts may be terminated at will by the customer or the prime contractor. In the event of such a termination, SS/L is normally entitled to recover the purchase price for delivered items, reimbursement for allowable costs for work in process, and an allowance for profit or an adjustment for loss, depending on whether completion of the project would have resulted in a profit or loss.

Moreover, many of SS/L's contracts require SS/L to provide vendor financing to its customers or, more customarily, for customers to pay a portion of the purchase price for the satellite over time subject to performance of the satellite, i.e., orbital payments, or a combination of these terms. In some cases these arrangements are provided to customers that are start-up companies or companies in the early stages of building their businesses. As of December 31, 2005, SS/L had recorded vendor financing and orbital receivables of $99 million (of which $57 million was from start-up or early stage companies). Of this $57 million, SS/L had received payments of $49 million as of March 2006. Although we expect to be paid, there can be no assurance that these companies or their businesses will be successful and, accordingly, that they will be able to fulfill their payment obligations under their contracts with SS/L.

SS/L's accounting for long-term contracts requires adjustments to profit and loss based on estimates revised during the execution of the contract. These adjustments may have a material effect on our consolidated financial position and our results of operations in the period in which they are made. The estimates giving rise to these risks, which are inherent in long-term, fixed-price contracts, include the forecasting of costs and schedules, contract revenues related to contract performance, and the potential for component obsolescence due to procurement long before assembly.

**SS/L may forfeit payments from customers as a result of satellite failures or losses after launch, or may be liable for penalty payments under certain circumstances, and these losses may be uninsured.**

Most of SS/L's satellite manufacturing contracts provide that some of the total price is contingently payable as "incentive" payments earned over the life of the satellite, subject to satellite performance. Known as orbitals, SS/L generally does not insure for these payments and in some cases agrees with its customers not to insure them.

SS/L records the present value of orbital payments as revenue during the construction of the satellite. SS/L generally receives the present value of these incentive payments if there is a launch failure or a failure caused by customer error. SS/L forfeits some or all of these payments, however, if the loss is caused by satellite failure or as a result of its own error. As of December 31, 2005, SS/L had orbital receivables of $42 million, payable over 16 years. Since these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/L will be able to collect all or a portion of these receivables.

Some of SS/L's contracts call for in-orbit delivery, transferring the launch risk to SS/L. SS/L generally insures against that exposure. In addition, some of SS/L's contracts provide that SS/L may be liable to a customer for penalty payments under certain circumstances, including late delivery or that a portion of the price paid by the customer is subject to "warranty payback" in the event satellite anomalies were to develop (see Note 19 to the consolidated financial statements). These contingent liabilities are not insured by SS/L. We have recorded reserves in our financial statements based on our current estimates of SS/L's warranty liabilities. There is no assurance that SS/L's actual liabilities to its customers in respect of these warranty liabilities will not be greater than the amount reserved for.

**Some satellites built by SS/L, including three satellites operated by Loral Skynet or other affiliates, have experienced minor losses of power from their solar arrays.**

Twenty satellites built by SS/L have experienced minor losses of power from their solar arrays. There can be no assurance that one or more will not experience an additional power loss that could lead to a loss of transponder capacity and performance degradation. A partial or complete loss of a satellite could result in an incurrence of warranty payments by, or a loss of orbital incentive payments to SS/L. SS/L has instituted remedial measures that it believes will prevent similar anomalies from occurring on satellites under construction or in development. For further details see Note 19 to the consolidated financial statements.

**Some satellites built by SS/L have the same design as another SS/L-built satellite that has experienced a partial failure.**

In November 2004, Intelsat Americas 7 (formerly Telstar 7) experienced an anomaly which caused it to completely cease operations for several days before it was partially recovered. Four other satellites manufactured by SS/L for other customers have designs similar to Intelsat Americas 7 and, therefore, could be susceptible to similar anomalies in the future. A partial or complete loss of these satellites could result in an incurrence of warranty payments by SS/L of up to $18 million.

**We are subject to export controls, which may result in delays and additional costs.**

SS/L is required by the U.S. State Department to obtain licenses and enter into technical assistance agreements to export satellites and related equipment, and to disclose technical data to foreign persons. The delayed receipt of or the failure to obtain the necessary licenses and agreements may interrupt the completion of a satellite contract by SS/L and could lead to a customer's cancellation of a contract, monetary penalties and/or the loss of incentive payments.

Some of our customers and potential customers, along with insurance underwriters and brokers have raised concerns that U.S. export control laws and regulations excessively restrict their access to information about the satellite during construction and on-orbit. To the extent that our non-U.S. competitors are not subject to these export control laws and regulations, they may enjoy a competitive advantage with foreign customers, and, to the extent that our foreign competitors continue to gain market share, it could become

increasingly difficult for the U.S. satellite manufacturing industry, including SS/L, to recapture this lost market share.

**The recent trend toward industry consolidation in the fixed satellite services industry may adversely affect us.**

The recent industry consolidation trend will result in the formation of satellite operators with greater satellite resources and increased coverage. This consolidation may reduce demand for new satellite construction as operators may need fewer satellites in orbit to provide back-up coverage or to rationalize the amount of capacity available in certain geographic regions. It may also result in concentrating additional bargaining power in the hands of large customers, which could increase pressure on pricing and other contractual terms.

**The availability of qualified personnel and facility space may be limited; SS/L will incur costs to upgrade or expand its facility and these costs may be substantial.**

SS/L has recently won a number of satellite construction awards and its backlog has expanded significantly. In order to complete construction of all the satellites in backlog, SS/L will need to and is in the process of hiring additional staff and will likely require an expansion of its existing facilities. There can be no assurance that SS/L will be able to hire the employees with the requisite skills and training or to acquire suitable facility space and, accordingly, may not be able to perform its contracts as efficiently as planned.

SS/L is in the process of performing a comprehensive evaluation of its facility requirements that takes into account various factors, including its backlog requirements, as well as expansions or upgrades that may be required to enable the company to meet its future growth prospects. The costs of such expansions or upgrades may be substantial.

### • *Risk Associated With Conducting Business Internationally*

**We face risks in conducting business internationally.**

For the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003, approximately 14%, 18%, 42% and 39%, respectively, of our revenue was generated from customers outside of the United States. We could be harmed financially and operationally by changes in foreign regulations and telecommunications standards, tariffs or taxes and other trade barriers that may be imposed on our services, or by political and economic instability in the countries in which we conduct business. Almost all of our contracts with foreign customers require payment in U.S. dollars, and customers in developing countries could have difficulty obtaining U.S. dollars to pay us due to currency exchange controls and other factors. Exchange rate fluctuations may adversely affect the ability of our customers to pay us in U.S. dollars. If we need to pursue legal remedies against our foreign business partners or customers, we may have to sue them abroad where it could be difficult for us to enforce our rights.

**III Other Risks**

**We share control of our affiliates with third parties.**

We share control of our affiliates with third parties and as a result we do not have control over management of these entities. For example, Hisdesat enjoys substantial approval rights in regard to XTAR, our X-band joint venture. The rights of these third parties and fiduciary duties under applicable law could result in others acting or omitting to act in ways that are not in our best interest. To the extent that these entities are or become customers of SS/L, further conflicts of interest between us and these affiliates are likely to arise.

**We rely on key personnel.**

We need highly qualified personnel. Michael Targoff, our chief executive officer, has an employment contract expiring in December 2010, and several of our key officers have two-year employment contracts expiring in November 2007. See Item 11 — Executive Compensation — Employment Contracts, Change in

Control and Other Compensation Arrangements below for a description of our financial obligations to our officers. We do not maintain "key man" life insurance. The departure of any of our key executives could have an adverse effect on our business.

**MHR is our controlling shareholder and may have conflicts of interest with us in the future.**

MHR Fund Management LLC ("MHR"), through its affiliated funds, beneficially owns approximately 35.9% of our common stock and is the largest single holder of our common stock. MHR also owns 38.3% of Loral Skynet's preferred stock and 44.6% of Loral Skynet's senior secured notes. Moreover, representatives of MHR occupy three of the nine seats on our board of directors, and two additional directors were selected by the creditors' committee in our Chapter 11 Cases, in which MHR served as the chairman. Conflicts of interests may arise in the future between us and MHR. For example, MHR and its affiliated funds are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us.

**Compliance with the Sarbanes-Oxley Act increases our operating expenses.**

The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the Securities and Exchange Commission ("SEC"), have required changes to some of our corporate governance practices. These changes include developing financial and disclosure processes that satisfy Section 404 of the Sarbanes-Oxley Act. We expect that these rules and regulations will continue to make some activities more difficult, time-consuming and costly. We also expect that these rules and regulations could make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee, and to attract and retain qualified executive officers. If we are unable to comply with the Sarbanes-Oxley Act and related rules and regulations, our business could be materially adversely affected.

**The future use of tax attributes is limited upon emergence from bankruptcy.**

As of December 31, 2005, Loral had net operating loss carryforwards, or NOLs, of approximately $1.1 billion that are available to offset future taxable income. Since our reorganization on the Effective Date constituted an "ownership change" under Section 382 of the Internal Revenue Code, our ability to use these NOLs, as well as certain other tax attributes existing at the Effective Date, is subject to an annual limitation of approximately $32 million, subject to modification based on certain factors. If New Loral experiences an additional "ownership change" during any three-year period after the Effective Date, future use of these tax attributes may become further limited. An ownership change would be triggered if shareholders owning five percent or more of our total equity value dispose of their holdings during a three-year period by more than 50 percent in the aggregate. Since Loral's charter contains no restriction on the transfer of equity interests, if our existing significant shareholders were to dispose of all of their equity interests in New Loral during this three-year period, an additional "ownership change" will have occurred.

**There is a thin trading market for our common stock.**

Our common stock was first issued and listed on the NASDAQ National Market in December 2005. Since that time, trading activity in our stock has generally been light. Moreover, over 50% of our common stock is effectively held by MHR and two other shareholders. If any of our significant shareholders should sell some or all of their holdings, it will likely have an adverse effect on our share price. Funds affiliated with MHR have registration rights in respect of the securities they hold in Loral and Loral Skynet, including our common stock.

**The market for our stock could be adversely affected by future issuance of significant amounts of our common stock.**

As of December 31, 2005, 20,000,000 shares of our common stock were outstanding. On that date, there were 1,390,452 stock options outstanding which will become vested and exercisable over the next four years. In addition, in March 2006, subject to stockholder approval at an annual or special meeting of our

stockholders, we adopted an amendment to our 2005 Stock Incentive Plan to increase by 825,000 the number of shares available for grant thereunder. This amendment covers the grant in March 2006 (the "March 2006 Option Grant"), subject to stockholder approval of the plan amendment, of options to purchase 825,000 shares to our Chief Executive Officer, Michael B. Targoff, in connection with his entering into an employment agreement with us. Moreover, we intend to further amend our stock option plan in the future to provide for additional increases in the number of shares available for grant thereunder, including, among others, an increase to cover an option grant which we have agreed, provided he has earned his target bonus for 2006 and 2007, to grant to Mr. Targoff in 2008 with a Black-Scholes value equal to one-half of the value of his March 2006 Option Grant and an increase to cover the component of annual fees to our directors that consists of restricted stock awards.

In connection with a stipulation entered into with certain directors and officers of Old Loral and a stipulation entered into with the plaintiffs in a purported class action lawsuit brought by participants in the 401(k) Savings Plan of Old Loral, certain claims aggregating $77 million may result in the distribution of our common stock in addition to the 20 million shares being distributed under the Plan of Reorganization. For more detail about these stipulations, see Note 19 to the consolidated financial statements.

Sales of significant amounts of our common stock to the public, or the perception that those sales could happen, could adversely affect the market for, and the trading price of, our common stock.

## IV Litigation and Disputes

**We are involved in a number of ongoing lawsuits.**

We are involved in a number of lawsuits, details of which can be found in Note 19 to the consolidated financial statements. In addition, we are involved in a number of disputes which might result in litigation. For example, we have brought an adversary proceeding against International Launch Services in the Bankruptcy Court seeking recovery of $37.5 million of deposits held by ILS. ILS has filed counterclaims in which it is seeking to recover damages, in an unspecified amount, as a result of our alleged failure to assign to ILS two satellite launches and $38 million in lost revenue due to our alleged failure to comply with a contractual obligation to assign to ILS the launch of another satellite. For further details see Note 19 to the consolidated financial statements. If any of these lawsuits or disputes are decided against us it could have a material adverse affect on our financial condition and our results of operations.

**An appeal has been filed seeking to overturn the settlement agreement we entered into with Globalstar, L.P.**

In April 2003, one of Globalstar, L.P.'s creditors filed a motion seeking reconsideration of court approval of a settlement agreement between Loral and Globalstar, L.P. and Globalstar's official creditor's committee in which, among other things, Globalstar granted to Loral, subject to certain conditions, a general release of all claims it might have against Loral. The court denied this motion for reconsideration in May 2003, and, in June 2003, the creditor filed with the Federal Appeals Court a notice of appeal of the court's order approving the settlement agreement. Although we believe that the appeal, which is currently pending, is without merit, no assurance can be given in this regard or as to what relief, if any, might be granted in the event the appeal were to be successful.

**Item 1B.** ***Unresolved Staff Comments***

None.

**Item 2.** ***Properties***

*Corporate*

We lease approximately 27,000 square feet of space for our corporate offices in New York.

*Satellite Services*

Loral Skynet owns two telemetry, tracking and control stations covering approximately 73,000 square feet on 218 acres in Hawley, Pennsylvania and Mt. Jackson, Virginia. Loral Skynet leases space for three telemetry, tracking and control stations covering approximately 9,000 square feet in Rio de Janeiro, Brazil, Utive, Panama and Quito, Ecuador. Loral Skynet also leases approximately 54,000 square feet of office space in Bedminster, New Jersey and Rockville, Maryland and 38,000 square feet in various locations around the world. In addition, in March 2006, we sold some of our excess facilities.

*Satellite Manufacturing*

SS/ L's research, production and testing are conducted in SS/ L-owned facilities covering approximately 563,000 square feet on 29 acres in Palo Alto, California. In addition, SS/ L leases approximately 317,000 square feet of space on 21 acres from various third parties primarily in Palo Alto, Menlo Park and Mountain View, California.

Management believes that the facilities for satellite services and satellite manufacturing are sufficient for their current operations.

**Item 3.** ***Legal Proceedings***

We discuss certain legal proceedings pending against the Company in the notes to the consolidated financial statements, and refer you to that discussion for important information concerning those legal proceedings, including the basis for such actions and relief sought. See Note 19 to the consolidated financial statements of this Form 10-K for this discussion.

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

None.

## PART II

**Item 5.** ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

**(a) Market Price and Dividend Information**

***New Loral Common Stock***

New Loral has authorized 40,000,000 shares of common stock, $0.01 par value per share, 20,000,000 of which are outstanding. Subject to the preferences and other rights of any outstanding preferred stock of New Loral (none outstanding as of December 31, 2005), holders of shares of New Loral common stock are entitled to share equally, share for share, in dividends when and as declared by the board of directors out of funds legally available for such dividends. Subject to the rights, powers and preferences of any outstanding New Loral preferred stock, upon a liquidation, dissolution or winding up of New Loral, the assets of New Loral available to stockholders will be distributed equally per share to the holders of New Loral common stock. Except as otherwise provided in the Restated Certificate of Incorporation or bylaws of New Loral, each holder of New Loral common stock is entitled to one vote in respect of each share of New Loral common stock held

of record on all matters submitted to a vote of stockholders. The holders of New Loral common stock do not have any cumulative voting rights. New Loral common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to New Loral common stock. All outstanding shares of New Loral common stock are fully paid and non-assessable.

Effective with the emergence from bankruptcy on November 21, 2005 and the consummation of the Plan of Reorganization, Old Loral common stock was cancelled and New Loral issued 20 million shares of common stock to its distribution agent. To date, approximately 18.7 million shares have been distributed to our creditors. New Loral common stock began trading on a when-issued basis on July 27, 2005 on the Over-The-Counter ("OTC") Bulletin Board Service under the ticker symbol "LRALV." Upon the initial distribution to creditors made on December 8, 2005, the stock began trading on the NASDAQ National Market under the ticker symbol "LORL." The table below sets forth the high and low sales prices of New Loral common stock as reported on the OTC Bulletin Board Service and NASDAQ National Market from July 27, 2005 through December 31, 2005.

| | High | Low |
|---|---|---|
| **Year ended December 31, 2005** | | |
| October 1, 2005 through December 31, 2005 | $ 29.40 | $ 21.75 |
| July 27, 2005 through September 30, 2005 | $ 28.70 | $ 26.50 |

***Old Loral Common Stock***

As a result of the commencement of our Chapter 11 Cases, on July 15, 2003, the NYSE suspended trading of Old Loral's common stock and removed the securities from listing and registration on September 2, 2003. On July 16, 2003, Old Loral's common stock began to be quoted under the ticker symbol LRLSQ on the Over-The-Counter ("OTC") Bulletin Board Service and the Pink Sheets Service ("Pink Sheets"). In addition, on June 4, 2003, Old Loral's Board of Directors approved a reverse stock split of the common stock at a ratio of one-for-ten, resulting in a new par value of $0.10 per common share. The reverse stock split became effective after the close of business on June 13, 2003. The following table presents the reported high and low closing prices of Old Loral's common stock as reported on the OTC Bulletin Board Service for 2005 and 2004:

| | High | Low |
|---|---|---|
| **Year ended December 31, 2005** | | |
| October 1, 2005 through November 21, 2005 | $ 0.43 | $ 0.04 |
| Quarter ended September 30, 2005 | 0.30 | 0.04 |
| Quarter ended June 30, 2005 | 0.53 | 0.16 |
| Quarter ended March 31, 2005 | 0.23 | 0.11 |
| **Year ended December 31, 2004** | | |
| Quarter ended December 31, 2004 | $ 0.19 | $ 0.03 |
| Quarter ended September 30, 2004 | 0.18 | 0.03 |
| Quarter ended June 30, 2004 | 0.61 | 0.12 |
| Quarter ended March 31, 2004 | 1.20 | 0.31 |

**(b) Approximate Number of Holders of Common Stock**

At March 1, 2006, there were 177 holders of record of the New Loral common stock.

**(c) Dividends**

Old Loral never paid dividends on its common stock. In August 2002, Old Loral's Board of Directors approved a plan to suspend indefinitely the payment of dividends on Old Loral's Series C and Series D preferred stock. Old Loral did not pay any dividends or make any distributions during the pendency of the

Chapter 11 Cases and effective with the emergence from bankruptcy on November 21, 2005 and the consummation of the Plan of Reorganization, all of Old Loral's preferred stock was cancelled.

New Loral's ability to pay dividends or distributions on its common stock will depend upon its earnings, financial condition and capital needs and other factors deemed pertinent by the Board of Directors. To date, New Loral has not paid any dividends on its common stock. On the Effective Date, Loral Skynet Corporation issued 1,000,000 shares of Series A 12% Non-Convertible Preferred Stock, $0.01 par value per share (the "Loral Skynet Preferred Stock"), of which 987,018 shares have been distributed to the creditors to date. The Loral Skynet Preferred Stock has an aggregate liquidation preference of $200,000,000 and dividends (if not paid or accrued as permitted under certain circumstances) will be payable in kind (in additional shares of Loral Skynet Preferred Stock) if the amount of any dividend payment would exceed certain thresholds.

### (d) Sales of Unregistered Securities by Registrant

Pursuant to the Plan of Reorganization, New Loral issued 20,000,000 shares of common stock, par value $.01 per share, on the Effective Date to satisfy claims of certain creditors. As provided by Section 1145 of the Bankruptcy Code, the issuance of such securities were exempt from registration under the Securities Act of 1933, as amended.

### (e) Securities Authorized for Issuance under Equity Compensation Plans

See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Securities Authorized for Issuance under Equity Compensation Plans.

## Item 6. *Selected Financial Data*

The following table sets forth our selected historical financial and operating data for the period October 2, 2005 to December 31, 2005, the period January 1, 2005 to October 1, 2005 and each of the four years in the period ended December 31, 2004.

For all periods presented in the statement of operations, income from continuing operations excludes the results of the North American satellites and related assets sold on March 17, 2004 to Intelsat, which have been accounted for as a discontinued operation and accordingly are presented separately in the consolidated selected financial data (see Note 5 to the consolidated financial statements).

On August 1, 2005, the Bankruptcy Court entered its Confirmation Order confirming the Plan of Reorganization. On September 30, 2005, the FCC approved the transfer of FCC licenses from Old Loral to New Loral, which represented the satisfaction of the last material condition precedent to emergence from bankruptcy. Pursuant to SOP 90-7 we adopted fresh-start accounting as of October 1, 2005. We engaged an independent appraisal firm to assist in determining the fair values of our assets and liabilities. Upon adoption, our reorganization enterprise value was $970 million based on the Bankruptcy Court's determination, which after reduction for the fair value of the Loral Skynet Notes and Series A Preferred Stock, results in a reorganization equity value of approximately $642 million.

This reorganization equity value was allocated to our assets and liabilities. Our assets and liabilities were stated at fair value in accordance with Statement of 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 (see Note 4 to the consolidated financial statements). Our consolidated financial statements as of October 1, 2005 and for dates subsequent, will not be comparable in certain material respects to the historical consolidated financial statements for prior periods included elsewhere in this Annual Report on Form 10-K.

References to the Predecessor Registrant refer to the period prior to October 2, 2005. References to the Successor Registrant refer to the period on and after October 2, 2005, after giving effect to the adoption of fresh-start accounting.

The information set forth in the following table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

**LORAL SPACE & COMMUNICATIONS INC.**
**(In thousands, except per share data)**

| | Successor Registrant | Predecessor Registrant | | | | |
|---|---|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | | | |
| | | | 2004 | 2003 | 2002 | 2001 |
| **Statement of operations data:** | | | | | | |
| Revenues | $ 197,165 | $ 429,183 | $ 522,127 | $ 392,043 | $ 900,527 | $ 845,725 |
| Operating loss from continuing operations | (4,945) | (67,095) | (214,345) | (388,873) | (208,368) | (158,593) |
| Gain on discharge of pre-petition obligations and fresh-start adjustments | — | 1,101,453[1] | — | — | — | — |
| (Loss) income from continuing operations before income taxes, equity income (losses) in affiliates and minority interest | (5,395) | 1,022,651 | (207,852) | (368,355) | (237,540) | (229,851) |
| Income tax (provision) benefit | (1,752) | 10,901 | (13,284) [2] | 6,330 | (322,422) [2] | 40,096 |
| (Loss) income from continuing operations before equity income (losses) in affiliates and minority interest | (7,147) | 1,033,552 | (221,136) | (362,025) | (559,962) | (189,755) |
| Equity (losses) income in affiliates [3] | (5,447) | (2,796) | 46,654 | (51,153) | (76,280) | (66,677) |
| Minority interest | (2,667) | 126 | 135 | 20 | (226) | 461 |
| (Loss) income from continuing operations | (15,261) | 1,030,882 | (174,347) | (413,158) | (636,468) | (255,971) |
| (Loss) income from discontinued operations, net of taxes | — | — | (2,348) | 18,803 | 57,566 | 61,252 |
| Gain on sale of discontinued operations, net of taxes | — | 13,967 | — | — | — | — |
| (Loss) income before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | (15,261) | 1,044,849 | (176,695) | (394,355) | (578,902) | (194,719) |
| Cumulative effect of change in accounting principle, net of taxes | — | — | — | (1,970) | (890,309) [4] | (1,741) |
| Extraordinary gain on acquisition of minority interest | — | — | — | 13,615 | — | — |
| Net (loss) income | (15,261) | 1,044,849 | (176,695) | (382,710) | (1,469,211) | (196,460) |
| Preferred dividends | — | — | — | (6,719) | (89,186) | (80,743) |
| Net (loss) income applicable to common stockholders | (15,261) | 1,044,849 | (176,695) | (389,429) | (1,558,397) | (277,203) |
| **Basic and diluted (loss) earnings per share:** | | | | | | |
| Continuing operations | $ (0.76) | $ 23.37 | $ (3.96) | $ (9.58) | $ (19.47) | $ (10.40) |
| Discontinued operations | — | 0.32 | (0.05) | 0.43 | 1.55 | 1.89 |
| Before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | (0.76) | 23.69 | (4.01) | (9.15) | (17.92) | (8.51) |
| Cumulative effect of change in accounting principle | — | — | — | (0.05) | (23.89) | (0.05) |
| Extraordinary gain on acquisition of minority interest | — | — | — | 0.31 | — | — |
| (Loss) earnings per share | $ (0.76) | $ 23.69 | $ (4.01) | $ (8.89) | $ (41.81) | $ (8.56) |

| | Successor Registrant | Predecessor Registrant | | | | | |
|---|---|---|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | | | | |
| | | | 2004 | 2003 | 2002 | 2001 |
| Deficiency of earnings to cover fixed charges | $ 8,062 | $ 65,570 | $ 208,809 | $ 389,218 | $ 337,019 | $ 315,708 |
| **Cash flow data:** | | | | | | |
| (Used in) provided by operating activities [5] | (38,531) | (143,827) | 66,129 | 232,653 | 192,670 | 169,818 |
| (Used in) provided by investing activities [6] | (5,089) | 194,707 | 906,887 | (157,484) | (138,824) | (248,672) |
| Provided by (used in) equity transactions | — | — | — | 3,852 | (32,737) | (35,687) |
| (Used in) provided by financing transactions | 120,763 | — | (966,887) | (3,313) | (115,122) | (119,555) |
| Dividends paid per common share | — | — | — | — | — | — |

| | Successor Registrant | Predecessor Registrant | | | |
|---|---|---|---|---|---|
| | | December 31, | | | |
| | December 31, 2005 | 2004 [7] | 2003 [7] | 2002 [2][4] | 2001 [8] |
| **Balance sheet data:** | | | | | |
| Cash and cash equivalents | $ 275,796 | $ 147,773 | $ 141,644 | $ 65,936 | $ 159,949 |
| Total assets | 1,678,977 | 1,218,733 | 2,463,813 | 2,692,802 | 4,426,187 |
| Debt, including current portion | 128,191 | — | — | 2,236,497 | 2,352,956 |
| Non-current liabilities and minority interest | 603,374 | 84,677 | 72,932 | 354,475 | 272,302 |
| Convertible redeemable preferred stock | — | — | — | 125,081 | — |
| Liabilities subject to compromise (see Notes 5 and 11 to the consolidated financial statements) | — | 1,916,000 | 2,921,680 | — | — |
| Shareholders' equity (deficit) | 627,164 | (1,044,101) | (855,670) | (354,227) | 1,350,868 |

[1] In connection with our emergence from Chapter 11 and our adoption of fresh-start accounting on October 1, 2005 we recognized a gain on discharge of pre-petition obligations and fresh-start adjustments of $1.101 billion, related interest expense of $13.2 million related to the holders of claims to be paid in cash and a tax benefit of $15.4 million, each of which is reflected separately in our statement of operations (see Note 4 to the consolidated financial statements).

[2] 2004 includes an $11 million increase to the deferred tax valuation allowance relating to the reversal of deferred tax liabilities arising from the write-off of our investment in Globalstar, L.P.'s $500 million credit facility, upon Globalstar, L.P.'s dissolution in June 2004. 2002 includes an increase in the deferred tax valuation allowance of $390 million, based upon management's assessment that insufficient positive evidence existed substantiating recoverability of our loss carryforwards and other deferred tax assets (see Note 14 to the consolidated financial statements).

[3] Our principal affiliate is XTAR. Loral also has investments in joint ventures providing Globalstar service, which are accounted for under the equity method. During 2004, we recorded $47 million of equity income on the reversal of vendor financing liabilities that were non-recourse to SS/L in the event of non-payment by Globalstar, L.P. (see Note 9 to the consolidated financial statements). During 2003, we wrote off our remaining investment of $29 million in Satmex.

[4] On January 1, 2002, in compliance with the adoption of SFAS 142, we recorded a charge of $890 million to write off all of our goodwill as the cumulative effect of change in accounting principle.

[5] Cash flow(used in) provided by operating activities includes cash flow from operating activities provided by discontinued operations.

[6] Cash flow (used in) provided by investing activities includes cash flow provided by (used in) investing activities of discontinued operations.

[7] As a result of our Chapter 11 filing, our debt obligations, preferred stock obligations and certain other liabilities existing at July 15, 2003, were classified as liabilities subject to compromise on our balance sheets at December 31, 2004 and 2003. These obligations have been extinguished as of the Effective Date (see Note 11 to the consolidated financial statements).

(8) On December 21, 2001, Loral Orion, Inc. (now known as Loral Skynet Corporation) completed exchange offers and consent solicitations by issuing $613 million principal amount of new senior notes guaranteed by Old Loral and 0.6 million five year warrants to purchase Old Loral common stock in exchange for a total of $841 million principal amount of Loral Orion senior notes due 2007 and senior discount notes due 2007. These obligations have been extinguished as of the Effective Date.

## Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

*The following discussion and analysis should be read in conjunction with our consolidated financial statements (the "financial statements") included in Item 15 of this Annual Report on Form 10-K.*

Loral Space & Communications Inc. ("New Loral") was formed to succeed 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 of Old Loral and its debtor subsidiaries, as modified (the "Plan of Reorganization").

We adopted fresh start accounting as of October 1, 2005, in accordance with Statement of Position No. 90-7, *Financial Reporting of Entities in Reorganization Under the Bankruptcy Code* ("SOP 90-7"). Accordingly, our financial information disclosed under the heading "Successor Registrant" for the period ended and as of December 31, 2005, is presented on a basis different from, and is therefore not comparable to, our financial information disclosed under the heading "Predecessor Registrant" for the period ended and as of October 1, 2005 (the date we adopted fresh-start accounting) or for prior periods.

The terms, "Loral," the "Company," "we," "our" and "us," when used in this report with respect to the period prior to our emergence from Chapter 11, are references to Old Loral, and when used with respect to the period commencing after our emergence, are references to New Loral. These references include the subsidiaries of Old Loral or New Loral, as the case may be, unless otherwise indicated or the context otherwise requires.

References to full-year 2005 financial information throughout this discussion combine the periods of January 1, 2005 to October 1, 2005 with October 2, 2005 to December 31, 2005. A reconciliation is provided to that effect. Management believes that providing this financial information is the most relevant and useful method for making comparisons to the year ended December 31, 2004.

### 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 are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or quantify. Actual events or results may differ materially as a result of a wide variety of factors and conditions, many of which are beyond our control. For a detailed discussion of these and other factors and conditions, please refer to the Commitments and Contingencies section below and to our other periodic reports filed with the Securities and Exchange Commission ("SEC"). We operate in an industry sector in which the value of securities may be volatile and may be influenced by economic and other factors beyond our control. We undertake no obligation to update any forward-looking statements.*

### Overview

### Businesses

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

### *Satellite Services*

Through Loral Skynet Corporation ("Loral Skynet") we provide satellite capacity and networking infrastructure to our commercial and government customers for a wide range of video and data transmission services, including video and direct-to-home ("DTH") broadcasting, high-speed data distribution, Internet access, communications and networking services. While we compete with fiber optic cable and other terrestrial delivery systems, primarily for point-to-point applications, Loral Skynet has been able to combine the inherent advantages of each technology to provide its customers with complete end-to-end services. Since FSS satellites remain in a fixed point above the earth's equator, they are considerably more efficient than terrestrial systems for certain applications, such as broadcast or point-to-multipoint transmission of video and broadband data. A satellite offers instant infrastructure. It can cover large geographic areas, sometimes entire hemispheres, and can not only provide services to populated areas, but can also better serve areas with inadequate terrestrial infrastructures, low-density populations or difficult geographic terrain.

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

On March 17, 2004, we consummated the sale of our North American satellites and related assets to certain affiliates of Intelsat, Ltd. and Intelsat (Bermuda), Ltd. (collectively, "Intelsat"). The North American satellites and related assets sold to Intelsat have been accounted for as a discontinued operation. Commencing on March 18, 2006, Loral Skynet resumed marketing of satellite services to the North American market, a region in which it was precluded from doing business for two years pursuant to the terms of its sale of satellites to Intelsat in March 2004 (see Note 5 to the consolidated financial statements).

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 has put further pressure on prices already depressed by the telecommunications industry downturn earlier this decade. A stronger economy and an increase in capital available for expanded consumer and enterprise-level services have led to an improvement in demand. Much of Loral Skynet's remaining available capacity, however, is over geographic regions where the market is characterized by excess capacity, coupled with weak demand, or where regulatory obstacles are such that we find ourselves at a competitive disadvantage versus local operators. Loral Skynet's growth depends on its ability to successfully market the capacity available on its international fleet of satellites, to differentiate itself from its competition through customized product offerings and its superior customer service and to fund additional satellite acquisitions.

### *Satellite Manufacturing*

Space Systems/ Loral, Inc. ("SS/ L") designs and manufactures satellites, space systems and space systems components for commercial and government customers who use the satellites for applications such as fixed satellite services, DTH broadcasting, broadband data distribution, wireless telephony, digital radio, military communications, weather monitoring and air traffic management.

While its requirement for ongoing capital investment is relatively low, 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 1,400 employees is one of our key competitive resources.

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 with an average of three to four satellite awards a year depending on the size, power and complexity of the satellite. Cash flow in the satellite manufacturing business, however, tends to be uneven. It takes two to three years to complete a satellite project

and numerous assumptions are built into the estimated costs. Cash receipts are tied to the achievement of contract milestones which depend in part on the ability of our 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. For example, after an almost two-year absence of orders, SS/ L was awarded contracts for the construction of nine satellites during the period from October 2003 to December 2005.

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. Since most of SS/ L's contracts are fixed price, cost increases in excess of the provisions reduce profitability and may result in losses borne solely by SS/ L, which may be material. The highly competitive satellite manufacturing industry is just now recovering from a several-year period when order levels reached an unprecedented low level, resulting in manufacturing over-capacity. Buyers, as a result, have had the advantage over suppliers in negotiating prices, terms and conditions resulting in reduced margins and increased assumptions of risk by SS/ L. SS/ L was further handicapped while it was in Chapter 11, because of buyers' reluctance to purchase satellites from a company in bankruptcy.

**Bankruptcy Reorganization**

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

On August 1, 2005, the Bankruptcy Court entered its Confirmation Order confirming the Plan of Reorganization. On September 30, 2005, the FCC approved the transfer of FCC licenses from Old Loral to New Loral, which represented satisfaction of the last material condition precedent to emergence. The Debtors emerged from their reorganization proceeding under Chapter 11 on November 21, 2005 pursuant to the Plan of Reorganization. Pursuant to SOP 90-7 we adopted fresh-start accounting as of October 1, 2005 (see Notes 2 and 4 to the financial statements).

**Future Outlook**

Following our recent emergence from Chapter 11, we have focused primarily on taking advantage of the years of experience and superior expertise of our professional senior management team to capture opportunities in our markets and maintain an efficient stream-lined operation.

We have reorganized around SS/ L's satellite manufacturing operations and Loral Skynet's international fleet of satellites. We consider these operations to be a viable foundation for the further expansion of our company.

Construction of Telstar 11N, a powerful new multi-region Ku-band communications satellite, has begun at SS/ L and upon completion will be launched into the 37.5 degree W.L. orbital location. Scheduled to enter service in 2008, Telstar 11N will provide commercial and governmental customers with broadband connectivity within and among the American, European and African regions. Our customers will use Telstar 11N for video distribution and high-speed, IP-based data and voice services.

Critical success factors for both of our segments include maintaining our reputation for reliability, quality and superior customer service. These factors are vital to securing new customers and retaining current ones. At the same time, we must continue to contain costs, and maximize efficiencies. Loral Skynet is focused on increasing the capacity utilization of its satellite fleet and successfully rolling out new value-added services to

its markets, as well as identifying opportunities for fleet expansion. SS/ L is focused on increasing bookings and backlog in 2006, 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.

See Part 1, Item 1 of this Annual Report on Form 10-K, for a complete description of Loral's businesses, the Chapter 11 Cases and our Plan of Reorganization.

**Consolidated Operating Results**

Please refer to Critical Accounting Matters set forth below in this section.

The following discussion of revenues and Adjusted EBITDA (see Note 20 to the financial statements) reflects the results of our operating business segments for 2005, 2004 and 2003. The balance of the discussion relates to our consolidated results, unless otherwise noted. As previously discussed, we emerged from Chapter 11 on November 21, 2005 and adopted fresh-start accounting as of October 1, 2005. As a result of the adoption of fresh-start accounting, the Successor Registrant's financial statements are not comparable with the Predecessor Registrant's financial statements. References to full-year 2005 financial information throughout this discussion combine the periods of January 1, 2005 to October 1, 2005 with October 2, 2005 to December 31, 2005. A reconciliation is provided to that effect. Management believes that presenting the financial information in this way is the most relevant and useful method for making comparisons to the year ended December 31, 2004.

The sale of our North American satellites and related assets to Intelsat in March 2004, has been accounted for as a discontinued operation, resulting in our historical statements of operations and statements of cash flows reflecting such discontinued operations separately from continuing operations (see Note 5 to the financial statements).

**Revenues:**

| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | | |
|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2003 |
| | | (in millions) | | | |
| Satellite Services | $ 37.0 | $114.5 | $151.5 | $ 141.2 | $ 154.3 |
| Revenues from sales-type lease arrangement (see Note 8 to the financial statements) | — | — | — | 87.2 | — |
| Satellite Manufacturing | 161.8 | 329.5 | 491.3 | 436.6 | 474.0 |
| Segment revenues | 198.8 | 444.0 | 642.8 | 665.0 | 628.3 |
| Eliminations [2] | (1.6) | (14.8) | (16.4) | (142.9) | (236.3) |
| Revenues as reported [3] | $197.2 | $429.2 | $626.4 | $ 522.1 | $ 392.0 |

**Adjusted EBITDA:**

| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | | |
|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2003 |
| | | (in millions) | | | |
| Satellite Services [4] | $ 11.5 | $ 39.8 | $ 51.3 | $ 15.6 | $ 7.5 |
| Satellite Services sales-type lease arrangement (see Note 8 to the financial statements) | — | — | — | 7.7 | — |
| Satellite Manufacturing [5] | 11.8 | 15.2 | 27.0 | (13.5) | (158.6) |
| Corporate expenses [6] | (11.0) | (17.3) | (28.3) | (34.9) | (36.0) |
| Segment Adjusted EBITDA before eliminations | 12.3 | 37.7 | 50.0 | (25.1) | (187.1) |
| Eliminations [2] | (1.2) | (12.3) | (13.5) | (24.0) | (41.9) |
| Adjusted EBITDA | $ 11.1 | $ 25.4 | $ 36.5 | $(49.1) | $(229.0) |

**Reconciliation of Adjusted EBITDA to Net Loss:**

| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | | |
|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2003 |
| | | (in millions) | | | |
| Adjusted EBITDA | $ 11.1 | $ 25.4 | $ 36.5 | $ (49.1) | $ (229.0) |
| Depreciation and amortization [7] | (16.0) | (61.3) | (77.3) | (134.8) | (134.6) |
| Reorganization expenses due to bankruptcy | — | (31.2) | (31.2) | (30.4) | (25.3) |
| Operating loss from continuing operations | (4.9) | (67.1) | (72.0) | (214.3) | (388.9) |
| Gain on discharge of pre-petition obligations and fresh-start adjustments [1] | — | 1,101.5 | 1,101.5 | — | — |
| Interest and investment income | 4.1 | 6.4 | 10.5 | 9.9 | 15.2 |
| Interest expense | (4.4) | (17.2) | (21.6) | (2.9) | (14.1) |
| Other income (expense) | (0.2) | (0.9) | (1.1) | (0.5) | 1.5 |
| Gain on investments | — | — | — | — | 17.9 |
| Income tax (provision) benefit | (1.8) | 10.9 | 9.1 | (13.2) | 6.4 |
| Equity (losses) income in affiliates | (5.4) | (2.8) | (8.2) | 46.6 | (51.2) |
| Minority interest | (2.7) | 0.1 | (2.6) | 0.1 | — |
| (Loss) income from continuing operations | (15.3) | 1,030.9 | 1,015.6 | (174.3) | (413.2) |
| Income (loss) from discontinued operations, net of taxes | — | 14.0 | 14.0 | (2.4) | 18.8 |
| (Loss) income before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | (15.3) | 1,044.9 | 1,029.6 | (176.7) | (394.4) |
| Cumulative effect of change in accounting principle | — | — | — | — | (1.9) |
| Extraordinary gain on acquisition of minority interest | — | — | — | — | 13.6 |
| Preferred dividends | — | — | — | — | (6.7) |
| Net (loss) income applicable to common shareholders | $ (15.3) | $ 1,044.9 | $1,029.6 | $(176.7) | $ (389.4) |

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(1) In connection with our emergence from Chapter 11 and our adoption of fresh-start accounting on October 1, 2005 we recognized a gain on discharge of pre-petition obligations and fresh-start adjustments of $1.101 billion, related interest expense of $13.2 million and a tax benefit of $15.4 million, each of which is reflected separately in our statement of operations (see Note 4 to the financial statements).

(2) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA, primarily for satellites under construction by SS/ L for wholly owned subsidiaries and in 2003, the reversal of cumulative satellite manufacturing sales of $83 million and cost of satellite manufacturing of $73 million on a satellite program that was changed to a lease arrangement in the third quarter of 2003 (see Note 8 to the financial statements).

(3) Includes revenues from affiliates of $4.1 million, $10.0 million, $7.8 million and $27.7 million for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 and the years ended December 31, 2004 and 2003, respectively.

(4) In 2004, includes an impairment charge of $12 million for our Telstar 14/ Estrela do Sul-1 Satellite (see Note 8 to the financial statements).

(5) Excludes charges of $24 million for 2004, as a result of the settlement of all orbital receivables on satellites sold to Intelsat. This settlement had the effect of reducing future orbital receipts by $25 million, including $15 million relating to a satellite under construction in 2004. Consistent with our internal reporting for satellite manufacturing, this decrease in contract value for the satellite under construction is not being reflected as a decrease in 2004 satellite manufacturing revenues. These charges had no effect on our consolidated results.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 (in millions) | 2003 |
| Satellite Manufacturing includes: | | | |
| Adjusted EBITDA before specific identified charges | $ 45.1 | $ 10.8 | $ (21.3) |
| Accrued warranty obligations | (14.5) | (9.7) | (2.2) |
| Write-off of long-term receivables due to contract modifications | — | (11.3) | (20.2) |
| Provisions for inventory obsolescence | (3.6) | (3.3) | (49.5) |
| Loss on cancellation of deposits | — | — | (23.5) |
| Accrual for Alcatel settlement | — | — | (13.0) |
| Loss on acceleration of receipt of long-term receivables | — | — | (10.9) |
| Valuation allowance on vendor financing receivables | — | — | (10.0) |
| Settlement of satellite contract dispute | — | — | (8.0) |
| Satellite Manufacturing segment Adjusted EBITDA before eliminations | $ 27.0 | $ (13.5) | $ (158.6) |

(6) Represents corporate expenses incurred in support of our operations and for the period October 2, 2005 to December 31, 2005 includes $3.9 million of continuing expenses related to the run out of bankruptcy related matters, which after the adoption of fresh-start accounting are classified as corporate expenses.

(7) Includes additional depreciation expense of $9 million and $14 million for 2004 and 2003, respectively, due to accelerating the estimated end of depreciable life of our Telstar 11 satellite to June 2004 from March 2005.

**2005 Compared with 2004 and 2004 Compared with 2003**

**Revenues from Satellite Services**

| | Years Ended December 31, | | | % Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2005 | 2004 (in millions) | 2003 | 2005 vs. 2004 | 2004 vs. 2003 |
| Revenues from Satellite Services | $ 152 | $ 141 | $ 154 | 7% | (8)% |
| Revenues from sales-type lease arrangement | — | 87 | — | | |
| Eliminations | (5) | (5) | (7) | — | 29% |
| Revenues from Satellite Services as reported | $ 147 | $ 223 | $ 147 | (34)% | 51% |

Revenues from Satellite Services before revenues from sales-type lease arrangements and eliminations increased $11 million in 2005 compared to 2004, driven by a number of factors: $6 million in increased volume from Telstar 18 which was in service for all of 2005 versus only four months of 2004, a $6 million increase in revenues from other satellites in our fleet, plus $5 million for customers for which revenue is recognized on a cash basis. Offsetting these contributions was a $6 million decrease in revenues from Intelsat in connection with the discontinued operations of the North American fleet. In 2004, we recognized $87 million of revenues from a sales-type lease arrangement for satellite capacity (see Note 8 to the financial statements). Eliminations primarily consist of revenues from leasing transponder capacity to Satellite Manufacturing. As a result, revenues for Satellite Services as reported decreased $76 million in 2005 as compared to 2004.

Revenues from Satellite Services as reported increased $76 million in 2004 as compared to 2003, primarily because of the $87 million of revenues recognized in connection with the sales-type lease arrangement for satellite capacity (see Note 8 to the financial statements) and from higher customer lease termination and settlement fees of $7 million. This was offset by a $17 million decrease in transponder and network utilization and a $2 million decrease due to lower rates for services.

**Revenues from Satellite Manufacturing**

| | Years Ended December 31, | | | % Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 vs. 2004 | 2004 vs. 2003 |
| | (in millions) | | | | |
| Revenues from Satellite Manufacturing | $491 | $ 437 | $ 474 | 13% | (8)% |
| Eliminations | (11) | (137) | (229) | 91% | 40% |
| Revenues from Satellite Manufacturing as reported | $480 | $ 300 | $ 245 | 61% | 22% |

Revenues from Satellite Manufacturing before eliminations increased by $54 million in 2005 as compared to 2004. Revenues in 2005 include $165 million of revenues from new satellite awards of $824 million in 2005 and $326 million of revenues from existing backlog. Revenues in 2004 include $57 million of revenues from new satellite awards of $385 million in 2004 and $380 million of revenues from existing backlog. Eliminations consist primarily of revenues from satellites under construction by SS/L for Satellite Services, and in 2004 include satellites under construction which have been completed. As a result, revenues from Satellite Manufacturing as reported increased $180 million in 2005 as compared to 2004.

Revenues from Satellite Manufacturing before eliminations decreased by $37 million in 2004 as compared to 2003, primarily resulting from a $213 million decrease in revenues from satellite programs nearing completion under the percentage of completion method, offset by a $167 million increase in revenues from new satellite orders received in 2003 and a $9 million decrease in write-offs of long-term receivables due to contract modifications. Eliminations consist primarily of revenues from satellites under construction by SS/L for Satellite Services, and, in 2003, include the reversal of $83 million of cumulative sales on a satellite program that was changed to a lease arrangement in 2003 (see Note 8 to the financial statements). As a result, revenues from Satellite Manufacturing as reported increased $55 million in 2004 as compared to 2003.

**Cost of Satellite Services**

| | Years Ended December 31, | | | % Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 vs. 2004 | 2004 vs. 2003 |
| | (in millions) | | | | |
| Cost of Satellite Services includes: | | | | | |
| Cost of Satellite Services before specific identified charges | $ 59 | $ 65 | $ 85 | (10)% | (23)% |
| Depreciation and amortization | 61 | 112 | 107 | (44)% | 4% |
| Impairment charge for Telstar 14/ Estrela do Sul-1 satellite | — | 12 | — | | |
| Cost of sales-type lease arrangement | — | 80 | — | | |
| Cost of Satellite Services | $120 | $269 | $192 | (55)% | 40% |
| Cost of Satellite Services as a % of Satellite Services revenues as reported | 82% | 121% | 130% | | |

Cost of Satellite Services was $26 million and $94 million for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, respectively, totaling $120 million for 2005. Cost of Satellite Services before specific identified charges decreased $6 million in 2005 as compared to 2004, primarily because external satellite capacity costs declined $7 million and headcount and other costs declined $4 million. These decreases were partially offset by an increase in satellite insurance expense of $3 million due to higher premiums and higher ground operations costs of $2 million. Depreciation and amortization expense decreased by $51 million in 2005 as compared to 2004, primarily resulting from a reduction of $42 million related to our Telstar 11 satellite which was fully depreciated in 2004 and the net effect of the fair value adjustments in connection with the adoption of fresh-start accounting on October 1, 2005. Depreciation and amortization for 2005 includes reduced charges of depreciation and amortization of $7 million for fixed assets and a $1 million credit for amortization of intangibles primarily resulting from the adoption of fresh-start accounting. In 2004, we incurred $80 million of costs for a sales-type lease arrangement and recognized an impairment charge of $12 million for the Telstar 14/ Estrela do Sul-1 satellite and related assets to reduce the carrying values to the expected proceeds from insurance of $250 million (see Note 8 to the financial statements). As a result, cost of Satellite Services decreased $149 million in 2005 as compared to 2004.

Cost of Satellite Services before specific identified charges decreased $20 million in 2004 as compared to 2003, primarily due to reduced external satellite capacity costs of $10 million, lower costs of $5 million due to headcount and other cost reductions and decreased insurance costs of $5 million primarily resulting from non-renewal of insurance for Telstar 11 in the fourth quarter of 2003 and from the lower premium on renewal for Telstar 10/ Apstar IIR due to changes to coverage, offset by the insurance cost for Telstar 18 which commenced service at the beginning of September 2004. Depreciation and amortization expense increased $5 million in 2004 as compared to 2003, primarily resulting from higher depreciation expense of $12 million for our Telstar 14/Estrela do Sul-1 satellite which commenced service at the end of March 2004 and our Telstar 18 satellite, offset in part by a reduction of $6 million due to our Telstar 11 satellite being fully depreciated in 2004 and a reduction of $1 million due to the timing of assets placed in service and assets that became fully depreciated. In 2004, we incurred $80 million of costs for a sales-type lease arrangement and recognized an impairment charge of $12 million for the Telstar 14/Estrela do Sul-1 satellite and related assets to reduce the carrying values to the expected proceeds from insurance of $250 million (see Note 8 to the financial statements). As a result, cost of Satellite Services increased $77 million in 2004 as compared to 2003.

**Cost of Satellite Manufacturing**

| | Years Ended December 31, | | | % Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 vs. 2004 | 2004 vs. 2003 |
| | (in millions) | | | | |
| Cost of Satellite Manufacturing includes: | | | | | |
| Cost of Satellite Manufacturing before specific identified charges | $396 | $271 | $330 | 46% | (18)% |
| Depreciation and amortization | 15 | 23 | 27 | (34)% | (16)% |
| Accrued warranty obligations | 15 | 10 | 2 | 50% | |
| Write-off of long-term receivables due to contract modifications | — | 11 | 20 | | (44)% |
| Provisions for inventory obsolescence | 4 | 3 | 50 | | |
| Loss on cancellation of deposits | — | — | 24 | | |
| Accrual for Alcatel settlement | — | — | 13 | | |
| Loss on acceleration of receipt of long-term receivables | — | — | 11 | | |
| Valuation allowance on vendor financing receivables | — | — | 10 | | |
| Settlement of satellite contract dispute | — | — | 8 | | |
| Reversal of costs on a satellite program changed to a lease | — | — | (73) | | |
| Cost of Satellite Manufacturing | $430 | $318 | $422 | 36% | (25)% |
| Cost of Satellite Manufacturing as a % of Satellite Manufacturing revenues as reported | 90% | 106% | 172% | | |

Cost of Satellite Manufacturing was $139 million and $291 million for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, respectively, totaling $430 million for 2005. Cost of Satellite Manufacturing increased $112 million in 2005 as compared to 2004. The Cost of Satellite Manufacturing before specific identified charges increased $125 million in 2005 as compared to 2004, primarily due to the increase in sales for the period, partially offset by the effect of improved factory performance. The Cost of Satellite Manufacturing increase was also offset by lower depreciation and amortization expense of $8 million primarily resulting from the effects of reduced capital spending and the adoption of fresh-start accounting on October 1, 2005. Depreciation and amortization for the Successor Registrant includes a $5 million credit due to amortization of contract valuation adjustments, partially offset by a $3 million amortization charge for intangibles established in connection with the adoption of fresh-start accounting.

Cost of Satellite Manufacturing decreased $104 million in 2004 as compared to 2003. Cost of Satellite Manufacturing before specific identified charges decreased $59 million in 2004 as compared to 2003, primarily due to lower overall volume as satellite programs neared completion under the percentage of completion method and lower costs due to headcount reductions, offset in part by $141 million of increased costs for the satellite orders received in the fourth quarter of 2003. Cost of Satellite Manufacturing also decreased in 2004 as compared to 2003, due to lower depreciation expense of $4 million primarily resulting from reduced capital spending and the charges incurred in 2003 as compared to those in 2004, as detailed in the above table. These decreases were partially offset by the reversal of $73 million of costs on a satellite program that was changed to a lease arrangement in 2003 (see Note 8 to the financial statements).

### Selling, General and Administrative Expenses

| | Years Ended December 31, | | | % Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 vs. 2004 | 2004 Vs. 2003 |
| | | (in millions) | | | |
| Selling, general and administrative expenses | $116 | $119 | $142 | (2)% | (16)% |
| % of revenues as reported | 19% | 23% | 36% | | |

Selling, general and administrative expenses were $37 million and $79 million for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 respectively, totaling $116 million for 2005. The decrease of $3 million in selling, general and administrative expenses in 2005 as compared to 2004, was primarily due to lower headcount and employee related expenses and other cost reductions at Satellite Services of $7 million and lower corporate expenses of $2 million, partially offset by higher Satellite Manufacturing bid and proposal costs of $4 million and the inclusion of $4 million of continuing expenses related to the run out of bankruptcy related matters in General and Administrative expenses after the adoption of fresh-start accounting.

Selling, general and administrative expenses decreased by $23 million in 2004 as compared to 2003. The primary reductions for Satellite Services were decreased bad debt expense of $10 million and lower headcount and employee related expenses of $4 million. The primary reductions for Satellite Manufacturing were lower research and development costs of $3 million, professional fees of $4 million and sales and marketing costs of $1 million.

### Reorganization Expenses Due to Bankruptcy

| | Year Ended December 31, | | July 15, 2003 to December 31, | % Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 vs. 2004 | 2004 vs. 2003 |
| | | (in millions) | | | |
| Reorganization Expenses Due to Bankruptcy | $ 31 | $ 30 | $ 25 | 3% | 20% |

Reorganization expenses due to bankruptcy increased $1 million in 2005 as compared to 2004 primarily as a result of higher professional fees of $11 million which was mostly due to professional fees associated with the Equity Committee that was appointed by the United States Trustee for the Southern District of New York on March 29, 2005 and extensive legal fees associated with the confirmation hearings and vendor settlement gains of $6 million recorded in 2004. These increases were partially offset by lower 2005 employee retention costs of $11 million and lower severance costs of $4 million. After the adoption of fresh-start accounting on October 1, 2005, continuing expenses related to the run out of bankruptcy related matters are recorded in General and Administrative expenses (see Note 13 to the financial statements).

Reorganization expenses due to bankruptcy increased $5 million in 2004 as compared to 2003 primarily as a result of higher professional fees of $5 million, higher employee retention costs and severance costs of $10 million and facility closing costs of $2 million in 2004, partially offset by lease rejection claims of $6 million in 2003 and vendor settlement gains of $6 million in 2004.

### Gain on Discharge of Pre-petition Obligations and Fresh-start Adjustments

As a result of our emergence from Chapter 11 and adopting fresh-start accounting, we recognized a gain of $1.101 billion, excluding interest expense of $13 million and a tax benefit of $15 million, in 2005 (see Note 4 to the financial statements).

**Interest and Investment Income**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | (in millions) | | |
| Interest and investment income | $ 11 | $ 10 | $ 15 |

Interest income is primarily derived from our orbital incentives on satellites in orbit manufactured by SS/L.

**Interest Expense**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | (in millions) | | |
| Interest cost before capitalized interest | $ 22 | $ 4 | $ 28 |
| Capitalized interest | — | (1) | (14) |
| Interest expense | $ 22 | $ 3 | $ 14 |

Interest cost before capitalized interest increased $18 million in 2005 as compared to 2004, primarily due to $13 million of interest expense relating to payments to pre-petition creditors in accordance with our Plan of Reorganization and $3 million of interest expense recognized on the Loral Skynet 14% senior secured notes issued in connection with our Plan of Reorganization.

Interest expense decreased $11 million in 2004 as compared to 2003, primarily attributable to the fact that subsequent to our voluntary petitions for reorganization on July 15, 2003, we stopped recognizing and paying interest on all outstanding prepetition debt obligations (except our secured bank debt, for which a portion of interest expense is included in discontinued operations) and preferred stock. Capitalized interest decreased to $1 million in 2004, which was due to us no longer incurring interest expense on our secured bank debt that we repaid in March 2004. Interest cost was minimal while we were in Chapter 11.

**Other Income (Expense)**

Other income (expense) represents gains and (losses) on foreign currency transactions.

## Gain on Investments

During 2003, we realized an $18 million gain from the sale of all 59 million shares of common stock of Sirius Satellite Radio Inc. received by us in settlement of the vendor financing owed to SS/ L by Sirius.

## Income Tax (Provision) Benefit

During 2005, 2004 and 2003, we continued to maintain the 100% valuation allowance that had been established at December 31, 2002 against our net deferred tax assets. However, upon emergence from bankruptcy in 2005, we reversed our valuation allowance relating to $2.0 million of deferred tax assets for AMT credit carryforwards. The valuation allowance was $337.3 million at December 31, 2005 and $336.9 million at October 1, 2005. If, in the future we were to determine that we will be able to realize all or a portion of the benefit from our deferred tax assets, a reduction to the valuation allowance as of October 1, 2005 will first reduce goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital.

For 2005, we recorded a current tax provision of $7.0 million and a deferred tax benefit of $16.1 million, resulting in a net benefit of $9.1 million on pre-tax income of $1.017 billion, which included a gain on discharge of pre-petition obligations and fresh-start adjustments of $1.101 billion. For 2004, we recorded a current tax provision of $1.1 million and a deferred tax provision of $12.2 million, resulting in a total provision

of $13.3 on a pre-tax loss of $208 million. For 2003, we recorded a current tax provision of $1.0 and a deferred tax benefit of $7.3 million, resulting in a net benefit of $6.3 million on a pre-tax loss of $368 million.

The increase to our current provision for 2005 as compared to 2004 and 2003 was primarily attributable to additional foreign income taxes, primarily Brazil on our lease income from Estrela do Sul-1, and accruals of tax contingency reserves for potential audit issues.

In connection with our emergence from bankruptcy, Old Loral realized cancellation of debt income ("COD") on its federal income tax return of approximately $439 million. COD realized while in bankruptcy is excluded from federal taxable income. We are required to reduce certain of our tax attributes, and to the extent sufficient attributes are not available on a separate company basis, reduce the tax basis in our assets, by an amount equal to the COD excluded by Old Loral from its taxable income. This adjustment resulted in a reduction to our deferred tax assets and the related valuation allowance. Also, as part of our fresh-start accounting and plan of reorganization adjustments, we recognized a net income tax benefit of $15.4 million, which includes a net deferred tax benefit of $16.5 million. See Notes 4 and 14 to the financial statements.

For 2004, the deferred income tax provision of $12.1 million related to an additional valuation allowance which was required when we reversed the following deferred tax liabilities from accumulated other comprehensive loss: (i) With the dissolution of Globalstar on June 29, 2004, we wrote-off the remaining book value of our investment in Globalstar's $500 million credit facility and reduced to zero the unrealized gains and related deferred tax liabilities previously reflected in accumulated other comprehensive loss. The reversal of this deferred tax liability resulted in a net deferred tax asset of $11.4 million against which we recorded a full valuation allowance. (ii) We also reduced the balance for certain deferred gains on derivative transactions and the related deferred tax liability included in accumulated other comprehensive loss. The reversal of this deferred tax liability also resulted in a net deferred tax asset of $0.7 million against which we recorded a full valuation allowance. See Notes 6 and 9 to the financial statements.

For 2003, the deferred income tax benefit of $7.3 million related to an $11.0 million reclassification of a tax provision to income from discontinued operations partially offset by a provision of $3.7 million for certain foreign entities.

## Equity Income (Losses) in Affiliates

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | (in millions) | | |
| XTAR | $(8.1) | $ 0.1 | $ (0.2) |
| Satmex | — | — | (51.7) |
| Globalstar and Globalstar service provider partnerships | (0.1) | 46.5 | 0.7 |
| | $(8.2) | $46.6 | $(51.2) |

XTAR commenced commercial operations in 2005 with the launch of its satellite in February 2005. The increase in equity losses in XTAR in 2005 represents our share of higher XTAR losses incurred in connection with its start-up, as well as, the elimination of profit related to the construction of the Spainsat satellite by SS/L for Hisdesat, which was successfully launched on March 11, 2006.

In connection with Globalstar, L.P.'s dissolution in June 2004, we recorded equity income of $47 million relating to Globalstar, L.P. on the reversal of vendor financing that was non-recourse to SS/ L in the event of non-payment by Globalstar, L.P. During 2004, we did not provide for our allocated share of net losses of Satélites Mexicanos, S.A. de C.V. ("Satmex"), due to our write-off of our remaining investment in Satmex in 2003. Our equity losses in Satmex in 2003 of $52 million include the write-off of our remaining investment in Satmex of $29 million (see Note 9 to the financial statements).

### Minority Interest

Minority interest increased in 2005 as compared with 2004, as a result of the $3 million dividend accrual for the Loral Skynet Series A preferred stock issued in connection with our Plan of Reorganization (see Note 15 to the financial statements).

### Discontinued Operations

Discontinued operations represents the revenues and expenses of the North American satellites and related assets sold to Intelsat on March 17, 2004 and includes a portion of interest expense on our secured bank debt through March 18, 2004 (see Interest Expense above). As a result of the resolution of contingencies, primarily relating to the completion of the Intelsat Americas 8 (Telstar 8) satellite, we have recognized in our 2005 statement of operations the previously deferred gain on the sale of $14 million, net of taxes of $2 million.

In 2004, the results of the discontinued operations are for the period from January 1, 2004 to March 17, 2004, the date of the sale and includes the write-off of approximately $11 million of debt issue costs to interest expense relating to our secured debt that was repaid and $9 million of income in the fourth quarter of 2004 from the settlement of an insurance claim for a satellite that was sold. For the purpose of this presentation, in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), all indirect costs normally associated with these operations are included in continuing operations. These indirect costs include telemetry, tracking and control, access control, maintenance and engineering, selling and marketing and general and administrative (see Note 5 to the financial statements).

### Cumulative Effect of Change in Accounting Principle

On July 1, 2003, we adopted SFAS 150, and as a result, recorded a charge of $2 million for the amortization of expenses incurred on the issuance of our preferred stock from their issuance dates through June 30, 2003, that were not previously amortized, as a cumulative effect of change in accounting principle.

### Extraordinary Gain on Acquisition of Minority Interest

As a result of receiving Alcatel's minority interest in CyberStar, L.P. on June 30, 2003 (as part of a settlement arrangement with Alcatel, see Note 3 to the financial statements), we recognized an extraordinary gain of $14 million, which represents the extinguishment of the minority interest liability less the fair value of the acquired net assets.

### Preferred Dividends

Preferred dividends decreased $7 million in 2004 as compared to 2003 primarily attributed to the fact that subsequent to our voluntary petitions for reorganization on July 15, 2003, we stopped recognizing dividends on our preferred stock.

### Backlog

Backlog as of December 31, 2005 and 2004, was as follows (in millions):

| | 2005 | 2004 |
|---|---|---|
| Satellite Services | $ 453 | $ 544 |
| Satellite Manufacturing | 815 | 483 |
| Total backlog before eliminations | 1,268 | 1,027 |
| Satellite Services eliminations | (20) | (33) |
| Satellite Manufacturing eliminations | — | (12) |
| Total backlog | $ 1,248 | $ 982 |

**Critical Accounting Matters**

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported for the period. Actual results could differ from estimates.

*Fresh-Start Accounting*

In connection with our emergence from Chapter 11 we adopted fresh-start accounting as of October 1, 2005, which requires all of our assets and liabilities to be stated at estimated fair value. We engaged an independent appraisal firm to assist in determining such fair values (see Note 4 to the financial statements). Significant judgment is exercised by both the appraisal firm and by management in estimating the fair values. We expect to finalize these fair values in the first half of 2006, as additional information becomes available.

*Revenue recognition*

Most of our Satellite Manufacturing revenue is associated with long-term fixed-price contracts. Revenue and profit from satellite sales under these long-term contracts are recognized using the cost-to-cost percentage of completion method, which requires significant estimates. We use this method because reasonably dependable estimates can be made based on historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates include forecasts of costs and schedules, estimating contract revenue related to contract performance (including estimated amounts for penalties, performance incentives and orbital incentives that will be received as the satellite performs on orbit) and the potential for component obsolescence in connection with long-term procurements. These estimates are assessed continually during the term of the contract and revisions are reflected when the conditions become known. Provisions for losses on contracts are recorded when estimates determine that a loss will be incurred on a contract at completion. Under firm fixed-price contracts, work performed and products shipped are paid for at a fixed price without adjustment for actual costs incurred in connection with the contract; accordingly, favorable changes in estimates in a period will result in additional revenue and profit, and unfavorable changes in estimates will result in a reduction of revenue and profit or the recording of a loss that will be borne solely by us.

*Depreciation*

Depreciation is provided for on the straight-line method for satellites over the estimated useful life of the satellite, which is determined by engineering analyses performed at the satellite’s in-service date and re-evaluated periodically. A decrease in the useful life of a satellite would result in increased depreciation expense.

*Billed receivables, vendor financing and long-term receivables*

We are required to estimate the collectibility of our billed receivables, vendor financing and long-term receivables. A considerable amount of judgment is required in assessing the collectibility of these receivables, including the current creditworthiness of each customer and related aging of the past due balances. Charges for (recoveries of) bad debts recorded to the income statement on billed receivables during the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to December 31, 2005 and for the years ended December 31, 2004, and 2003 were $1.0 million, $(2.9) million, $(2.1) million and $7.2 million, respectively. At December 31, 2005 and 2004, billed receivables were net of allowances for doubtful accounts of $5.5 million and $6.4 million, respectively. We evaluate specific accounts when we become aware of a situation where a customer may not be able to meet its financial obligations due to a deterioration of its financial condition, credit ratings or bankruptcy. The reserve requirements are based on the best facts available to us and are re-evaluated periodically.

### *Inventories*

Inventories are reviewed for estimated obsolescence or unusable items and, if appropriate, are written down to the net realizable value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those we project, additional inventory write-downs may be required. These are considered permanent adjustments to the cost basis of the inventory. Charges for inventory obsolescence recorded to the income statement during the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004, and 2003 were $1.5 million, $2.1 million, $3.3 million and $49.5 million, respectively.

### *Evaluation of Satellites and Other Long-Lived Assets For Impairment*

We periodically evaluate potential impairment loss relating to our satellites and other long-lived assets, when a change in circumstances occurs, by assessing whether the carrying amount of these assets can be recovered over their remaining lives through future undiscounted expected cash flows generated by those assets (excluding financing costs). If the expected undiscounted future cash flows are less than the carrying value of the long-lived asset, an impairment charge would be recorded based on such asset's estimated fair value. Changes in estimates of future cash flows could result in a write-down of the asset in a future period. Estimated future cash flows could be impacted by, among other things:

- Changes in estimates of the useful life of the satellite
- Changes in estimates of our ability to operate the satellite at expected levels
- Changes in the manner in which the satellite is to be used
- The loss of one or several significant customer contracts on the satellite

If an impairment loss was indicated for a satellite, such amount would be recognized in the period of occurrence, net of any insurance proceeds to be received so long as such amounts are determinable and receipt is probable. If no impairment loss was indicated in accordance with SFAS 144, and we received insurance proceeds, the proceeds would be recognized in our consolidated statement of operations.

### *Taxation*

New Loral, as a Delaware company, is subject to U.S. federal, state and local income taxation on its worldwide income. Prior to the Effective Date, Old Loral, as a Bermuda company, was subject to U.S. taxation on any income that was effectively connected with the conduct of a U.S. trade or business as well as a withholding tax on dividends and interest received from its U.S. subsidiaries. Our U.S subsidiaries continue to be subject to U.S. taxation on their worldwide income and foreign taxes on certain income from sources outside the United States. Our foreign subsidiaries are subject to taxation in local jurisdictions.

We use the liability method in accounting for taxes whereby income taxes are recognized during the year in which transactions enter into the determination of financial statement income or loss. Deferred taxes reflect the future tax effect of temporary differences between the carrying amount of assets and liabilities for financial and income tax reporting and are measured by applying statutory tax rates in effect for the year during which the differences are expected to reverse. We assess the recoverability of our deferred tax assets and, based upon this analysis, record a valuation allowance against the deferred tax assets to the extent recoverability does not satisfy the "more likely than not" recognition criteria in SFAS 109. Based upon this analysis, we concluded during the fourth quarter of 2002 that, due to insufficient positive evidence substantiating recoverability, a 100% valuation allowance should be established for our net deferred tax assets. As of December 31, 2005, we had gross deferred tax assets of approximately $558.8 million, which when offset by our deferred tax liabilities of $234.4 million and our valuation allowance of $337.3 million, resulted in a net deferred tax liability of $12.9 million on our consolidated balance sheet.

For the period October 2, 2005 to December 31, 2005, we continued to maintain the 100% valuation allowance against our net deferred tax assets, other than the $2.0 million asset for our AMT credit carryforwards, increasing the valuation allowance at October 1, 2005 of $336.9 million by $0.4 million to a

balance of $337.3 million at December 31, 2005. 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, a reduction to the valuation allowance as of October 1, 2005 will first reduce goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital.

Our policy is to establish tax contingency liabilities for potential audit issues. The tax contingency liabilities are based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits. At December 31, 2005, the Company had $41.8 million and $0.4 million of tax contingency liabilities included in long-term liabilities and income taxes payable, respectively. At December 31, 2004, the Company had $38.9 million of tax contingency liabilities included in liabilities subject to compromise (see Notes 3, 11 and 14 to the financial statements).

*Pension and other employee benefits*

We maintain a pension plan and a supplemental retirement plan. These plans are defined benefit pension plans. In addition to providing pension benefits, we provide certain health care and life insurance benefits for retired employees and dependents. These pension and other employee benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions, including the discount rate and expected long-term rate of return on plan assets. Material changes in these pension and other employee postretirement benefit costs may occur in the future due to changes in these assumptions, as well as our actual experience.

The discount rate is subject to change each year, consistent with changes in applicable high-quality long-term corporate bond indices, such as the Moody’s AA Corporate Bond Index. The discount rate determined on this basis was 5.75% as of December 31, 2005, a decline of 25 basis points from December 31, 2004. This had the effect of increasing our accumulated benefit obligations (“ABO”) for pensions by $10.7 million and for other employee benefits by $2.3 million as of December 31, 2005, as compared with December 31, 2004 .

The expected long-term rate of return on pension plan assets is selected by taking into account the expected duration of the plan’s projected benefit obligation, asset mix and the fact that its assets are actively managed to mitigate risk. Allowable investment types include equity investments and fixed income investments. Pension plan assets are managed by Russell Investment Corp. (“Russell”), which allocates the assets into specified Russell-designed funds as we direct. Each specified Russell fund is then managed by investment managers chosen by Russell. The targeted short and long-term allocation of our pension plan assets is 60% in equity investments and 40% in fixed income investments. Based on this target allocation, the fifteen-year historical return of our investment managers has been 10.5%. The expected long-term rate of return on plan assets determined on this basis was 9.0% for 2005, 2004 and 2003.

These pension and other employee postretirement benefit costs are expected to decrease to approximately $20 million in 2006 from $24 million in 2005, primarily due to reduced amortization expense as a result of the recognition of cumulative actuarial losses in connection with our adoption of fresh-start accounting on October 1, 2005. Lowering the discount rate, and the expected long-term rate of return each by 0.5%, would have increased these pensions and other employee postretirement benefits costs by approximately $2.1 million and $1.2 million, respectively, in 2005.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“MMA”) requires a federal subsidy for sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. These subsidy payments will first be payable to plan sponsors in 2006. In May 2004, the FASB released Financial Accounting Standards Board Position 106-2 (“FSP 106-2”) to provide guidance on accounting and disclosure requirements related to MMA. We adopted FSP 106-2 effective as of the beginning of the fourth quarter of 2004, the earliest the required actuarial information was available. As a result of the adoption of FSP 106-2 our net periodic cost for 2005 and the fourth quarter of 2004 was reduced by $1.1 million and $0.2 million, respectively, and we estimate that it will reduce the 2006 net periodic cost by

$0.7 million. The accumulated benefit obligation was reduced by $8.1 million and $6.7 million as of December 31, 2005 and 2004, respectively.

The ABO for the pension plan exceeded the fair value of plan assets by $120 million at December 31, 2005 (the "unfunded ABO"). This was primarily due to the negative returns on the pension funds in previous years arising from the overall decline in the equity markets, and a decline in the discount rate used to estimate the pension liability as a result of declining interest rates. Therefore, Loral was previously required to establish a minimum liability and record an additional $19.0 million during 2004, for a total charge to equity of $88.3 million as of December 31, 2004, for the unfunded ABO, to the extent not already reflected as a liability. As a result of the adoption of fresh-start accounting as of October 1, 2005, we increased our recorded liability by $78 million, net of the charge to equity previously recorded, offset by a reorganization adjustment of $19 million due to a reduction of certain benefits. The ABO was measured using a discount rate of 5.75% as of December 31, 2005 and October 1, 2005 and 6.0% as of December 31, 2004. Lowering the discount rate by 0.5% would have increased the ABO by approximately $21 million. Market conditions and interest rates significantly affect future assets and liabilities of Loral's pension plans.

### *Stock-Based Compensation*

Effective October 1, 2005, in connection with our adoption of fresh-start accounting, we adopted the fair value method of accounting for stock options for all options granted by us after October 1, 2005 pursuant to the prospective method provisions of SFAS No. 123(R), *Share-Based Payment ("SFAS 123R")* . We use the Black-Scholes-Merton option-pricing model to measure fair value of these stock option awards. This is the same method we used in prior years for disclosure purposes. The Black-Scholes-Merton model requires us to make significant judgments regarding the assumptions used within the model, the most significant of which are the stock price volatility assumption, the expected life of the option award, the risk-free rate of return and dividends during the expected term. We emerged from bankruptcy on November 21, 2005, and as a result, we do not have sufficient stock price history upon which to base our volatility assumption. In determining the volatility used in our model, we considered the volatility of the stock prices of selected companies in the satellite industry, the nature of those companies, our emergence from bankruptcy and other factors in determining our stock price volatility. For 2005, we used a stock price volatility assumption of 27%. We based our estimate of the average life of a stock option of 4.75 years using the midpoint between the vesting and expiration dates as allowed by SEC Staff Accounting Bulletin No. 107 based upon the vesting period of 4 years and the option term of seven years. Our risk-free rate of return assumption for options granted in 2005, of 4.4%, was based on the quoted yield for five-year U.S. treasury bonds as of the date of grant (see Note 15 to the financial statements). We assumed no dividends during the expected term.

Prior to October 1, 2005, we followed the disclosure-only provisions of SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* ("SFAS 148") an amendment of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). We accounted for stock-based compensation for employees using the intrinsic value method (as defined below) as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations. Under APB 25, no compensation expense was recognized for employee share option grants because the exercise price of the options granted equalled the market price of the underlying shares on the date of grant (the "intrinsic value method").

### *Deferred Compensation*

Pursuant to the Plan of Reorganization we entered into deferred compensation arrangements for certain key employees that vest generally over four years and expire after seven years. The initial deferred compensation awards were calculated by multiplying $9.44 by the number of stock options granted to these key employees (see Note 15 to the financial statements). We are accreting the liability by charges to income over the vesting period. The deferred compensation cost charged against income, net of estimated forfeitures, was $0.2 million for the period October 2, 2005 to December 31, 2005. As of December 31, 2005, there was an additional $6.6 million of unrecognized deferred compensation (not including an additional $5.8 million for which recognition of the awards were delayed to 2006) that will be charged to income over the remaining

vesting period. The value of the deferred compensation fluctuates depending on stock price performance, within a defined range, and vesting will accelerate if there is a change of control as defined.

### *Goodwill and Other Intangible Assets*

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 allocated in accordance with the provisions of SFAS 141 as of December 31, 2005. Pursuant to the provisions of SFAS 142, goodwill is not amortized and is subject to an annual impairment test which we perform in the fourth quarter of each fiscal year. Our 2005 test of goodwill impairment did not result in any goodwill impairment.

Intangible assets consist primarily of backlog, internally developed software and technology, orbital slots, trade names and customer relationships all of which were recorded in connection with the adoption of fresh-start accounting. We used the work of an independent appraiser to assist us in determining the fair value of our intangible assets. The fair values were calculated using several approaches that encompassed the use of excess earnings, relief from royalty and the build-up methods. The excess earnings, relief from royalty and build-up approaches are variations of the income approach. The income approach, more commonly known as the discounted cash flow approach, estimates fair value based on the cash flows that an asset can be expected to generate over its useful life. Identifiable intangible assets with finite useful lives are generally amortized on a straight-line basis over the estimated useful lives of the assets (see Note 10 to the financial statements).

### *Contingencies*

Contingencies by their nature relate to uncertainties that require management to exercise judgment both in assessing the likelihood that a liability has been incurred as well as in estimating the amount of potential loss, if any. The most important contingencies affecting our financial statements are detailed in Note 19 to the financial statements, Commitments and Contingencies.

**Liquidity and Capital Resources**

## Cash and Available Credit

As of December 31, 2005, we had $276 million of available cash and $12 million of restricted cash ($2 million included in other current assets and $10 million included in other assets on our consolidated balance sheet). The Company believes that cash as of December 31, 2005 and net cash provided by operating activities will be adequate to meet its expected cash requirement through at least the next 12 months.

Cash required to pay the remaining claims from the Plan of Reorganization and the expenses associated with completing the reorganization activity, in the aggregate approximately $54 million, will be paid from existing cash on hand.

Cash flow from Satellite Services is fairly predictable because it is derived from an existing base of long-term customer contracts. The Company believes that the Satellite Services cash flow from operations will be sufficient to provide for its maintenance capital requirements and pay its interest and preferred dividend obligations. Cash required to fund the construction of the Telstar 11N satellite that is not available from operations will be funded from cash on hand within the Company or through financing activity.

Cash requirements at Satellite Manufacturing are driven primarily by working capital requirements to fund long-term receivables associated with satellite contracts and capital spending required to maintain and expand the manufacturing facility. The Company believes that the Satellite Manufacturing cash flow from operations is sufficient to fund the capital required to maintain the current manufacturing operations and working capital associated with typical satellite contracts. Capital requirements to expand the manufacturing facility beyond its current capabilities, and offer customer financing terms beyond standard terms, will be funded by cash on hand within the Company or through financing activity.

On November 21, 2005, Loral Skynet completed the sale of $126 million of Senior Secured Notes (the "Loral Skynet Notes") at par. The Loral Skynet Notes mature on November 15, 2015 and bear interest at

14% payable semi-annually beginning July 15, 2006. No principal payments prior to the maturity date are required. The Loral Skynet Notes are guaranteed by certain of Loral Skynet's subsidiaries. The obligations of Loral Skynet and the subsidiary guarantors are secured by a first priority lien on certain specified assets of Loral Skynet and the guarantors pursuant to the security agreements entered into on November 21, 2005. The related indenture contains restrictive covenants that limit, subject to certain exceptions, Loral Skynet's and its subsidiaries' ability to take certain actions, including restricted payments, incurrence of debt, incurrence of liens, payment of certain dividends or distributions, issuance or sale of capital stock of subsidiaries, sale of assets, affiliate transactions and sale/leaseback and merger transactions. Proceeds from the sale of the Loral Skynet Notes were used to acquire certain satellite services assets from Old Loral and certain of its subsidiaries and to fund certain cash claims in accordance with the Plan of Reorganization (see Note 12 to the financial statements).

On November 21, 2005 SS/ L entered into an Amended and Restated $20.0 million Letter of Credit Reimbursement Agreement with JP Morgan Chase Bank. As of December 31, 2005, $2.4 million in Letters of Credit were issued and outstanding.

On March 17, 2004, we repaid all $967 million of our secured bank debt and had no further available credit.

### Contractual Obligations and Other Commercial Commitments

The following tables aggregate our contractual obligations and other commercial commitments as of December 31, 2005 (in thousands).

**Contractual Obligations:**

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | More than 5 Years |
| Debt [1] | $126,000 | $ — | $ — | $ — | $ 126,000 |
| Interest on debt [1] | 176,106 | 10,780 | 35,280 | 35,280 | 94,766 |
| Operating leases [2] | 123,767 | 22,225 | 35,095 | 26,634 | 39,813 |
| Unconditional purchase obligations [3] | 346,270 | 285,941 | 59,270 | 1,059 | — |
| Other long-term obligations [4] | 83,894 | 28,739 | 30,774 | 20,704 | 3,677 |
| Total contractual cash obligations | $856,037 | $ 347,685 | $ 160,419 | $ 83,677 | $ 264,256 |

**Other Commercial Commitments:**

| | | Amount of Commitment Expiration Per Period | | | |
|---|---|---|---|---|---|
| | Total Amounts Committed | Less than 1 Year | 1-3 Years | 4-5 Years | More than 5 Years |
| Standby letters of credit [5] | $ 2,427 | $ 2,427 | $ — | $ — | $ — |

(1) Represents cash obligations for principal payments and interest payments on Loral Skynet 14% senior secured notes (see Note 12 to the financial statements for further detail on our debt obligations).

(2) Represents future minimum payments under operating leases with initial or remaining terms of one year or more, net of sub-lease rentals of $0.3 million.

(3) SS/ L has entered into various purchase commitments with suppliers due to the long lead times required to produce purchased parts.

(4) Primarily represents vendor financing related amounts owed to subcontractors and amounts due to APT, representing Loral's share of the project cost of Telstar 18 and commitments under employment agreements.

(5) Letters of credit have a maturity of one year and are renewed annually.

### Net Cash (Used in) Provided by Continuing Operating Activities

Net cash used in operating activities for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 was $38 million and $144 million, respectively, totaling $182 million for 2005. This was primarily due to $80 million of payments to creditors in connection with our Plan of Reorganization, the reduction in customer advances of $56 million because of continued progress on the related programs and the deferral of billings of $46 million in connection with certain SS/ L contracts (see Note 7 to the financial statements).

Net cash provided by continuing operating activities for 2004 was $40 million. This was primarily due to an increase in customer advances of $35 million from new satellite programs receipts and a decrease of contracts-in -process of $29 million primarily resulting from net collections on customer contracts, which was offset by the net loss adjusted for non-cash items of $59 million.

### Net Cash Provided by Operating Activities of Discontinued Operations

Represents the net cash provided from the operations of the North American satellites and related equipment sold.

### Net Cash (Used in) Provided By Investing Activities

Net cash (used in) provided by investing activities for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 was $(5) million and $195 million, respectively, totaling $190 million for 2005, primarily resulting from the insurance proceeds received for our Telstar 14 Satellite.

Net cash provided by investing activities was $907 million for 2004, primarily resulting from the $954 million of proceeds from the sale of our North American satellites and related assets, net of expenses, offset by capital expenditures for continuing operations of $25 million and capital expenditures for discontinued operations of $11 million, mainly for the construction of satellites, and investments in and advances to affiliates of $6 million, primarily for XTAR.

### Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 was $121 million and zero, respectively, totaling $121 million for 2005, representing the debt proceeds from the Loral Skynet Notes (see Note 12 to the financial statements).

Net cash used in financing activities was $967 million in 2004, resulting from our repayment of our secured bank debt, primarily with the proceeds from the sale of the North America satellites and related assets.

### Other

During 2005, we contributed $20 million to the qualified pension plan. During 2006, based on current estimates, we expect to contribute approximately $2 million to the qualified pension plan and expect to fund approximately $5 million for other employee post-retirement benefit plans.

### Affiliate Matters

Loral has made certain investments in joint ventures in the satellite services business that are accounted for under the equity method of accounting (see Notes 9 and 19 to the financial statements for further information on affiliate matters).

Our consolidated statements of operations reflect the effects of the following amounts related to transactions with or investments in affiliates (in millions).

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| Revenues | $ 4.1 | $ 10.0 | $ 7.8 | $27.7 |
| Elimination of Loral's proportionate share of (profits) losses relating to affiliate transactions | (2.9) | 0.6 | 2.4 | 4.4 |
| Profits (losses) relating to affiliate transactions not Eliminated | 2.3 | (0.5) | (1.9) | (3.6) |

### Commitments and Contingencies

Our business and operations are subject to a number of significant risks, the most significant of which are summarized in Item 1A — Risk Factors and also in Note 19 to the financial statements, Commitments and Contingencies.

## Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

*Foreign Currency*

While we were under Chapter 11, SS/ L's hedges with counterparties (primarily yen denominated forward contracts) were cancelled, leaving SS/ L vulnerable to foreign currency fluctuations in the future. The inability to enter into forward contracts exposed SS/ L's future revenues, costs and cash associated with anticipated yen denominated receipts and payments to currency fluctuations. As of December 31, 2005, SS/ L had the following amounts denominated in Japanese Yen (which have been translated into U.S. dollars based on the December 31, 2005 exchange rate) that were unhedged (in millions):

| | Japanese Yen | U.S.$ |
|---|---|---|
| Future revenues | ¥ 324 | $ 2.7 |
| Future expenditures | 2,178 | 18.5 |
| Contracts-in-process (unbilled receivables) | 69 | 0.6 |

At December 31, 2005, SS/ L also had future expenditures in EUROs of 119,389 ($141,410 U.S.) that were unhedged.

Loral does not enter into foreign currency transactions for trading or speculative purposes. We attempt to limit our exposure to credit risk by executing foreign contracts with high-quality financial institutions. A discussion of our accounting policies for derivative financial instruments is included in the notes to Loral's consolidated financial statements.

*Interest*

The Company issued long-term fixed rate debt at its Loral Skynet Corporation subsidiary upon emergence from bankruptcy. Since all of these instruments are at a fixed rate, the Company does not have any exposure to changes in interest rates. Accordingly, the Company does not actively manage its interest rate risk through the use of derivatives or other financial instruments.

As of December 31, 2005, the carrying value of the Company's long-term debt was $128.2 million with related debt issuance costs of $6.2 million which is reflected in Other Assets on our Consolidated Balance Sheet. The fair value of such debt was $153.4 million and is based on the last market trade of 2005 as reported on Bloomberg for the Loral Skynet Corporation 14% Senior Notes. The Loral Skynet Notes mature in 2015 and have an effective interest rate of 14.6%. A hypothetical adverse change in interest rates of 100 basis points

would not have had any effect on interest related to the Loral Skynet Notes, as the interest rate on the notes is fixed at 14%.

As a result of emergence from Chapter 11 filing, all remaining $1.049 billion principal amount of our unsecured debt obligations at December 31, 2004 was extinguished and was included in liabilities subject to compromise as of December 31, 2004. As of December 31, 2004, the carrying value of our debt obligations was $1.3 billion and its fair value was $475 million. The fair value of our debt obligations is based on quoted market prices for obligations with long-term or fixed interest rates.

**Item 8.** ***Financial Statements and Supplementary Data***

See Index to Financial Statements and Financial Statement Schedules on page F-1.

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A.** ***Controls and Procedures***

*Evaluation of Disclosure Controls and Procedures*

Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2005, have concluded that our disclosure controls and procedures were effective and designed to 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 Exchange Commission rules and forms.

*Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under such criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2005. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its attestation report which is included below.

*Changes in Internal Controls Over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2005 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

*Inherent Limitations on Effectiveness of Controls*

Our management, including our chief executive officer and our chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and

instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Loral Space & Communications Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Loral Space & Communications Inc. and its subsidiaries (collectively, the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of December 31, 2005 (Successor Registrant balance sheet) and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for the period from October 2, 2005 to December 31, 2005 (Successor Registrant operations) and the period from January 1, 2005 to October 1, 2005 (Predecessor

Registrant operations) of the Company and our report dated March 28, 2006 expressed an unqualified opinion on those financial statements and financial statement schedules and included explanatory paragraphs which indicate that (1) the Company adopted fresh-start reporting pursuant to American Institute of Certified Public Accountants Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* , as of October 1, 2005 and as a result, the consolidated financial statements of the Successor Registrant are presented on a different basis than those of the Predecessor Registrant and, therefore, are not comparable and (2) the Company changed its method of accounting for stock-based compensation to adopt the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment.*

/s/ DELOITTE & TOUCHE LLP

New York, NY
March 28, 2006

## Item 9B. *Other Information*

None.

**PART III**

## Item 10. *Directors and Executive Officers of the Registrant*

**Directors**

Loral has three classes of directors, with the term of the initial Class 1 directors expiring at the first annual meeting of stockholders after the Effective Date, the term of the initial Class 2 directors expiring at the second annual meeting of stockholders after the Effective Date, and the term of the initial Class 3 directors expiring at the third annual meeting of stockholders after the Effective Date. Thereafter, each director will serve for a term of three years from the date of his election. The following sets forth information concerning Loral's directors as of March 10, 2006.

| Michael B. Targoff | |
|---|---|
| Age: | 61 |
| Director Since: | November 2005 |
| Class: | Class II |
| Business Experience: | Mr. Targoff is Chief Executive Officer of Loral since March 1, 2006 and Vice Chairman of Loral since November 21, 2005. Prior to that, Mr. Targoff was founder and principal of Michael B. Targoff & Co. |
| Other Directorships: | Chairman of the Board and Chairman of the Audit Committee of Communication Power Industries, a director and Chairman of the Audit Committee of Leap Wireless International, Inc. and a director of ViaSat, Inc. |

| Sai S. Devabhaktuni | |
|---|---|
| Age: | 34 |
| Director Since: | November 2005 |
| Class: | Class III |
| Business Experience: | Mr. Devabhaktuni is a managing principal of MHR Fund Management LLC and affiliates. |

| Hal Goldstein | |
|---|---|
| Age: | 40 |
| Director Since: | November 2005 |
| Class: | Class III |
| Business Experience: | Mr. Goldstein is a co-founder and managing principal of MHR Fund Management LLC and affiliates. |
| Other Directorships: | Director of GF Health Products Inc. |

| John D. Harkey, Jr. | |
|---|---|
| Age: | 45 |
| Director Since: | November 2005 |
| Class: | Class I |
| Business Experience: | Mr. Harkey is Chairman and Chief Executive Officer of Consolidated Restaurant Companies, Inc. |
| Other Directorships: | Director and member of the Audit Committees of Leap Wireless International, Inc., Energy Transfer Partners, L.L.C. and Pizza Inn. |

Dean Olmstead

| | |
|---|---|
| Age: | 50 |
| Director Since: | November 2005 |
| Class: | Class II |
| Business Experience: | Mr. Olmstead is President of Arrowhead Global Solutions, Inc. and founder and Chairman of Satellite Development LLC since October 2004. From November 2001 to September 2004, Mr. Olmstead was President and Chief Executive Officer of SES Americom and a member of the SES Global Executive Committee. Prior to that, he was a member of the SES Astra Management Committee. |
| Other Directorships: | Chairman of the Board of Satellite Development LLC (dba BBSat) |

Mark H. Rachesky, M.D.

| | |
|---|---|
| Age: | 47 |
| Director Since: | November 2005 |
| Class: | Class III |
| Business Experience: | Dr. Rachesky is non-executive Chairman of the Board of Directors of Loral since March 1, 2006. Dr. Rachesky is a co-founder and President of MHR Fund Management LLC and affiliates |
| Other Directorships: | Director of Leap Wireless International, Inc., Neose Technologies, Inc., NationsHealth Inc. and Emisphere Technologies, Inc. |

Arthur L. Simon

| | |
|---|---|
| Age: | 74 |
| Director Since: | November 2005* |
| Class: | Class I |
| Business Experience: | Mr. Simon is an independent part-time consultant. |
| Other Directorships: | Director and member of the Audit and Governance Committees of L-3 Communications Corporation |

The Plan of Reorganization provided that the initial composition of the Board of Directors would be comprised of Mr. Schwartz (who retired from Loral on March 1, 2006), Mr. Targoff, two persons designated by Mr. Schwartz and five persons designated by the creditors' committee appointed in the Chapter 11 Cases of Old Loral. Mr. Simon, along with Mr. Robert Hodes, a director of Old Loral, were selected by Mr. Schwartz, and Messrs. Devabhaktuni, Goldstein, Harkey, Olmstead and Rachesky were selected by the creditors' committee. Mr. Hodes resigned from the Board of Directors on February 28, 2006. As provided in Loral's Certificate of Incorporation, the vacancies on the Board resulting from Mr. Schwartz's retirement and Mr. Hodes' resignation will be filled by the Board of Directors.

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* Prior to November 21, 2005, Mr. Simon served as a director of Old Loral.

**Audit Committee**

The Board of Directors has a standing Audit Committee, the current members of which are Messrs. Harkey and Simon. Mr. Simon is the Chairman of the Committee. Mr. Targoff was a member of the Audit Committee between November 21, 2005 and February 9, 2006, when he resigned after agreeing to become Chief Executive Officer on March 1, 2006 upon Mr. Schwartz's retirement. The Board of Directors has determined that Mr. Simon meets the requirements of a financial expert within the meaning of Section 401(h) of Regulation S-K because of, among other things, Mr. Simon's business experience as a former partner of Coopers & Lybrand L.L.P., Certified Public Accountants. The Board of Directors has further determined that all members of the committee are independent, within the meaning of Schedule 14A

under the Exchange Act, and that Mr. Harkey's service on the audit committees of three other companies does not impair his ability to effectively serve on our Audit Committee.

In March 2006, the Company received a NASDAQ Staff Deficiency Letter indicating that, as a result of the appointment of Mr. Targoff as Chief Executive Officer of the Company and his related resignation from the Company's Audit Committee, the Company was not in compliance with NASDAQ's audit committee requirements which require listed companies to have audit committees composed of at least three independent directors. The NASDAQ letter further indicated that the Company has a cure period until the earlier of the Company's next annual stockholders' meeting or February 9, 2007 to regain compliance. The Company is currently considering the composition of its Audit Committee and intends to appoint a third independent member thereto within the specified cure period.

**Executive Officers of the Registrant**

The following table sets forth information concerning the executive officers of Loral as of March 10, 2006.

| Name | Age | Position |
|---|---|---|
| Michael B. Targoff | 61 | Chief Executive Officer since March 1, 2006; Vice Chairman of the Board of Directors since November 2005. Prior to that, founder of Michael B. Targoff & Co. |
| Eric J. Zahler | 55 | President and Chief Operating Officer since November 2005. President and Chief Operating Officer of Old Loral since February 2000. |
| Richard J. Townsend | 55 | Executive Vice President and Chief Financial Officer since November 2005. Executive Vice President and Chief Financial Officer of Old Loral since March 2003. Prior to that, Senior Vice President and Chief Financial Officer of Old Loral since October 1998. |
| Patrick K. Brant | 54 | Vice President since November 2005. President of Loral Skynet since November 2005 and President of Loral Skynet, a division of Loral SpaceCom, since August 2004. Senior Vice President of Iridium Satellite LLC from July 2004 to August 2004. From June 2003 to July 2004 consultant and prior to that, Chief Operating Officer of Loral Skynet since 1999. |
| C. Patrick DeWitt | 59 | Vice President since November 2005. Vice President of Old Loral since January 2002. President of SS/L since November 2001. Prior to that, Executive Vice President of SS/L since 1996. |
| Avi Katz | 47 | Vice President, General Counsel and Secretary since November 2005. Vice President, General Counsel and Secretary of Old Loral since November 1999. |
| Richard P. Mastoloni | 41 | Vice President and Treasurer since November 2005. Vice President and Treasurer of Old Loral since February 2002. Prior to that, Vice President since September 2001 and Assistant Treasurer since August 2000. |
| Harvey B. Rein | 52 | Vice President and Controller since November 2005. Vice President and Controller of Old Loral since April 1996. |

In addition to being officers and directors of Old Loral and certain of its subsidiaries which filed in July 2003 voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code, Messrs. Zahler, Townsend, Katz, Mastoloni and Rein either currently serve or have previously served as executive officers of Globalstar and certain of its subsidiaries, Loral/ Qualcomm Satellite Services, L.P., the managing general partner of Globalstar, its general partner, Loral/ Qualcomm Partnership, L.P., and certain of Loral's subsidiaries that served as general partners of Loral/ Qualcomm Partnership, L.P.

**Procedure for Stockholder Nominations of Directors**

As provided in Loral's Amended and Restated Bylaws, nominations of persons for election to the Board of Directors may be made at a meeting of stockholders only (a) pursuant to the Company's notice of meeting (or any supplement thereto), (b) by or at the direction of the Board of Directors or any committee thereof or (c) by any stockholder of the Company who was a stockholder of record when the notice of proposed nomination is delivered to the Company, who is entitled to vote at the meeting and who complies with the notice procedures set forth in the bylaws. Only such persons who are nominated in accordance with the procedures set forth in the bylaws are eligible to be selected at an annual or special meeting of stockholders of the Company to serve as directors. For a complete description of the procedure for stockholder nominations of directors, see the Company's Amended and Restated Bylaws, filed as Exhibit 3.2 to this Form 10-K.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act, requires our executive officers, directors and persons who own more than 10% of our common stock, to file reports with the SEC. An initial distribution of New Loral common stock pursuant to the Plan of Reorganization occurred on December 7, 2005. Based solely on a review of the copies of reports furnished to us, Loral believes that during 2005, all filing requirements were met on a timely basis.

**Code of Ethics**

Loral has adopted a Code of Ethics for all of its employees, including all of its executive officers. This Code of Ethics is available on Loral's web site at www.loral.com. Any amendments or waivers to this Code of Ethics with respect to Loral's principal executive officer, principal financial officer, principal accounting officer or controller (or persons performing similar functions) will be posted on such web site. One may also obtain, without charge, a copy of this Code of Ethics by contacting our Investor Relations Department at (212) 338-5347.

## Item 11. *Executive Compensation*

**Executive Compensation**

The following table summarizes the compensation paid to the named executive officers set forth below ("NEOs"). For the period prior to November 21, 2005, such compensation was paid by Loral SpaceCom

pursuant to a management agreement with Old Loral. Subsequent to that period, the compensation of the NEOs was paid by New Loral.

| Name & Principal Position | Year | Annual Compensation: Salary | Annual Compensation: Bonus | Annual Compensation: Other Annual Compensation | Long Term Compensation: Restricted Stock Awards | Long Term Compensation: Securities Underlying Stock Options | All Other Compensation(b) |
|---|---|---|---|---|---|---|---|
| Bernard L. Schwartz, | | | | | | | |
| Chairman of the Board of Directors and Chief | 2005 | $1,869,214 | $1,043,051 | $ 0 | | 0 | $ 32,560 |
| | 2004 | $1,518,767[(c)] | $ 0 | $ 0 | | 0 | $ 32,380 |
| Executive Officer [(a)] | 2003 | $ 292,150[(c)] | $ 0 | $42,763[(d)] | | 0 | $ 32,200 |
| Eric J. Zahler, President | 2005 | $1,232,308 | $ 648,960 | $ 0 | | 120,000 | $466,806 |
| and Chief Operating | 2004 | $1,142,308 | $ 480,000 | $ 0 | | 0 | $191,626 |
| Officer | 2003 | $1,000,000 | $ 400,000 | $ 0 | | 0 | $ 53,946 |
| Richard J. Townsend, | | | | | | | |
| Executive Vice President | 2005 | $ 870,831 | $ 470,063 | $ 0 | | 85,000 | $351,795 |
| and Chief Financial | 2004 | $ 838,462 | $ 360,000 | $ 0 | | 0 | $131,615 |
| Officer | 2003 | $ 770,000 | $ 360,000 | $ 0 | | 0 | $ 21,435 |
| C. Patrick DeWitt, Vice | | | | | | | |
| President and President | 2005 | $ 476,415 | $ 391,000 | $ 0 | | 75,000 | $133,112 |
| of Space Systems/ | 2004 | $ 447,435 | $ 271,109 | $ 0 | | 0 | $139,305 |
| Loral, Inc. | 2003 | $ 426,675 | $ 0[(e)] | $ 0 | | 0 | $ 14,751 |
| Avi Katz, Vice President, | 2005 | $ 433,901 | $ 227,785 | $ 0 | | 50,000 | $168,156 |
| General Counsel and | 2004 | $ 420,390 | $ 170,000 | $ 0 | | 0 | $ 66,726 |
| Secretary | 2003 | $ 400,404 | $ 150,000 | $ 0 | | 0 | $ 15,921 |

(a) Mr. Schwartz retired from Loral effective March 1, 2006.

(b) For 2005, includes (i) annual Board of Directors fee from Old Loral in the amount of $25,000 to each of Messrs. Schwartz and Zahler, (ii) Company matching contributions to the Savings Plan in the amount of $7,560 for each of Messrs. Schwartz, Zahler, Townsend and Katz and $8,112 for Mr. DeWitt and (iii) the value of supplemental life insurance premiums in the amounts of $21,746, $14,235 and $8,721 for Messrs. Zahler, Townsend and Katz, respectively. Also includes payments of $412,500, $330,000, $125,000 and $151,875 to Messrs. Zahler, Townsend, Dewitt and Katz, respectively, under Old Loral's Key Employee Retention Plan ("KERP") approved by the Bankruptcy Court in December 2003.

(c) At Mr. Schwartz's request, Old Loral's Compensation Committee agreed to amend his employment agreement to provide for no base salary for the twelve-month period commencing March 1, 2003. Salary paid in 2003 is for the period of January 1, 2003 through February 28, 2003. Salary paid in 2004 is for the period March 1, 2004 through December 31, 2004.

(d) Represents the aggregate incremental cost to Old Loral for use of Old Loral's corporate jet by Mr. Schwartz.

(e) Mr. DeWitt received a $125,000 payment under the KERP in 2004 in lieu of his 2003 bonus.

**Employment Contracts, Change in Control and Other Compensation Arrangements**

As of the November 21, 2005, the effective date of the Plan of Reorganization, (i) Loral entered into employment agreements with Bernard L. Schwartz and the following NEOs (the "Loral Executives"): Avi Katz, Richard J. Townsend and Eric J. Zahler; and (ii) SS/ L entered into an employment agreement with its President, C. Patrick DeWitt.

***Bernard L. Schwartz***

Effective March 1, 2006, Mr. Schwartz retired from all officer and director positions he held with the Company and its subsidiaries and affiliates, including his positions as Chairman of the Board and Chief Executive Officer of the Company. Accordingly, the Company has no further obligations to Mr. Schwartz under his employment agreement. The following is a summary of the terms of Mr. Schwartz's employment agreement in effect prior to his retirement.

Pursuant to Mr. Schwartz's employment agreement, Mr. Schwartz was employed as the Chief Executive Officer and Chairman of the Board of Directors of the Company. Absent his retirement, the term of Mr. Schwartz's employment agreement would have expired on November 21, 2006.

Under his agreement, Mr. Schwartz was entitled to receive an annual base salary of $1,887,875, which would have been subject to increase, effective April 22, 2006, by a percentage at least equal to the percentage change during 2005 in the Annual Average All Items Index of the U.S. City Average Consumer Price Index for All Urban Consumers, as published the U.S. Bureau of Labor Statistics. The employment agreement also provided that Mr. Schwartz was a participant in the Management Incentive Bonus Program of Loral, with a target annual bonus of forty-two and one-half percent (42.5%) of his annual salary. Mr. Schwartz was entitled to participate in any benefit plans provided generally to similarly situated employees. In addition, Loral was required to obtain life insurance coverage for Mr. Schwartz equal to the lesser of $11,000,000 or the maximum amount of death benefit that could be obtained for an annual premium of $300,000. Pursuant to this provision of the agreement, prior to Mr. Schwartz's retirement, Loral obtained a one-year life insurance policy for Mr. Schwartz with a death benefit of $10,000,000 at a premium of $291,000.

Upon Mr. Schwartz's death or permanent disability during the contract term, Mr. Schwartz would have been entitled to, among other payments, his accrued and unpaid bonus for the preceding year, a pro rated annual bonus for the year in which such death or permanent disability occurred, and in the case of his death, salary through the end of the month.

In the event that, during the contract term, Mr. Schwartz's employment were to have been terminated by Loral without "cause" or Mr. Schwartz would have resigned for "good reason" (as such terms are defined in his employment agreement), Mr. Schwartz would have been entitled to a severance payment, in a lump sum, of $2,000,000, plus the remaining base salary he would have earned had he remained employed through the end of the contract term. In addition, Mr. Schwartz would have been entitled to any accrued and unpaid annual bonus for the preceding year and a prorated annual bonus for the year in which any such termination of employment occurred. Mr. Schwartz would also have been entitled to coverage under Loral's medical, dental and life insurance in effect immediately prior to such termination until the first anniversary of such termination or, if earlier, the date he commenced new employment and were eligible for comparable benefits. Mr. Schwartz's severance payments and benefits would have been contingent upon the execution of a release. Mr. Schwartz was not entitled to and did not receive any of these severance benefits because he voluntarily retired from the Company.

During the term of Mr. Schwartz's employment with Loral and for a twelve-month period following a termination of employment during the term of the agreement, Mr. Schwartz is restricted from (i) engaging in competitive activities, (ii) directly or indirectly soliciting current and certain former employees of Loral or any of its affiliates and (iii) knowingly soliciting, directly or indirectly, any customers or suppliers within the twelve-month period prior to such termination of employment to terminate or diminish their relationship with Loral or any of its affiliates. In addition, Mr. Schwartz may not disclose confidential information of Loral.

SS/ L and Loral Skynet guaranteed the payment and performance of Loral's obligations under the employment contract with Mr. Schwartz.

The above description of Mr. Schwartz's employment agreement is not intended to be complete and is qualified in its entirety by reference to the full text of the agreement attached to this report as Exhibit 10.9.

***Michael B. Targoff***

As noted above, on March 1, 2006, Michael B. Targoff became the Chief Executive Officer of Loral. On March 28, 2006, Loral entered into an employment agreement with Mr. Targoff.

Pursuant to Mr. Targoff's employment agreement, Mr. Targoff is employed as the Chief Executive Officer and Vice Chairman of the Board of Directors of Loral. The term of Mr. Targoff's employment agreement will expire on December 31, 2010.

Under his agreement, Mr. Targoff is entitled to receive an annual base salary of $950,000, which is subject to annual review by the Board of Directors. The employment agreement also provides that Mr. Targoff will participate in the Management Incentive Bonus Program of Loral, with a target annual bonus of one hundred twenty-five percent (125%) of his base salary.

In addition to the initial stock option award Mr. Targoff received in December as a member of the Board of Directors, his employment agreement provides for the grant of an option (the "New Option") to purchase an additional 825,000 shares of Loral common stock with a per-share exercise price equal to $26.915, the fair market value of one share of common stock on the date of grant. The New Option is subject to the approval by the stockholders of Loral of an amendment to our 2005 Stock Incentive Plan to increase the number of shares of our common stock available under the plan. We plan to submit the amendment of the plan to our stockholders for approval at an annual or special meeting of stockholders. The New Option will not be valid unless and until the plan amendment is approved by our stockholders. The New Option will vest over a four-year period with the first 12 1/2% vesting immediately, an additional 25% vesting on the next three anniversaries of the grant date and the remaining 12 1/2% vesting on the fourth anniversary of the grant date; provided, however, that no portion of the New Option (whether vested or not) will be exercisable prior to the date of stockholder approval of the amendment to our 2005 Stock Incentive Plan. Mr. Targoff's employment agreement also provides for an additional equity award to be granted in 2008, having an economic value comparable to one-half the value of the New Option, provided Mr. Targoff has earned his target bonus for the 2006 and 2007 fiscal years. Mr. Targoff is also entitled to participate in any benefit plans provided generally to similarly situated employees.

Upon Mr. Targoff's death or disability during the contract term, Mr. Targoff will be entitled to, among other payments, his accrued and unpaid bonus for the preceding year, a pro rated annual bonus for the year in which such death or permanent disability occurs, and, in the case of his death, salary through the end of the month. In addition, a portion of Mr. Targoff's unvested options and deferred compensation account will become vested and, in the event of his death, his dependents will be entitled to continued medical, prescription drug and dental insurance coverage through the end of the term.

In the event, during the contract term, Mr. Targoff's employment is terminated by Loral without "cause" or Mr. Targoff resigns for "good reason" (as such terms are defined in his employment agreement), Mr. Targoff will be entitled to a severance payment, in a lump sum, equal to two (2) times the sum of his base salary and annual bonus (for the preceding year); provided, however, that if the amendment to the 2005 Stock Incentive Plan has not been approved and there is a change in control of Loral, as defined in his employment agreement, Mr. Targoff may terminate employment for good reason and receive a severance payment equal to the value of his base salary and annual bonus for the remainder of the term. In addition, Mr. Targoff will be entitled to any accrued and unpaid annual bonus for the preceding year and a prorated annual bonus for the year in which any such termination of employment occurs. Mr. Targoff and his dependents will also be entitled to coverage under Loral's medical, dental and life insurance in effect immediately prior to such termination for eighteen (18) months following such termination, or until he commences new employment and becomes eligible for comparable benefits. In addition, all of Mr. Targoff's stock options, deferred compensation account and any other equity award then held by Mr. Targoff will become fully vested. Mr. Targoff's severance payments and benefits are contingent upon the execution of a release.

Mr. Targoff's employment agreement also provides for a tax gross-up payment to Mr. Targoff in the event that he becomes subject to any parachute payment excise taxes under Section 280G of the Internal Revenue Code.

During the term of Mr. Targoff's employment with Loral and for a twelve-month period (or twenty-four (24) months following a change in control of Loral) following a termination of employment, Mr. Targoff is restricted from (i) engaging in competitive activities, (ii) directly or indirectly soliciting current and certain former employees of Loral or any of its affiliates and (iii) knowingly soliciting, directly or indirectly, any customers or suppliers within the twelve-month period prior to such termination of employment to terminate or diminish their relationship with Loral or any of its affiliates. In addition, Mr. Targoff may not disclose confidential information of Loral.

Mr. Targoff's employment agreement also provides for the reimbursement of his attorney's fees in connection with the negotiation of the employment agreement and a tax gross-up payment to cover his taxes for any such reimbursement.

Loral Skynet and SS/ L guarantee the payment and performance of Loral's obligations under the employment contract with Mr. Targoff.

The above description of Mr. Targoff's employment agreement is not intended to be complete and is qualified in its entirety by reference to the full text of the agreement attached to this report as Exhibit 10.10.

### *Other Named Executive Officers*

Each of the employment agreements with the Loral Executives and the employment agreement with Mr. C. Patrick DeWitt (Mr. DeWitt, together with the Loral Executives, the "Executives" and each an "Executive") are substantially identical.

Each of the employment agreements with the Executives is for an initial term of two years and sets forth the Executive's position and duties, annual salary, target annual bonus opportunity, and entitlement to an initial stock option grant (as summarized in the table below). In addition, each Executive is entitled to participate in employee benefits generally provided to similarly situated employees.

| Executive | Position | Annual Salary | Target Annual Bonus as a Percentage of Salary | Initial Option Grant |
|---|---|---|---|---|
| Eric J. Zahler | President and Chief Operating Officer | $1,248,000 | 40.0 | 120,000 |
| Richard J. Townsend | Executive Vice President and Chief Financial Officer | $ 881,920 | 41.0 | 85,000 |
| C. Patrick DeWitt | Vice President, and President of SS/L | $ 485,040 | 50.0 | 75,000 |
| Avi Katz | Vice President, General Counsel and Secretary | $ 438,048 | 40.0 | 50,000 |

Upon any Executive's termination of employment on account of death or permanent disability during the contract term, such Executive is entitled to, among other payments, (i) such Executive's accrued and unpaid bonus for the preceding year, (ii) a pro rated annual bonus for the year of termination, (iii) accelerated vesting of stock options that would have vested on the next vesting date, and (iv) in the case of such Executive's death, salary through the end of the month of his death.

In the event that, during the contract term, an Executive's employment is terminated by Loral without "cause" or the Executive resigns for "good reason" (as such terms are defined in the employment contract), the Executive will be entitled to a severance payment, in a lump sum, of the greater of (i) a specified percentage of the Executive's 2003 salary, plus one week's pay for each year of service with Loral and Old Loral ("Base Severance Amount"), or (ii) the salary the Executive would have earned from the date the Executive terminates employment through November 21, 2007. The Base Severance Amount for each of the Executives as of November 21, 2005, is as follows: Mr. Zahler ($1,750,000), Mr. Townsend ($1,400,000), Mr. Katz ($708,750) and Mr. DeWitt ($425,040). Each Executive will also be entitled to any accrued and unpaid annual bonus for the preceding year and a prorated annual bonus for the year in which any such termination of employment occurs, and to be fully vested in all outstanding stock options and deferred compensation relating thereto. In addition, the Executive will be entitled to coverage under Loral's medical, dental and life insurance plans in effect immediately prior to such termination until the earlier of (i) the expiration of a period determined by dividing the Executive's lump sum severance payment by the Executive's monthly salary rate and (ii) the date the Executive commences new employment and is eligible for comparable benefits. Severance payments and benefits are contingent upon the execution of a release.

During the term of an Executive's employment agreement and for a twelve-month period following a termination of employment during the term of the agreement, each Executive is restricted from (i) engaging

in competitive activities, (ii) directly or indirectly soliciting current and certain former employees of Loral or any of its affiliates and (iii) knowingly soliciting, directly or indirectly, any customers or suppliers within the twelve-month period prior to such termination of employment to terminate or diminish their relationship with Loral or any of its affiliates. In addition, the Executives may not disclose confidential information of Loral.

Loral Skynet and SS/ L guarantee the payment and performance obligations of Loral under the employment agreements for the Loral Executives.

The above description of the Executives' employment agreements is not intended to be complete and is qualified in its entirety by reference to the full text of the agreements attached to this report as Exhibits 10.11 through 10.14.

### *Other Arrangements*

Prior to 2005, the Company established a Supplemental Life Insurance Plan for certain key employees including Messrs. Zahler, Townsend, DeWitt and Katz. For Messrs. Zahler, Townsend, DeWitt and Katz, the Plan is funded with "universal" life insurance policies with death benefit amounts of $1,500,000, $1,000,000, $250,000 and $1,000,000, respectively.

## Option Grants in Last Fiscal Year

In December 2005, Loral granted an aggregate of 1,390,452 stock options to all employees. The following table presents the number of such options issued to the NEOs.

| | Individual Grants | | | | |
|---|---|---|---|---|---|
| **Name** | **Number of Securities Underlying Options Granted** | **% of Total Options Granted to Employees in Fiscal Year** | **Exercise or Base Price** | **Expiration Date** | **Grant Date Present Value $ (a)** |
| Bernard L. Schwartz | — | — | — | — | — |
| Eric J. Zahler | 120,000[(b)(c)] | 8.63% | $28.441 | December 21, 2012 | $818,400 |
| Richard J. Townsend | 85,000[(b)(c)] | 6.11% | $28.441 | December 21, 2012 | $579,700 |
| C. Patrick DeWitt | 75,000[(b)(c)] | 5.39% | $28.441 | December 21, 2012 | $511,500 |
| Avi Katz | 50,000[(b)(c)] | 3.60% | $28.441 | December 21, 2012 | $341,000 |

(a) Option grant date present value is calculated using the Black-Scholes-Merton method assuming: (1) a risk-free rate of return of 4.4%; (2) a 48-month vesting schedule; (3) expected volatility of the market price of the common stock of 27%; (4) a seven-year option term; and (5) an expected option life of 4.75 years. These assumptions are the same assumptions used to determine stock-based compensation expense included in the Company's financial statements for 2005.

(b) One-fourth of such options vests on November 21, 2006 and one-fourth of such options vest on each successive anniversary through November 21, 2009.

(c) On December 21, 2005, a deferred compensation account was established for each individual crediting such accounts with an amount equal to the number of options granted above multiplied by $9.441 (difference between $19.00 and the market value at December 21, 2005). These deferred compensation awards vest according to the same vesting schedule for the options as described in footnote (b) above.

## Option exercises and Year-End Value Table

There were no option exercises by the NEOs in 2005. The following table presents the year-end values of options held by the NEOs at the end of 2005.

**Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values**

| | Number of Securities Underlying Unexercised Options at Fiscal Year-End | | Value of Unexercised In-the-Money Options at Fiscal Year-End | |
|---|---|---|---|---|
| **Name** | **Exercisable** | **Unexercisable** | **Exercisable** | **Unexercisable** |
| Bernard L. Schwartz | — | — | — | — |
| Eric J. Zahler | — | 120,000 | — | — |
| Richard J. Townsend | — | 85,000 | — | — |
| C. Patrick DeWitt | — | 75,000 | — | — |
| Avi Katz | — | 50,000 | — | — |

## Pension Plan

Loral maintains a defined benefit pension plan and trust (the "Pension Plan") that is qualified under Section 401(a) of the Internal Revenue Code. The Pension Plan provides retirement benefits for eligible employees of Loral and its operating affiliates, including executive officers. Executive officers also participate in a supplemental executive retirement plan (the "SERP") which provides supplemental retirement benefits to cover certain reductions in retirement benefits under the Pension Plan that are caused by various limitations imposed by the Internal Revenue Code. Loral recognizes all credited service, contributory service and compensation of Old Loral for purposes of these benefits. The benefit formulas differ by operating affiliate. Compensation used in determining benefits under the Pension Plan and SERP includes annual salary and bonus for executives employed by Loral and Loral Skynet and annual salary only for employees of SS/ L. Compensation is the same salary and bonus as disclosed in the summary compensation table except for employees of SS/ L. For these employees, the salary on December 31 is annualized and recognized as compensation for that year.

The benefit formula for executive officers employed by Loral, such as Messrs. Schwartz, Zahler, Townsend and Katz, for the period ending December 31, 1996 will generally provide an annual benefit equal to the greater of (A) or (B), where (A) equals (i) 1.2% of compensation up to the Social Security Wage Base and 1.45% of compensation in excess of the Social Security Wage Base for each year prior to the calendar year in which a participant completes 15 years of employment, plus (ii) 1.5% of compensation up to the Social Security Wage Base and 1.75% of compensation in excess of the Social Security Wage Base for the calendar year in which the participant has completed 15 years of employment and for each year thereafter; and (B) equals (i) 1.2% of average annual compensation paid during 1992-1996 up to the 1996 Social Security Wage Base and 1.45% of average annual compensation paid during 1992-1996 in excess of the 1996 Social Security Wage Base for each year prior to the calendar year in which a participant completes 15 years of employment, plus (ii) 1.5% of average annual compensation paid during 1992-1996 up to the 1996 Social Security Wage Base and 1.75% of average annual compensation paid during 1992-1996 in excess of the 1996 Social Security Wage Base for the calendar year in which the participant has completed 15 years of employment and for each year thereafter. The benefit for periods subsequent to December 31, 1996 will be based on (A) above. The estimated credited years of service through December 31, 2005 for Messrs. Schwartz, Zahler, Townsend and Katz are 33.75, 13.75, 7.25 and 9.37, respectively.

For executive officers employed by SS/ L, such as Mr. DeWitt, the benefit formula for contributory service (in which a 1% post-tax contribution is required) provides an annual benefit equal to 1.3% of the final five year average salary times years of contributory service plus 0.45% of final five year average salary over 150% of the Social Security Covered Compensation for each year up to 35 years. The benefit formula for non-contributory service provides an annual benefit of $252 for each year of credited service. (See also the

explanation and table below.) The estimated credited years of contributory service through December 31, 2005 for Mr. DeWitt is 24. The estimated credited years of non-contributory service through December 31, 2005 for Mr. DeWitt is 8.25 years. The following table illustrates the amounts of annual retirement benefits that would be payable at normal retirement for executives who are employed by SS/ L. Benefits are shown for various rates of final average salary, assuming that employee contributions were made for the periods indicated.

| | Years of Contributory Service | | | | | |
|---|---|---|---|---|---|---|
| **Final Average Salary** | **10** | **15** | **20** | **25** | **30** | **35** |
| $100,000 | $14,350 | $ 21,530 | $ 28,700 | $ 35,880 | $ 43,050 | $ 50,230 |
| 125,000 | 18,730 | 28,090 | 37,450 | 46,810 | 56,180 | 65,540 |
| 150,000 | 23,100 | 34,650 | 46,200 | 57,750 | 69,300 | 80,850 |
| 175,000 | 27,480 | 41,210 | 54,950 | 68,690 | 82,430 | 96,160 |
| 200,000 | 31,850 | 47,780 | 63,700 | 79,630 | 95,550 | 111,480 |
| 225,000 | 36,230 | 54,340 | 72,450 | 90,560 | 108,680 | 126,790 |
| 250,000 | 40,600 | 60,900 | 81,200 | 101,500 | 121,800 | 142,100 |
| 275,000 | 44,980 | 67,460 | 89,950 | 112,440 | 134,930 | 157,410 |
| 300,000 | 49,350 | 74,030 | 98,700 | 123,380 | 148,050 | 172,730 |
| 350,000 | 58,100 | 87,150 | 116,200 | 145,250 | 174,300 | 203,350 |
| 400,000 | 66,850 | 100,280 | 133,700 | 167,130 | 200,550 | 233,980 |
| 450,000 | 75,600 | 113,400 | 151,200 | 189,000 | 226,800 | 264,600 |
| 500,000 | 84,350 | 126,530 | 168,700 | 210,880 | 253,050 | 295,230 |

The table above shows estimated benefits payable under the Plan and SERP including amounts attributable to employee contributions, determined on a straight life annuity basis. Such estimated benefits shown have been offset by Social Security Covered Compensation.

**Annual Benefits**

### *Bernard L. Schwartz*

Bernard L. Schwartz is a participant in the Pension Plan as well as the SERP. Effective April 1, 1997 and prior to March 1, 2004 (the "Suspension Date"), under the minimum distribution rules prescribed by the Internal Revenue Code, Mr. Schwartz began receiving an annual benefit under the Pension Plan and SERP of $2,165,700, determined on a joint and 50% survivor basis. Effective as of the Suspension Date, benefits payable to Mr. Schwartz under the SERP were suspended, but his annual Pension Plan benefit of $166,633 continued. In connection with the Plan of Reorganization, Mr. Schwartz and Loral agreed to amend the SERP to provide for a reduction of Mr. Schwartz's benefit under the SERP to $250,000 annually (the "Reduced Rate"). This amendment was effective as of the Suspension Date. Pursuant to this amendment, the monthly annuity benefit payable to Mr. Schwartz under the SERP resumed at the Reduced Rate commencing on the first normal monthly benefit payment date under the SERP following November 21, 2005, the date on which Loral emerged from Chapter 11 (the "Resumption Date"). The first such monthly payment included a lump sum payment equal to the benefit amounts owed to Mr. Schwartz under the SERP at the Reduced Rate from the Suspension Date through the Resumption Date. In addition, to the extent that, at the time of his death, Mr. Schwartz has received $1.5 million or more in benefits under the SERP after the Suspension Date (the "Minimum Amount"), neither his estate nor his beneficiaries will be entitled to any post-retirement death benefits or any other benefits under the SERP following Mr. Schwartz's death. To the extent that Mr. Schwartz has received less than the Minimum Amount from the Suspension Date through the date of his death, following his death his beneficiaries shall be entitled to the post-retirement death benefits provided for under the SERP in an aggregate amount not to exceed the excess of the Minimum Amount over the amount actually received by Mr. Schwartz from the Suspension Date through the date of his death. This amendment relates solely to the participation of and benefits payable to Mr. Schwartz under the SERP and has no effect on the participation of or benefits payable to any other participant under the SERP.

As a Loral retiree, Mr. Schwartz is entitled to a death benefit under the Loral Retiree Life program. The amount of this benefit at commencement is $686,000 with a 2% monthly reduction until the benefit value attains $382,295. He is eligible to participate in the Loral Retiree Medical Plan.

***Other Named Executive Officers***

Messrs. Zahler, Townsend, Katz and DeWitt are participants in the SERP. The projected annual benefit under the Pension Plan and SERP upon retirement is $547,474 for Mr. Zahler, $313,084 for Mr. Townsend, $277,384 for Mr. Katz and $197,280 for Mr. DeWitt. These projected benefits have been computed assuming that (i) employment will be continued until normal retirement, (ii) current levels of creditable compensation continue without increases or adjustments throughout the remainder of the computation period, (iii) Social Security Wage Base increases with an assumed inflation rate, (iv) contributions will continue to be made toward a contributory benefit and (v) payments will be made on a life annuity basis.

**Director Compensation**

All directors of New Loral receive an annual fee of $25,000. Directors, other than those who are employees or consultants of the Company, receive a fee of $1,500 for each meeting attended in person and a fee of $1,000 for each telephonic meeting of at least 30 minutes in duration, provided, however, that per meeting fees may be paid for telephonic meetings of less than 30 minutes in duration, if, in the discretion of the Chairman of the Board, meaningful preparation was required in advance of the meeting. Directors, other than those who are employees or consultants of the Company, receive an annual award of 2,000 shares of restricted stock, and the non-executive chairman receives an annual award of 5,000 shares of restricted stock. The restricted stock awards will vest in one-half increments over two years. Directors who are not otherwise employed full-time are also eligible to participate in our medical plan. Awards of restricted stock to the directors are subject to stockholder approval at an annual or special meeting of stockholders to approve an amendment to our 2005 Stock Incentive Plan to increase the number of shares available for grant thereunder.

Directors who serve on our Audit Committee, Compensation Committee and Nominating Committee receive an annual fee of $5,000, $2,000 and $2,000, respectively, with the chairman of each of those committees receiving an annual fee of $15,000, $5,000 and $5,000, respectively. Committee members also receive a fee of $1,000 for each meeting attended in person and a fee of $500 for each telephonic meeting of at least 30 minutes in duration, provided, however, that per meeting fees may be paid for telephonic meetings of less than 30 minutes in duration, if, in the discretion of the Chairman of the Committee, meaningful preparation was required in advance of the meeting.

We also reimburse members of our Board of Directors for reasonable travel and other out-of -pocket expenses incurred in attending board and committee meetings.

Board members of New Loral will be paid in 2006 for meetings held in 2005. Accordingly, Mr. Simon is entitled to a payment of $3,000, Messrs. Harkey, Hodes and Targoff are each entitled to a payment of $2,500 and Dr. Rachesky and Messrs. Devabhaktuni, Goldstein and Olmstead are each entitled to a payment of $2,000 with respect to their participation in board and committee meetings held in 2005. Also, in connection with the Company's emergence from chapter 11 on November 21, 2005 and Mr. Targoff's election as non-executive Vice Chairman of the Company on that date, Mr. Targoff was granted, on December 21, 2005, 106,952 seven-year options to purchase common stock of the Company at an exercise price of $28.441 per share and a deferred compensation account having an initial value equal to $9.441 multiplied by the number of options granted. The terms and conditions of these options and the deferred compensation account are described below in "Equity Compensation Plan Not Approved by Security Holders: 2005 Stock Incentive Plan."

In 2005, Messrs. Hodes and Simon received $55,000 and $82,500, respectively, in fees for their service on the Board of Directors and committees thereof of Old Loral. In addition, Mr. Hodes received life insurance and medical benefits in the amount of $45,671, of which $42,404 was paid by Old Loral and $3,267 was paid by New Loral. In 2005, Mr. Simon received life insurance benefits from Old Loral in the amount of $12,500.

## Indemnification of Directors and Officers

### *Indemnification Agreements*

As of November 21, 2005, the effective date of the Plan of Reorganization, Loral entered into Officers' and Directors' Indemnification Agreements (each, an "Indemnification Agreement") with the NEOs and other officers of Loral who entered into employment agreements with Loral. In addition, Loral entered into Indemnification Agreements with each director of Loral as of the date such person became a director (each officer and director with an Indemnification Agreement, an "Indemnitee"). The Indemnification Agreement requires Loral to indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding (as that term is used in the Indemnification Agreement), except with regard to any Proceeding by or in the right of Loral to procure a judgment in its favor, against all Expenses and Losses (as those terms are used in the Indemnification Agreement), including judgments, fines, penalties and amounts paid in settlement, subject to certain conditions, actually and reasonably incurred in connection with such Proceeding, if the Indemnitee acted in good faith for a purpose which he or she reasonably believed to be in or not opposed to the best interests of Loral. With regard to Proceedings by or in the right of Loral, the Indemnification Agreement provides similar terms of indemnification; however no indemnification will be made with respect to any claim, issue or matter as to which the Indemnitee shall have been adjudged to be liable to Loral, unless a court determines that the Indemnitee is entitled to indemnification for such portion of the Expenses as the court deems proper, all as detailed further in the Indemnification Agreement. The Indemnification Agreement also requires Loral to indemnify an Indemnitee where the Indemnitee is successful, on the merits or otherwise, in the defense of any claim, issue or matter therein, as well as in other circumstances delineated in the Indemnification Agreement. The indemnification provided for by the Indemnification Agreement is subject to certain exclusions detailed therein. SS/ L and Loral Skynet both guarantee the due and punctual payment of all of Loral's obligations under the Indemnification Agreement. This brief description of the Indemnification Agreement is not intended to be complete and is qualified in its entirety by reference to the full text of the form of Indemnification Agreement attached as Exhibit 10.15 to this Form 10-K.

As of November 21, 2005, SS/ L entered into an Officers' and Directors' Indemnification Agreement with Mr. DeWitt, its President, attached hereto as Exhibit 10.16 and incorporated by reference herein. The Indemnification Agreement for Mr. DeWitt is substantially identical to the Indemnification Agreement entered into with the Loral officers and directors.

### *D&O Insurance*

We have purchased insurance from various insurance companies insuring us against obligations we might incur as a result of our indemnification of officers and directors for certain liabilities they might incur, and insuring such officers and directors for additional liabilities for which they might not be indemnified by us. The cost to Loral for the annual insurance premiums covering the period ending November 2006 was approximately $1,548,000.

## Compensation Committee Interlocks and Insider Participation

The Board of Directors has a standing Compensation Committee, consisting of Dr. Mark Rachesky, as Chairman, and Mr. Harkey. None of the members of the Compensation Committee of the Company are present or former officers or employed by the Company or its subsidiaries. Michael B. Targoff was a member of this committee between November 21, 2005 and March 1, 2006, when he resigned after becoming Chief Executive Officer upon Mr. Schwartz's retirement. Mr. Hodes was a member of the Compensation Committee prior to his resignation on February 28, 2006. The members of the Compensation Committee of the Board of Directors of Old Loral were Donald H. Shapiro, as Chairman, and Arthur L. Simon and Sally Minard. None of the members of the Compensation Committee of Old Loral were present or former officers or employed by Old Loral or its subsidiaries.

## Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The following table shows, based upon filings made with the Company, certain information concerning persons who may be deemed beneficial owners of 5% or more of the outstanding shares of Loral common stock because they possessed or shared voting or investment power with respect to the shares of Loral common stock:

| **Name and Address** | **Amount and Nature of Beneficial Ownership** | **Percent of Class** [(1)] |
|---|---|---|
| Various funds affiliated with MHR Fund Management LLC [(2)]<br>40 West 57th Street, 24th Floor, New York, NY 10019 | 7,180,629 | 35.9% |
| MacKay Shields LLC [(3)]<br>9 West 57th Street, New York, NY 10019 | 1,500,122 | 7.5% |
| EchoStar Communications Corporation and Charles W. Ergen [(4)]<br>9601 S. Meridian Blvd., Englewood, Colorado 80112 | 1,401,485 | 7.0% |

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(1) Percent of class refers to percentage of class beneficially owned as the term beneficial ownership is defined in Rule 13d-3 under the Exchange Act and is based upon the 20,000,000 shares of Loral common stock issued pursuant to the Plan of Reorganization. An initial distribution of 18,668,177 shares of Loral common stock occurred on December 7, 2005. The remaining balance of the 20,000,000 shares will be distributed in accordance with the Plan of Reorganization upon resolution of disputed claims.

(2) Information based on a Schedule 13D and Form 3, filed with the SEC on November 30, 2005 and November 22, 2005, respectively, relating to securities held for the accounts of MHR Capital Partners (500) LP (1,040,153 shares), MHR Capital Partners (100) LP (138,927 shares), MHR Institutional Partners II LP ("Institutional Partners II") (958,132 shares), MHR Institutional Partners IIA, LP (2,413,827 shares), MHR Institutional Partners, LP (2,119,585 shares), MHRA LP (205,073 shares) and MHRM LP (304,932 shares), each a Delaware limited partnership. MHR Advisors LLC, MHR Institutional Advisors II LLC, MHR Institutional Advisors LLC and Institutional Partners II serve as the general partner of one or more of the above-named partnerships and, accordingly, may be deemed to be the beneficial owner of securities held by the partnerships. Similarly, Dr. Mark Rachesky may be deemed to be a beneficial owner of such securities because he is a managing member of each of such general partner entities. According to the Schedule 13D, (i) each of the reporting persons has sole dispositive and voting power with respect to the shares reported and (ii) the total number of shares of Loral common stock described therein represent the number of shares of Loral common stock expected to be issued to the reporting persons pursuant to the Plan of Reorganization.

(3) Information based solely on a Schedule 13G, filed with the SEC on January 11, 2005, by MacKay Shields LLC. MacKay Shields, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is deemed to be the beneficial owner of such shares as a result of its acting as investment adviser to various clients. According to the Schedule 13G, MacKay Shields has sole voting and dispositive power with respect to all of the shares set forth in the table.

(4) Information based solely on a Schedule 13G, filed with the SEC on December 19, 2005, by EchoStar Communications Corporation ("EchoStar") and Charles W. Ergen. The Schedule 13G provides that Mr. Ergen is the beneficial owner of 1,401,485 shares, of which EchoStar owns 1,350,532 of such shares. According to the Schedule 13G, each reporting person has sole voting and dispositive power with respect to the shares of common stock indicated to be held by such person.

The following table presents the number of shares of Loral common stock beneficially owned by the directors, the NEOs and all directors, NEOs and all other executive officers as a group as of March 10, 2006. Individuals have sole voting and dispositve power over the stock unless otherwise indicated in the footnotes:

| Name of Individual | Amount and Nature of Beneficial Ownership | Percent of Class (2) |
|---|---|---|
| Bernard L. Schwartz | | % |
| Patrick K. Brant | | |
| C. Patrick DeWitt | | |
| Sai S. Devabhaktuni | | |
| Hal Goldstein | | |
| John D. Harkey, Jr | | |
| Robert B. Hodes (3) | 72 | * |
| Avi Katz | | |
| Richard P. Mastoloni | | |
| Dean Olmstead | | |
| Mark H. Rachesky, M.D. | 7,180,629(1) | 35.9% |
| Harvey Rein | | |
| Arthur L. Simon | 72 | * |
| Michael B. Targoff | 35,961 | * |
| Richard J. Townsend | | |
| Eric J. Zahler | | |
| All directors, NEOS and other executive officers as a group (16 persons) | 7,216,734 | 36.1% |

* Represents holdings of less than one percent.

(1) Dr. Rachesky is deemed to be the beneficial owner of 7,180,629 shares of Loral common stock by virtue of his status as a managing principal of various entities affiliated with funds that hold such shares. See discussion in Footnote 2 of the table above.

(2) Percent of class refers to percentage of class beneficially owned as the term beneficial ownership is defined in Rule 13d-3 under the Securities Exchange Act of 1934 and is based upon the 20,000,000 shares of Loral common stock issued pursuant to the Plan of Reorganization. An initial distribution of 18,668,177 shares of Loral common stock occurred on December 7, 2005. The remaining balance of the 20,000,000 shares will be distributed in accordance with the Plan of Reorganization upon resolution of disputed claims.

(3) Mr. Hodes resigned from the Board of Directors effective February 28, 2006.

**Securities Authorized for Issuance Under Equity Compensation Plans**

**Equity Compensation Plan Information**

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | | | |
| Equity compensation plans not approved by security holders | 1,390,452 | $28.441 | 0 |

| | | | |
|---|---|---|---|
| Total | 1,390,452 | $28.441 | 0 |

**Equity Compensation Plan Not Approved by Security Holders: 2005 Stock Incentive Plan**

On November 21, 2005, the Loral Space & Communications Inc. 2005 Stock Incentive Plan (the "Stock Incentive Plan") became effective pursuant to the Plan of Reorganization. The purpose of the Stock Incentive Plan is to attract, retain, motivate and reward employees, directors and other service providers who are providing substantial services to Loral and to promote the creation of long-term value for stockholders of Loral.

The Stock Incentive Plan allows for the grant of several forms of stock-based compensation awards including stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other stock-based awards (collectively, the "Awards"). The total number of shares of Loral common stock reserved and available for delivery in connection with Awards under the Stock Incentive Plan is 1,390,452 shares; provided, however, that the number of shares available is subject to adjustment for recapitalization, merger and other similar events. In addition, shares of Loral common stock that expire, are forfeited or canceled, or withheld in payment of the exercise price or taxes relating to an Award, will again be available for Awards under the Stock Incentive Plan.

The Compensation Committee of Loral (the "Compensation Committee") administers the Stock Incentive Plan. The Compensation Committee may select persons to receive Awards, determine the type, size and terms of such Awards and determine the number of shares covered by the Awards; provided, however, that in no event may options or stock appreciation rights be granted to any one individual in any calendar year in excess of 500,000 shares. The Compensation Committee also has the authority to interpret and construe the Stock Incentive Plan and any Award agreements and will make all other decisions necessary or advisable for the administration of the Stock Incentive Plan.

The Stock Incentive Plan provided for an automatic initial grant of options (the "Automatic Option Grant") to purchase 1,390,452 shares of Loral common stock to certain designated individuals on the date that was thirty (30) days following the date on which Loral emerged from Chapter 11. Accordingly, on December 21, 2005 (the "Grant Date"), Loral granted options to purchase a total of 1,390,452 shares of Common Stock to certain executives and employees and the Vice Chairman of the Board. Twenty-five percent (25%) of the Automatic Option Grant vests on each of the first four anniversaries of the date on which Loral emerged from Chapter 11, subject to earlier vesting upon certain corporate transactions, as discussed below, or upon a termination of employment without Cause or for Good Reason, each, as defined in the Award holder's employment agreement, if such Award holder is party to an employment agreement, and if not, as defined in the Stock Incentive Plan. The Automatic Option Grant has an exercise price per share equal to $28.441 which was the fair market value of a share of Loral common stock on the Grant Date determined pursuant to the Stock Incentive Plan. The Automatic Option Grant expires seven years following the Grant Date, subject to earlier expiration, in accordance with the Stock Incentive Plan, following the Award holder's termination of employment.

If Loral undergoes a Change of Control (as defined in the Stock Incentive Plan), all outstanding Awards will become immediately vested and exercisable, any restrictions on such Awards will lapse and all such Awards will become immediately payable or subject to settlement. In the event of a Change in Control, the Compensation Committee may cancel any or all outstanding Awards in exchange for a cash payment to each Award holder having a value equal to the value of each such Award at the time of such Change in Control (or without any payment in the event that an outstanding Award has no value at the time of such Change in Control).

Following a sale of all or substantially all of the common stock or assets of Loral Skynet (a "Skynet Sale Event") or SS/ L (a "SS/ L Sale Event"), all outstanding Awards held by employees or service providers of Loral Skynet or SS/ L, as applicable, will become immediately vested and exercisable, any restrictions on such Awards will lapse and all such Awards will become immediately payable or subject to settlement. In addition, options held by employees or service providers of Loral Skynet or SS/ L, as applicable, will remain exercisable following the sale for the shorter of (i) one year following the sale or (ii) the remaining term of the stock option as set forth in the applicable Award Agreement. For employees of Loral assigned to Loral's corporate headquarters, if the Skynet Sale Event or SS/ L Sale Event occurs on or prior to the first anniversary of the

Effective Date, fifty percent (50%) of all outstanding unvested Awards held by such employees will become immediately vested and exercisable, any restrictions on such Awards will lapse and all such Awards will become immediately payable or subject to settlement. If such sale occurs after the first anniversary but on or prior to the second anniversary of the Effective Date, one-third ( 1/3) of all outstanding unvested Awards held by employees of Loral assigned to Loral's corporate headquarters will become immediately vested and exercisable, any restrictions on such Awards will lapse and all such Awards will become immediately payable or subject to settlement.

The Board of Directors may amend the Stock Incentive Plan at any time, provided, that any such amendment may not increase the maximum number of shares of Loral common stock that may be issued (other than as a result of an adjustment for recapitalization, merger, and other similar events) without shareholder approval. Additionally, amendments may not impair the rights of any Award holder without such Award holder's written consent. The Stock Incentive Plan will terminate on the day before the tenth anniversary of the date the plan was adopted by the Board of Directors; however, the Stock Incentive Plan will continue to be administered with respect to outstanding Awards until all such Awards have been fully exercised, paid or otherwise expire by their terms.

The Stock Incentive Plan provided that if the fair market value of a share of Loral common stock on the Grant Date is greater than $19, an individual selected to receive an Automatic Option Grant would receive an additional deferred compensation award in an amount equal to (i) the difference between the fair market value of a share of Loral common stock on the Grant Date and $19, multiplied by (ii) the number of shares of Loral common stock underlying such individual's Automatic Option Grant. Accordingly, on December 21, 2005, concurrently with the Automatic Option Grant, the Company established deferred compensation bookkeeping accounts on behalf of each Award holder and credited to such accounts $9.441 multiplied by the number of shares of Loral common stock underlying such Award holder's Automatic Option Grant.

In March 2006, we adopted an amendment to the Stock Incentive Plan to increase by 825,000 the number of shares available for grant thereunder and to increase to 1,000,000 the number of shares that may be granted to any one employee during any calendar year. This amendment is subject to stockholder approval at an annual or special meeting of our stockholders.

The description of the Stock Incentive Plan is not intended to be complete and is qualified in its entirety by reference to the full text of the Stock Incentive Plan and Form of Non-Qualified Stock Option Agreement under the Stock Incentive Plan for Senior Management attached as Exhibits 10.19 and 10.20, respectively, to this Form 10-K.

## Item 13. *Certain Relationships and Related Transactions*

**K&F Industries, Inc.**

In 2005, we provided administrative and certain other services to K&F Industries, Inc. ("K&F"), a subsidiary of K&F Industries Holdings, Inc., and a company of which Bernard L. Schwartz was Chairman of the Board. K&F paid us a fee based on the cost of such services plus out of pocket expenses. For the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, we billed K&F $12,000 and $146,000, respectively.

In addition, K&F charged us $44,000 and $108,000 for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, respectively, for certain expenses and services.

**MHR Fund Management LLC**

Pursuant to the Plan of Reorganization, on November 21, 2005, Loral and Loral Skynet entered into a registration rights agreement with seven affiliated funds of MHR Fund Management LLC ("MHR"). Pursuant to the Plan of Reorganization, each holder of an Allowed Claim, as that term is used in the Plan of Reorganization, that receives a distribution pursuant to the plan of ten percent (10%) or greater of any of (i) Loral common stock, (ii) Loral Skynet preferred stock or (iii) Loral Skynet notes (collectively, the "Registrable Securities") is entitled to receive certain registration rights under the registration rights

agreement (each such holder, and any future holder of such securities who becomes a party to the registration rights agreement, a "Registration Rights Holder"). Pursuant to the registration rights agreement, in addition to certain piggy-back registration rights granted to the Registration Rights Holders, certain Registration Rights Holders may also demand, under certain circumstances, that the Registrable Securities be registered under the Securities Act of 1933, as amended, in each case subject to the terms and conditions of the registration rights agreement. This description of the registration rights agreement is not intended to be complete and is qualified in its entirety by reference to the full text of the agreement attached as Exhibit 10.5 to this Form 10-K.

Pursuant to the Plan of Reorganization, holders of certain claims at Loral Orion, Inc. were entitled to subscribe for up to $120 million of Loral Skynet notes. MHR and P. Schoenfeld Asset Management LLC agreed to backstop 95% and 5%, respectively, of the rights offering, in consideration of a $6 million fee, paid in additional Loral Skynet notes, as well as reimbursement of certain related costs and expenses. In connection with this backstop agreement, MHR received $5.7 million principal amount of Loral Skynet notes for its backstop commitment.

We have reimbursed fees and out-of-pocket expenses incurred by legal counsel to MHR in connection with our reorganization.

Dr. Rachesky and Mr. Goldstein are co-founders and managing principals of MHR. Mr. Devabhaktuni is also a managing principal of MHR. Dr. Rachesky, Mr. Goldstein and Mr. Devabhaktuni are directors of Loral.

**Other Relationships**

During 2005, we incurred $176,000 of expenses paid or payable to companies associated with Mr. Schwartz in connection with our use of his corporate jet.

Robert B. Hodes, a director and a member of the Compensation Committee until his resignation from the Board of Directors on February 28, 2006, is counsel to the law firm of Willkie Farr & Gallagher LLP, which acts as counsel to us.

For the year ended December 31, 2005, we paid fees and disbursements in the amount of approximately $91,000 for corporate communications consultations and related services to Kekst & Company Incorporated, of which company Gershon Kekst is President and principal stockholder. Prior to November 21, 2005, Mr. Kekst was a director of Old Loral.

## Item 14. *Principal Accountant Fees and Services*

During 2005 and 2004, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the "Deloitte Entities") billed or expected to bill the amounts listed below for each category of professional services rendered to us:

| | 2005 | 2004 |
|---|---|---|
| Audit Fees [(a)] | $6,258,000 | $3,366,000 |
| Audit Related Fees [(b)] | 75,900 | 352,000 |
| Tax Consultation Fees | 194,000 | 167,000 |
| All Other Fees [(c)] | 380,000 | 574,000 |
| Total | $6,907,900 | $4,459,000 |

(a) Includes professional services rendered for the audit of our annual consolidated financial statements for the fiscal years ended December 31, 2005 and 2004, for the reviews of the condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q for the 2005 and 2004 fiscal years, stand-alone and statutory audits of our subsidiaries and accounting research and consultation related to the audits and reviews.

(b) Relates primarily to research and consultation on a transfer of interest transaction and various other filings with the Securities and Exchange Commission.

(c) Relates primarily to our Chapter 11 filing and related filings and activities.

In accordance with the Audit Committee's charter, the Audit Committee pre-approves all services provided by the Deloitte Entities and subsequently approves all fees charged for such services. These services are pre-approved annually and updates are provided on a regular basis. All services provided by and fees paid to the Deloitte Entities were approved by the Audit Committee. Fees for 2005 and 2004 included fees related to the audit of management's assessment of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

## PART IV

### Item 15. *Exhibits and Financial Statement Schedules*

(a) 1. Financial Statements


Index to Financial Statements and Financial Statement Schedule F-1

*Loral Space & Communications Inc. and Subsidiaries*

Report of Independent Registered Public Accounting Firm F-2

Consolidated Balance Sheets as of December 31, 2005 (Successor Registrant) and 2004 (Predecessor Registrant) F-4

Consolidated Statements of Operations for the period October 2, 2005 to December 31, 2005 (Successor Registrant), January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003 (Predecessor Registrant) F-5

Consolidated Statements of Shareholders' (Deficit) Equity for the period October 2, 2005 to December 31, 2005 (Successor Registrant), January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003 (Predecessor Registrant) F-6

Consolidated Statements of Cash Flows for the period October 2, 2005 to December 31, 2005 (Successor Registrant), January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003 (Predecessor Registrant) F-7

Notes to Consolidated Financial Statements F-8


(a) 2. Financial Statement Schedules


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## INDEX TO EXHIBITS

| Exhibit Number | Description |
|---|---|
| 2.1 | Debtors' Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated June 3, 2005(1) |
| 2.2 | Modification to Debtors' Fourth Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated August 1, 2005(2) |
| 3.1 | Restated Certificate of Incorporation of Loral Space & Communications Inc. dated November 21, 2005(3) |
| 3.2 | Loral Space & Communications Inc. Amended and Restated Bylaws dated November 21, 2005(3) |
| 10.1 | Restated Certificate of Incorporation of Loral Skynet Corporation dated November 21, 2005(3) |
| 10.2 | Indenture in respect of Loral Skynet Corporation's 14% Senior Secured Cash/ PIK Notes Due 2015 dated November 21, 2005(3) |
| 10.3 | Security Agreement in respect of Loral Skynet Corporation's 14% Senior Secured Cash/ PIK Notes due 2015 dated November 21, 2005(3) |
| 10.4 | Hong Kong Security Agreement in respect of Loral Skynet Corporation's 14% Senior Secured Cash/ PIK Notes due 2015 dated November 21, 2005(3) |
| 10.5 | Registration Rights Agreement among Loral Space & Communications Inc., Loral Skynet Corporation, MHR Capital Partners (500) LP, MHR Capital Partners (100) LP, MHR Institutional Partners II LP, MHR Institutional Partners LP, MHR Institutional Partner III LP, MHR Institutional Partner IIA LP, MHRM LP and MHRA LP dated November 21, 2005(3) |
| 10.6 | Lease Agreement by and between Loral Asia Pacific Satellite (HK) Limited and APT Satellite Company Limited dated as of August 18, 1999(4) |
| 10.7 | Consent Agreement among the United States Department of State, Loral Space & Communications Ltd. and Space Systems/ Loral, Inc. dated January 9, 2002(5) |
| 10.8 | Form of Conformed as Amended Apstar V Satellite Agreement between APT Satellite company Limited and Loral Orion, Inc. dated as of November 16, 2003(6) |
| 10.9 | Employment Agreement between Loral Space & Communications Inc. and Bernard L. Schwartz dated November 21, 2005(3)‡ |
| 10.10 | Employment Agreement between Loral Space & Communications Inc. and Michael B. Targoff dated March 28, 2006†‡ |
| 10.11 | Employment Agreement between Loral Space & Communications Inc. and Eric J. Zahler dated November 21, 2005†‡ |
| 10.12 | Employment Agreement between Loral Space & Communications Inc. and Richard J. Townsend dated November 21, 2005†‡ |
| 10.13 | Employment Agreement between Loral Space & Communications Inc. and Avi Katz dated November 21, 2005†‡ |
| 10.14 | Employment Agreement between Space Systems/ Loral, Inc. and C. Patrick DeWitt dated November 21, 2005(3)‡ |
| 10.15 | Form of Officers' and Directors' Indemnification Agreement between Loral Space & Communications Inc. and Loral Executives(3)‡ |
| 10.16 | Officers' and Directors' Indemnification Agreement between Space/ Systems Loral, Inc. and C. Patrick DeWitt dated November 21, 2005(3)‡ |
| 10.17 | Space Systems/ Loral, Inc. Supplemental Executive Retirement Plan dated January 7, 2003†‡ |
| 10.18 | Amendment to the Space Systems/ Loral, Inc. Supplemental Executive Retirement Plan dated November 21, 2005 (3)‡ |

| | |
|---|---|
| 10.19 | Loral Space & Communications Inc. 2005 Stock Incentive Plan(3)‡ |
| 10.20 | Form of Non-Qualified Stock Option Agreement under Loral Space & Communications Inc. 2005 Stock Incentive Plan for Senior Management(3)‡ |

| Exhibit Number | Description |
|---|---|
| 10.21 | Non-Qualified Stock Option Agreement under Loral Space & Communications Inc. 2005 Stock Incentive Plan for Michael B. Targoff dated March 28, 2006†‡ |
| 10.22 | $20,000,000 Amended and Restated Letter of Credit Reimbursement Agreement between Space Systems/ Loral, Inc. and JP Morgan Chase Bank, N.A. dated November 21, 2005(3) |
| 10.23 | Amended and Restated Cash Collateral Agreement dated November 21, 2005(3) |
| 12.1 | Statement Re: Computation of Ratios† |
| 14.1 | Code of Conduct(3) |
| 21.1 | List of Subsidiaries of the Registrant† |
| 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† |
| 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† |
| 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† |
| 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† |

(1) Incorporated by reference from the Company's Current Report on Form 8-K filed on June 8, 2005.

(2) Incorporated by reference from the Company's Current Report on Form 8-K filed on August 5, 2005.

(3) Incorporated by reference from the Company's Current Report on Form 8-K filed on November 23, 2005.

(4) Incorporated by reference from the Company's Current Report on Form 8-K filed on August 23, 1999.

(5) Incorporated by reference from the Company's Current Report on Form 8-K filed on January 9, 2002.

(6) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

† Filed herewith.

‡ Management compensation plan.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

LORAL SPACE & COMMUNICATIONS INC.

By: /s/ MICHAEL B. TARGOFF

Michael B. Targoff
Chief Executive Officer
Dated: March 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signatures | Title | Date |
|---|---|---|
| /s/ MICHAEL B. TARGOFF<br>Michael B. Targoff | Vice Chairman of the Board and Chief Executive Officer | March 28, 2006 |
| /s/ MARK H. RACHESKY, M.D.<br>Mark H. Rachesky, M.D. | Director, Non-Executive Chairman of the Board | March 28, 2006 |
| /s/ SAI S. DEVABHAKTUNI<br>Sai S. Devabhaktuni | Director | March 28, 2006 |
| /s/ HAL GOLDSTEIN<br>Hal Goldstein | Director | March 28, 2006 |
| /s/ JOHN D. HARKEY, JR.<br>John D. Harkey, Jr. | Director | March 28, 2006 |
| /s/ DEAN OLMSTEAD<br>Dean Olmstead | Director | March 28, 2006 |
| /s/ ARTHUR L. SIMON<br>Arthur L. Simon | Director | March 28, 2006 |
| /s/ RICHARD J. TOWNSEND<br>Richard J. Townsend | Executive Vice President and CFO (Principal Financial Officer) | March 28, 2006 |
| /s/ HARVEY B. REIN<br>Harvey B. Rein | Vice President and Controller (Principal Accounting Officer) | March 28, 2006 |

## INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE


| | |
|---|---|
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| Report of Independent Registered Public Accounting Firm | F-2 |
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| Consolidated Statements of Shareholders' (Deficit) Equity for the period October 2, 2005 to December 31, 2005 (Successor Registrant), January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003 (Predecessor Registrant) | F-6 |
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Shareholders of Loral Space & Communications Inc.**

We have audited the accompanying consolidated balance sheets of Loral Space & Communications Inc. and its subsidiaries (collectively, the "Company") as of December 31, 2005 (Successor Registrant balance sheet) and 2004 (Predecessor Registrant balance sheet), and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for the period from October 2, 2005 to December 31, 2005 (Successor Registrant operations), the period from January 1, 2005 to October 1, 2005 and for each of the two years in the period ended December 31, 2004 (Predecessor Registrant operations). Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Successor Registrant consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005, and the results of its operations and its cash flows for the period from October 2, 2005 to December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor Registrant consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Predecessor Registrant as of December 31, 2004, and the results of its operations and its cash flows for the period from January 1, 2005 to October 1, 2005 and for each of the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 1 to the consolidated financial statements, the Company emerged from bankruptcy on November 21, 2005. In connection with its emergence, the Company adopted fresh-start reporting pursuant to American Institute of Certified Public Accountants Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code,* as of October 1, 2005. As a result, the consolidated financial statements of the Successor Registrant are presented on a different basis than those of the Predecessor Registrant and, therefore, are not comparable.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation to adopt the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment,* effective October 1, 2005.

As discussed in Note 5 to the consolidated financial statements, in March 2004 the Company completed the sale of its North American satellites and related assets. The Company has classified the related operations as discontinued operations in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for its convertible redeemable preferred stock to adopt the provisions of Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity,* effective July 1, 2003.

/s/ DELOITTE & TOUCHE LLP
New York, NY
March 28, 2006

**LORAL SPACE & COMMUNICATIONS INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except par value)**

| | Successor Registrant December 31, 2005 | Predecessor Registrant December 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 275,796 | $ 147,773 |
| Accounts receivable, net | 59,347 | 12,132 |
| Contracts-in-process | 73,584 | 19,040 |
| Inventories | 51,871 | 37,412 |
| Other current assets | 31,066 | 21,096 |
| Total current assets | 491,664 | 237,453 |
| Property, plant and equipment, net | 520,503 | 798,908 |
| Long-term receivables | 48,155 | 74,851 |
| Investments in and advances to affiliates | 104,616 | 49,181 |
| Deposits | 9,840 | 9,832 |
| Goodwill | 340,094 | — |
| Other assets | 164,105 | 48,508 |
| Total assets | $ 1,678,977 | $ 1,218,733 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)** | | |
| Current liabilities: | | |
| Accounts payable | $ 72,594 | $ 33,248 |
| Accrued employment costs | 35,277 | 34,385 |
| Customer advances and billings in excess of costs and profits | 172,995 | 164,981 |
| Deferred gain on sale of assets (Note 5) | — | 10,545 |
| Income taxes payable | 2,177 | 2,359 |
| Accrued interest and preferred dividends | 4,881 | — |
| Other current liabilities | 32,324 | 16,639 |
| Total current liabilities | 320,248 | 262,157 |
| Pension and other postretirement liabilities (Note 17) | 237,948 | 942 |
| Long-term debt | 128,191 | — |
| Long-term liabilities | 165,426 | 81,355 |
| Liabilities subject to compromise (Note 11) | — | 1,916,000 |
| Total liabilities | 851,813 | 2,260,454 |
| Minority interest (Note 15) | 200,000 | 2,380 |
| Commitments and contingencies (Notes 2, 8, 9, 11, 17, 18 and 19) | | |
| Shareholders' equity (deficit): | | |
| Common stock, $.10 par value; 125,000,000 shares authorized, 44,125,202 shares issued and outstanding at December 31, 2004 | — | 4,413 |
| Common stock, $.01 par value; 40,000,000 shares authorized, 20,000,000 shares issued and outstanding at December 31, 2005 | 200 | — |
| Paid-in capital | 642,210 | 3,392,825 |
| Treasury stock, at cost; 17,420 shares at December 31, 2004 | — | (3,360) |
| Unearned compensation | — | (87) |
| Retained deficit | (15,261) | (4,348,231) |
| Accumulated other comprehensive income (loss) | 15 | (89,661) |
| Total shareholders' equity (deficit) | 627,164 | (1,044,101) |
| Total liabilities and shareholders' equity (deficit) | $ 1,678,977 | $ 1,218,733 |

See notes to consolidated financial statements

**LORAL SPACE & COMMUNICATIONS INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per share amounts)**

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| Revenues from satellite services | $ 36,096 | $ 110,596 | $ 135,319 | $ 147,156 |
| Revenues from sales-type lease arrangement — satellite services (Note 8) | — | — | 87,200 | — |
| Revenues from satellite manufacturing | 161,069 | 318,587 | 299,608 | 244,887 |
| Total revenues | 197,165 | 429,183 | 522,127 | 392,043 |
| Cost of satellite services | 26,386 | 94,169 | 189,330 | 191,989 |
| Cost of sales-type lease arrangement — satellite services (Note 8) | — | — | 79,543 | — |
| Cost of satellite manufacturing | 138,882 | 291,454 | 318,295 | 422,091 |
| Selling, general and administrative expenses | 36,842 | 79,419 | 118,848 | 141,552 |
| Loss from continuing operations before reorganization expenses due to bankruptcy | (4,945) | (35,859) | (183,889) | (363,589) |
| Reorganization expenses due to bankruptcy | — | (31,236) | (30,456) | (25,284) |
| Operating loss from continuing operations | (4,945) | (67,095) | (214,345) | (388,873) |
| Gain on discharge of pre-petition obligations and fresh-start adjustments | — | 1,101,453 | — | — |
| Interest and investment income | 4,128 | 6,438 | 9,953 | 15,203 |
| Interest expense (contractual interest was $36,610 for the period ended October 1, 2005 and $46,451 and $34,020 for the years ended December 31, 2004 and 2003, respectively (Note 12)) | (4,408) | (17,214) | (2,947) | (14,080) |
| Other income (expense) | (170) | (931) | (513) | 1,495 |
| Gain on investments | — | — | — | 17,900 |
| (Loss) income from continuing operations before income taxes, equity (losses) income in affiliates and minority interest | (5,395) | 1,022,651 | (207,852) | (368,355) |
| Income tax (provision) benefit | (1,752) | 10,901 | (13,284) | 6,330 |
| (Loss) income from continuing operations before equity income (losses) in affiliates and minority interest | (7,147) | 1,033,552 | (221,136) | (362,025) |
| Equity (losses) income in affiliates | (5,447) | (2,796) | 46,654 | (51,153) |
| Minority interest | (2,667) | 126 | 135 | 20 |
| (Loss) income from continuing operations | (15,261) | 1,030,882 | (174,347) | (413,158) |
| (Loss) income from discontinued operations, net of taxes | — | — | (2,348) | 18,803 |
| Gain on sale of discontinued operations, net of taxes (Note 5) | — | 13,967 | — | — |
| (Loss) income before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | (15,261) | 1,044,849 | (176,695) | (394,355) |
| Cumulative effect of change in accounting principle (Note 3) | — | — | — | (1,970) |
| Extraordinary gain on acquisition of minority interest | — | — | — | 13,615 |
| Net (loss) income | (15,261) | 1,044,849 | (176,695) | (382,710) |
| Preferred dividends | — | — | — | (6,719) |
| Net (loss) income applicable to common shareholders | $ (15,261) | $ 1,044,849 | $ (176,695) | $ (389,429) |
| Basic and diluted (loss) earnings per share (Note 16): | | | | |
| Continuing operations | $ (0.76) | $ 23.37 | $ (3.96) | $ (9.58) |
| Discontinued operations | — | 0.32 | (0.05) | 0.43 |
| (Loss) income before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | (0.76) | 23.69 | (4.01) | (9.15) |
| Cumulative effect of change in accounting principle | — | — | — | (0.05) |
| Extraordinary gain on acquisition of minority interest | — | — | — | 0.31 |
| (Loss) earnings per share | $ (0.76) | $ 23.69 | $ (4.01) | $ (8.89) |
| Weighted average shares outstanding: | | | | |
| Basic and diluted | 20,000 | 44,108 | 44,108 | 43,819 |

See notes to consolidated financial statements.

# LORAL SPACE & COMMUNICATIONS INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY

### (in thousands, except per share amounts)

| | 6% Series C&D Convertible Redeemable Preferred Stock | | Common Stock | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares Issued | Amount | Shares Issued | Amount | Paid-In Capital | Treasury Stock | Unearned Compen-sation | Retained Deficit | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' (Deficit) Equity |
| **Predecessor Registrant** | | | | | | | | | | |
| Balance, January 1, 2003 | 4,479 | $ 95,296 | 42,926 | $ 4,293 | $ 3,389,035 | $ (3,360) | $ (151) | $(3,782,107) | $ (57,233) | $ (354,227) |
| Shares issued: | | | | | | | | | | |
| Employee savings plan | | | 1,167 | 117 | 3,880 | | | | | 3,997 |
| Restricted stock option exercise | | | 30 | 3 | | | | | | 3 |
| Reverse stock split | | | 2 | | (109) | | | | | (109) |
| Reclassification of preferred stock on adoption of SFAS 150 | (4,479) | (95,296) | | | | | | | | (95,296) |
| Amortization of unearned compensation | | | | | | | 75 | | | 75 |
| Costs associated with conversion of preferred stock to common stock | | | | | (42) | | | | | (42) |
| Restricted stock grant | | | | | 92 | | (92) | | | — |
| Unearned compensation on grants to non-employees, including mark-to-market adjustment | | | | | (27) | | | | | (27) |
| Preferred dividends $3.00 per share | | | | | | | | (6,719) | | (6,719) |
| Net loss | | | | | | | | (382,710) | | |
| Other comprehensive loss | | | | | | | | | (20,615) | |
| Comprehensive loss | | | | | | | | | | (403,325) |
| Balance, December 31, 2003 | — | — | 44,125 | 4,413 | 3,392,829 | (3,360) | (168) | (4,171,536) | (77,848) | (855,670) |
| Amortization of unearned compensation | | | | | | | 81 | | | 81 |
| Cost associated with conversion of preferred stock to common stock | | | | | (4) | | | | | (4) |
| Net loss | | | | | | | | (176,695) | | |
| Other comprehensive loss | | | | | | | | | (11,813) | |
| Comprehensive loss | | | | | | | | | | (188,508) |
| Balance, December 31, 2004 | — | — | 44,125 | 4,413 | 3,392,825 | (3,360) | (87) | (4,348,231) | (89,661) | (1,044,101) |
| Amortization of unearned compensation | | | | | | | 60 | | | 60 |
| Net income | | | | | | | | 1,044,849 | | |
| Other comprehensive loss | | | | | | | | | (808) | |
| Comprehensive income | | | | | | | | | | 1,044,041 |
| Cancellation of Predecessor Registrant common stock | | | (44,125) | (4,413) | 4,413 | | | | | — |
| Issuance of common stock to creditors | | | 20,000 | 200 | 642,068 | | | | | 642,268 |
| Fresh-start adjustment | | | | | (3,397,238) | 3,360 | 27 | 3,303,382 | 90,469 | — |
| Balance, October 1, 2005 | — | — | 20,000 | 200 | 642,068 | — | — | — | — | 642,268 |
| **Successor Registrant** | | | | | | | | | | |
| Net loss | | | | | | | | (15,261) | | |
| Other comprehensive loss | | | | | | | | | 15 | |
| Comprehensive loss | | | | | | | | | | (15,246) |
| Amortization of stock option compensation | | | | | 142 | | | | | 142 |
| Balance, December 31, 2005 | — | $ — | 20,000 | $ 200 | $ 642,210 | $ — | $ — | $ (15,261) | $ 15 | $ 627,164 |

See notes to consolidated financial statements.

# LORAL SPACE & COMMUNICATIONS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## (in thousands)

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | | | Years ended December 31, | |
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | 2004 | 2003 |
| Operating activities: | | | | |
| Net (loss) income | $ (15,261) | $ 1,044,849 | $ (176,695) | $ (382,710) |
| Non-cash items: | | | | |
| Gain on discharge of pre-petition obligations and fresh-start adjustments | — | (1,101,453) | | |
| Gain on sale of discontinued operations, net of tax, (Note 5) | — | (13,967) | | |
| (Income) loss from discontinued operations, net of taxes | — | — | 2,348 | (18,803) |
| Cumulative effect of change in accounting principle | — | — | — | 1,970 |
| Extraordinary gain on acquisition of minority interest | — | — | — | (13,615) |
| Equity losses (income) in affiliates | 5,447 | 2,796 | (46,654) | 51,153 |
| Minority interest | 2,667 | (126) | (135) | (20) |
| Deferred taxes | — | (16,134) | 12,153 | (7,321) |
| Depreciation and amortization | 16,024 | 61,277 | 134,796 | 134,663 |
| Write-off of long-term receivables due to contract modifications | — | — | 11,265 | 20,177 |
| Impairment charge on satellite and related assets | — | — | 11,989 | — |
| Profit on sales-type lease arrangement (Note 8) | — | — | (7,657) | — |
| Provisions for inventory obsolescence | 1,525 | 2,127 | 3,324 | 49,546 |
| Valuation allowance on vendor financing receivables | — | — | — | 10,008 |
| Warranty accruals | 2,704 | 11,850 | 9,692 | 2,200 |
| Loss on cancellation of deposits | — | — | — | 23,500 |
| Loss on acceleration of receipt of long-term receivables | — | — | — | 10,893 |
| Charge on conversion of sales arrangement to lease arrangement (Note 8) | — | — | — | 10,098 |
| Accrual for Alcatel settlement | — | — | — | 8,000 |
| (Recoveries of) provisions for bad debts on billed receivables | 953 | (2,880) | (2,144) | 7,221 |
| Adjustment to revenue straightlining assessment | 46 | 1,031 | 1,149 | 9,034 |
| Loss on equipment disposals | — | 3,456 | 394 | 4,804 |
| Gain on investments | — | — | — | (17,900) |
| Non cash net interest and (gain) loss on foreign currency transactions | — | 693 | (2,808) | 4,887 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable, net | 1,855 | 557 | 10,423 | (1,478) |
| Contracts-in-process | 42,459 | (76,464) | 29,082 | 33,988 |
| Inventories | (7,899) | (10,212) | 1,720 | 3,731 |
| Long-term receivables | (13,833) | (22,361) | 2,911 | 60,774 |
| Deposits | (35) | — | — | 25,750 |
| Other current assets and other assets | (9,914) | 11,981 | 7,533 | 35,930 |
| Accounts payable | (13,250) | (1,285) | 1,755 | 41,148 |
| Accrued expenses and other current liabilities | (64,039) | 21,573 | (948) | 1,139 |
| Customer advances | 5,739 | (62,212) | 35,249 | 38,632 |
| Income taxes payable | 1,389 | 3,079 | (2,814) | 1,847 |
| Pension and other postretirement liabilities | 3,077 | (3,650) | 10,503 | 13,245 |
| Long-term liabilities | 335 | 1,844 | (7,080) | (11,927) |
| Other | 1,480 | (196) | 216 | 501 |
| Net cash (used in) provided by operating activities of continuing operations | (38,531) | (143,827) | 39,567 | 151,065 |
| Net cash provided by operating activities of discontinued operations | — | — | 26,562 | 81,588 |
| Net cash (used in) provided by operating activities | (38,531) | (143,827) | 66,129 | 232,653 |
| Investing activities: | | | | |
| Capital expenditures for continuing operations | (4,972) | (4,649) | (24,786) | (115,362) |
| (Increase) decrease in restricted cash restricted | (54) | 1,566 | (5,049) | (7,628) |
| Insurance proceeds received | — | 205,000 | — | — |
| Proceeds from the sale of investments | — | — | — | 45,908 |
| Investments in and advances to affiliates | (63) | (7,354) | (5,712) | (19,200) |
| Net cash (used in) provided by investing activities of continuing operations | (5,089) | 194,563 | (35,547) | (96,282) |
| Proceeds from the sale of assets, net of expenses (Note 5) | — | 144 | 953,619 | — |
| Capital expenditures for discontinued operations | — | — | (11,185) | (61,202) |
| Net cash provided by (used in) investing activities of discontinued operations | — | 144 | 942,434 | (61,202) |
| Net cash (used in) provided by investing activities | (5,089) | 194,707 | 906,887 | (157,484) |
| Financing activities: | | | | |
| Proceeds from Skynet Notes | 120,763 | — | — | — |
| Repayments of term loans | — | — | (576,500) | (32,500) |
| Repayments of revolving credit facilities | — | — | (390,387) | — |
| Borrowings under revolving credit facilities | — | — | — | 71,387 |
| Interest payments on 10% senior notes | — | — | — | (30,635) |
| Repayments of export-import facility | — | — | — | (6,434) |
| Proceeds from other stock issuances | — | — | — | 3,852 |
| Payment of bank amendment costs | — | — | — | (5,131) |
| Net cash provided by (used in) financing activities of continuing operations | 120,763 | — | (966,887) | 539 |
| Net cash provided by financing activities of discontinued operations | — | — | — | — |
| Net cash provided by (used in) financing activities | 120,763 | — | (966,887) | 539 |
| Increase in cash and cash equivalents | 77,143 | 50,880 | 6,129 | 75,708 |
| Cash and cash equivalents — beginning of period | 198,653 | 147,773 | 141,644 | 65,936 |
| Cash and cash equivalents — end of period | $ 275,796 | $ 198,653 | $ 147,773 | $ 141,644 |

See notes to 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-based communications services and satellite manufacturing. New Loral was formed to succeed 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”).

We adopted fresh-start accounting as of October 1, 2005, in accordance with Statement of Position No. 90-7, *Financial Reporting of Entities in Reorganization Under the Bankruptcy Code* (“SOP 90-7”). Accordingly, our financial information disclosed under the heading “Successor Registrant” for the period ended and as of December 31, 2005, is presented on a basis different from, and is therefore not comparable to, our financial information disclosed under the heading “Predecessor Registrant” for the period ended and as of October 1, 2005 (the date we adopted fresh-start accounting) or for prior periods.

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

Loral is organized into two operating segments:

*Satellite Services,* conducted by our subsidiary Loral Skynet Corporation (“Loral Skynet”), generates its revenues and cash flows from leasing satellite capacity on its four-satellite fleet to commercial and governmental customers for video and direct to home (“DTH”) broadcasting, high-speed data distribution, Internet access and communications, as well as providing satellite-based networking services. It also provides professional services to other satellite operators including satellite construction oversight and fleet operating services.

*Satellite Manufacturing,* conducted by our subsidiary, Space Systems/ Loral, Inc. (“SS/ L”), generates its revenues and cash flows from designing and manufacturing satellites, space systems and space system components for commercial and government customers whose applications include fixed satellite services, DTH broadcasting, broadband data distribution, wireless telephony, digital radio, military communications, weather monitoring and air traffic management.

## 2. Bankruptcy Filings and Reorganization

### *Bankruptcy Filings*

On July 15, 2003, Old Loral and certain of its subsidiaries (the “Debtor Subsidiaries” and collectively with Old Loral, the “Debtors”), including Loral Space & Communications Holdings Corporation (formerly known as Loral Space & Communications Corporation), Loral SpaceCom Corporation (“Loral SpaceCom”), SS/ L and Loral Orion, Inc. (now known as Loral Skynet Corporation), filed voluntary petitions for reorganization under chapter 11 of title 11 (“Chapter 11”) of the United States Code (the “Bankruptcy Code”) in the U.S. Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) (Lead Case No. 03-41710 (RDD), Case Nos. 03-41709 (RDD) through 03-41728 (RDD)) (the “Chapter 11 Cases”). Also on July 15, 2003, Old Loral and one of its Bermuda subsidiaries (the “Bermuda Group”) filed parallel insolvency proceedings in the Supreme Court of Bermuda (the “Bermuda Court”), and, on that date, the Bermuda Court entered an order appointing certain partners of KPMG as Joint Provisional Liquidators (“JPLs”) in respect of the Bermuda Group (see Basis of Presentation Note 3).

As a result of our voluntary petitions for reorganization, all of our prepetition debt obligations were accelerated (see below and Note 11). On July 15, 2003, we also suspended interest payments on all of our

prepetition unsecured debt obligations. A creditors' committee (the "Creditors' Committee") was appointed in the Chapter 11 Cases to represent all unsecured creditors, including all debt holders. On March 29, 2005, the United States Trustee for the Southern District of New York appointed an official committee of equity security holders (the "Equity Committee") (as amended on April 7, 2005 and April 11, 2005). In accordance with the provisions of the Bankruptcy Code, both the Creditors' Committee and the Equity Committee had the right to be heard on all matters that came before the Bankruptcy Court.

**Reorganization**

The Debtors emerged from Chapter 11 on November 21, 2005 pursuant to the terms of their fourth amended joint plan of reorganization, as modified (the "Plan of Reorganization"). The Plan of Reorganization had previously been confirmed by order (the "Confirmation Order") of the Bankruptcy Court entered on August 1, 2005.

Pursuant to the Plan of Reorganization:

- The business and operations of Old Loral have been transferred to New Loral, and Loral Skynet and SS/ L have emerged intact as separate subsidiaries of reorganized Loral.
- Our new common stock has been listed on NASDAQ under the symbol "LORL."
- SS/ L has emerged debt-free.
- The initial distributions to creditors of Old Loral and its subsidiaries have been completed in accordance with the Plan of Reorganization as follows:
  - All holders of allowed claims against SS/ L and Loral SpaceCom have been, or will be paid in cash in full, including interest from the petition date to the Effective Date.
  - 20 million shares of New Loral common stock were issued to our distribution agent on the Effective Date, 18.7 million of which have been distributed to creditors.
  - $200 million of Loral Skynet preferred stock was issued to our distribution agent on the Effective Date, $197.4 million of which has been distributed to creditors.
  - The remaining undistributed shares of New Loral common stock and Loral Skynet preferred stock have been reserved to cover disputed claims and will be distributed quarterly in accordance with the Plan of Reorganization upon resolutions of those claims.
  - Pursuant to a rights offering, Loral Skynet issued on the Effective Date, $126 million of senior secured notes (the "Loral Skynet Notes", see Note 12) to certain creditors who subscribed for the notes and to certain creditors who committed to purchase any unsubscribed notes (i.e., "backstopped" the offering).
  - Old Loral will be liquidated; the common and preferred stock of Old Loral were cancelled on the Effective Date, and no distribution was made to the holders of such stock.

Old Loral shareholders acting on behalf of the self-styled Loral Stockholders Protective Committee ("LSPC") have filed appeals seeking to revoke the Confirmation Order, to overturn the Bankruptcy Court's denial of the LSPC's motion to compel Old Loral to hold a shareholders' meeting and to rescind the approval of the Federal Communications Commission ("FCC") of the transfer of our FCC licenses from Old Loral to New Loral (the "Appeals"). We believe that the Appeals are completely without merit and will not have any effect on the completed reorganization. For further details about the Appeals see Note 19.

## 3. Basis of Presentation

Loral has a December 31 year end. The consolidated financial statements for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, and for each of the two years in the period ended December 31, 2004, include the results of Loral and its subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). All intercompany transactions have been eliminated. References in these consolidated financial statements to the Predecessor Registrant refer to Loral until October 1, 2005 and references to the Successor Registrant refer to Loral after October 1, 2005 and after giving effect to the adoption of fresh-start accounting.

The accompanying consolidated financial statements for the Predecessor Registrant have been prepared in accordance with SOP 90-7 and on a going concern basis, which contemplates continuing operations, realization of assets and liquidation of liabilities in the ordinary course of business. SOP 90-7 requires us to distinguish prepetition liabilities subject to compromise from postpetition liabilities in our consolidated balance sheets. The caption "liabilities subject to compromise" reflects the carrying value of prepetition claims that were restructured in our Chapter 11 Cases. In addition, the consolidated statements of operations of the Predecessor Registrant portray our results of operations during the Chapter 11 proceedings. As a result, any revenue, expenses, realized gains and losses, and provision for losses resulting directly from the reorganization and restructuring of the organization are reported separately as reorganization items, except those required to be reported as discontinued operations and extraordinary items in conformity with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144") and SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("SFAS 145"). We did not prepare combining financial statements for Loral and its Debtor Subsidiaries, since the subsidiaries that did not file voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code were immaterial to our consolidated financial statements.

As noted above, we emerged from bankruptcy on November 21, 2005 and pursuant to SOP 90-7, we adopted fresh-start accounting as of October 1, 2005. We engaged an independent appraisal firm to assist us in determining the fair value of our assets and liabilities. Upon emergence, our reorganization enterprise value as determined by the Bankruptcy Court was approximately $970 million, which after reduction for the fair value of the Loral Skynet Notes and Series A Preferred Stock (see Notes 12 and 15), results in a reorganization equity value of approximately $642 million. This reorganization enterprise value was allocated to our assets and liabilities (see Note 4). Our assets and liabilities were stated at fair value in accordance with 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 XTAR, L.L.C. ("XTAR"), as well as other affiliates, are accounted for using the equity method, due to our inability to control significant operating decisions. 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. Advances to affiliates generally consist of amounts due under extended payment terms. 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 obligations exist. We capitalize interest cost on our investments, until such entities commence commercial operations. Capitalized interest on investments is amortized over the life of the primary asset of the affiliate. Certain of our affiliates are subject to the risks associated with new businesses (see Note 9).

### *Use of Estimates in Preparation of Financial Statements*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported for the period. Actual results could differ from estimates.

Most of our satellite manufacturing revenue is associated with long-term contracts which require significant estimates. These estimates include forecasts of costs and schedules, estimating contract revenue related to contract performance (including orbital incentives) and the potential for component obsolescence in connection with long-term procurements. Significant estimates also include the estimated useful lives of our satellites.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less. As of December 31, 2005, we had $276 million of available cash and $12 million of restricted cash ($2 million included in other current assets and $10 million included in other assets on our consolidated balance sheet). As of December 31, 2004, we had $148 million of available cash and $13 million of restricted cash ($1 million included in other current assets and $12 million included in other assets on our consolidated balance sheet).

### *Concentration of Credit Risk*

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts, contracts-in-process, long-term receivables and advances and loans to affiliates (see Note 9). Our cash and cash equivalents are maintained with high-credit-quality financial institutions. Historically, our customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, we have added commercial customers which include companies in emerging markets or the development stage, some of which are highly leveraged or partially funded. Management believes that its credit evaluation, approval and monitoring processes combined with negotiated billing arrangements mitigate potential credit risks with regard to our current customer base.

### *Receivables*

As of December 31, 2005 and 2004, billed receivables (including accounts receivable) were reduced by an allowance for doubtful accounts of $5.5 million and $6.4 million, respectively.

### *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 December 31, 2005 and 2004, inventory was reduced by an allowance for obsolescence of $33.7 million and $34.0 million, respectively.

### *Property, Plant and Equipment*

As of October 1, 2005, we adopted fresh-start accounting and our property, plant and equipment were recorded at their fair values based upon the appraised values of such assets. We used the work of an independent appraisal firm to assist us in determining the fair value of our property, plant and equipment. We and the independent appraiser determined the fair value of our property, plant and equipment using the planned future use of each asset or group of assets, quoted market prices for assets where a market exists for such assets, the expected future revenue and profitability of the business unit utilizing such assets and the expected future life of such assets. In our determination of fair value, we also considered whether an asset would be sold either individually or with other assets and the proceeds we expected to receive from such a sale.

Assumptions relating to the expected future use of individual assets could affect the fair value of such assets and the depreciation expense recorded related to such assets in the future. Depreciation is provided on the straight-line method for satellites and related equipment over the estimated useful lives of the related assets. Depreciation is provided primarily on an accelerated method and straight line for other owned assets over the estimated useful life of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Below are the estimated useful lives of our property, plant and equipment as of December 31, 2005:

| | Years |
|---|---|
| Land improvements | 20 |
| Buildings | 25 to 45 |
| Leasehold improvements | 5 to 25 |
| Satellites-in-orbit | 5 to 13 |
| Earth stations | 5 to 15 |
| Equipment, furniture and fixtures | 3 to 20 |

Costs incurred in connection with the construction and successful deployment of Loral Skynet satellites and related equipment are capitalized. Such costs include direct contract costs, allocated indirect costs, launch costs, launch and in-orbit test insurance and construction period interest. Capitalized interest related to the construction of satellites for 2005, 2004 and 2003 was zero, $0.5 million and $12.9 million, respectively. All capitalized satellite costs are amortized over the estimated useful life of the related satellite. The estimated useful life of the satellites was determined by engineering analyses performed at the satellite's in-service date. Satellite lives are reevaluated periodically. Losses from unsuccessful launches and in-orbit failures of our satellites, net of insurance proceeds (so long as such amounts are determinable and receipt is probable), are recorded in the period a loss occurs (see Valuation of Satellites, Long-Lived Assets and Investments in and Advances to Affiliates below).

### *Valuation of Satellites, Long-Lived Assets and Investments in and Advances to Affiliates*

The carrying value of our satellites, long-lived assets and investments in and advances to affiliates is reviewed for impairment in accordance with SFAS 144 and Accounting Principles Board ("APB") Opinion No. 18, *Equity Method of Accounting for Investments in Common Stock* , respectively. We periodically evaluate potential impairment loss relating to our satellites and other long-lived assets, when a change in circumstances occurs, by assessing whether the carrying amount of these assets can be recovered over their remaining lives through future undiscounted expected cash flows generated by those assets (excluding financing costs). If the expected undiscounted future cash flows were less than the carrying value of the long-lived asset, an impairment charge would be recorded based on such asset's estimated fair value. Changes in estimates of future cash flows could result in a write-down of the asset in a future period. Estimated future cash flows from our satellites could be impacted by, among other things:

- Changes in estimates of the useful life of the satellite
- Changes in estimates of our ability to operate the satellite at expected levels
- Changes in the manner in which the satellite is to be used
- The loss of one or several significant customer contracts on the satellite

If an impairment loss was indicated for a satellite, such amount would be recognized in the period of occurrence, net of any insurance proceeds to be received so long as such amounts are determinable and receipt is probable. If no impairment loss was indicated in accordance with SFAS 144, and we received insurance proceeds, the proceeds would be recognized in our consolidated statement of operations.

### *Deposits*

Deposits primarily represent prepaid amounts on satellite launch vehicles.

### *Investments*

Investments in publicly traded common stock are classified as available-for-sale, and are recorded at fair value, with the resulting unrealized gain or loss excluded from net loss and reported as a component of other comprehensive loss until realized (see Notes 6 and 18). Our Predecessor Registrant's investment in Globalstar, L.P.'s $500 million credit facility was accounted for at fair value, with changes in the value (net of tax) recorded as a component of other comprehensive loss (see Note 9).

On March 7, 2003, Sirius Satellite Radio, Inc. ("Sirius") completed its recapitalization plan and as part of this recapitalization, SS/L converted its entire vendor financing receivables of approximately $76 million into 59 million shares of common stock of Sirius. For the year ended December 31, 2003, SS/L realized net proceeds of $46 million from the sale of all of the shares of Sirius common stock that it received in the recapitalization, and realized gains on such sales of $18 million. In the first quarter of 2003, SS/L recorded a charge on the vendor financing receivables due from Sirius of $10 million, representing the difference between the carrying value of SS/L's receivables of $38 million, and the value of the common shares received by SS/L based on the trading price of Sirius's common stock on March 7, 2003 of $28 million.

### *Goodwill and Other Intangible Assets*

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 allocated in accordance with the provisions of SFAS 141, as of October 1, 2005. Pursuant to the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is not amortized and is subject to an annual impairment test which the Company performs on an annual basis in the fourth quarter of each fiscal year. Our test of goodwill impairment for 2005 did not result in any goodwill impairment. Goodwill was allocated to our reporting unit level (operating segment or one level below an operating segment). SFAS 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than its carrying value (see Note 4).

Intangible assets consist primarily of backlog, internally developed software and technology, orbital slots, trade names and customer relationships, all of which were recorded in connection with the adoption of fresh-start accounting. We used the work of an independent appraiser to assist us in determining the fair value of our intangible assets. The fair values were calculated using several approaches that encompassed the use of excess earnings, relief from royalty and the build-up methods. The excess earnings, relief from royalty and build-up approaches are variations of the income approach. The income approach, more commonly known as the discounted cash flow approach, estimates fair value based on the cash flows that an asset can be expected to generate over its useful life. Identifiable intangible assets with finite useful lives are amortized on a straight-line basis over the estimated useful lives of the assets.

### *Revenue Recognition*

Revenue from satellite sales under long-term fixed-price contracts is recognized following the provisions of Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* , using the cost-to-cost percentage-of-completion method. Revenue includes the basic contract price and estimated amounts for penalties and incentive payments, including award fees, performance incentives, and estimated orbital incentives discounted to their present value at launch date. Costs include the

development effort required for the production of high-technology satellites, non-recurring engineering and design efforts in early periods of contract performance, as well as the cost of qualification testing requirements. Contracts are typically subject to termination for convenience or for default. If a contract is terminated for convenience by a customer or due to a customer's default, we are generally entitled to our costs incurred plus a reasonable profit.

Revenue under cost-reimbursable type contracts is recognized as costs are incurred; incentive fees are estimated and recognized over the contract term.

U.S. government contract risks include dependence on future appropriations and administrative allotment of funds and changes in government policies. Costs incurred under U.S. government contracts are subject to audit. Management believes the results of such audits will not have a material effect on Loral's financial position or its results of operations.

Losses on contracts are recognized when determined. Revisions in profit estimates are reflected in the period in which the conditions that require the revision become known and are estimable. In accordance with industry practice, contracts-in-process include unbilled amounts relating to contracts and programs with long production cycles, a portion of which may not be billable within one year.

We provide satellite capacity and network services under lease agreements that generally provide for the use of satellite transponders and, in certain cases, earth stations and other terrestrial communications equipment for periods generally ranging from one year to the end of life of the satellite. Some of these agreements have certain obligations, including providing spare or substitute capacity, if available, in the event of satellite failure. If no spare or substitute capacity is available, the agreement may be terminated. Revenue under transponder lease and network services agreements is recognized as services are performed, provided that a contract exists, the price is fixed or determinable and collectibility is reasonably assured. Revenues under contracts that include fixed lease payment increases are recognized on a straight-line basis over the life of the lease.

Lease contracts qualifying for capital lease treatment are accounted for as sales-type leases.

Other terrestrial communications equipment represents network elements (antennas, transmission equipment, etc.) necessary to enable communication between multiple terrestrial locations through a customer-selected satellite communications service provider. Revenue from equipment sales is primarily recognized upon acceptance by the customer, provided that a contract exists, the price is fixed or determinable and collectibility is reasonably assured. Revenue from equipment sales under long-term fixed price contracts is recognized using the cost-to-cost percentage-of-completion method. Losses on contracts are recognized when determined and revisions in profit estimates are reflected in the period in which the conditions that require the revision become known and are estimable. Revenues under arrangements that include both services and equipment elements are allocated based on the relative fair values of the elements of the arrangement; otherwise, revenue is recognized as services are provided over the life of the arrangement.

### *Research and Development*

Independent research and development costs, which are expensed as incurred, were $7 million and $5 million for the periods January 1, 2005 to October 1, 2005 and from October 2, 2005 to December 31, 2005, respectively, and $9 million and $9 million for 2004 and 2003, respectively, and are included in selling, general and administrative expenses.

### *Foreign Exchange Contracts*

We enter into foreign exchange contracts as hedges against exchange rate fluctuations of future accounts receivable and accounts payable under contracts-in-process which are denominated in foreign currencies. We

follow SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133") as amended by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* , which among other things requires that all derivative instruments be recorded on the balance sheet at their fair value.

### *Stock-Based Compensation*

Effective October 1, 2005, in connection with our adoption of fresh-start accounting, we adopted the fair value method of accounting for stock options for all options granted by us after October 1, 2005 pursuant to the prospective method provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"). We use the Black-Scholes-Merton option-pricing model to measure fair value of these stock option awards. This is the same method we used in prior years for disclosure purposes. The Black-Scholes-Merton model requires us to make significant judgments regarding the assumptions used within the model, the most significant of which are the stock price volatility assumption, the expected life of the option award, the risk-free rate of return and dividends during the expected term. We emerged from bankruptcy on November 21, 2005, and as a result, we do not have sufficient stock price history upon which to base our volatility assumption. In determining the volatility used in our model, we considered the volatility of the stock prices of selected companies in the satellite industry, the nature of those companies, our emergence from bankruptcy and other factors in determining our stock price volatility. For 2005, we used a stock price volatility assumption of 27%. We based our estimate of the average life of a stock option of 4.75 years using the midpoint between the vesting and expiration dates as allowed by SEC Staff Accounting Bulletin No. 107, Share-Based Payment, based upon the vesting period of 4 years and the option term of seven years. Our risk-free rate of return assumption for options granted in 2005 of 4.4% was based on the quoted yield for five-year U.S. treasury bonds as of the date of grant (see Note 15). We assumed no dividends during the expected term.

Prior to October 1, 2005, we followed the disclosure-only provisions of SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure* ("SFAS 148") an amendment of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). We accounted for stock-based compensation for employees using the intrinsic value method (as defined below) as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations. Under APB 25, no compensation expense was recognized for employee share option grants because the exercise price of the options granted equaled the market price of the underlying shares on the date of grant (the "intrinsic value method"). We used the Black-Scholes-Merton option pricing model to determine the pro forma effect with the following weighted average assumptions in our calculations: expected life, six to twelve months following vesting; stock volatility, 90%; risk free interest rate, 2.4% to 6.6% based on date of grant; and dividends, none during the expected term. Our calculations were based on a multiple option valuation approach and forfeitures were recognized as they occurred. The following table summarizes what our pro

forma net loss and pro forma loss per share would have been if we used the fair value method under SFAS 123 (in millions, except per share amounts):

| | Predecessor Registrant | | |
|---|---|---|---|
| | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | |
| | | 2004 | 2003 |
| Reported income (loss) from continuing operations | $ 1,030.9 | $ (174.3) | $ (413.2) |
| Less: Total stock based employee benefit (compensation) determined under the fair value method for all awards | — | (0.6) | 7.6 |
| Pro forma income (loss) from continuing operations | 1,030.9 | (174.9) | (405.6) |
| (Loss) income from discontinued operations, net of taxes | — | (2.3) | 18.8 |
| Gain on sale of discontinued operations, net of taxes | 14.0 | — | — |
| Pro forma net income (loss) before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | 1,044.9 | (177.2) | (386.8) |
| Cumulative effect of change in accounting principle | — | — | (2.0) |
| Extraordinary gain on acquisition of minority interest | — | — | 13.6 |
| Pro forma net income (loss) | 1,044.9 | (177.2) | (375.2) |
| Preferred dividends | — | — | (6.7) |
| Pro forma net income (loss) applicable to common shareholders | $ 1,044.9 | $ (177.2) | $ (381.9) |
| Reported basic and diluted income (loss) per share from continuing operations | $ 23.37 | $ (3.96) | $ (9.58) |
| Pro forma basic and diluted income (loss) per share from continuing operations | 23.37 | (3.97) | (9.41) |
| Reported basic and diluted income (loss) per share before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | 23.69 | (4.01) | (9.15) |
| Pro forma basic and diluted income (loss) per share before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | 23.69 | (4.02) | (8.98) |
| Reported income (loss) per share applicable to common shareholders | 23.69 | (4.01) | (8.89) |
| Pro forma income (loss) per share applicable to common shareholders | 23.69 | (4.02) | (8.72) |

The Plan of Reorganization did not provide for participation or recovery by Old Loral common shareholders and, accordingly, Old Loral stock options had no value to the employees. The fair values of stock-based employee compensation above were calculated based on the relative values of the options at the date of grant. These stock options were cancelled upon our emergence in accordance with our Plan of Reorganization.

*Deferred Compensation*

Pursuant to the Plan of Reorganization we entered into deferred compensation arrangements for certain key employees that vest generally over four years and expire after seven years. The initial deferred compensation awards were calculated by multiplying $9.44 by the number of stock options granted to these key employees (see Note 15). We are accreting the liability by charges to income over the vesting period. The deferred compensation cost charged against income, net of estimated forfeitures, was $0.2 million for the period October 2, 2005 to December 31, 2005. As of December 31, 2005, there was an additional $6.6 million

of unrecognized deferred compensation (not including an additional $5.8 million for which recognition of the awards were delayed to 2006) that will be charged to income over the remaining vesting period. The value of the deferred compensation fluctuates depending on stock price performance, within a defined range, and vesting will accelerate if there is a change of control as defined.

### *Extraordinary Gain on Acquisition of Minority Interest*

On June 30, 2003, Loral entered into a master settlement agreement with Alcatel Space and Alcatel Space Industries (collectively, "Alcatel") which resolved all claims among the parties. In connection with that agreement, Loral, among other things, acquired Alcatel's minority interest in CyberStar, resulting in the recognition in the second quarter of 2003 of an extraordinary gain of $14 million, which represents the extinguishment of the minority interest liability less the fair value of the acquired net assets.

### *Income Taxes*

Deferred income taxes reflect the future tax effect of temporary differences between the carrying amount of assets and liabilities for financial and income tax reporting and are measured by applying statutory tax rates in effect for the year during which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent it is more likely than not that the deferred tax assets will not be realized (see Note 14).

In addition, our policy is to establish tax contingency liabilities for potential audit issues. The tax contingency liabilities are based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits. At December 31, 2005, the Company had $41.8 million and $0.4 million of tax contingency liabilities included in long-term liabilities and income taxes payable, respectively. At December 31, 2004, the Company had $38.9 million of tax contingency liabilities included in liabilities subject to compromise.

*Additional Cash Flow Information*

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

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | |
| | | | 2004 | 2003 |
| Non-cash activities: | | | | |
| Minimum pension liability adjustment | | $ — | $(19,049) | $ (4,526) |
| Unrealized gains (losses) on available-for-sale securities, net of taxes | | $ (99) | $ 8,142 | $ (16,815) |
| Unrealized net losses on derivatives, net of taxes | | $ (487) | $ (1,046) | $ (244) |
| Increase in restricted cash related to debt proceeds | | $ 98,736 | | |
| Insurance proceeds receivable recorded for satellite loss and warranty obligations | | | | $ 122,770 |
| Accrual of preferred dividends | | | | $ 6,719 |
| Supplemental information: | | | | |
| Interest paid, net of capitalized interest | $ 15,548 | $ — | $ 23,550 | $ 83,062 |
| Taxes paid, net of refunds | $ (418) | $ 2,166 | $ 4,318 | $ 1,342 |
| Cash (paid) received for reorganization items: | | | | |
| Professional fees | $ (9,650) | $ (17,533) | $(18,745) | $ (7,598) |
| Employee retention costs | $ (4,790) | $ — | $ (6,468) | $ (2,680) |
| Severance costs | | $ — | $ (1,722) | |
| Restructuring costs | | $ (55) | | |
| Interest income | | $ 2,536 | $ 1,740 | $ 708 |

During 2004 and 2003, the Company included increases in restricted cash of $5,049,000 and $7,628,000, respectively, as part of net cash flows from operating activities instead of net cash flows from investing activities. As a result of this reclassification, net cash provided by operating activities changed from $61,080,000 (as reported) to $66,129,000 (as revised), during 2004, and from $225,025,000 (as reported) to $232,653,000 (as revised), during 2003. Additionally, net cash provided by (used in) investing activities changed from $911,936,000 (as reported) to $906,877,000 (as revised), during 2004, and from $(149,856,000) (as reported) to $(157,484,000) (as revised), during 2003. These changes were not considered to be material to the Company's consolidated statement of cash flows.

*New Accounting Pronouncements*

*FSP 13-1*

In October 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position FAS 13-1 ("FSP 13-1"), *Accounting for Rental Costs Incurred during a Construction Period,* which requires rental costs associated with land or building operating leases that are incurred during a construction period to be recognized as rental expense. We were required to adopt the Staff Position upon the adoption of fresh-start accounting requirements under SOP 90-7. The adoption of FSP 13-1 had no impact on our consolidated financial statements.

*FIN 47*

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"). FIN 47 provides guidance relating to the identification of and financial reporting for legal obligations to perform an asset retirement activity. FIN 47 requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also defines when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. We were required to adopt FIN 47 upon the adoption of fresh-start accounting requirements under SOP 90-7. The adoption of FIN 47 had no impact on our consolidated financial statements.

*SFAS 154*

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections,* ("SFAS 154") a replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement changes the requirements for the accounting and reporting of a change in accounting principle. It requires retrospective application to prior periods' financial statements of changes in accounting principles as opposed to recognizing the change in the period of adoption as a cumulative effect of a change in accounting principle, as previously required. We were required to adopt this statement upon the adoption of fresh-start accounting requirements under SOP-97. We were not required to apply SFAS 154 retrospectively since we were exempt under the fresh-start accounting requirements. The adoption of SFAS 154 had no impact on our consolidated financial statements.

*SFAS 153*

In December 2004, the FASB issued SFAS No. 153, *Exchange of Nonmonetary Assets,* ("SFAS 153") an amendment of Accounting Principles Board No. 29 ("APB No. 29"). It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive asset in paragraph 21(b) of APB No. 29 and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this statement were effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 had no impact on our consolidated financial statements.

*SFAS 150*

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within the scope as a liability (or an asset in some circumstances) because that financial instrument

embodies an obligation of the issuer. As a result of our adoption of SFAS 150 on July 1, 2003, we reclassified our redeemable convertible preferred stock to liabilities and increased the recorded values to their redemption values (with an offsetting increase to other assets) and recorded a cumulative effect of accounting change of $2 million during the third quarter of 2003, which represents the amortization of expenses incurred on the issuance of the securities from their issuance dates through June 30, 2003, that were not previously amortized.

*SFAS 151*

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs,* ("SFAS 151") an amendment of Accounting Research Bulletin No. 43, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criteria of "so abnormal". In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. We were required to adopt the provisions of this statement upon the adoption of fresh-start accounting requirements under SOP-97. The adoption of SFAS 151 had no impact on our consolidated financial statements.

*FSP 109-1*

In December 2004, the FASB staff issued FASB Staff Position No. FAS 109-1 ("FSP 109-1"), *Accounting for Income Taxes to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* (the "Job Creation Act"). The Job Creation Act replaced the export incentives of the extraterritorial income exclusion provision with a tax deduction for income from qualified domestic production activities. FSP 109-1 provides guidance on accounting for the impact of this tax deduction. Since we are projecting a net tax loss for 2005, we expect no benefit from this deduction in the current year.

## 4. Fresh-Start Accounting

On August 1, 2005, the Bankruptcy Court entered its Confirmation Order confirming the Company's Plan of Reorganization. On September 30, 2005, the FCC approved the transfer of FCC licenses from Old Loral to New Loral, which represented the satisfaction of the last material condition precedent to the Debtors' emergence from bankruptcy. Our emergence from Chapter 11 proceedings on November 21, 2005 resulted in a new reporting entity and adoption of fresh-start accounting in accordance with SOP 90-7 as of October 1, 2005, as reflected in the following financial information. Reorganization adjustments have been made in the financial information to reflect the discharge of certain pre-petition liabilities and the adoption of fresh-start accounting. These adjustments are based upon the work of Loral and our financial consultants to determine the relative fair values of our assets and liabilities. The allocation of the reorganization enterprise value to individual assets and liabilities may change based upon completion of the fair valuation process, as additional information becomes available, and may result in differences to the fresh-start adjustments presented in this financial information. The Company expects to finalize this allocation in the first half of 2006.

## CONDENSED CONSOLIDATED BALANCE SHEET [(a)]

| | Predecessor October 1, 2005 | Plan Reorganization Adjustments | Fresh-Start Valuation Adjustments [(e)] | Successor October 1, 2005 |
|---|---|---|---|---|
| | (in millions) | | | |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 198.7 | $ — | $ — | $ 198.7 |
| Accounts receivable, net | 14.4 | — | — | 14.4 |
| Contracts-in-process | 91.4 | — | (14.3) | 77.1 |
| Inventories | 45.5 | — | — | 45.5 |
| Other current assets | 41.3 | 97.5[(b)] | 3.4 | 142.2 |
| Total current assets | 391.3 | 97.5 | (10.9) | 477.9 |
| Property, plant and equipment, net | 536.5 | (3.5) [(i)] | 0.2 | 533.2 |
| Long-term receivables | 67.6 | — | (23.8) | 43.8 |
| Investments in and advances to affiliates | 53.7 | — | 56.3 | 110.0 |
| Deposits | 9.8 | — | — | 9.8 |
| Goodwill | — | — | 340.1[(g)] | 340.1 |
| Other assets | 42.1 | 2.1[(b)(j)] | 126.7 | 170.9 |
| | $ 1,101.0 | $ 96.1 | $ 488.6 | $ 1,685.7 |
| **LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 36.1 | $ 45.1[(c)(h)] | $ 1.2 | $ 82.4 |
| Accrued employment costs | 33.9 | 0.5[(c)] | — | 34.4 |
| Customer advances and billings in excess of costs and profits | 108.4 | 24.9[(c)(h)] | (3.2) | 130.1 |
| Interest payable | — | 19.1[(c)(h)] | — | 19.1 |
| Vendor financing payable | — | 37.1[(c)(h)] | — | 37.1 |
| Income taxes payable | — | 0.8[(c)] | — | 0.8 |
| Other current liabilities | 25.5 | 17.9[(c)(h)] | (1.7) | 41.7 |
| Total current liabilities | 203.9 | 145.4 | (3.7) | 345.6 |
| Pension and other postretirement liabilities | — | 156.6[(c)] | 78.2 | 234.8 |
| Long-term liabilities | 84.5 | 34.6[(c)] | 40.5 | 159.6 |
| Long-term debt | — | 103.4[(b)] | — | 103.4 |
| Total liabilities | 288.4 | 440.0 | 115.0 | 843.4 |
| Liabilities subject to compromise | 1,914.0 | (1,914.0) [(c)] | — | — |
| Minority interest | 2.3 | 200.0[(b)] | (2.3) | 200.0 |
| Shareholders' equity: | | | | |
| Common stock, par value $.01 and Paid-in capital | 3,397.2 | 642.3[(d)] | (3,397.2) [(f)] | 642.3 |
| Other | (93.8) | — | 93.8[(f)] | — |
| Retained (deficit) earnings | (4,407.1) | 727.8[(c)(d)] | 3,679.3[(f)] | — |
| Total shareholders' (deficit) equity | (1,103.7) | 1,370.1 | 375.9 | 642.3 |
| | $ 1,101.0 | $ 96.1 | $ 488.6 | $ 1,685.7 |

(a) The Condensed Consolidated Balance Sheet reflects a reorganization enterprise value of $970 million based on the Bankruptcy Court's determination (see Note 2), which, after reduction for the fair value of the Loral Skynet Notes and Series A Preferred

Stock (see Notes 12 and 15), results in a reorganization equity value of approximately $642 million. This results in goodwill equal to the excess of reorganization equity value over fair value of identifiable net assets.

(b) Reflects $98.7 million of proceeds from the rights offering of Loral Skynet Notes held in escrow as of October 1, 2005, and the related deferred debt issuance costs of $4.7 million and $200 million of Loral Skynet Preferred Stock pursuant to the Plan of Reorganization (see Notes 12 and 15).

(c) Reflects the discharge of prepetition liabilities in accordance with the Plan of Reorganization and the reclassification of the remaining liabilities subject to compromise to the appropriate liability accounts in accordance with the Plan of Reorganization. Discharge of Loral's pre-petition liabilities is summarized as follows (in millions):

| | | |
|---|---|---|
| To be exchanged for stock | $ | 1,298.0 |
| To be cancelled | | 292.2 |
| To be reinstated and/or paid in cash | | 323.8 |
| | $ | 1,914.0 |

Additionally, in accordance with the Plan of Reorganization, holders of claims to be paid in cash were paid interest at the rate of 6% per annum for the period from the petition date to the Effective Date of the Plan of Reorganization. This interest of $13.2 million was recorded as interest expense for the period ended October 1, 2005.

(d) Reflects the issuance of New Loral common stock to pre-petition creditors and the gain on the discharge of liabilities subject to compromise.

(e) Reflects changes to carrying values of assets and liabilities to reflect estimated fair values.

(f) Reflects the revaluation gain and the elimination of the retained deficit and other equity balances.

(g) Reflects goodwill equal to the excess of reorganization equity value over the estimated fair value of identifiable net assets.

(h) Amounts payable upon emergence are included in current liabilities.

(i) Reflects agreement to return certain fixed assets in settlement of certain pre-petition obligations.

(j) Reflects elimination of deferred charges related to the Old Loral debt and preferred stock, which were discharged in accordance with the Plan of Reorganization.

As a result of the above we recognized the following (in millions);

| | | |
|---|---|---|
| Gain on discharge of pre-petition obligations | $ | 727.8 |
| Gain on fresh-start valuation adjustments | | 375.9 |
| Total gain on discharge of pre-petition obligations and fresh-start adjustments | | 1,103.7 |
| Add interest expense to holders of claims paid in cash | | 13.2 |
| Less tax benefit on Plan of Reorganization and fresh-start valuation adjustments | | (15.4) |
| Total gain on discharge of pre-petition obligations and fresh-start adjustments excluding interest expense and income tax benefit | $ | 1,101.5 |

## 5. Discontinued Operations

On March 17, 2004, we consummated the sale of our North American satellites and related assets to certain affiliates of Intelsat, Ltd. and Intelsat (Bermuda), Ltd. (collectively, "Intelsat"). At closing, we received approximately $1.011 billion, consisting of approximately $961 million for the North American satellites and related assets, after adjustments, and $50 million for an advance on a new satellite to be built for Intelsat by SS/ L. We used a significant portion of the funds received to repay all $967 million of our outstanding secured bank debt. In addition, after closing, we received approximately $16 million from Intelsat to reimburse us for a deposit made for the launch of Intelsat Americas 8 (Telstar 8), and we received an additional $4 million in May 2004 as a purchase price adjustment resulting from resolution of a regulatory issue. The operating revenues and expenses of these assets and a portion of interest expense on our secured debt through March 18, 2004 have been classified as discontinued operations under SFAS 144 for all periods presented. As a result of the resolution of the contingencies primarily relating to the completion of the Intelsat Americas 8 (Telstar 8) satellite, which was successfully launched on June 23, 2005, we have recognized on

our statement of operations the previously deferred gain on the sale of $11.4 million, net of taxes of $4.3 million, during the quarter ended June 30, 2005. The tax provision on the gain was reduced by $2.6 million in the quarter ended September 30, 2005, as a result of finalization of our 2004 tax returns, resulting in a net gain recorded of $14.0 million.

The following table summarizes certain statement of operations data for the discontinued operations. In 2004, the operating results of the discontinued operations are for the period from January 1, 2004 to March 17, 2004, the date of the sale. The 2004 results include the write-off of approximately $11 million of debt issuance costs to interest expense relating to secured bank debt that we repaid in March 2004 and $9 million of operating income due to an insurance claim received with respect to a satellite that was sold. For the purposes of this presentation, in accordance with SFAS 144, continuing operations includes all indirect costs normally associated with these operations, including telemetry, tracking and control, access control, maintenance and engineering, selling and marketing, and general and administrative.

| | Predecessor Registrant | | |
|---|---|---|---|
| | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | |
| | | 2004 | 2003 |
| | (in thousands) | | |
| Revenues of discontinued operations | $ — | $ 29,149 | $ 143,564 |
| Operating income | $ — | $ 22,408 | $ 78,958 |
| Interest expense on secured bank debt (Note 12) | — | (24,756) | (49,178) |
| Income (loss) before income taxes | — | (2,348) | 29,780 |
| Income tax provision | — | — | (10,977) |
| Gain on sale of discontinued operations, net of tax | 13,967 | — | — |
| Income (loss) from discontinued operations | $ 13,967 | $ (2,348) | $ 18,803 |

The satellites sold had a net book value of $935 million, including insurance proceeds receivable of $123 million, on our consolidated balance sheet at December 31, 2003. The other related assets and liabilities sold had a net book value of $30 million and $31 million, respectively, as of December 31, 2003.

## 6. Accumulated Other Comprehensive Income (Loss)

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

| | Consolidated Balance Sheet | | Consolidated Statement of Operations | | | |
|---|---|---|---|---|---|---|
| | Successor Registrant | Predecessor Registrant | Successor Registrant | Predecessor Registrant | | |
| | | | For the Period October 2, 2005 to | For the Period January 1, 2005 to | Years Ended December 31, | |
| | December 31, 2005 | December 31, 2004 | December 31, 2005 | October 1, 2005 | 2004 | 2003 |
| Cumulative translation adjustment | $ 15 | $ (799) | $ 15 | $ (222) | $ 140 | $ 970 |
| Derivatives classified as cash flow hedges, net of taxes: | | | | | | |
| Net (decrease) increase in foreign currency exchange contracts | | | | — | — | 551 |
| Reclassifications into revenues, cost of sales and income taxes from other comprehensive income | | | | (487) | (1,046) | (355) |
| Reclassifications into interest expense from other comprehensive income for anticipated transactions that are no longer probable | | | | — | — | (440) |
| Unrealized net gains (losses) on derivatives | | (604) | | (487) | (1,046) | (244) |
| Unrealized (losses) gains on available-for-sale securities, net of taxes | | — | | (99) | 8,142 | (16,815) |
| Minimum pension liability adjustment | | (88,258) | | | (19,049) | (4,526) |
| Accumulated other comprehensive income (loss) | $ 15 | $ (89,661) | $ 15 | $ (808) | $(11,813) | $(20,615) |

As described in Note 9, with the dissolution of Globalstar, L.P. on June 29, 2004, we wrote-off the remaining book value of our investment in Globalstar, L.P.'s $500 million credit facility and reduced to zero the unrealized gains and related deferred tax liabilities previously reflected in accumulated other comprehensive loss. The unrealized gains reflected above for the year ended December 31, 2004, include the reversal of $11.4 million of deferred tax liabilities relating to our investment in Globalstar, L.P.'s $500 million credit facility.

## 7. Contracts-in -Process and Long-Term Receivables

*Contracts-in -Process*

Contracts-in -Process consists of (in thousands):

| | Successor Registrant | Predecessor Registrant |
|---|---|---|
| | December 31, | |
| | 2005 | 2004 |
| U.S. government contracts: | | |
| Amounts billed | $ 124 | $ 1,936 |
| Unbilled receivables | 4,287 | 4,818 |
| | 4,411 | 6,754 |
| Commercial contracts: | | |
| Amounts billed | 38,789 | 6,210 |
| Unbilled receivables | 30,384 | 6,076 |
| | 69,173 | 12,286 |
| | $ 73,584 | $ 19,040 |

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.

Certain contracts that SS/ L had recently entered into provided that SS/ L's customers may defer milestone payments otherwise due until after SS/ L emerges from Chapter 11. Accordingly, SS/ L deferred milestone billings to these customers of approximately $108 million as of November 21, 2005. Upon emergence from bankruptcy, SS/ L billed and received $62 million of these milestones with the remaining amount to be billed following successful disposition of the Appeals. As of March 10, 2006, the balance of $46 million, has been substantially received.

*Long-Term Receivables*

Billed receivables relating to long-term contracts are expected to be collected within one year. We classify billings deferred and the orbital component of unbilled receivables expected to be collected beyond one year as long-term. Fresh-start fair value adjustments relating to long-term receivables are amortized on the effective interest method over the life of the related orbital stream.

Receivable balances related to satellite orbital incentive payments and billings deferred as of December 31, 2005 are scheduled to be received as follows (in thousands):

| | Long-Term Receivables |
|---|---|
| 2006 | $ 50,214 |
| 2007 | 10,255 |
| 2008 | 734 |
| 2009 | 2,024 |
| 2010 | 2,437 |
| Thereafter | 32,705 |
| | 98,369 |
| Less, current portion included in contracts-in-process | (50,214) |
| Long-term receivables | $ 48,155 |

Amortization of fresh-start accounting fair value adjustments relating to contracts-in-process, long-term receivables, customer advances and billings in excess of costs and profits and deferred revenue was $(7.9) million during the period October 2, 2005 to December 31, 2005.

During 2004, we wrote-off $11.3 million of long-term receivables due to a contract modification.

## 8. Property, Plant and Equipment (see Note 3)

Property, Plant & Equipment consists of (in thousands):

| | Successor Registrant | Predecessor Registrant |
|---|---|---|
| | December 31, | |
| | 2005 | 2004 |
| Land and land improvements | $ 27,833 | $ 24,827 |
| Buildings | 52,873 | 87,133 |
| Leasehold improvements | 6,352 | 15,638 |
| Satellites in-orbit, including satellite transponder rights of $116.7 million and $279.6 million in 2005 and 2004, respectively | 366,196 | 1,093,951 |
| Satellites under construction | 197 | — |
| Earth stations | 17,710 | 82,577 |
| Equipment, furniture and fixtures | 61,937 | 276,948 |
| Other construction in progress | 5,096 | 2,337 |
| | 538,194 | 1,583,411 |
| Accumulated depreciation and amortization | (17,691) | (784,503) |
| | $ 520,503 | $ 798,908 |

Depreciation and amortization expense for property, plant and equipment was $17.7 million and $61.2 million for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, respectively, and $131.2 million and $131.1 million in 2004 and 2003, respectively. Accumulated depreciation and amortization as of December 31, 2005 and 2004 includes $3.3 million and $112.9 million, respectively,

related to satellite transponders where Loral has the rights to transponders for the remaining life of the related satellite.

On March 17, 2004 we sold our North American satellites and related assets (see Note 5).

In January 2004, our Telstar 14/ Estrela do Sul-1 ("EDS") satellite's North solar array only partially deployed after launch, diminishing the power and life expectancy of the satellite. SS/ L had submitted to its insurers a claim for a total constructive loss of the satellite, seeking recovery for the insured value of $250 million. At the end of March 2004, the satellite began commercial service able to operate 15 of its 41 transponders. The satellite's life expectancy is now approximately six years, as compared to a design life of 15 years. During March 2004, we recorded an impairment charge of $12 million to reduce the carrying value of the satellite and related assets to the expected proceeds from insurance of $250 million. On May 10, 2005, the Bankruptcy Court approved the terms of a settlement arrangement between SS/ L and the insurers pursuant to which SS/ L would be paid 82% of the insured amount and the insurers would waive any rights they may have to obtain title to EDS as a result of payment on the insurance claim. As of October 1, 2005, SS/ L had received $205 million in insurance proceeds, representing the full settlement amount, from the insurers. We expect that the net cash flow of EDS over its six-year life will exceed its carrying value.

On September 20, 2002, and as further amended in March 2003, we agreed with APT Satellite Company Limited ("APT") to jointly acquire the Apstar V satellite (now known as Telstar 18). Under this agreement, we were initially to acquire 23% of the satellite in return for paying 25% of the project cost, and were to pay APT over time an additional 25% of the project cost to acquire an additional 23% interest in the satellite. In August 2003, we amended our various agreements with APT, converting our arrangement from joint ownership to a lease, but leaving unchanged the cost allocation between the parties relating to the project cost of the satellite. Under this arrangement, we retain title to the entire satellite. The number of transponders leased to APT is reduced over time upon repayment by us of the second 25% of the satellite's project cost, ultimately to 54% of the satellite's transponder capacity. As a result of this conversion from joint ownership to a lease arrangement, in the third quarter of 2003 we (a) reversed the cumulative sales of $83 million and cost of satellite manufacturing of $73 million and (b) recorded an increase to self-constructed assets of $73 million and recorded deferred revenue of $80 million from APT. In November 2003, we agreed with APT to further revise our existing arrangement. Under this revised arrangement, we agreed, among other things, to accelerate the termination of APT's leasehold interest in 4.5 transponders by assuming $20.4 million of project cost which otherwise would have been initially paid by APT, decreasing APT's initial leased transponder capacity from 77% to 69% (or 37 transponders). In addition, we agreed to provide to APT, at no additional cost, certain unused capacity on Telstar 10/ Apstar IIR during an interim period (which has since expired).

During September 2004, our Telstar 18 satellite began commercial service and we recognized $87 million of sales and $80 million of cost of sales relating to the sales-type lease element of our agreement with APT. In addition, as of December 31, 2005, we have recorded $4 million of deferred revenue relating to the operating lease and service elements of the agreement (primarily APT's lease of four transponders for four years and four additional transponders for five years and our providing APT with telemetry, tracking and control services for the life of the satellite), which is being recognized on a straight-line basis over the life of the related element being provided. Also, at December 31, 2005, our long-term liabilities included $25 million, representing the present value of our obligation to make future payments of $18.1 million to APT on each of the fourth and fifth in-service anniversaries of Telstar 18, whereupon APT's leasehold interest in the related transponders described in the preceding sentence, would be terminated.

The transponder capacity on satellites in orbit is either leased by customers or held for lease by us. Future minimum lease receipts due from customers under long-term operating leases for transponder capacity on our satellites in orbit and for service agreements as of December 31, 2005 are as follows (in thousands):

| | |
|---|---|
| 2006 | $ 109,570 |
| 2007 | 70,293 |
| 2008 | 61,565 |
| 2009 | 55,809 |
| 2010 | 40,967 |
| Thereafter | 95,019 |
| | $ 433,223 |

## 9. Investments in and Advances to Affiliates

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

| | Successor Registrant | Predecessor Registrant |
|---|---|---|
| | December 31, | |
| | 2005 | 2004 |
| XTAR equity investment | $ 104,616 | $ 49,181 |

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

| | | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to DeSuccessor, Registrant | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| XTAR | $ (5,384) | $ (2,796) | $ 87 | $ (230) |
| Satmex | — | — | — | (51,699) [1] |
| Globalstar, L.P. and Globalstar service provider partnerships | — | — | 46,567 | 776 |
| Other | (63) | — | — | — |
| | $ (5,447) | $ (2,796) | $46,654 | $ (51,153) |

(1) Includes the write-off of our remaining investment in Satélites Mexicanos, S.A. de C.V. ("Satmex") of $29 million due to the financial difficulties that Satmex is having (see below).

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

| | For the Period October 2, 2005 to DSuccessor1, Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | |
| | | | 2004 | 2003 |
| Revenues | $ 4,148 | $ 10,025 | $ 7,779 | $27,716 |
| Investment income | — | — | — | 886 |
| Interest expense capitalized on development stage enterprises | — | — | 478 | 1,196 |
| Elimination of Loral's proportionate share of (profits) losses relating to affiliate transactions | (2,949) | 593 | 2,440 | 4,444 |
| Profits (losses) relating to affiliate transactions not eliminated | 2,318 | (466) | (1,917) | (3,621) |
| Amortization of deferred credit and profits relating to investments in affiliates | — | — | — | (783) |

*XTAR*

XTAR, L.L.C. ("XTAR"), is a joint venture between us and Hisdesat Servicios Estrategicos, S.A. ("Hisdesat"), a consortium comprised of leading Spanish telecommunications companies, including Hispasat, S.A., and agencies of the Spanish government. XTAR was formed to construct and launch an X-band satellite 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. XTAR currently has contracts to provide X-band services to the U.S. Department of State, the Spanish Ministry of Defense and the Danish armed forces. XTAR's satellite was successfully launched on February 12, 2005 and commenced service in March 2005.

We own 56% of XTAR (accounted for under the equity method since we do not control certain significant operating decisions) and Hisdesat owns 44%. During the first quarter of 2005, we made an equity contribution of $7.35 million to XTAR, which was matched by $5.78 million from Hisdesat. To date, the partners have contributed $109.6 million to XTAR in proportion to their respective ownership interests.

XTAR and Loral Skynet have entered into agreements whereby Loral Skynet provides to XTAR (i) certain selling, general and administrative services, (ii) telemetry, tracking and control services for the XTAR satellite, (iii) transponder engineering and regulatory support services as needed and (iv) satellite construction oversight services.

In May 2005, XTAR signed a contract with the U.S. Department of State for the lease of transponder capacity. The State Department is authorized pursuant to its procurement guidelines to lease up to $137.0 million of capacity under this contract, to the extent that capacity is available. To date, the U.S. Department of State has committed to a three-year lease of one transponder under this contract, having a total lease value of $13.5 million, and has the right, at its option, to renew the lease for two additional years, which would bring the total value of the lease to $22.5 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.

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

XTAR entered into a Launch Services Agreement with Arianespace, S.A. ("Arianespace") providing for launch of its satellite on Arianespace's Ariane 5 ECA launch vehicle. Arianespace provided a one-year, $15.8 million, 10% interest paid-in -kind loan for a portion of the launch price, secured by certain of XTAR's assets, including the satellite, ground equipment and rights to the orbital slot. The remainder of the launch price consists of a revenue-based fee to be paid over time following commencement of operations by XTAR. If XTAR is unable to repay the Arianespace loan when due, Arianespace may have the right to foreclose on the XTAR assets pledged as collateral, which would adversely affect our investment in XTAR. On October 25, 2005, XTAR and Arianespace entered into an amendment to the loan agreement pursuant to which Arianespace agreed to extend the maturity date of the loan to November 2006 in return for XTAR's agreement to make certain amortization and excess cash payments to Arianespace. As of December 31, 2005, $13.7 million was outstanding under the Arianespace loan.

XTAR has agreed to lease certain transponders on the Spainsat satellite, which has been constructed by SS/ L for Hisdesat. Spainsat was successfully launched on March 11, 2006 and is expected to commence service in April 2006. XTAR's lease obligations for such service would initially amount to $6.2 million per year, growing to $23 million per year. Under this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the Spainsat transponders leased by XTAR.

The following table presents summary financial data for XTAR as of and for the year ended December 31, 2005 (in millions):

Statement of Operations Data:

| | Year Ended December 31, 2005 |
|---|---|
| Revenues | $ 9.4 |
| Operating loss | (5.4) |
| Net loss | (9.6) |

Balance Sheet Data:

| | December 31, 2005 |
|---|---|
| Current assets | $ 7.4 |
| Total assets | 142.8 |
| Current liabilities | 21.1 |
| Long-term liabilities | 30.2 |
| Members equity | 91.5 |

*Satmex*

In 1997, in connection with the privatization of Satmex by the Mexican Government of its satellite services business, Loral and Principia S.A. de C.V. ("Principia") formed a joint venture that acquired 75% of the outstanding capital stock of Satmex. In addition to the $647 million of cash that was given to the Mexican Government for this 75% interest, as part of the acquisition, a wholly owned subsidiary of the joint venture, Servicios Corporativos Satelitales S.A. de C.V. ("Servicios"), was required to issue a seven-year government obligation ("Government Obligation") to the Mexican Government. The Government Obligation had an initial face amount of $125 million and accreted at 6.03% to $189 million as of December 30, 2004, its maturity date. There is no guarantee of this debt by Satmex; however, Loral and Principia have pledged their respective membership interests in the joint venture in a collateral trust to support this obligation. As Servicios did not repay the Government Obligation when it was due, the Mexican Government could foreclose on these

shares, which would result in Loral losing nearly all of its investment stake in Satmex. A small portion of our ownership is comprised of direct equity interests in Satmex and such interest has not been pledged.

On June 30, 2004, Satmex's floating rate notes came due and Satmex did not make the required principal payment of $203.4 million. On November 1, 2004, the fixed rate notes came due and Satmex did not make the required principal payment of $320.0 million. Also, Satmex did not make the August 1, 2003, February 1, 2004, and August 1, 2004 interest payments on the fixed rate notes or the interest due on maturity of the fixed rate notes. The aggregate amount of interest payment due was $56.7 million.

On December 29, 2004, the Government Obligation of approximately $125.1 million plus accrued interest of approximately $63 million came due and Servicios did not make payment of such amounts. As a result of the payment defaults under the Government Obligation, the Mexican government could initiate proceedings against Servicios, which may include foreclosure on the joint venture shares held by Loral and Principia which would result in a change of control of Satmex. The Mexican government is seeking to commence an involuntary proceeding against Servicios under applicable Mexican bankruptcy laws.

As a consequence of the defaults described above, on May 25, 2005, certain holders of Satmex fixed rate notes and the floating rate notes (the "Petitioning Creditors") filed an involuntary petition (the "Involuntary Petition") commencing a Chapter 11 case under the Bankruptcy Code against Satmex in the U.S. Bankruptcy Court. On June 29, 2005, Satmex filed a petition for reorganization in Mexico (the "Concurso Mercantil"). On July 7, 2005, Satmex filed a motion in the U.S. Bankruptcy Court to dismiss the bankruptcy filing for Satmex made by its U.S. creditors. Satmex subsequently reached a settlement agreement with the Petitioning Creditors premised upon, among other things, the parties consenting to Satmex commencing a case under section 304 of the Bankruptcy Code in the Bankruptcy Court, as a case ancillary to the Concurso Mercantil, and the voluntary dismissal of the involuntary Chapter 11 case commenced by the Petitioning Creditors. In January 2006, Satmex reached an agreement in principle with its creditors to restructure its debt, which is currently in default. As a result, we expect our ownership in Satmex to be reduced to less than five percent.

As of December 31, 2005, we had a 49% indirect economic interest in Satmex. We account for Satmex using the equity method. In the third quarter of 2003, we wrote off our remaining investment in Satmex of $29 million (as an increase to its equity loss), due to the financial difficulties that Satmex was having. As a result, and because we have no future funding requirements relating to this investment, there is no requirement for us to provide for our allocated share of Satmex's net losses subsequent to September 30, 2003. In addition, Loral recorded reductions in estimated contract revenues from Satmex, resulting in an increase to our operating loss of approximately $24 million in 2003.

As a result of writing off our remaining investment in Satmex in the third quarter of 2003, the following table presents summary statement of operations data for Satmex for the nine months ended September 30, 2003 (in thousands):

| | Nine Months Ended September 30, 2003 |
|---|---|
| Revenues | $ 59,212 |
| Operating (loss) income | (4,195) |
| Net loss | (31,687) |
| Net loss applicable to common stockholders | (32,818) |

### *Satmex Settlement Agreement*

On June 14, 2005, Loral Space & Communications Holdings Corporation ("LSCC"), Loral SpaceCom, a division of Loral SpaceCom, Loral Skynet Network Services, Inc. ("LSNS") and SS/L (collectively the

"Loral Entities") and Satmex entered into an agreement to be implemented through various amendments and agreements with respect to various transactions involving the Loral Entities and Satmex (the "Settlement Agreement"), including but not limited to the contract for the procurement of Satmex 6 between SS/L and Satmex (the "Satmex 6 SPA"), the management services agreement among Loral SpaceCom, Principia and Satmex (the "Management Services Agreement"), the license agreement between Loral SpaceCom and Satmex (the "License Agreement"), and various transponder agreements between certain of the Loral entities or LSNS and Satmex. Pursuant to the terms of the Settlement Agreement, Satmex and the Loral Entities agreed to offset certain amounts owing between them, and SS/L agreed to give Satmex an allowed claim of $3.7 million in SS/L's Chapter 11 Case. In addition, SS/L and Satmex terminated their respective obligations under the Satmex 6 SPA, and entered into a new contract pursuant to which SS/L agreed to perform certain additional work, as well as renewed its commitment to provide its continued support for the launch of Satmex 6 provided that SS/L's obligation to provide certain services under the new contract is expressly subject to certain conditions, including Satmex obtaining the approval of the Settlement Agreement and the underlying transactions with any court(s) and other authorities with jurisdiction over its reorganization proceeding. Also pursuant to the Settlement Agreement, Loral SpaceCom and Satmex agreed to terminate the Management Services Agreement and the License Agreement. As part of the consideration for the various benefits conferred by the Loral Entities to Satmex under the terms of the Settlement Agreement, including without limitation, the elimination of Satmex's obligation to make orbital incentive and end of life bonus payments in respect of Satmex 6, Satmex has agreed to lease to LSCC for the life of the satellite, without any further consideration, two 36 MHz Ku-band transponders and two 36 MHz C-band transponders on Satmex 6. Upon emergence from bankruptcy, LSCC assigned its rights under this lease agreement to SS/L. The Settlement Agreement was approved by the Bankruptcy Court on July 26, 2005 and became effective on August 5, 2005. Upon receipt of Bankruptcy Court approval, Loral Skynet recorded income of $4.6 million representing the reversal of reserves and accruals recorded in previous periods. In February 2006, the *conciliador* in Satmex's Mexican reorganization proceedings approved the Settlement Agreement. We have not recorded the financial benefit of the transponder lease pending the launch of Satmex 6.

*Globalstar Related Activities*

We accounted for our investment in Globalstar, L.P.'s $500 million credit facility at fair value, with changes in the value (net of tax) recorded as a component of other comprehensive loss (see Note 6). We recorded unrealized net gains (losses) after taxes as a component of other comprehensive loss of $8 million and $(17) million in 2004 and 2003, respectively, in connection with this security.

On April 14, 2004, Globalstar, L.P. announced the completion of its financial restructuring following the formal acquisition of its main business operations and assets by Thermo Capital Partners LLC ("Thermo"), effectively resulting in Globalstar, L.P. exiting from bankruptcy. Thermo invested $43 million in the newly formed Globalstar company ("New Globalstar") in exchange for an 81.25% equity interest, with the remaining 18.75% of the equity to be distributed to the creditors of Globalstar, L.P. Our share of the equity interest is approximately 2.7% of New Globalstar, to which we assigned no value. Upon receipt of our equity interest in New Globalstar in June 2004, we reversed the $2.8 million unrealized gain included in accumulated other comprehensive income against the remaining $2.8 million investment in Globalstar, L.P.'s $500 million credit facility, which had no impact on our consolidated results of operations.

On June 29, 2004, Globalstar, L.P. was dissolved. As a result of Globalstar, L.P.'s liquidation, we recorded equity income of $47 million on the reversal of vendor financing liabilities that were non-recourse to SS/L in the event of non-payment by Globalstar, L.P..

Loral holds various indirect ownership interests in three foreign companies that currently serve as exclusive service providers for Globalstar service in Brazil, Mexico and Russia and an indirect ownership in a

U.S.-based distributor that has the exclusive right to sell Globalstar services to certain government agencies in the United States.

## 10. Accounting for Goodwill and Other Intangible Assets

*Goodwill*

Goodwill was established in connection with our adoption of fresh-start accounting (see Notes 3 and 4).

*Other Intangible Assets*

Other Intangible Assets were established in connection with our adoption of fresh-start accounting (see Notes 3 and 4). Intangible assets are included in Other Assets on our consolidated balance sheet (in millions, except years):

| | Successor Registrant | | | Predecessor Registrant | |
|---|---|---|---|---|---|
| | | December 31, 2005 | | December 31, 2004 | |
| | Weighted Average Remaining Amortization Period (Years) | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Internally developed software and technology | 5 | $ 59.8 | $ (2.7) | $ — | $ — |
| Orbital slots | 7 | 15.8 | (0.8) | 20.0 | (5.8) |
| Trade names | 20 | 13.2 | (0.2) | — | — |
| Customer relationships | 14 | 20.0 | (0.3) | — | — |
| Customer contracts | 7 | 32.0 | (2.1) | | |
| Regulatory fees | | — | — | 2.5 | (1.9) |
| Other intangibles | 4 | 2.7 | (0.1) | 13.0 | (12.0) |
| Total | | $ 143.5 | $ (6.2) | $ 35.5 | $ (19.7) |

Total pre-tax amortization for intangible assets of $6.2 million for the period October 2, 2005 to December 31, 2005 primarily reflects the net amortization of the fair value adjustments recorded in connection with our adoption of fresh start accounting (see Note 4). Total pre-tax amortization expense was $2.6 million for the period January 1, 2005 to October 1, 2005 and $3.3 million for each of the years ended December 31, 2004 and 2003. Annual pre-tax amortization expense for intangible assets for the five years ended December 31, 2010 is estimated to be as follows (in millions):

| | |
|---|---|
| 2006 | $ 20.8 |
| 2007 | 19.9 |
| 2008 | 19.3 |
| 2009 | 18.3 |
| 2010 | 14.6 |

## 11. Liabilities Subject to Compromise — Predecessor Registrant

Liabilities subject to compromise included debt, accounts payable, accrued expenses and other liabilities that were discharged as part of our emergence from bankruptcy. Creditors received distributions consisting of cash, debt, preferred stock and common stock in settlement of their bankruptcy claims. The ratio of cash, debt, preferred stock and common stock that individual creditors received depended upon the priority of the claim allowed for each creditor. We recorded a gain on the estimated settlement of these liabilities of $727.8 million (including interest expense and tax benefit) in the period January 1, 2005 to October 1, 2005

(see Note 4). Liabilities subject to compromise at December 31, 2004 which were discharged upon our emergence from bankruptcy consisted of the following (in thousands):

| | December 31, 2004 |
|---|---|
| Debt obligations (see Note 12) | $ 1,269,977 |
| Accounts payable | 52,728 |
| Accrued employment costs | 542 |
| Customer advances | 30,837 |
| Accrued interest and preferred dividends | 40,428 |
| Income taxes payable | 38,934 |
| Pension and other postretirement liabilities | 178,647 |
| Other liabilities | 79,926 |
| 6% Series C convertible redeemable preferred stock | 187,274 |
| 6% Series D convertible redeemable preferred stock | 36,707 |
| | $ 1,916,000 |

## 12. Debt Obligations

Debt consists of (in thousands):

| | Successor Registrant December 31, 2005 | Predecessor Registrant December 31, 2004 |
|---|---|---|
| Loral Skynet 14.0% senior secured notes due 2015 (principal amount $126 million) | $ 128,191 | $ — |
| Loral Orion 10.0% senior notes due 2006: | | |
| Principal amount | — | 612,704 |
| Accrued interest (deferred gain on debt exchanges) | — | 214,446 |
| 9.50% senior notes due 2006 | — | 350,000 |
| Non-recourse debt of Loral Orion: | | |
| 11.25% senior notes due 2007 (principal amount $37 million) | — | 39,402 |
| 12.50% senior discount notes due 2007 (principal amount $49 million) | — | 53,425 |
| | $ 128,191 | $ 1,269,977 |

### Successor Registrant

*Loral Skynet Notes*

On November 21, 2005, pursuant to the Plan of Reorganization, Loral Skynet issued $126 million of 14% Senior Secured Notes due 2015 (the “Loral Skynet Notes”) which notes are guaranteed on a senior secured basis by our subsidiary Loral Asia Pacific Satellite (HK) Limited and all of Loral Skynet’s existing domestic, wholly-owned subsidiaries, and will be guaranteed on the same basis by all future domestic wholly-owned, and subject to obtaining all required consents, majority-owned, subsidiaries of Loral Skynet (collectively, the “Subsidiary Guarantees”). The Loral Skynet Notes and the Subsidiary Guarantees are secured by all the assets of the obligors, subject to certain exclusions. The indenture covering the Loral Skynet Notes (the “Indenture”) permits Loral Skynet to obtain additional borrowings on both an unsecured and

secured basis, in certain cases utilizing the same assets that secure the Loral Skynet Notes and the Subsidiary Guarantees.

The Loral Skynet Notes mature in 2015, subject, in certain instances, to earlier repayment in whole or in part. During the first two years after the Effective Date, we may redeem the notes at a redemption price of 110% plus accrued and unpaid interest, but only if we do not receive an objection notice from holders of two-thirds of the principal amount of the notes. After this two-year period, the notes are redeemable at our option at a redemption price of 110%, declining over time to 100% in 2014, plus accrued and unpaid interest. The Loral Skynet Notes bear interest at a rate of 14% per annum payable in cash semi-annually, provided that, if the amount of any interest payment would exceed certain thresholds calculated as specified in the Indenture, or under other circumstances at the determination of the Board of Directors of Loral Skynet unless two thirds of the holders of principal amount of the Loral Skynet Notes duly object, interest will be paid in kind by the issuance of additional Loral Skynet Notes. The proceeds from the Loral Skynet Notes have been used by Loral Skynet to finance, in part, the consummation of the Plan of Reorganization and the payment of the fees and expenses relating thereto. The Indenture also contains restrictive covenants that limit Loral Skynet's and its subsidiaries' ability to take certain actions, including certain restricted payments, incurrence of debt, incurrence of liens, payment of certain dividends or distributions, issuance or sale of capital stock of subsidiaries, sale of assets, affiliate transactions and sale/leaseback and merger transactions.

Certain creditors were offered the right to subscribe to purchase their pro rata share of $120 million of the Loral Skynet Notes, which offering was underwritten by certain other creditors who received a $6 million fee paid in additional Loral Skynet Notes. As of October 1, 2005, there was $98.7 million (including $0.4 million of earned interest) deposited in an escrow account by subscribing creditors. The remaining $21.7 million was received upon issuance of the Loral Skynet Notes. As a result of the interest free period between October 1, 2005 and November 21, 2005, a premium of approximately $2.2 million was imputed. This premium and the total debt issuance costs of $6.2 million are being amortized to interest expense using the effective interest rate method resulting in an effective interest rate of $14.6%.

*SS/L Letter of Credit Facility*

On November 21, 2005, SS/L entered into the $20,000,000 letter of credit agreement with JPMorgan Chase Bank. The agreement provides, among other things, for the amendment and restatement of SS/L's then existing letter of credit facility such that any existing letters of credit issued and outstanding became letters of credit under this new letter of credit agreement. The letters of credit are available from November 21, 2005 until the earlier of the termination by SS/L of the $20,000,000 commitment, or December 31, 2006. Outstanding letters of credit are fully cash collateralized. As of December 31, 2005, $2.4 million of letters of credit under this facility were issued and outstanding.

**Predecessor Registrant (see Note 11)**

As a result of our voluntary petitions for reorganization, all of our prepetition debt obligations were accelerated. These debt obligations have been discharged pursuant to the Plan of Reorganization (see Note 2).

On March 17, 2004, we repaid all $967 million of our outstanding secured bank debt (see Notes 2 and 5). As of December 31, 2004, the principal amounts of our prepetition debt obligations were $1.049 billion.

Subsequent to our voluntary petitions for reorganization on July 15, 2003, we only recognized and paid interest on our bank debt through March 18, 2004 and stopped recognizing and paying interest on all other outstanding debt obligations. While we were in Chapter 11, we only recognized interest expense to the extent paid. For the period ended October 1, 2005 and the years ended December 31, 2004 and 2003, we did not recognize $32.6 million, $43.5 million and $19.9 million, respectively, of interest expense on our senior notes

(excluding our 10% senior notes) and $46.0 million, $61.3 million and $28.1 million, respectively, of a reduction to accrued interest on our 10% senior notes, as a result of the suspension of interest payments on our debt obligations.

## 13. Reorganization Expenses Due to Bankruptcy

Reorganization expenses due to bankruptcy for the period ended October 1, 2005, year ended December 31, 2004 and for the period from July 15, 2003 (filing date) to December 31, 2003 were as follows (in thousands):

| | Predecessor Registrant | | |
|---|---|---|---|
| | For the Period January 1, 2005 to October 1, 2005 | Year Ended December 31, 2004 | July 15, 2003 (Filing Date) to December 31, 2003 |
| Professional fees | $ 32,240 | $ 20,898 | $ 15,489 |
| Employee retention costs | (917) | 10,035 | 4,692 |
| Severance costs | 972 | 4,641 | — |
| Facility closing costs | — | 1,963 | — |
| Lease rejection claims (gains) | (265) | 220 | 5,872 |
| Vendor settlement losses (gains) | 289 | (5,561) | (61) |
| Restructuring costs | 1,503 | — | — |
| Interest income | (2,586) | (1,740) | (708) |
| Total reorganization expenses due to bankruptcy | $ 31,236 | $ 30,456 | $ 25,284 |

## 14. Income Taxes

The (provision) benefit for income taxes on the (loss) income from continuing operations before income taxes, equity income (losses) in affiliates and minority interest consists of the following (in thousands):

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| Current: | | | | |
| U.S. Federal | $ (532) | $ (1,235) | $ — | $ 358 |
| State and local | (429) | (2,339) | (335) | (745) |
| Foreign | (791) | (1,659) | (796) | (604) |
| Total | (1,752) | (5,233) | (1,131) | (991) |
| Deferred: | | | | |
| U.S. Federal | 325 | (259,373) | 59,635 | 118,672 |
| State and local | 97 | (45,737) | 12,891 | (16,811) |
| Foreign | | | (3,650) | 960 |
| Valuation allowance | (422) | 321,244 | (81,029) | (95,500) |
| Total | — | 16,134 | (12,153) | 7,321 |
| Total income tax (provision) benefit | $ (1,752) | $ 10,901 | $(13,284) | $ 6,330 |

For the periods from October 2, 2005 to December 31, 2005 and from January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003, the (loss) income from continuing operations before income taxes includes non-U.S. source income (loss) of approximately $1.2 million, $1.9 million, $0.3 million and $(22) million, respectively. Old Loral received no cumulative benefit as a result of being established in Bermuda because of substantial losses incurred by the Bermuda entities. Our provision for foreign income taxes relates primarily to Brazil tax imposed on the lease income from Estrela do Sul-1.

For the period October 2, 2005 to December 31, 2005, we continued to maintain the 100% valuation allowance that had been established at December 31, 2002 against our net deferred tax assets, with the exception of our $2.0 million deferred tax asset relating to AMT credit carryforwards.

In connection with our emergence from bankruptcy, Old Loral realized cancellation of debt income ("COD") on its federal income tax return of approximately $439 million. COD realized while in bankruptcy is excluded from federal taxable income. We are required to reduce certain of our tax attributes, and to the extent sufficient attributes are not available on a separate company basis, reduce the tax basis in our assets, by an amount equal to the COD excluded by Old Loral from its taxable income. This adjustment resulted in a reduction to our deferred tax assets and the related valuation allowance. Also, as part of our fresh-start accounting and plan of reorganization adjustments, we recognized a net income tax benefit of $15.4 million, which includes a net deferred tax benefit of $16.5 million. See Note 4.

For 2004, the deferred income tax provision of $12.1 million related to an additional valuation allowance which was required when we reversed the following deferred tax liabilities from accumulated other comprehensive loss: (i) With the dissolution of Globalstar on June 29, 2004, we wrote-off the remaining book value of our investment in Globalstar's $500 million credit facility and reduced to zero the unrealized gains and related deferred tax liabilities previously reflected in accumulated other comprehensive loss. The reversal of this deferred tax liability resulted in a net deferred tax asset of $11.4 million against which we recorded a full valuation allowance. (ii) We also reduced the balance for certain deferred gains on derivative transactions and the related deferred tax liability included in accumulated other comprehensive loss. The reversal of this deferred tax liability also resulted in a net deferred tax asset of $0.7 million against which we recorded a full valuation allowance (see Notes 6 and 9).

The (provision) benefit for income taxes presented above excludes the following items which were recorded in discontinued operations: (i) a current benefit of $2.6 million and a current provision of $4.3 million for the period ended October 1, 2005 and for the year ended December 31, 2004, respectively, related to the previously deferred gain on sale of discontinued operations and (ii) a deferred tax provision of $11.0 million for the year ended December 31, 2003 reclassified from continuing operations (see Note 5).

The (provision) benefit for income taxes on the (loss) income from continuing operations before income taxes, equity income (losses) in affiliates and minority interest differs from the amount computed by applying the statutory U.S. Federal income tax rate because of the effect of the following items (in thousands):

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| Tax benefit (provision) at U.S. Statutory Rate of 35% | $ 1,888 | $ (357,928) | $ 72,748 | $128,924 |
| Permanent adjustments which change statutory amounts: | | | | |
| State and local income taxes, net of federal income tax | (216) | (31,249) | 8,161 | (11,411) |
| Non-U.S. income and losses taxed at lower rates | (847) | (6,308) | (4,575) | (9,121) |
| Reorganization expenses due to bankruptcy | (94) | (9,944) | (7,080) | (5,885) |
| Plan of Reorganization and Fresh-Start valuation adjustments | — | 94,206 | — | — |
| Nondeductible expenses | (1,410) | (1,122) | (1,548) | (673) |
| Change in valuation allowance | (422) | 321,244 | (81,029) | (95,500) |
| Other, net | (651) | 2,002 | 39 | (4) |
| Total income tax (provision) benefit | $ (1,752) | $ 10,901 | $(13,284) | $ 6,330 |

The reorganization of the Company on the Effective Date constituted an ownership change under section 382 of the Internal Revenue Code. Accordingly, use of our tax attributes, such as net operating losses (“NOLs”) and tax credits generated prior to the ownership change, will be subject to an annual limitation of approximately $32 million, subject to modification based on certain factors. At December 31, 2005, we have unused NOL carryforwards of approximately $1.1 billion and general business tax credit carryforwards of approximately $10 million, which expire from 2019 through 2024, as well as AMT credit carryforwards of approximately $2.0 million that may be carried forward indefinitely. We have not yet determined the final amount of tax attributes that will be available for use in the future. This analysis is dependent upon the values of our individual assets, which the Company expects to finalize during the first half of 2006 (see Note 4). As a result, we may modify the gross deferred tax asset and related valuation allowance for these attributes in the future.

We assess the recoverability of our NOLs and other deferred tax assets and based upon this analysis, record a valuation allowance to the extent recoverability does not satisfy the “more likely than not” recognition criteria in SFAS No. 109. Based upon this analysis, we concluded during the fourth quarter of 2002 that, due to insufficient positive evidence substantiating recoverability, a 100% valuation allowance should be established for the entire balance of the net deferred tax assets of the U.S. consolidated tax group.

As of October 1, 2005, we had valuation allowances totaling $336.9 million which we will maintain until sufficient positive evidence exists to support full or partial reversal. If in the future we were to determine that we will be able to realize all or a part of the benefit from our deferred tax assets, a reduction to the balance of this valuation allowance at October 1, 2005 will be accounted for first as a reduction in goodwill, then intangible assets, and if these accounts are exhausted, further reductions to the valuation allowance will be recorded as an increase to paid-in -capital during the period such determination is made.

For the period October 2, 2005 to December 31, 2005, our valuation allowance increased by $0.4 million to a balance of $337.3 million. For the period January 1, 2005 to October 1, 2005, our valuation allowance decreased by $322.9 million to a balance of $336.9 million, primarily as a result of changes to our deferred tax balances upon adoption of fresh-start accounting as described above.

During 2004, our valuation allowance decreased by $11.1 million to a balance of $659.8 million. The net change consisted primarily of a decrease of $87.1 million applied directly against our deferred tax assets for cancellation of debt income recognized for tax purposes when Globalstar dissolved in June 2004; a decrease of $16.3 million applied to equity in net income of affiliates; an increase of $7.8 million applied directly to shareholders' deficit for other comprehensive loss items; an increase of $1.2 million applied to discontinued operations; an increase of $2.3 million applied to the deferred gain on sale of assets; and an increase of $81.0 million charged to continuing operations for 2004.

During 2003, our valuation allowance increased by $94.4 million to a balance of $670.9 million. This net change consisted primarily of an increase of $7.8 million applied directly to shareholders' deficit for other comprehensive loss items; an increase of $12.0 million applied to equity in net losses of affiliates; an increase of $0.1 million applied to discontinued operations; a decrease of $21.0 million applied directly against our deferred tax assets; and an increase of $95.5 million charged to continuing operations for 2003.

The significant components of the net deferred income tax asset (liability) are (in thousands):

| | Successor Registrant | Predecessor Registrant |
|---|---|---|
| | December 31, | |
| | 2005 | 2004 |
| Deferred tax assets: | | |
| Postretirement benefits other than pensions | $ 30,912 | $ 21,373 |
| Inventoried costs | 36,114 | 30,718 |
| Net operating loss and tax credit carryforwards | 421,271 | 487,934 |
| Compensation and benefits | 7,662 | 8,669 |
| Premium on senior notes | — | 69,663 |
| Investments in and advances to affiliates | — | 38,108 |
| Other, net | 2,519 | 7,546 |
| Pension costs | 60,374 | 44,933 |
| Total deferred tax assets before valuation allowance | 558,852 | 708,944 |
| Less valuation allowance | (337,346) | (659,783) |
| Net deferred tax asset | $ 221,506 | $ 49,161 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | $ 148,905 | $ 66,436 |
| Intangible assets | 43,528 | 831 |
| Investments in and advances to affiliates | 21,807 | — |
| Income recognition on long-term contracts | 20,145 | 12,501 |
| Total deferred tax liability | $ 234,385 | $ 79,768 |
| Net deferred tax liability | $ (12,879) | $ (30,607) |

At December 31, 2005 the Company had $7,889,000 of net current deferred tax assets included in other current assets and $20,768,000 of net non-current deferred tax liabilities included in long-term liabilities. At

December 31, 2004, the Company had $30,607,000 of net non-current deferred tax liabilities included in long-term liabilities.

## 15. Shareholders' Equity (Deficit) and Minority Interest

### Successor Registrant

*Common Stock*

As of November 21, 2005, all of the securities of Old Loral, including, among other securities, the common stock of Old Loral, were extinguished and deemed cancelled. In accordance with the Plan of Reorganization, New Loral issued 20 million of its 40 million authorized shares of common stock, par value $0.01 per share (the "Common Stock"), which shares were distributed in accordance with the Plan of Reorganization. All shares of Common Stock were issued pursuant to the exemption from the registration requirements of the Securities Act afforded by Section 1145 of the United States Bankruptcy Code.

*Loral Skynet Preferred Stock*

On November 21, 2005, Loral Skynet Corporation issued 1,000,000 of its 2,000,000 authorized shares of series A 12% non-convertible preferred stock, $0.01 par value per share (the "Loral Skynet Preferred Stock"), which were distributed in accordance with the Plan of Reorganization. The issued shares have an aggregate liquidation preference of $200,000,000 plus accrued and unpaid dividends and were distributed to holders of allowed claims in Orion Class 4, as such term is used in the Plan of Reorganization. Dividends on the Loral Skynet Preferred Stock (if not paid or accrued as permitted under certain circumstances) will be payable in kind (in additional shares of Loral Skynet Preferred Stock) if the amount of any dividend payment would exceed certain thresholds. All of the shares of Loral Skynet Preferred Stock were issued pursuant to the exemption from the registration requirements of the Securities Act afforded by Section 1145 of the United States Bankruptcy Code.

Loral Skynet may, at its option, redeem any or all issued and outstanding shares of the Loral Skynet Preferred Stock by paying, in cash, a redemption price for each share of Loral Skynet Preferred Stock equal to the sum of (i) the liquidation preference and (ii) an amount equal to any unpaid accumulated dividends not reflected in the liquidation preference.

The Loral Skynet Preferred Stock is reflected as minority interest on our consolidated balance sheet and accrued dividends of $2.7 million as of December 31, 2005, are reflected as minority interest on our consolidated statement of operations.

*Stock Plans*

On November 21, 2005, the New Loral 2005 stock incentive plan (the "Stock Incentive Plan") became effective pursuant to the Plan of Reorganization. The Stock Incentive Plan allows for the grant of several forms of stock-based compensation awards including stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other stock-based awards (collectively, the "Awards"). The total number of shares of Common Stock reserved and available under the Stock Incentive Plan is 1,390,452 shares. In addition, shares of Common Stock that expire, are forfeited or canceled, or withheld in payment of the exercise price or taxes relating to an Award, will again be available for Awards under the Stock Incentive Plan. Options were granted with an exercise price equal to the fair market value of our stock, as defined, vest over a four year period and have a seven year life. The Awards provide for accelerated vesting if there is a change in control, as defined.

The fair value of the Award is estimated on the date of grant using the Black-Scholes-Merton model as described in Note 3.

A summary of the status of stock options awarded under the Stock Incentive Plan as of December 31, 2005 is presented below:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|---|---|---|---|
| Outstanding at October 2, 2005 | — | $ — | — |
| Granted (weighted average fair value $6.82 per share) | 746,952 | 28.44 | 7 years |
| Exercised | — | — | — |
| Forfeited | — | — | — |
| Outstanding at December 31, 2005 | 746,952 | $ 28.44 | 7 years |
| Exercisable at December 31, 2005 | — | | |

Options totaling 1,390,452 shares were issued on December 21, 2005. However, because communications to certain employees with options totaling 643,500 were made on January 9, 2006, recognition of the grant of these options has been delayed to such date.

The compensation cost charged against income, net of estimated forfeitures, was $0.1 million for the period from October 2, 2005 to December 31, 2005. There was no tax benefit recognized in our statement of operations for this compensation cost. As of December 31, 2005, there was $4.8 million of total unrecognized compensation cost related to non-vested stock options (not including an additional $4.8 million of unrecognized compensation cost for the stock options for which recognition was delayed until January 9, 2006) which is expected to amortize over the next four years.

As of December 31, 2005, there were no shares of common stock available for future grant under the Stock Incentive Plan after consideration of the stock option grant for which recognition was delayed until 2006. In March 2006, we adopted an amendment to the Stock Incentive Plan to increase by 825,000 the number of shares available for grant thereunder and to increase to 1,000,000 the number of shares that may be granted to any one employee during any calendar year. This amendment covers the grant in March 2006, subject to stockholder approval of the plan amendment, of options to purchase 825,000 shares to our Chief Executive Officer in connection with his entering into an employment agreement with us. Moreover, we intend to further amend our stock option plan in the future to provide for additional increases in the number of shares available for grant thereunder, including, among others, an increase to cover an option grant which we have agreed, provided he has earned his target bonus for 2006 and 2007, to grant to our Chief Executive Officer in 2008 with a Black-Scholes value equal to one-half of the value of his March 2006 Option Grant and an increase to cover the component of annual fees to our directors that consists of restricted stock awards.

**Predecessor Registrant**

*Common Stock*

On June 4, 2003, the Old Loral Board of Directors approved a reverse stock split of its common stock at a ratio of one-for-ten, resulting in a new par value of $0.10 per common share (previously $0.01 par value per common share). The reverse stock split became effective after the close of business on June 13, 2003 and reduced the number of shares of Old Loral common stock then outstanding from 440 million to 44 million.

At its annual shareholders' meeting on May 29, 2003, Old Loral obtained shareholder approval to increase the authorized number of shares of its common stock from 75,000,000 to 125,000,000 (as adjusted for the above-mentioned reverse stock split).

All shares of Old Loral common stock were cancelled upon our emergence pursuant to the terms of the Plan of Reorganization.

### *Old Loral Stock Plans*

On April 18, 2000, the Old Loral Board of Directors approved a new stock option plan (the "2000 Plan"). The 2000 Plan was intended to constitute a "broadly-based plan" as defined in Section 312.04(h) of the NYSE Listed Company Manual, which provides that at least 50% of grants thereunder exclude senior management. The 2000 Plan provided for the grant of non-qualified stock options only. As of December 31, 2004, up to 3.7 million shares of common stock were issuable under the 2000 Plan, of which approximately 1.2 million options at a weighted average exercise price of $18.69 per share were outstanding as of December 31, 2004.

In April 1996, Old Loral established the 1996 Stock Option Plan. An aggregate of 1.8 million shares of common stock were reserved for issuance, of which approximately 0.7 million options at a weighted average exercise price of $92.76 per share were outstanding as of December 31, 2004.

In connection with the acquisition of Loral Orion in 1998, Old Loral assumed the unvested employee stock options of Loral Orion.

The Plan of Reorganization does not provide for participation or recovery by Old Loral common shareholders and, accordingly, the above stock options have no value to the employees. A summary of the status of Old Loral's stock option plans, as of November 21, 2005, and December 31, 2004 and 2003 and changes during the periods then ended is presented below. Options outstanding as of November 21, 2005 were forfeited in accordance with the Plan of Reorganization:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at January 1, 2003 | 4,284,884 | $62.90 |
| Granted below fair market value (weighted average fair value $3.06 per share) | 30,000 | 0.10 |
| Exercised | (30,000) | 0.10 |
| Forfeited | (1,897,671) | 83.60 |
| Outstanding at December 31, 2003 | 2,387,213 | 46.45 |
| Forfeited | (384,343) | 39.12 |
| Outstanding at December 31, 2004 | 2,002,870 | 47.86 |
| Forfeited | (2,002,870) | 47.86 |
| Outstanding as of November 21, 2005 | — | — |
| Options exercisable at December 31, 2003 | 1,945,227 | 52.21 |
| Options exercisable at December 31, 2004 | 1,974,654 | 48.25 |

As of December 31, 2004, there were 3,380,146 shares of common stock available for future grant under the Old Loral's stock plans.

In connection with an exchange offer for certain outstanding stock options completed on March 7, 2003, Old Loral accepted and cancelled existing stock options to purchase an aggregate of 1,488,440 shares of common stock that were tendered in the exchange offer and agreed to grant in exchange new stock options to purchase an aggregate of 602,149 shares of common stock. The new options were to be granted, subject to the terms and conditions of the exchange offer, on September 8, 2003. As a result of our Chapter 11 filing,

however, we were not able to grant the new stock options and any claims that option holders may have arising from such cancellations have been extinguished pursuant to the Plan of Reorganization. Any claims or rights that option holders whose options were cancelled may have had, were addressed in the context of the Chapter 11 Cases. These cancellations have been reflected as forfeitures in 2003.

## 16. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based upon the weighted average number of shares of common stock outstanding. Diluted loss per share excludes the assumed conversion of the Series C Preferred Stock and the Series D Preferred Stock for the Predecessor Registrant, as their effect would have been antidilutive. For the periods from October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003, the effect of approximately 0.7 million, 2.0 million, 2.0 million and 2.4 million stock options, which would be calculated using the treasury stock method, were excluded from the calculation of diluted loss per share, as the effect would have been antidilutive.

The following table sets forth the computation of basic and diluted loss per share:

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| | (in thousands, except per share data) | | | |
| Numerator for basic and diluted loss per share: | | | | |
| (Loss) income from continuing operations | $ (15,261) | $ 1,030,882 | $ (174,347) | $ (413,158) |
| (Loss) income from discontinued operations, net of taxes | — | — | (2,348) | 18,803 |
| Gain on sale of discontinued operations, net of taxes | — | 13,967 | — | — |
| (Loss) income before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | (15,261) | 1,044,849 | (176,695) | (394,355) |
| Cumulative effect of change in accounting principle | — | — | — | (1,970) |
| Extraordinary gain on acquisition of minority interest | — | — | — | 13,615 |
| Net (loss) income | (15,261) | 1,044,849 | (176,695) | (382,710) |
| Preferred dividends | — | — | — | (6,719) |
| Net (loss) income applicable to common stockholders | $ (15,261) | $ 1,044,849 | $ (176,695) | $ (389,429) |
| Denominator: | | | | |
| Weighted average common shares outstanding | 20,000 | 44,108 | 44,108 | 43,819 |
| Basic and diluted (loss) earnings per share: | | | | |
| Continuing operations | $ (0.76) | $ 23.37 | $ (3.96) | $ (9.58) |
| Discontinued operations | — | 0.32 | (0.05) | 0.43 |
| Before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest | (0.76) | 23.69 | (4.01) | (9.15) |
| Cumulative effect of change in accounting principle | — | — | — | (0.05) |
| Extraordinary gain on acquisition of minority interest | — | — | — | 0.31 |
| (Loss) earnings per share | $ (0.76) | $ 23.69 | $ (4.01) | $ (8.89) |

## 17. Pensions and Other Employee Benefits

*Pensions*

We maintain a pension plan and a supplemental retirement plan. These plans are defined benefit pension plans and members in certain locations may contribute to the pension plan in order to receive enhanced

benefits. Eligibility for participation in these plans varies and benefits are based on members' compensation and/or years of service. Our funding policy is to fund the pension plan in accordance with the Internal Revenue Code and regulations thereon and to fund the supplemental retirement plan on a discretionary basis. Plan assets are generally invested in listed stocks and bonds and U.S. government and agency obligations.

*Other Benefits*

In addition to providing pension benefits, we provide certain health care and life insurance benefits for retired employees and dependents. Participants are eligible for these benefits when they retire from active service and meet the eligibility requirements for our pension plan. These benefits are funded primarily on a pay-as-you-go basis, with the retiree generally paying a portion of the cost through contributions, deductibles and coinsurance provisions.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for 2005 and 2004, and a statement of the funded status as of December 31, 2005 and 2004, respectively. We use a December 31 measurement date for the pension plans and other post retirement benefit plans. The plans' benefit obligations and recorded liabilities were revalued as of October 1, 2005, in connection with our adoption of fresh-start accounting.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | Successor Registrant | Predecessor Registrant | Successor Registrant | Predecessor Registrant |
| | December 31, 2005 | December 31, 2004 | December 31, 2005 | December 31, 2004 |
| | (in thousands) | (in thousands) | (in thousands) | (in thousands) |
| *Reconciliation of benefit obligation* | | | | |
| Obligation at beginning of period | $ 395,098 | $ 353,881 | $ 82,029 | $ 69,337 |
| Service cost | 10,683 | 9,694 | 935 | 1,212 |
| Interest cost | 23,361 | 22,740 | 4,564 | 5,178 |
| Participant contributions | 933 | 1,008 | 1,751 | 1,592 |
| Actuarial (gain) loss | (3,246) | 28,467 | (2,765) | 9,748 |
| Benefit payments | (19,923) | (20,692) | (5,338) | (5,038) |
| Obligation at December 31, | $ 406,906 | $ 395,098 | $ 81,176 | $ 82,029 |
| *Reconciliation of fair value of plan assets* | | | | |
| Fair value of plan assets at beginning of period | $ 230,685 | $ 218,897 | $ 1,154 | $ 1,380 |
| Actual return on plan assets | 15,305 | 17,268 | 21 | 26 |
| Employer contributions | 20,022 | 13,255 | 3,440 | 3,194 |
| Participant contributions | 933 | 1,008 | 1,751 | 1,592 |
| Benefit payments | (19,217) | (19,743) | (5,338) | (5,038) |
| Fair value of plan assets at December 31, | $ 247,728 | $ 230,685 | $ 1,028 | $ 1,154 |
| *Funded status* | | | | |
| Unfunded status at end of period | $ (159,178) | $ (164,413) | $ (80,148) | $ (80,875) |
| Unrecognized prior service cost | — | (225) | — | (21,335) |
| Unrecognized loss (gain) | 1,922 | 125,248 | (544) | 50,041 |
| Net amount recognized | $ (157,256) | $ (39,390) | $ (80,692) | $ (52,169) |

The following table provides the details of the net pension liability recognized in the balance sheet as of December 31, 2005 and 2004, respectively (in thousands):

| | Successor Registrant | Predecessor Registrant |
|---|---|---|
| | December 31, | |
| | 2005 | 2004 |
| Accrued benefit liability | $ (157,256) | $ (127,648) |
| Accumulated other comprehensive loss | — | 88,258 |
| Net amount recognized | $ (157,256) | $ (39,390) |

Included in liabilities subject to compromise (Note 11) at December 31, 2004 is $179 million of the accrued benefit liability for pensions and the net amount recognized for other benefits.

The accumulated pension benefit obligation was $367.7 million and $358.5 million at December 31, 2005 and 2004, respectively.

During 2005, we contributed $20 million to the qualified pension plan. During 2006, based on current estimates, we expect to contribute approximately $2 million to the qualified pension plan. The significant declines experienced in the financial markets in previous years have unfavorably impacted pension plan asset performance. This, coupled with historically low interest rates (a key factor when estimating pension plan liabilities), caused us to recognize an additional $19.0 million during 2004, for a total of $88.3 million of non-cash charges to other comprehensive income (loss) as of December 31, 2004. As a result of the adoption of fresh-start accounting as of October 1, 2005, we increased our recorded liability by $78 million, net of the charge to equity previously recorded, offset by a reorganization adjustment of $19 million due to a reduction of certain benefits. Market conditions and interest rates significantly affect future assets and liabilities of our pension plans.

The following table provides the components of net periodic cost for the plans for the periods October 2, 2005 to December 31, 2005 and from January 1, 2005 to October 1, 2005 and for the year ended December 31, 2004 and 2003, respectively (in thousands):

| | Pension Benefits | | | | Other Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | Successor Registrant | Predecessor Registrant | | | Successor Registrant | Predecessor Registrant | | |
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | December 31, 2004 | December 31, 2003 | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | December 31, 2004 | December 31, 2003 |
| Service cost | $ 2,896 | $ 7,787 | $ 9,694 | $ 10,647 | $ 255 | $ 680 | $ 1,212 | $ 3,139 |
| Interest cost | 5,760 | 17,601 | 22,740 | 22,021 | 1,157 | 3,407 | 5,178 | 5,647 |
| Expected return on plan assets | (5,545) | (15,343) | (19,415) | (18,318) | (23) | (78) | (74) | (139) |
| Amortization of prior service cost | — | (27) | (36) | (36) | — | (1,443) | (1,931) | (1,429) |
| Amortization of net loss | — | 4,976 | 5,294 | 5,372 | — | 1,843 | 2,911 | 2,120 |
| Recognition of curtailment loss (gain) | — | — | — | 18 | — | — | — | (1,257) |
| Net periodic cost | $ 3,111 | $ 14,994 | $ 18,277 | $ 19,704 | $ 1,389 | $ 4,409 | $ 7,296 | $ 8,081 |

The principal actuarial assumptions were:

Assumptions used to determine net periodic cost:

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | December 31, 2004 | December 31, 2003 |
| Discount rate | 5.75% | 6.00% | 6.25% | 6.75% |
| Expected return on plan assets | 9.00% | 9.00% | 9.00% | 9.00% |
| Rate of compensation increase | 4.25% | 4.25% | 4.25% | 4.25% |

Assumptions used to determine the benefit obligation:

| | Successor Registrant | Predecessor Registrant | |
|---|---|---|---|
| | December 31, 2005 | For the Period Ended October 1, 2005 | December 31, 2004 |
| Discount rate | 5.75% | 5.75% | 6.00% |
| Rate of compensation increase | 4.25% | 4.25% | 4.25% |

The expected long-term rate of return on pension plan assets is selected by taking into account the expected duration of the projected benefit obligation for the plans, the asset mix of the plans and the fact that the plan assets are actively managed to mitigate risk. Allowable investment types include equity investments and fixed income investments. Pension plan assets are managed by Russell Investment Corp. ("Russell"), which allocates the assets into specified Russell designed funds as per our directed asset allocation. Each specified Russell fund is then managed by investment managers chosen by Russell. The targeted allocation of our pension plan assets is 60% in equity investments and 40% in fixed income investments. Based on this target allocation, the fifteen year historical return of our investment managers has been 10.5%. The expected long-term rate of return on plan assets determined on this basis was 9.0% for the periods October 2, 2005 to December 31, 2005, January 1, 2005 to October 1, 2005, and the years ended December 31, 2004 and 2003.

Our pension and other employee benefits plan asset allocations by asset category as of December 31, 2005 and 2004 are as follows:

| | Successor Registrant | Predecessor Registrant |
|---|---|---|
| | December 31, 2005 | December 31, 2004 |
| Equity investments | 56% | 56% |
| Fixed income investments | 44% | 44% |
| | 100% | 100% |

Actuarial assumptions used a health care cost trend rate of 9.0% decreasing gradually to 5.0% by 2009. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care

plans. A 1% change in assumed health care cost trend rates for 2005 would have the following effects (in thousands):

| | 1% Increase | 1% Decrease |
|---|---|---|
| Effect on total of service and interest cost components of net periodic postretirement health care benefit cost | $ 423 | $ (356) |
| Effect on the health care component of the accumulated postretirement benefit obligation | $ 6,921 | $ (5,867) |

The following benefit payments, which reflect future services, as appropriate, are expected to be paid (in thousands):

| | | Other Benefits | |
|---|---|---|---|
| | Pension Benefits | Gross Benefit Payments | Subsidy Receipts |
| 2006 | $ 21,346 | $ 4,959 | $ 309 |
| 2007 | 22,072 | 5,128 | 357 |
| 2008 | 22,869 | 5,362 | 392 |
| 2009 | 23,416 | 5,591 | 429 |
| 2010 | 23,872 | 5,775 | 465 |
| 2011 to 2015 | 127,300 | 31,776 | 2,877 |

Assets designated to fund the obligations of our supplementary retirement plan are held in a trust. Such assets amounting to, $6.6 million and $7.4 million as of December 31, 2005 and 2004, respectively, are not available for general corporate use; however, these assets would be available to general creditors in the event of bankruptcy and, therefore, do not qualify as plan assets. Accordingly, we have classified these assets as other assets in the accompanying consolidated balance sheets.

Additionally, only unpaid post-petition minimum funding requirements would not be subject to compromise if we had rejected our pension and other post retirement liabilities in the bankruptcy proceedings. Therefore, all pension and post retirement liabilities in excess of our unpaid post-petition minimum funding requirements have been classified as liabilities subject to compromise on the accompanying consolidated balance sheet as of December 31, 2004.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“MMA”). MMA requires a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. These subsidy payments will first be payable to plan sponsors in 2006. In May 2004, the FASB released FSP 106-2 to provide guidance on accounting and disclosure requirements related to MMA. We adopted FSP 106-2 effective as of the beginning of the fourth quarter of 2004, the earliest the required actuarial information was available. As a result of the adoption of FSP 106-2 our net periodic cost for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, and the fourth quarter of 2004 was reduced by $0.2 million, $0.9 million and $0.2 million, respectively. The accumulated benefit obligation was reduced by $8.1 million and $6.7 million as of December 31, 2005 and 2004, respectively.

*Employee Savings Plan*

We have an employee savings plan, which provides that we match the contributions of participating employees up to a designated level. Under this plan, the matching contributions in our common stock or cash were $1.0 million, $3.3 million, $4.7 million and $5.3 million for the periods from October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, and the years ended December 31, 2004 and

2003, respectively. All matching contributions since July 4, 2003, have been in cash. Employees vested in the savings plan are able to redirect our matching contributions to any available fund. In addition, employees are able to direct their individual contributions to any available fund.

## 18. Financial Instruments and Foreign Currency

*Financial Instruments*

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments. The fair value of supplemental retirement plan assets is based on market quotations. The fair value of our long-term debt obligations is based on the last market trade of 2005 as reported on Bloomberg for the Loral Skynet Corporation 14% Senior Notes.

The estimated fair values of our financial instruments are as follows (in thousands):

| | Successor Registrant | | Predecessor Registrant | |
|---|---|---|---|---|
| | December 31, | | | |
| | 2005 | | 2004 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | $ 275,796 | $ 275,796 | $ 147,773 | $ 147,773 |
| Supplemental retirement plan assets | 6,637 | 6,637 | 7,444 | 7,444 |
| Long-term debt | 128,191 | 153,405 | 1,269,977 | 563,000 |
| Old Loral 6% Series C Preferred Stock | — | — | 187,274 | 1,000 |
| Old Loral 6% Series D Preferred Stock | — | — | 36,707 | — |

Approximately $214 million of the carrying amount of debt as of December 31, 2004 is attributable to the accounting for the deferred gain related to a Loral Orion debt exchange offer.

*Foreign Currency*

We, in the normal course of business, are subject to the risks associated with fluctuations in foreign currency exchange rates. Prior to filing Chapter 11, we entered into forward exchange contracts to establish with certainty the U.S. dollar amount of future anticipated cash receipts and payments and firm commitments for cash payments denominated in a foreign currency. The primary business objective of this hedging program was to minimize the gains and losses resulting from exchange rate changes.

Ineffectiveness from all hedging activity was immaterial for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, and for the years ended December 31, 2004 and 2003.

When we filed for Chapter 11, SS/ L's hedges with counterparties (primarily yen denominated forward contracts) were cancelled, leaving SS/ L vulnerable to foreign currency fluctuations in the future. The inability to enter into forward contracts exposes SS/ L's future revenues, costs and cash associated with anticipated yen denominated receipts and payments to currency fluctuations. As of December 31, 2005, SS/ L had the following amounts denominated in Japanese Yen (which have been translated into U.S. dollars based on the December 31, 2005 exchange rate) that were unhedged (in millions):

| | Japanese Yen | U.S. $ |
|---|---|---|
| Future revenues | ¥ 324 | $ 2.7 |
| Future expenditures | 2,178 | 18.5 |
| Contracts-in-process (unbilled receivables) | 69 | 0.6 |

At December 31, 2005, SS/ L also had future expenditures in EUROs of 119,389 ($141,410 U.S.) that were unhedged.

## 19. Commitments and Contingencies

*Financial Matters*

We had outstanding letters of credit of approximately $2.4 million as of December 31, 2005.

Due to the long lead times required to produce purchased parts, we have entered into various purchase commitments with suppliers. These commitments aggregated approximately $346.3 million as of December 31, 2005, and primarily relate to satellite backlog.

We are obligated to pay $6.7 million over the next four years 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. SS/ L accounts for satellite performance warranties in accordance with the product warranty provisions of FIN 45, which requires disclosure, but not initial recognition and measurement, of performance guarantees. SS/ L estimates the deferred revenue for its warranty obligations based on historical satellite performance. 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 periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, and for the years ended December 31, 2004 and 2003, is as follows (in millions):

| | |
|---|---|
| Balance of deferred amounts at January 1, 2003 | $14.1 |
| Accruals for deferred amounts issued during the period | — |
| Accruals relating to pre-existing contracts (including changes in estimates) | 2.2 |
| Balance of deferred amounts at December 31, 2003 | 16.3 |
| Accruals for deferred amounts issued during the period | 2.9 |
| Accruals relating to pre-existing contracts (including changes in estimates) | 6.8 |
| Balance of deferred amounts at December 31, 2004 | 26.0 |
| Accruals for deferred amounts issued during the period | 1.3 |
| Accruals relating to pre-existing contracts (including changes in estimates) | 10.5 |
| Balance of deferred amounts at October 1, 2005 | 37.8 |
| Accruals for deferred amounts issued during the period | — |
| Accruals relating to pre-existing contracts (including changes in estimates) | 2.7 |
| Balance of deferred amounts at December 31, 2005 | $40.5 |

Many of SS/ L's satellite contracts require SS/ L to provide vendor financing to its customers or, more customarily, for customers to pay a portion of the purchase price for the satellite over time subject to performance of the satellite ("orbitals") or a combination of these terms. Although not always the case, in many cases these arrangements are provided to customers that are start-up companies or companies in the early stages of building their businesses. As of December 31, 2005, SS/ L had recorded vendor financing and orbital receivables totaling $99 million (of which $57 million was from start-up or early stage companies). Of this $57 million, SS/ L had received payments of $49 million as of March 2006. 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. 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. As of December 31, 2005, SS/ L had recorded orbital receivables of $41.7 million, payable over 16 years. Since these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/ L will be able to collect all or a portion of these receivables.

Loral Skynet has in the past entered into prepaid leases, sales contracts and other arrangements relating to transponders on its satellites. Under the terms of these agreements, as of December 31, 2005, Loral Skynet continues to provide for a warranty for periods of two years to eight years for sales contracts and other arrangements (seven transponders), and prepaid leases (two transponders). Depending on the contract, Loral Skynet may be required to replace transponders which do not meet operating specifications. Substantially all customers are entitled to a refund equal to the reimbursement value if there is no replacement, which is normally covered by insurance. In the case of the sales contracts, the reimbursement value is based on the original purchase price plus an interest factor from the time the payment was received to acceptance of the transponder by the customer, reduced on a straight-line basis over the warranty period. In the case of prepaid leases, the reimbursement value is equal to the unamortized portion of the lease prepayment made by the customer. For other arrangements, in the event of transponder failure where replacement capacity is not available on the satellite, one customer is not entitled to reimbursement, and the other customer's reimbursement value is based on contractually prescribed amounts that decline over time.

*Satellite Matters*

Satellites are built with redundant components or additional components to provide excess performance margins to permit their continued operation in case of component failure, an event that is not uncommon in complex satellites. Twenty of the satellites built by SS/ L and launched since 1997, three of which are owned and operated by our subsidiaries or affiliates, have experienced losses of power from their solar arrays. There can be no assurance that one or more of the affected satellites will not experience additional power loss. In the event of additional power loss, the extent of the performance degradation, if any, will depend on numerous factors, including the amount of the additional power loss, the level of redundancy built into the affected satellite's design, when in the life of the affected satellite the loss occurred, how many transponders are then in service and how they are being used. It is also possible that one or more transponders on a satellite may need to be removed from service to accommodate the power loss and to preserve full performance capabilities on the remaining transponders. A complete or partial loss of a satellite's capacity could result in a loss of orbital incentive payments to SS/ L and, in the case of satellites owned by Loral Skynet and its affiliates, a loss of revenues and profits. With respect to satellites under construction and the construction of new satellites, based on its investigation of the matter, SS/ L has identified and has implemented remediation measures that SS/ L believes will prevent newly launched satellites from experiencing similar anomalies. SS/ L does not expect that implementation of these measures will cause any significant delay in the launch of satellites under construction or the construction of new satellites. Based upon information currently available, including design redundancies to accommodate small power losses, and that no pattern has been identified as to the timing or specific location within the solar arrays of the failures, we believe that this matter will not have a material adverse effect on our condensed consolidated financial position or our results of operations, although no assurance can be provided.

In November 2004, Intelsat Americas 7 (formerly Telstar 7) experienced an anomaly which caused it to completely cease operations for several days before it was partially recovered. Four other satellites manufactured by SS/ L for other customers have designs similar to Intelsat Americas 7 and, therefore, could be susceptible to similar anomalies in the future. A partial or complete loss of these satellites could result in the incurrence of warranty payments by SS/ L of up to $18 million.

Certain of our satellites are currently operating using back-up components because of the failure of primary components. If the back-up components fail, however, and we are unable to restore redundancy, these

satellites could lose capacity or be total losses, which would result in a loss of revenues and profits. For example, in July 2005, in the course of conducting our normal operations, we determined that the primary command receiver on two of our satellites had failed. These satellites, which are equipped with redundant command receivers designed to provide full functional capability through the full design life of the satellite, continue to function normally and service to customers has not been affected. Moreover, SS/ L has successfully completed implementation of a software workaround that fully restores the redundant command receiver function on each of these satellites.

Two satellites owned by us have the same solar array configuration as one other 1300-class satellite manufactured by SS/ L that has experienced an event with a large loss of solar power. SS/ L believes that this failure is an isolated event and does not reflect a systemic problem in either the satellite design or manufacturing process. Accordingly, we do not believe that this anomaly will affect our two satellites with the same solar array configuration. The insurance coverage for these satellites, however, provides for coverage of losses due to solar array failures only in the event of a capacity loss of 75% or more for one satellite and 80% or more for the other satellite.

We normally insure the on-orbit performance of the satellites in our Satellite Services segment. Typically such insurance is for one year subject to renewal. It may be difficult, however, to obtain full insurance coverage for satellites that have, or are part of a family of satellites that has, experienced problems in the past. We cannot assure that, upon the expiration of an insurance policy, we will be able to renew the policy on terms acceptable to us. Insurers may require either exclusions of certain components or may place limitations on coverage in connection with insurance renewals for such satellites in the future. The loss of a satellite would have a material adverse effect on our financial performance and may not be adequately mitigated by insurance.

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, we have provided ChinaSat with usage rights to two Ku-band transponders on Telstar 10 for the life of the satellite and to one Ku-band transponder on Telstar 18 for the life of the Telstar 10 satellite plus two years.

SS/ L has completed repairs on a satellite that was damaged in transit, a significant portion of which was recovered through insurance coverage. The cost of repairs less the negotiated insurance recoveries have been reflected in these financial statements.

SS/ L has contracted to build a spot beam, Ka-band satellite for a customer planning to offer broadband data services directly to the consumer. As of December 31, 2005, SS/ L had billed and unbilled accounts receivable and vendor financing arrangements of $56 million (including accrued interest of $18 million) with this customer. In January 2006, the customer paid SS/ L $48.9 million, representing all outstanding accounts receivable and vendor financing, and the security arrangements that the customer had granted to SS/ L to secure payment of the outstanding vendor financing were terminated.

*Regulatory Matters*

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

an appropriate arrangement with a third party having priority rights at or near one of our orbital slots may result in substantial restrictions on the use and operation of our satellite at that location.

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

*Lease Arrangements*

We lease certain facilities, equipment and transponder capacity under agreements expiring at various dates. Certain leases covering facilities contain renewal and/or purchase options which may be exercised by us. Rent expense, net of sublease income is as follows (in thousands):

| | Gross Rent | Sublease Income | Net Rent |
|---|---|---|---|
| October 2, 2005 to December 31, 2005 | $ 6,536 | $ (38) | $ 6,498 |
| January 1, 2005 to October 1, 2005 | $20,057 | $(261) | $19,796 |
| Year ended December 31, 2004 | $36,565 | $(328) | $36,237 |
| Year ended December 31, 2003 | $42,580 | $(974) | $41,606 |

Future minimum payments, by year and in the aggregate under operating leases with initial or remaining terms of one year or more consisted of the following as of December 31, 2005 (in thousands):

| | |
|---|---|
| 2006 | $ 22,225 |
| 2007 | 19,102 |
| 2008 | 15,993 |
| 2009 | 14,068 |
| 2010 | 12,566 |
| Thereafter | 39,812 |
| | $123,766 |

Future minimum payments have been reduced by minimum sublease rentals of $0.3 million due in the future under non-cancelable subleases.

*Legal Proceedings*

***Class Action Securities Litigations***

In August 2003, plaintiffs Robert Beleson and Harvey Matcovsky filed a purported class action complaint against Bernard L. Schwartz in the United States District Court for the Southern District of New York. The complaint seeks, among other things, damages in an unspecified amount and reimbursement of plaintiffs' reasonable costs and expenses. The complaint alleges (a) that Mr. Schwartz violated Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about our financial condition relating to the sale of assets to Intelsat and our Chapter 11 filing and (b) that Mr. Schwartz is secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as an alleged "controlling person" of

Old Loral. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Loral common stock during the period from June 30, 2003 through July 15, 2003, excluding the defendant and certain persons related to or affiliated with him. In November 2003, three other complaints against Mr. Schwartz with substantially similar allegations were consolidated into the *Beleson* case. In February 2004, a motion to dismiss the complaint in its entirety was denied by the court. Defendant filed an answer in March 2004. The case has been stayed until mid-July 2006. Since this case was brought by or on behalf of holders of the common stock of Old Loral and was not brought against Old Loral, 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 claims for indemnification against Old Loral by the defendant as described below 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. Defendants filed an answer to the complaint in December 2004. The case has been stayed until mid-July 2006. Since this case was brought by or on behalf of holders of the common stock of Old Loral and was not brought against Old Loral, 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 claims for indemnification against Old Loral by the defendants as described below under "Indemnification Claims."

### *Class Action ERISA Litigation*

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

complete and accurate information to Savings Plan participants and beneficiaries, and (d) that defendants violated Sections 404 and 405 of ERISA by breaching their fiduciary duties to avoid conflicts of interest. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all participants in or beneficiaries of the Savings Plan at any time between November 4, 1999 and the present and whose accounts included investments in Old Loral stock. In September 2005, the plaintiffs agreed in principle to settle this case for $7.5 million payable solely from proceeds of insurance coverage and without recourse to the individual defendants. The District Court has suspended further proceedings in this case pending the outcome of the insurance litigation referred to below and final approval of the settlement. Plaintiffs have also filed a proof of claim against Old Loral with respect to this case and have agreed that in no event will their claim against Old Loral with respect to this case exceed $22 million. If the settlement of this case does not, for whatever reason, go forward and plaintiffs' claim ultimately becomes an allowed claim under the Plan of Reorganization, plaintiffs would be entitled to a distribution under the Plan of Reorganization of New Loral common stock based upon the amount of the allowed claim. Any such distribution of stock would be in addition to the 20 million shares of New Loral common stock being distributed under the Plan of Reorganization to other creditors.

In addition, two insurers under our 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. Those motions are pending, and discovery has commenced and is ongoing. We believe, although no assurance can be given, that the liability of New Loral, if any, with respect to the *In re: Loral Space ERISA Litigation* case or with respect to the related insurance coverage litigation is limited solely to claims for indemnification against Old Loral by the defendants as described below 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 against GTL, Old Loral, Bernard L. Schwartz and other defendants were consolidated into one action titled *In re: Globalstar Securities Litigation.* In November 2001, plaintiffs in the consolidated action filed a consolidated amended class action complaint against Globalstar, GTL, Globalstar Capital Corporation, Old Loral and Bernard L. Schwartz seeking, among other things, damages in an unspecified amount and reimbursement of plaintiffs' costs and expenses. The complaints alleged (a) that all defendants (except Old Loral) violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about Globalstar's business and prospects, (b) that defendants Old Loral and Mr. Schwartz are secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as alleged "controlling persons" of Globalstar, (c) that defendants GTL and Mr. Schwartz are liable under Section 11 of the Securities Act of 1933 (the "Securities Act") for untrue statements of material facts in or omissions of material facts from a registration statement relating to the sale of shares of GTL common stock in January 2000, (d) that defendant GTL is liable under Section 12(2)(a) of the Securities Act for untrue statements of material facts in or omissions of material facts from a prospectus and prospectus supplement relating to the sale of shares of GTL common stock in January 2000, and (e) that defendants Old Loral and Mr. Schwartz

are secondarily liable under Section 15 of the Securities Act for GTL's primary violations of Sections 11 and 12(2)(a) of the Securities Act as alleged "controlling persons" of GTL. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of securities of Globalstar, Globalstar Capital and GTL during the period from December 6, 1999 through October 27, 2000, excluding the defendants and certain persons related to or affiliated with them. This case was preliminarily settled by Mr. Schwartz in July 2005 for $20 million with final approval of the settlement in December 2005, and he 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 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 being distributed under the Plan of Reorganization to other creditors. We believe, although no assurance can be given, that New Loral will not incur any material loss as a result of this settlement.

On March 2, 2002, the seven separate purported class action lawsuits filed in the United States District Court for the Southern District of New York by various holders of Old Loral common stock against Old Loral, Bernard L. Schwartz and Richard J. Townsend were consolidated into one action titled *In re: Loral Space & Communications Ltd. Securities Litigation.* On May 6, 2002, plaintiffs in the consolidated action filed a consolidated amended class action complaint seeking, among other things, damages in an unspecified amount and reimbursement of plaintiffs' costs and expenses. The complaint alleged (a) that all defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, by making material misstatements or failing to state material facts about Old Loral's financial condition and its investment in Globalstar and (b) that Mr. Schwartz is secondarily liable for these alleged misstatements and omissions under Section 20(a) of the Exchange Act as an alleged "controlling person" of Old Loral. The class of plaintiffs on whose behalf the lawsuit has been asserted consists of all buyers of Old Loral common stock during the period from November 4, 1999 through February 1, 2001, excluding the defendants and certain persons related to or affiliated with them. After oral argument on a motion to dismiss filed by Old Loral and Messrs. Schwartz and Townsend, in June 2003, the plaintiffs filed an amended complaint alleging essentially the same claims as in the original amended complaint. In February 2004, a motion to dismiss the amended complaint was granted by the court insofar as Messrs. Schwartz and Townsend are concerned. Pursuant to the Plan of Reorganization, plaintiffs received no distribution with respect to their claims in this lawsuit.

In addition, the primary insurer under the directors and officers liability insurance policy of Old Loral has denied coverage under the policy for the *In re: Loral Space & Communications Ltd. Securities Litigation* case and, on March 24, 2003, filed a lawsuit in the Supreme Court of New York County seeking a declaratory judgment upholding its coverage position. In May 2003, Old Loral and the other defendants served an answer and filed counterclaims seeking a declaration that the insurer is obligated to provide coverage and damages for breach of contract and the implied covenant of good faith. In May 2003, Old Loral and the other defendants also filed a third party complaint against the excess insurers seeking a declaration that they are obligated to provide coverage. Although we believe that the insurers have wrongfully denied coverage, the parties have voluntarily agreed not to proceed further with the action at this time, subject to their right to actively pursue the litigation at a later date. We believe, 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 claims for indemnification against Old Loral by the defendants as described below under "Indemnification Claims."

### *Indemnification Claims*

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 above 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 in an aggregate amount of $2.5 million. In addition, most directors and officers have filed proofs of claim in unliquidated amounts with respect to the prepetition indemnity obligations of the Debtors. The Debtors and these directors and officers, including Mr. Schwartz with respect to all claims he may have other than the Globalstar settlement referred to above, 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 being distributed under the Plan of Reorganization to other creditors. We believe, although no assurance can be given, that New Loral will not incur any substantial losses as a result of these claims.

### *Reorganization Matters*

In connection with our Plan of Reorganization, certain claims have been filed against Old Loral and its Debtor Subsidiaries, the validity or amount of which we dispute. We are in the process of resolving these disputed claims, which may involve litigation in the Bankruptcy Court. To the extent any disputed claims become allowed claims, the claimants would be entitled to distributions under the Plan of Reorganization based upon the amount of the allowed claim, payable either in cash for claims against SS/ L or Loral SpaceCom or in New Loral common stock for all other claims. We have accrued only the amount we believe is valid for disputed claims payable in cash, although there can be no assurance that this amount will be sufficient to cover all such claims that ultimately become allowed claims. We have reserved 1.3 million of the 20 million shares of New Loral Common Stock distributable under the Plan of Reorganization for disputed claims that may ultimately be payable in Common Stock. To the extent that disputed claims do not become allowed claims, shares held in reserve on account of such claims will be distributed pursuant to the Plan of Reorganization pro rata to claimants with allowed claims.

Confirmation of our Plan of Reorganization was opposed by the Official Committee of Equity Security Holders (the "Equity Committee") appointed in the Chapter 11 Cases and by the self-styled Loral Stockholders Protective Committee (the "LSPC"). Shortly before the hearing to consider confirmation of the Plan of Reorganization, the Equity Committee also filed a motion seeking authority to prosecute an action on behalf of the estates of Old Loral and its debtor subsidiaries seeking to unwind as fraudulent, a guarantee provided by Old Loral in 2001, of certain indebtedness of Loral Orion (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 "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 Appeal.

On or about January 27, 2006, the LSPC filed with the Bankruptcy Court a motion pursuant to section 1144 of the Bankruptcy Code (the "Revocation Motion"), pursuant to which the LSPC seeks revocation of the Confirmation Order. On February 6, 2006, we filed an objection to the Revocation Motion, in which the we objected to the relief sought in the Revocation Motion and requested that the Bankruptcy Court impose sanctions against the LSPC. A hearing on the Revocation Motion currently is scheduled for April 10, 2006.

At a hearing held on March 29, 2005, the Bankruptcy Court denied the "Motion of the LSPC for a Court Order for Relief From Automatic Stay and Order for the Annual Election of the Loral Board of Directors" (the "Election Motion"). Pursuant to the Election Motion, the LSPC sought an order compelling Old Loral to hold an annual meeting of shareholders. Although the Bankruptcy Court did not enter its Order denying the Election Motion until March 31, 2005, on March 30, 2005, the LSPC filed with the Bankruptcy Court a Notice of Appeal of the Bankruptcy Court's denial of the Election Motion (the "Shareholder Meeting Appeal"). This appeal is currently on the court's active calendar, and the LSPC has been instructed to file its brief. The court has stated, however, that we need not respond to that brief until further notice from the court, pending resolution of the motion to dismiss the appeal relating to the Confirmation Order and the Denial Order.

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

### *Other and Routine Litigation*

In October 2002, National Telecom of India Ltd. ("Natelco") filed suit against Old Loral and a subsidiary in the United States District Court for the Southern District of New York. The suit relates to a joint venture agreement entered into in 1998 between Natelco and ONS Mauritius, Ltd., a Loral Orion subsidiary, the effectiveness of which was subject to express conditions precedent. In 1999, ONS Mauritius had notified Natelco that Natelco had failed to satisfy those conditions precedent. In Natelco's amended complaint filed in March 2003, Natelco has alleged wrongful termination of the joint venture agreement, has asserted claims for breach of contract and fraud in the inducement and is seeking damages and expenses in the amount of $97 million. Natelco has filed a proof of claim in the Chapter 11 Cases and, in response, we have filed an objection stating our belief that the claims are without merit. The Bankruptcy Court has assumed jurisdiction over this claim. After a hearing on March 15, 2006, the Bankruptcy Court granted both our motion for summary judgment and our motion to dismiss with respect to Natelco's claim for breach of contract. The Bankruptcy Court denied our motion for summary judgment and requested further briefing by March 31, 2006 with respect to our motion to dismiss Natelco's fraudulent inducement claim and indicated that it would decide the motion to dismiss with respect to that claim after receipt of such briefs. We believe that, if Natelco's pre-petition unsecured claim ultimately becomes an allowed claim, the liability of New Loral would be limited solely to a distribution of New Loral common stock under the Plan of Reorganization based upon the amount of the allowed claim.

SS/ L has entered into several long-term launch services agreements with various launch providers to secure future launches for its customers, including Loral and its affiliates. SS/ L had launch services agreements with International Launch Services ("ILS") which covered a number of launches, three of which remained open. In November 2002, SS/ L elected to terminate one of those future launches, which had a termination liability equal to SS/ L's deposit of $5 million. Subsequently, SS/ L received a letter from ILS alleging SS/ L's breach of the agreements and purporting to terminate the launch service agreements and all remaining launches. Despite ILS's wrongful termination of the agreements and all remaining launches, to protect its interest, SS/ L also terminated a second launch, which had a termination liability equal to its deposit of $5 million, but reserved all of its rights against ILS. As a result, SS/ L recognized a non-cash charge to earnings of $10 million in the fourth quarter of 2002 with respect to the two terminated launches. In June 2003, to protect its interest, SS/ L also terminated a third launch, which had a termination liability equal to $23.5 million, and SS/ L recognized a non-cash charge to earnings of $23.5 million in the second quarter of 2003 with respect to this launch. SS/ L also reserved all of its rights at that time against ILS. In April 2004, SS/ L commenced an adversary proceeding against ILS in the Bankruptcy Court to seek recovery of

$37.5 million of its deposits. In June 2004, ILS filed counterclaims in the Bankruptcy Court, and, in January 2005, the Bankruptcy Court dismissed two of ILS's four counterclaims. In the two remaining counterclaims, ILS is seeking to recover damages, in an unspecified amount, as a result of our alleged failure to assign to ILS two satellite launches and $38 million in lost revenue due to our alleged failure to comply with a contractual obligation to assign to ILS the launch of another satellite. After a hearing in October 2005 on cross motions for summary judgment, the Bankruptcy Court ruled that SS/ L is entitled to recover from ILS at least $9 million, representing the excess of the deposits that SS/ L paid to ILS over the termination liabilities. The Bankruptcy Court further ruled that this $9 million payment is subject to ILS's counterclaims which we believe are without merit and against which we intend to defend vigorously. In addition, the Bankruptcy Court ruled that ILS wrongfully terminated the launch service agreements with SS/ L but that whether SS/ L is entitled to the $28.5 million in remaining deposits involves factual questions that must be the subject of a trial after further discovery. We do not believe that this matter will have a material adverse effect on our consolidated financial position or results of operations, although no assurance can be provided.

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 is, however, contingent on the occurrence of certain events, including without limitation, the sale of substantially all of the assets of Rainbow DBS. At the time of the Rainbow DBS Sale Agreement, Loral's investment in Rainbow DBS had been recorded at zero and Loral did not record a receivable or gain from this sale. During the quarter ended March 31, 2005, Rainbow DBS entered into an agreement to sell its Rainbow 1 satellite and related assets to EchoStar Communications Corporation, which sale was consummated in November 2005. Rainbow Holdings, however, has informed Loral that it does not believe that Loral is 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 disputes 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. Moreover, a third party has asserted a prepetition claim against Loral in the amount of $3 million with respect to the purchase price.

We are subject to various other legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of these legal proceedings and claims cannot be predicted with certainty, we do not believe that any of these other existing legal matters will have a material adverse effect on our consolidated financial position or our results of operations.

## 20. Segments

We are organized into two operating segments: Satellite Services and Satellite Manufacturing (see Note 1 regarding our operating segments and Note 5 regarding the sale of our North American satellites and related assets).

The common definition of EBITDA is "Earnings Before Interest, Taxes, Depreciation and Amortization". In evaluating financial performance, we use revenues and operating income (loss) from continuing operations before depreciation and amortization, including amortization of unearned stock compensation, and reorganization expenses due to bankruptcy ("Adjusted EBITDA") as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before amortization of stock compensation; reorganization expenses due to bankruptcy; gain on discharge of pre-petition obligations and fresh-start adjustments, gain (loss) on investments; other income (expense); equity in net income (losses) of affiliates, minority interest, net of tax; income (loss) from discontinued operations, net of taxes; cumulative effect of change in accounting principle, net of tax, and extraordinary gain on acquisition of minority interest, net of tax. Interest expense has been excluded from Adjusted EBITDA to maintain comparability with the

performance of competitors using similar measures with different capital structures. During the period we were in Chapter 11, we only recognized interest expense on the actual interest payments we made. During this period, we did not expect to make any further interest payments on our debt obligations after March 17, 2004, the date we repaid our secured bank debt. Reorganization expenses due to bankruptcy were only incurred during the period we were in Chapter 11. These expenses have been excluded from Adjusted EBITDA to maintain comparability with our results during periods we were not in Chapter 11 and with the results of competitors using similar measures. 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.

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 investors in comparing performance with competitors, estimating enterprise value and making investment decisions. Adjusted EBITDA allows investors to compare operating results of competitors exclusive of depreciation and amortization, net losses of affiliates and minority interest. Adjusted EBITDA is a useful tool given the significant variation that can result from the timing of capital expenditures, the amount of intangible assets recorded, the differences in assets' lives, the timing and amount of investments, and effects of investments not managed by us. 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.

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

**2005 Segment Information**

**Successor Registrant**
October 2, 2005 through December 31, 2005

| | Satellite Services | Satellite Manufacturing | Corporate [1] | Total |
|---|---|---|---|---|
| Revenues and Adjusted EBITDA: | | | | |
| Revenues [2] | $ 36.1 | $ 161.0 | | $ 197.1 |
| Intersegment revenues | 0.9 | 0.8 | | 1.7 |
| Operating segment revenues | $ 37.0 | $ 161.8 | | 198.8 |
| Eliminations [3] | | | | (1.6) |
| Operating revenues as reported | | | | $ 197.2 |
| Segment Adjusted EBITDA before eliminations [4][5][9] | $ 11.5 | $ 11.8 | $ (11.0) | $ 12.3 |
| Eliminations [3] | | | | (1.2) |
| Adjusted EBITDA | | | | 11.1 |
| Depreciation and amortization [6][7] | | | | (16.0) |
| Operating loss from continuing operations | | | | (4.9) |
| Interest and investment income | | | | 4.1 |
| Interest expense | | | | (4.4) |
| Other expense | | | | (0.2) |
| Income tax provision | | | | (1.8) |
| Equity loss in affiliates | | | | (5.4) |
| Minority interest | | | | (2.7) |
| Loss from continuing operations | | | | $ (15.3) |
| Other Data: | | | | |
| Depreciation and amortization [6][7] | $ 12.4 | $ 3.2 | $ 0.4 | $ 16.0 |
| Capital expenditures [7] | $ 2.0 | $ 3.0 | $ — | $ 5.0 |
| Total assets [7] | $ 741.4 | $ 871.5 | $ 66.1 | $1,679.0 |

**Predecessor Registrant**
January 1, 2005 through October 1, 2005

| | Satellite Services | Satellite Manufacturing | Corporate [1] | Total |
|---|---|---|---|---|
| **Revenues and Adjusted EBITDA:** | | | | |
| Revenues [2] | $ 111.3 | $ 318.6 | | $ 429.9 |
| Intersegment revenues | 3.2 | 10.9 | | 14.1 |
| Operating segment revenues | $ 114.5 | $ 329.5 | | 444.0 |
| Eliminations [3] | | | | (14.8) |
| Operating revenues as reported | | | | $ 429.2 |
| Segment Adjusted EBITDA before eliminations [4][5][9] | $ 39.8 | $ 15.2 | $ (17.3) | $ 37.7 |
| Eliminations [3] | | | | (12.3) |
| Adjusted EBITDA | | | | 25.4 |
| Depreciation and amortization [6][7] | | | | (61.3) |
| Reorganization expenses due to bankruptcy | | | | (31.2) |
| Operating loss from continuing operations | | | | (67.1) |
| Gain on discharge of pre-petition obligations and fresh-start adjustments [10] | | | | 1,101.5 |
| Interest and investment income | | | | 6.4 |
| Interest expense [10] | | | | (17.2) |
| Other expense | | | | (0.9) |
| Income tax benefit [10] | | | | 10.9 |
| Equity loss in affiliates | | | | (2.8) |
| Minority interest | | | | 0.1 |
| Income from continuing operations | | | | $1,030.9 |
| Other Data: | | | | |
| Depreciation and amortization [6][7] | $ 48.8 | $ 11.9 | $ 0.6 | $ 61.3 |
| Capital expenditures [7] | $ 2.2 | $ 2.4 | $ — | $ 4.6 |
| Total assets [7] | $ 521.5 | $ 510.7 | $ 68.8 | $1,101.0 |

### 2004 Segment Information

| | Satellite Services | Satellite Manufacturing | Corporate [1] | Total |
|---|---|---|---|---|
| Revenues and Adjusted EBITDA: | | | | |
| Revenues [2] | $ 136.7 | $ 299.6 | | $ 436.3 |
| Revenues from sales-type lease arrangement (see Note 8) | 87.2 | | | 87.2 |
| Intersegment revenues | 4.5 | 137.0 | | 141.5 |
| Operating segment revenues | $ 228.4 | $ 436.6 | | 665.0 |
| Eliminations [3] | | | | (142.9) |
| Operating revenues as reported | | | | $ 522.1 |
| Segment Adjusted EBITDA before eliminations [4][5][9] | $ 23.3 | $ (13.5) | $ (34.9) | $ (25.1) |
| Eliminations [3] | | | | (24.0) |
| Adjusted EBITDA | | | | (49.1) |
| Depreciation and amortization [6][7] | | | | (134.8) |
| Reorganization expenses due to bankruptcy | | | | (30.4) |
| Operating loss from continuing operations | | | | (214.3) |
| Interest and investment income | | | | 9.9 |
| Interest expense | | | | (2.9) |
| Other expense | | | | (0.5) |
| Income tax provision | | | | (13.2) |
| Equity income in affiliates | | | | 46.6 |
| Minority interest | | | | 0.1 |
| Loss from continuing operations | | | | $ (174.3) |
| Other Data: | | | | |
| Depreciation and amortization [6][7] | $ 111.3 | $ 22.9 | $ 0.6 | $ 134.8 |
| Capital expenditures [7] | $ 22.8 | $ 1.8 | $ 0.2 | $ 24.8 |
| Total assets [7] | $ 780.8 | $ 382.2 | $ 55.7 | $1,218.7 |

**2003 Segment Information [8]**

| | Satellite Services | Satellite Manufacturing | Corporate [1] | Total |
|---|---|---|---|---|
| Revenues and Adjusted EBITDA: | | | | |
| Revenues [2] | $ 150.0 | $ 245.0 | | $ 395.0 |
| Intersegment revenues | 4.3 | 229.0 | | 233.3 |
| Operating segment revenues | $ 154.3 | $ 474.0 | | 628.3 |
| Eliminations [3] | | | | (236.3) |
| Operating revenues as reported | | | | $ 392.0 |
| Segment Adjusted EBITDA before eliminations [4][5][9] | $ 7.5 | $ (158.6) | $ (36.0) | $ (187.1) |
| Eliminations [3] | | | | (41.9) |
| Adjusted EBITDA | | | | (229.0) |
| Depreciation and amortization [6][7] | | | | (134.6) |
| Reorganization expenses due to bankruptcy | | | | (25.3) |
| Operating loss from continuing operations | | | | (388.9) |
| Interest and investment income | | | | 15.2 |
| Interest expense | | | | (14.1) |
| Other income | | | | 1.5 |
| Gain on investment | | | | 17.9 |
| Income tax benefit | | | | 6.4 |
| Equity losses in affiliates | | | | (51.2) |
| Loss from continuing operations | | | | $ (413.2) |
| Other Data: | | | | |
| Depreciation and amortization [6][7] | $ 106.9 | $ 27.2 | $ 0.5 | $ 134.6 |
| Capital expenditures [7] | $ 109.4 | $ 6.0 | $ — | $ 115.4 |
| Total assets [7] | $ 1,983.9 | $ 362.0 | $ 117.9 | $2,463.8 |

[1] Represents corporate expenses incurred in support of our operations.

[2] Includes revenues from affiliates of $4.1 million for the period October 2, 2005 to December 31, 2005, $10.0 million for the period January 1, 2005 to October 1, 2005 and $7.8 million and $27.7 million in 2004 and 2003, respectively.

[3] Represents the elimination of intercompany sales and intercompany Adjusted EBITDA, primarily for satellites under construction by SS/ L for wholly owned subsidiaries and in the year ended December 31, 2003, the reversal of cumulative satellite manufacturing sales of $83 million and cost of satellite manufacturing of $73 million on a satellite program that was changed to a lease arrangement in the third quarter of 2003 (see Note 8).

[4] Satellite manufacturing excludes charges of $24 million for the year ended December 31, 2004, as a result of the settlement of all orbital receivables on satellites sold to Intelsat. This settlement had the effect of reducing future orbital receipts by $25 million, including $15 million relating to a satellite that was under construction in 2004. Consistent with our internal reporting for satellite manufacturing, this decrease in contract value for the satellite that was under construction in 2004 was not being reflected as a decrease in satellite manufacturing revenues. These charges had no effect on our consolidated results in 2004.

[5] Satellite Services recognized for the year ended December 31, 2004, $7.7 million of EBITDA for a sales-type lease arrangement for satellite capacity (Note 8) and an impairment charge of $12.0 million relating to our Telstar 14/ Estrela do Sul-1 satellite and related assets to reduce the carrying values to the expected proceeds from insurance (Note 8).

(6) Includes additional depreciation expense of $9 million for 2004 and $14 million for 2003, due to accelerating the estimated end of depreciable life of our Telstar 11 satellite to June 2004 from March 2005. Also, includes amortization of unearned stock compensation charges.

(7) Amounts are presented after the elimination of intercompany profit and include $89.4 million, $250.7 million and zero goodwill for Satellite Services, Satellite Manufacturing and Corporate, respectively, as of December 31, 2005.

(8) The 2003 segment information has been adjusted to remove the operations of the North American satellites and related assets sold, which have been reclassified to discontinued operations (see Note 5).

(9) Satellite manufacturing includes:

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| Adjusted EBITDA before specific identified charges | $ 16.0 | $ 29.1 | $ 10.8 | $ (21.3) |
| Accrued warranty obligations | (2.7) | (11.8) | (9.7) | (2.2) |
| Write-off of long-term receivables due to contract modifications | — | — | (11.3) | (20.2) |
| Provisions for inventory obsolescence | (1.5) | (2.1) | (3.3) | (49.5) |
| Loss on cancellation of a deposits | — | — | — | (23.5) |
| Accrual for Alcatel settlement | — | — | — | (13.0) |
| Loss on acceleration of receipt of long-term receivables | — | — | — | (10.9) |
| Valuation allowance on vendor financing receivables | — | — | — | (10.0) |
| Settlement of satellite contract dispute | — | — | — | (8.0) |
| Satellite manufacturing segment Adjusted EBITDA before eliminations | $ 11.8 | $ 15.2 | $ (13.5) | $ (158.6) |

(10) In connection with our emergence from Chapter 11 and our adoption of fresh-start accounting on October 1, 2005 we recognized a gain on discharge of pre-petition obligations and fresh-start adjustments of $1.101 billion, related interest expense of $13.2 million and a tax benefit of $15.4 million (see Note 4).

*Revenue by Customer Location*

The following table presents our revenues by country based on customer location for the periods from October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, and for the years ended December 31, 2004 and 2003 (in thousands).

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| United States | $ 170,103 | $ 350,622 | $303,258 | $239,531 |
| Japan | 4,193 | 13,486 | 47,641 | 69,573 |
| Thailand | 2,711 | 6,010 | 20,378 | 54,436 |
| Spain | 3,418 | 7,483 | 5,292 | 30,903 |
| Mexico | 1,327 | 7,122 | 1,693 | (3,749) |
| People's Republic of China (including Hong Kong) (1) | 2,411 | 4,498 | 97,628 | (66,047) |
| Other | 13,002 | 39,962 | 46,237 | 67,396 |
| | $ 197,165 | $ 429,183 | $522,127 | $392,043 |

(1) The 2004 amount includes $87 million for a sales-type lease arrangement for satellite capacity. The 2003 amount includes the reversal of $83 million of sales on a satellite program with a customer where the contract was changed to a lease arrangement (see Note 8).

During 2005, four of our customers accounted for approximately 13%, 13%, 11% and 10% of our consolidated revenues. During 2004, two of our customers accounted for approximately 26% and 17% of our consolidated revenues. During 2003, three of our customers accounted for approximately 20%, 14% and 12% of our consolidated revenues.

With the exception of our satellites in-orbit, our long-lived assets are primarily located in the United States.

## 21. Related Party Transactions

*K&F Industries, Inc.*

In 2005, we provided administrative and certain other services to K&F Industries, Inc. ("K&F"), a subsidiary of K&F Industries Holdings, Inc., and a company of which Bernard L. Schwartz was Chairman of the Board. K&F paid us a fee based on the cost of such services plus out of pocket expenses. For the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, we billed K&F $12,000 and $146,000, respectively.

In addition, K&F charged us $44,000 and $108,000 for the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005, respectively, for certain expenses and services.

*MHR Fund Management LLC*

Pursuant to the Plan of Reorganization, on November 21, 2005, Loral and Loral Skynet entered into a registration rights agreement with seven affiliated funds of MHR Fund Management LLC ("MHR"). Pursuant to the Plan of Reorganization, each holder of an Allowed Claim, as that term is used in the Plan of Reorganization, that receives a distribution pursuant to the plan of ten percent (10%) or greater of any of (i) Loral common stock, (ii) Loral Skynet preferred stock or (iii) Loral Skynet notes (collectively, the "Registrable Securities") is entitled to receive certain registration rights under the registration rights agreement (each such holder, and any future holder of such securities who becomes a party to the registration rights agreement, a "Registration Rights Holder"). Pursuant to the registration rights agreement, in addition to certain piggy-back registration rights granted to the Registration Rights Holders, certain Registration Rights Holders may also demand, under certain circumstances, that the Registrable Securities be registered under the Securities Act of 1933, as amended, in each case subject to the terms and conditions of the registration rights agreement.

Pursuant to the Plan of Reorganization, holders of certain claims at Loral Orion, Inc. were entitled to subscribe for up to $120 million of Loral Skynet notes. MHR and P. Schoenfeld Asset Management LLC agreed to backstop 95% and 5%, respectively, of the rights offering, in consideration of a $6 million fee, paid in additional Loral Skynet notes, as well as reimbursement of certain related costs and expenses. In connection with this backstop agreement, MHR received $5.7 million principal amount of Loral Skynet notes for its backstop commitment.

We have reimbursed fees and out-of -pocket expenses incurred by legal counsel to MHR in connection with our reorganization.

Dr. Rachesky and Mr. Goldstein are co-founders and managing principals of MHR. Mr. Devabhaktuni is also a managing principal of MHR. Dr. Rachesky, Mr. Goldstein and Mr. Devabhaktuni are directors of Loral.

*Other Relationships*

During 2005, we paid BLS Group LLC (a company owned by Mr. Schwartz) and The Air Group (a company commissioned by Mr. Schwartz to handle his corporate jet affairs) approximately $14,000 and

$2,000, respectively, for our use of Mr. Schwartz's corporate jet. Additional 2005 related expenses of approximately $134,000 will be paid by us to The Air Group in 2006.

Robert B. Hodes, a director and a member of the Compensation Committee until his resignation from the Board of Directors on February 28, 2006, is counsel to the law firm of Willkie Farr & Gallagher LLP, which acts as counsel to us.

For the year ended December 31, 2005, we paid fees and disbursements in the amount of approximately $91,000 for corporate communications consultations and related services to Kekst & Company Incorporated, of which company Gershon Kekst, is President and principal stockholder. Prior to November 21, 2005, Mr. Kekst was a director of Old Loral.

*Lockheed Martin*

In 2003, Lockheed Martin ceased being a related party to us. Costs of purchased goods and services from Lockheed Martin in the year ended December 31, 2003, were $8.6 million.

## 22. Selected Quarterly Financial Information (unaudited, in thousands, except per share amounts)

| | Predecessor Registrant | | | | Successor Registrant |
|---|---|---|---|---|---|
| | Quarter Ended | | | | |
| | March 31, | June 30, | September 30, | October 1, | October 2 to December 31, |
| **Year ended December 31, 2005** | | | | | |
| Revenues | $ 132,378 | $ 136,762 | $ 160,043 | $ — | $ 197,165 |
| Operating loss from continuing operations | (23,959) | (16,741) | (26,395) | — | (4,945) |
| Loss from continuing operations | (26,221) | (18,776) | (27,800) | — | (15,261) |
| Gain on discharge of pre-petition obligations and fresh-start adjustments | — | — | — | 1,101,453 | — |
| Gain on sale of discontinued operations, net of taxes | — | 11,371 | 2,596 | — | — |
| Net (loss) income | (26,221) | (7,405) | (25,204) | 1,103,679 | (15,261) |
| Basic and diluted (loss) earnings per share [(1)]: | | | | | |
| Continuing operations | (0.59) | (0.43) | (0.63) | 25.02 | (0.76) |
| Discontinued operations | — | 0.26 | 0.06 | — | — |
| (Loss) earnings per share | (0.59) | (0.17) | (0.57) | 25.02 | (0.76) |

**Predecessor Registrant**

| | Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, | June 30, | September 30, | December 31, |
| **Year ended December 31, 2004** | | | | |
| Revenues | $ 103,684 | $ 113,703 | $ 198,615 | $ 106,125 |
| Operating loss from continuing operations | (68,078) | (58,489) | (35,127) | (52,651) |
| Loss from continuing operations | (68,016) | (22,827) | (31,701) | (51,803) |
| Income (loss) from discontinued operations | (11,620) | 158 | 299 | 8,815 |
| Net loss | (79,636) | (22,669) | (31,402) | (42,988) |
| Basic and diluted loss per share [1] : | | | | |
| Continuing operations | (1.54) | (0.51) | (0.72) | (1.17) |
| Discontinued operations | (0.26) | — | 0.01 | 0.20 |
| Loss per share | (1.80) | (0.51) | (0.71) | (0.97) |

[1] The quarterly earnings per share information is computed separately for each period. Therefore, the sum of such quarterly per share amounts may differ from the total for the year.

## LORAL SPACE & COMMUNICATIONS INC.

## CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

## CONDENSED BALANCE SHEETS
**(In thousands)**

| | Successor Parent December 31, 2005 | Predecessor Parent December 31, 2004 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 8,309 | $ 1,525 |
| Accounts receivable | 227 | — |
| Other current assets | 1,627 | 2,331 |
| Total current assets | 10,163 | 3,856 |
| Property, plant and equipment, net | 1,758 | — |
| Investments in and advances to subsidiaries | 685,321 | — |
| Other assets | 6,637 | 4,197 |
| Total assets | $ 703,879 | $ 8,053 |
| Current liabilities: | | |
| Accounts payable | $ 5,555 | $ 499 |
| Accrued employment costs | 5,551 | — |
| Other current liabilities | 17,550 | 1,220 |
| Total current liabilities | 28,656 | 1,719 |
| Pension and other postretirement liabilities | 15,529 | — |
| Long-term liabilities | 32,530 | 30,607 |
| Liabilities subject to compromise | — | 456,078 |
| Investments in and advances to subsidiaries | — | 563,750 |
| Total liabilities | 76,715 | 1,052,154 |
| Shareholders' equity (deficit): | | |
| Common stock | 200 | 4,413 |
| Paid-in capital | 642,210 | 3,392,825 |
| Treasury stock, at cost | — | (3,360) |
| Unearned compensation | — | (87) |
| Retained deficit | (15,261) | (4,348,231) |
| Accumulated other comprehensive (loss) | 15 | (89,661) |
| Total shareholders' equity (deficit) | 627,164 | (1,044,101) |
| Total liabilities and shareholders' (deficit) equity | $ 703,879 | $ 8,053 |

See accompanying notes to condensed financial information of the parent company.

**LORAL SPACE & COMMUNICATIONS INC.**

**SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY**

**CONDENSED STATEMENTS OF OPERATIONS**
**(in thousands)**

| | Successor Parent | Predecessor Parent | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, 2004 | Years Ended December 31, 2003 |
| Selling, general and administrative expenses | $ 516 | $ — | $ 4,279 | $ 8,937 |
| Loss from continuing operations before reorganization expenses due to bankruptcy | (516) | — | (4,279) | (8,937) |
| Reorganization expenses due to bankruptcy | — | (5,539) | (3,885) | (1,900) |
| Loss from continuing operations | (516) | (5,539) | (8,164) | (10,837) |
| Gain on discharge of pre-petition obligations and fresh-start adjustments | — | 352,202 | — | — |
| Interest and investment income | 2,724 | 20 | 10 | 12,198 |
| Interest expense | — | (389) | — | (21,675) |
| Other expense | — | (3) | — | — |
| Income (loss) from continuing operations before income taxes, equity income (losses) in subsidiaries and affiliates | 2,208 | 346,291 | (8,154) | (20,314) |
| Income tax (provision) benefit | (3,225) | 32,099 | (1,077) | (3,656) |
| Income (loss) from continuing operations before equity (losses) income in subsidiaries and affiliates | (1,017) | 378,390 | (9,231) | (23,970) |
| Equity (loss) income in subsidiaries, net of taxes | (14,244) | 666,459 | (167,464) | (334,995) |
| Equity loss in affiliates | — | — | — | (21,775) |
| (Loss) income from continuing operations before cumulative effect of change in accounting principle | (15,261) | 1,044,849 | (176,695) | (380,740) |
| Cumulative effect of change in accounting principle | — | — | — | (1,970) |
| Net (loss) income | $ (15,261) | $ 1,044,849 | $ (176,695) | $ (382,710) |

See accompanying notes to condensed financial information of the parent company.

## LORAL SPACE & COMMUNICATIONS INC.

## SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

### CONDENSED STATEMENTS OF CASH FLOW
**(in thousands)**

| | Successor Parent | Predecessor Parent | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 | Years Ended December 31, | |
| | | | 2004 | 2003 |
| Operating activities: | | | | |
| Net (loss) income | $ (15,261) | $ 1,044,849 | $ (176,695) | $ (382,710) |
| Non-cash items: | | | | |
| Gain on discharge of pre-petition obligations and fresh-start adjustments | — | (352,202) | — | — |
| Cumulative effect of change in accounting principle | — | — | — | 1,970 |
| Equity income in affiliates | — | — | — | 21,775 |
| Equity losses in subsidiaries | 14,244 | (666,459) | 167,464 | 334,995 |
| Deferred taxes | 1,427 | (30,607) | — | 3,656 |
| Depreciation and amortization | 464 | — | — | — |
| Due (to) from subsidiaries | (19,902) | 58 | 4,527 | 2,080 |
| Accounts receivable | (62) | — | — | — |
| Other current assets and other assets | (53) | 1,732 | 1,147 | (964) |
| Accounts payable | (37) | (1,536) | — | — |
| Accrued expenses and other current liabilities | (9,667) | 1,418 | (476) | 1,253 |
| Pension and other postretirement liabilities | (222) | — | — | |
| Income taxes payable | 1,661 | (1,492) | — | — |
| Long-term liabilities | 696 | — | 1,077 | — |
| Merger of subsidiary into parent in connection with Plan of Reorganization | — | 34,012 | — | — |
| Other | — | — | — | 67 |
| Net cash (used in) provided by operating activities | (26,712) | 29,773 | (2,956) | (17,878) |
| Investing activities: | | | | |
| Capital expenditures for continuing operations | (24) | | | |
| Investments in and advances to subsidiaries | — | — | | (288) |
| Investments in and advances to affiliates | — | 3,747 | — | — |
| Net cash (used in) provided by investing activities | (24) | 3,747 | — | (288) |
| Financing activities: | | | | |
| Proceeds from note receivable from subsidiary | — | — | | 17,284 |
| Proceeds from other stock issuances | — | — | — | 3,849 |
| Net cash used in financing activities | — | — | — | 21,133 |
| Net (decrease) increase in cash and cash equivalents | (26,736) | 33,520 | (2,956) | 2,967 |
| Cash and cash equivalents — beginning of period | 35,045 | 1,525 | 4,481 | 1,514 |
| Cash and cash equivalents — end of period | $ 8,309 | $ 35,045 | $ 1,525 | $ 4,481 |

See accompanying notes to condensed financial information of the parent company

## SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

## NOTES TO CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

1. Basis of Presentation

Loral Space & Communications Inc. (“New Loral”) together with its subsidiaries is a leading satellite communications company with substantial activities in satellite-based communications services and satellite manufacturing. New Loral was formed to succeed 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”).

We adopted fresh start accounting as of October 1, 2005, in accordance with Statement of Position No. 90-7, Financial Reporting of Entities in Reorganization Under the Bankruptcy Code (“SOP 90-7”). Accordingly, our financial information disclosed under the heading “Successor Parent” for the period ended and as of December 31, 2005, is presented on a basis different from, and is therefore not comparable to, our financial information disclosed under the heading “Predecessor Parent” for the period ended and as of October 1, 2005 (the date we adopted fresh-start accounting) or for prior periods.

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

Loral is a holding company which is the ultimate parent of all Loral subsidiaries and is the registrant of Loral’s common stock. The accompanying condensed financial statements reflect the financial position, results of operations and cash flows of Loral on a separate parent company basis. All subsidiaries of Loral are reflected as investments accounted for under the equity method of accounting. Accordingly, intercompany payables and receivables have not been eliminated.

Loral’s significant transactions with its subsidiaries other than the investment account and related equity in net (loss) income of subsidiaries are the allocation of general corporate expenses to its subsidiaries and in the case of New Loral include a management fee paid by certain of its subsidiaries.

No cash dividends were paid to Loral by its subsidiaries or its affiliates during the periods October 2, 2005 to December 31, 2005 and January 1, 2005 to October 1, 2005 and for the years ended December 31, 2004 and 2003.

These condensed financial statements should be read in conjunction with Loral’s consolidated financial statements and the accompanying notes thereto.

2. Guarantees and Contingencies

Old Loral had guaranteed Space Systems/ Loral’s performance obligations under certain of its customer contracts. We are in the process of replacing certain of these guarantees with guarantees of New Loral.

Of the matters described under the heading Financial Matters in Note 19, Commitments and Contingencies, to the consolidated financial statements, Loral has certain obligations to the U.S. Department of State pursuant to a consent agreement.

Of the matters described under the heading Legal Proceedings in Note 19 to the consolidated financial statements, Loral is a party to all of these contingencies with the exception of the following two matters reported under the sub-heading Other and Routine Litigation in that section:

1) the litigation with ILS

2) the litigation with Rainbow DBS Holdings, Inc.

**LORAL SPACE & COMMUNICATIONS INC.**
**VALUATION AND QUALIFYING ACCOUNTS**
**For the Years Ended December 31, 2005, 2004 and 2003**
**(in thousands)**

| Description | Balance at Beginning of Year | Additions: Charged to Costs and Expenses | Additions: Charged to Other Accounts [1] | Deductions From Reserves [2] | Balance at End of Year |
|---|---|---|---|---|---|
| **Predecessor Registrant:** | | | | | |
| **Year ended 2003** | | | | | |
| Allowance for billed receivables | $ 7,094 | $ 7,221 | $ 1,405 | $ (4,017) | $ 11,703 |
| Allowance for long-term receivables | 32,574 | 10,329 | 19,856 | (42,582) | 20,177 |
| Total Receivables allowance | $ 39,668 | $ 17,550 | $ 21,261 | $ (46,599) | $ 31,880 |
| Inventory allowance | $ 24,123 | $ 49,546 | $ — | $ (31,933) | $ 41,736 |
| **Year ended 2004** | | | | | |
| Allowance for billed receivables | $ 11,703 | $ (2,144) | $ (13) | $ (3,101) | $ 6,445 |
| Allowance for long-term receivables | 20,177 | — | — | (20,177) | — |
| Total Receivables allowance | $ 31,880 | $ (2,144) | $ (13) | $ (23,278) | $ 6,445 |
| Inventory allowance | $ 41,736 | $ 3,324 | $ — | $ (11,060) | $ 34,000 |
| **January 1, 2005-October 1, 2005** | | | | | |
| Allowance for billed receivables | $ 6,445 | $ (2,880) | $ 2 | $ 942 | $ 4,509 |
| Inventory allowance | $ 34,000 | $ 2,127 | $ — | $ (2,207) | $ 33,920 |
| **Successor Registrant:** | | | | | |
| **October 2, 2005-December 31, 2005** | | | | | |
| Allowance for billed receivables | $ 4,509 | $ 953 | $ — | $ — | $ 5,462 |
| Inventory allowance | $ 33,920 | $ 1,525 | $ — | $ (1,703) | $ 33,742 |

(1) Allowance for long-term receivables recorded as a reduction to revenues.

(2) Write-offs of uncollectible accounts.

**EXHIBIT 10.10**

# EMPLOYMENT AGREEMENT

AGREEMENT, dated as of the 28th day of March, 2006 (the "Effective Date"), by and between Loral Space & Communications Inc., a Delaware corporation (the "Company"), Michael B. Targoff (the "Executive") and those subsidiaries of the Company signatory hereto solely for purposes of Section 13(n) hereof.

WHEREAS, the Company desires to engage the services of the Executive and the Executive desires to be employed by the Company on the terms and conditions hereinafter set forth; and

WHEREAS, the Company desires to be assured that all proprietary and confidential information of the Company will be preserved for the exclusive benefit of the Company;

NOW, THEREFORE, in consideration of such employment and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Executive agree as follows:

Section 1. Employment and Position. The Company hereby employs the Executive as its Chief Executive Officer and Vice Chairman of the Board of Directors (the "Board"), and the Executive hereby accepts such employment under and subject to the terms and conditions hereinafter set forth.

Section 2. Term. The term of employment under this Agreement shall begin as of March 1, 2006, and, unless sooner terminated as provided in Section 6, shall conclude on December 31, 2010 (the "Term").

Section 3. Duties. The Executive shall perform services in a managerial capacity in a manner consistent with the Executive's position as Chief Executive Officer and Vice Chairman of the Board, subject to the general supervision of the Board. The Executive shall have all of the duties, responsibilities and authority commensurate with his position. The Executive hereby agrees to devote substantially all his business time to performance of such duties and to the promotion and forwarding of the business and affairs of the Company for the Term; provided, however, that Executive shall be permitted to engage, or continue participation, in (a) charitable, civic, educational, professional, community or industry affairs, (b) managing the Executive's and his family's personal investments, (c) corporate directorships and other business activities described in Schedule I attached hereto with regard to public companies, and as heretofore disclosed to the Board with regard to private companies, including any replacements for any such private companies heretofore disclosed to the Board that does not materially change the time commitment or violate Section 10 hereof and (d) such other activities as may hereafter be specifically approved in writing, which in each case

and in the aggregate do not materially interfere with the performance of his obligations hereunder; provided, further, however, that Executive may not engage in any such activities that would result in the Executive being in Competition (as defined in Section 10(d) below).

Section 4. Compensation.

(a) Salary. In consideration of the services rendered by the Executive under this Agreement, the Company shall pay the Executive a base salary (the "Base Salary") at the rate of $950,000 per calendar year. The Base Salary shall be paid in such installments and at such times as the Company pays its salaried executives and shall be subject to all necessary withholding taxes, FICA contributions and similar deductions. The Board shall review annually the Base Salary payable to Executive hereunder and may, in its sole discretion, increase but not decrease, the Executive's salary rate. Any such increased salary shall be and become the "Base Salary" for purposes of this Agreement.

(b) Annual Bonus. The Company shall maintain an annual Management Incentive Bonus program ("MIB Program") for certain executives, and Executive shall be a participant in the MIB Program and shall be entitled to an annual bonus to the extent payable under such program ("Annual Bonus"). The Executive's target annual bonus opportunity under the MIB Program shall be not less than 125% of the Executive's Base Salary (the "Target Annual Bonus"). With respect to the Annual Bonus for the 2006 fiscal year or any subsequent fiscal year, the Board shall, in its discretion, establish the terms and conditions of the MIB Program and may amend the MIB Program (other than by reducing the Target Annual Bonus percentage set forth above) accordingly. The Annual Bonus shall be paid on or before March 15 of the year following the year to which the Annual Bonus relates.

(c) Equity Grants. In connection with Executive's service as Vice Chairman of the Board commencing on November 21, 2005, the Company, pursuant to an Option Agreement dated December 21, 2005 (the "Initial Option Agreement"), on December 21, 2005, granted to Executive (the "Initial Option Grant") an option to purchase 106,952 shares of its common stock at an exercise prices of $28.441 per share under the Company's 2005 Stock Incentive Plan (the "Stock Option Plan"). The Board has amended and restated the Stock Option Plan to increase the number of shares of the Company's common stock, par value per share $0.01 (the "Common Stock"), available for grant thereunder to a number adequate to cover the Option (as defined below) and will, prior to the submission of the amended and restated Stock Option Plan to stockholders for approval, further amend and restate the Plan to provide for an additional number or shares adequate to cover the 2008 Equity Award (as defined below), based on the Company's best estimate at the time of amendment and restatement of the number of shares necessary for the 2008 Equity Award, and shall reserve adequate shares, subject to such best estimate, under the Stock Option Plan for such awards and the Company agrees to submit the Stock Option Plan as amended to the Company's stockholders at the next annual meeting of stockholders and seek stockholder approval (the "Approvals"). In addition to the Initial Option Grant, in connection with the execution of this Agreement,

the Company grants to the Executive an option to purchase 825,000 shares of common stock of the Company, with a per-share exercise price equal to the fair market value of one share of the Company's common stock at the date of grant (the "Option"), such grant to be subject to obtaining the Approvals. To the extent the Approvals are not obtained, the Option shall be void. The Option shall have such other terms and conditions as set forth in the Option Agreement attached hereto as EXHIBIT A (the "Second Option Agreement" and, together with the Initial Option Agreement, the "Option Agreements"). The Option is intended to count as an option award for both 2006 and 2007, in lieu of any regular annual option award that the Executive would otherwise be entitled to in 2006 and 2007, and has been structured as such with one-half of the Option vesting over three years commencing on the date of Grant and one-half of the Option vesting over three years commencing on the first anniversary of the date of grant. In addition, if the Executive has earned a Target Annual Bonus for both 2006 and 2007, the Company shall grant to the Executive in 2008 an additional option to purchase shares of common stock of the Company, or other equity award under the Stock Option Plan, in either case having a comparable economic value equal to one-half (1/2) of the value of the Option (based on a Black-Scholes valuation of such Option) (the "2008 Equity Award") and, to the extent the 2008 Equity Award is a stock option, with terms similar to the Second Option Agreement; provided, however, that the 2008 Equity Award shall, whether an Option or other equity award, vest in four annual installments with twenty-five percent (25%) of the award vesting on the date of grant, an additional twenty-five percent (25%) of the award vesting on the first anniversary of the date of grant, an additional twenty-five percent (25%) of the award vesting on the second anniversary of the date of grant and the remaining twenty-five percent (25%) of the award vesting on the third anniversary of the date of grant (consistent with the provisions of the Second Option Agreement (and Section 7(h)
hereof) relating to termination of employment and accelerated vesting and exercise periods); and further provided, however, that the 2008 Equity Award shall not be made subject to stockholder approval. The grant of the 2008 Equity Award shall also be subject to obtaining the Approvals. The Executive shall be eligible for participation in the Stock Option Plan during the Term to the same extent as other senior executives of the Company, taking into account that the Option is intended to count as the regular option award for both 2006 and 2007 and the 2008 Equity Award is intended to count as an the regular equity award for 2008. The Company may make such other discretionary equity awards to the Executive as it deems appropriate. Notwithstanding anything herein to the contrary, (i) the Option shall not become exercisable prior to the date the Company obtains the Approvals and the 2008 Equity Award shall not become exercisable prior to the Approvals.

Section 5. Benefits. In addition to the compensation detailed in Section 4 of this Agreement, the Executive shall be entitled to the following additional benefits:

(a) Paid Vacation. The Executive shall be entitled to 20 days paid vacation per calendar year in accordance with the Company's vacation policy in effect from time to time, such vacation shall extend for such periods and shall be taken at such intervals as

shall be appropriate and consistent with the proper performance of the Executive's duties hereunder.

(b) Welfare Plans. During the Term, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, programs, practices and policies provided generally by the Company to similarly situated executives of the Company (including, without limitation, any medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs that may be provided by the Company from time to time). Such plans, programs, practices and policies are subject to change from time to time by the Company.

(c) Other Benefit Plans. During the Term, the Executive shall be entitled to participate in all equity, savings, retirement and pension plans (including the Company's Supplemental Executive Retirement Plan ("SERP")), programs, practices and policies applicable generally to similarly situated executives of the Company as determined by the Board from time to time. Such plans, programs, practices and policies are subject to change from time to time by the Company.

(d) Perquisites and Other Benefits. During the Term, the Executive shall be entitled to such additional perquisites and fringe benefits appertaining to his position in accordance with any practice established by the Board. During the Term, Executive shall be entitled to receive all benefits under any individual welfare benefit arrangements (including life insurance coverage) or other benefit arrangements currently in effect for other senior executives of the Company in a manner consistent with past practice, and such arrangements are listed on Schedule I attached hereto.

(e) Reimbursement of Expenses. The Company shall reimburse the Executive for all reasonable expenses actually incurred by the Executive directly in connection with the business affairs of the Company and the performance of his duties hereunder, upon presentation of proper receipts or other proof of expenditure and subject to such reasonable guidelines or limitations provided by the Company from time to time. The Executive shall comply with such reasonable limitations and reporting requirements with respect to such expenses as the Board may establish from time to time.

(f) Indemnification. In addition to the terms of any officers' liability insurance carried by the Company, the Executive (and his heirs, executors and administrators) shall be indemnified by the Company and its successors and assigns pursuant to a separate Indemnification Agreement attached hereto as EXHIBIT B, which has heretofore been executed. The Executive shall be an insured person under or otherwise covered by directors and officers liability insurance in an amount consistent with past practice. The obligations of the Company pursuant to this Section shall survive the expiration of the Term or Executive's voluntary or involuntary termination or resignation for Good Reason.

Section 6. Termination of Employment. The Executive's employment may end earlier than the end of the Term as follows:

(a) Death. The employment of the Executive shall automatically terminate upon the death of the Executive.

(b) Disability. In the event of any physical or mental disability of the Executive rendering the Executive substantially unable to perform his duties hereunder for a period of at least one hundred eighty (180) days out of any three hundred sixty-five (365)-day period and the further determination that the disability is permanent with regard to the Executive's ability to return to work in his full capacity, the Executive's employment shall be terminated on account of the Executive's disability upon written notice from the Company. In the event of any dispute as to the Executive's disability, the determination binding on both parties shall be made by a physician or physicians mutually agreed upon in good faith by the Board and the Executive or his representative.

(c) By the Company For Cause. The employment of the Executive may be terminated by the Company for Cause (as defined below) at any time effective upon written notice to the Executive; provided, however, that if such termination is based upon any event set forth in clauses (iii), (iv), (v), (vi) or (vii) below, Executive shall be given not less than ten (10) days prior written notice by the Board of the intention to terminate him for Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based, and Executive shall have ten (10) days after the date that such written notice has been given to Executive in which to address the full Board and present arguments on his own behalf, with or without legal representation at the Executive's election, regarding any such alleged act or failure to act. If a majority of the members of the full Board make a determination that Cause exists, the termination shall be effective on the date immediately following the expiration of the ten (10) day notice period. Otherwise, Cause shall not be determined to exist. For purposes hereof, the term "Cause" shall mean that one or more of the following has occurred:

(i) the Executive shall have been after the Effective Date convicted of, or shall have pleaded guilty or nolo contendere to, any felony;

(ii) the Executive shall have materially breached any provision of
Section 10 hereof;

(iii) the Executive shall have committed any fraud, embezzlement, misappropriation of funds, or breach of fiduciary duty against the Company, in each case of a material nature;

(iv) the Executive shall have engaged in any willful misconduct with regard to the Company resulting in or reasonably likely to result in a material loss to the Company or substantial damage to its reputation; or

(v) the Executive shall have willfully breached in any material respect any material provision of the Company's Code of Conduct, which breach would generally result in the termination of a senior executive of the Company and, to the extent any such breach is curable, the Executive shall have failed to cure such breach within ten (10) days after written notice of the alleged breach is provided to the Executive.

(d) By the Company without Cause. The Company may terminate the Executive's employment at any time without Cause effective upon written notice to the Executive.

(e) By the Executive Voluntarily. The Executive may terminate his employment at any time effective upon at least thirty (30) days prior written notice to the Company.

(f) By the Executive for Good Reason. The Executive may terminate his employment for Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, within sixty (60) days of the occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and, if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. For this purpose, unless agreed to by the Executive, the term "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any substantial respect with the Executive's position, authority or responsibilities or any duties which are illegal or unethical;

(ii) any reduction or diminution in the Executive's then titles or positions (including removal or failure to be re-elected to the Board or as Vice Chairman), or a material reduction or diminution in the Executive's then authorities, duties or responsibilities or reporting requirements with the Company; provided, however, that the sale of all or substantially all of the assets or stock of Loral Skynet Corporation or Space Systems/Loral, Inc. (each, a "Subsidiary") shall not, by itself, constitute Good Reason;

(iii) any reduction in Base Salary, the Target Annual Bonus or any of the benefits described in Section 5 of this Agreement to the extent not permitted under Section 5;

(iv) the relocation by the Company of the Executive's primary place of employment with the Company to a location outside of New York County, New York;

(v) other material breach of this Agreement by the Company;

(vi) the failure of the Company to obtain the assumption in writing delivered to the Executive of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company;

(vii) the occurrence of a Change in Control, as defined in the Stock Option Plan, if the stockholders of the Company have not granted the Approvals under Section 4(c) prior to the earlier of June 30, 2007 or a Change in Control; provided, however, that for purposes of this Section 6(f)(vii) the Executive shall not have Good Reason following the date that is six months following the earlier of June 30, 2007 or a Change in Control; and further provided, however, that for purposes of this Section 6(f)(vii) the Executive shall not have Good Reason following the date that the Approvals are obtained.

(viii)the failure of the stockholders of the Company to grant the Approvals by June 30, 2007; provided, however, that for purposes of this Section 6(f)(viii) the Executive shall not have Good Reason following December 31, 2007; or

(ix) the failure of the Company to grant the 2008 Equity Award, unless such failure is due to the failure to obtain the Approvals.

Section 7. Termination Payments and Benefits.

(a) Voluntary Termination, Termination For Cause. Upon any termination of employment during the Term either (i) by the Executive without Good Reason under
Section 6(e), or (ii) by the Company for Cause as provided in Section 6(c), all payments, Base Salary and other benefits hereunder shall cease at the effective date of termination. Notwithstanding the foregoing, the Executive shall be entitled to receive from the Company (i) Base Salary earned or accrued through the date the Executive's employment is terminated, (ii) reimbursement for any and all monies advanced in connection with the Executive's employment for reasonable business expenses incurred by the Executive through the date the Executive's employment is terminated, (iii) all other payments and benefits to which the Executive may be entitled under the terms of any applicable compensation arrangement or benefit plan or program of the Company, including any earned and accrued, but unused vacation pay and benefits under and in accordance with the terms and provisions of the SERP, but excluding any entitlement to severance under any Company severance policy generally applicable to the Company's salaried employees, and (iv) excluding any accrued and unpaid Annual Bonus for the immediately preceding year (collectively, the "Accrued Benefits"). Payment of the Accrued Benefits pursuant to this Section 7(a) shall be made as soon as reasonably practicable following the Executive's termination of employment subject to such limitations and adjustments necessary to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

(b) Death. In the event of a termination due to the Executive's death during the Term, the Company shall have no further obligations to the Executive or his

beneficiaries other than to pay to the Executive's designated beneficiary or, if no beneficiary has been designated by the Executive, to his estate (i) all Accrued Benefits, plus (ii) any Base Salary through the end of the calendar month in which the Executive's death occurred, plus (iii) any accrued and unpaid Annual Bonus for the immediately preceding year, and (iv) at the times the Company pays its executives bonuses in accordance with its general payroll policies, an amount equal to that portion of the Annual Bonus, which but for the Executive's death would have been earned by the Executive during the year of his death, pro-rated based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his death during which the Executive was employed by the Company on an active status (the Accrued Benefits and the payment of the amounts set forth in clauses (iii) and
(iv) of this Section 7(b) are collectively referred to as the "Enhanced Accrued Benefits"). In addition, any unvested stock options under the Stock Option Plan and any deferred compensation under the Initial Option Agreement that would have become vested on the next date of vesting applicable thereto shall become vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement as to a portion thereof based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his death during which the Executive was employed by the Company on an active status. The Executive's medical, prescription and dental coverage shall continue for the benefit of the Executive's family through the end of the Term.

(c) Termination without Cause or for Good Reason. In the event that the Executive's employment is terminated during the Term by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to receive as his exclusive right and remedy in respect of such termination, (i) all Enhanced Accrued Benefits, and (ii) a lump sum severance payment equal to two (2) times the sum of (A) the Executive's Base Salary in effect on the date of termination and (B) the Annual Bonus for the immediately preceding year (or Target Annual Bonus if termination occurs during the first year of the Term or before the Annual Bonus for the prior fiscal year is declared); provided, however, that if the Good Reason is the event under Section 6(f)(vii), the sum of subsections (A) and (B) above shall be paid in the amount that would be due for the remainder of the original Term rather than two (2) time such sum ("Severance Payments"). In addition, all unvested stock options, other equity grants and all deferred compensation under the Initial Option Agreement shall become fully vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement. Following the termination of the Executive's employment by the Company without Cause or by the Executive for Good Reason, the Company shall provide medical, dental and life insurance coverage, upon the same terms and conditions applicable generally to similarly situated executives who remain employed with the Company, for a period of eighteen (18) months; provided, however, that for each of the eighteen (18) months following such termination the Executive shall be responsible for payment of the regular employee portion of the monthly insurance premiums for such insurance, applicable to similarly situated executives who remain employed with the Company, and the Company shall be responsible for payment of the regular Company portion of the

monthly insurance premiums for such insurance, applicable to similarly situated executives who remain employed with the Company (the "Welfare Severance Benefits"); and further provided, however, that such obligation shall expire if the Executive commences new employment prior to the expiration of such eighteen
(18)-month period and becomes covered by substantially similar benefits. The Severance Payments, all other payments and the provision of any continued benefits pursuant to this Section 7(c) shall be made as soon as reasonably practicable following the Executive's termination of employment subject to such limitations and adjustments necessary to comply with Code Section 409A. For the avoidance of doubt, in the event that all or substantially all of the assets or stock of a Subsidiary are acquired by a person or entity (the "Acquirer") and the Executive is offered employment, as the principal executive officer of such Subsidiary consistent with the terms of this Agreement, by the Acquirer or any affiliate of the Acquirer that directly or indirectly owns such Acquirer, or any successor to the Acquirer or any such affiliate and the Executive accepts such offer and such Acquirer, affiliate or successor, as applicable, assumes this Agreement, the Executive shall not be treated as having a termination of employment without Cause or for Good Reason; provided, however, that the Executive shall have no obligation to accept any such offer of employment. Notwithstanding anything herein to the contrary, to the extent that the Executive willfully commits a material breach of any provision of Section 10 hereof (a "Material Breach"), the Company shall be relieved of its obligation to provide the Welfare Severance Benefits after such Material Breach and the Executive shall be obligated to pay to the Company, as partial damages related to the Severance Payments, for such Material Breach an amount equal to X multiplied by Y, where X is a fraction, the denominator of which is 365 and the numerator of which is the number of days remaining in the 365 days immediately following the Executive's termination of employment by the Company without Cause or by the Executive for Good Reason after any such Material Breach, and Y is the amount of Severance Payments (the "Severance Mitigation"). For example, if the Executive commits a Material Breach on the 182nd day following his termination of employment by the Company without Cause or by the Executive for Good Reason and the Executive received $2,000,000 in Severance Payments, the Executive would be obligated to pay $1,000,000 to the Company. Payment of the Severance Mitigation shall not limit the remedies of the Company and its affiliates under
Section 10 or any other remedies that may be available to them, if a court of competent jurisdiction or arbitrator, as applicable, determines that the Executive has breached any of the provisions of this Section 10.

(d) Termination due to Disability. In the event that the Executive's employment is terminated during the Term due to the Disability of the Executive, the Company shall have no further obligation to the Executive other than to pay the Executive (in addition to any disability insurance payments to which the Executive is entitled pursuant to Section 5 above) all Enhanced Accrued Benefits. In addition, any unvested stock options under the Stock Option Plan and any deferred compensation under the Initial Option Agreement that would have become vested on the next date of vesting applicable thereto shall become vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement, as to a portion thereof

based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his Disability during which the Executive was employed by the Company on an active status. Payment of the Enhanced Accrued Benefits and all other payments pursuant to this Section 7(d) shall be made as soon as reasonably practicable following the Executive's termination of employment subject to such limitations and adjustments necessary to comply with Code Section 409A.

(e) No Other Benefits. Except as specifically provided in this Section 7 or Section 8, the Executive shall not be entitled to any other compensation, severance or other benefits from the Company or any of its subsidiaries or affiliates upon the termination of this Agreement or the Executive's employment for any reason whatsoever. Payment by the Company of all Accrued Benefits, Enhanced Accrued Benefits and Severance Payments (if applicable) and contributions to the cost of the Executive's confirmed participation in the Company's group medical, dental and life insurance plans that may be due to the Executive under the applicable termination provision of this Section 7 shall constitute the entire obligation of the Company to the Executive. Notwithstanding anything contained in this Agreement to the contrary, the Executive (or his beneficiary or estate) shall be entitled, under all circumstances, to (i) payment of all amounts under and in accordance with the terms and provisions of the SERP and other retirement plans, including, without limitation, whether or not the Executive is employed by the Company, (ii) rights of indemnification that the Executive has been granted or at law, or (iii) continued coverage under the Company's director and officer liability insurance policy at the same level as other officers and directors while potential liability exists.

(f) Condition. The Company will not be required to make the payment and provide the benefits stated in Section 7(c) and Section 8, unless the Executive executes and delivers to the Company, a waiver and release agreement in the form attached hereto as EXHIBIT C with all periods of revocation expired.

(g) Resignation from Company Offices. In the event of the Executive's termination of employment for any reason, the Executive shall resign and shall be deemed to have resigned immediately from the Board (if the Executive is then a member of the Board) and any and all other directorships, offices and positions with, on behalf of, or relating to the Company or any of its subsidiaries, effective as of the date of the Executive's termination of employment with the Company.

(h) Expiration of Term. Upon the expiration of the Term, the Executive shall be entitled, at the time the Company pays its executives bonuses for the last fiscal year of the Term in accordance with its general payroll policies, to the Annual Bonus earned in accordance with the terms of the MIB Program for the last fiscal year of the Term, despite the fact that the Executive may not be employed with the Company when such bonuses are paid. To the extent that the Executive's employment with the Company terminates for any reason at or following the expiration of the Term, the Executive shall also be entitled to any Accrued Benefits. In addition, if, at or after the expiration of the Term Executive's employment with the Company ceases for any reason without the parties having entered into a new employment contract or an extension of this Agreement

(notwithstanding who declined such future arrangement), the Executive shall be entitled to the continued vesting of the outstanding and unvested portion of the 2008 Equity Award (the "Outstanding and Unvested Award") for an additional one-year period following the expiration of such employment, and the Outstanding Unvested Award shall expire on the later of the end of such one-year period or as provided under the terms of the applicable award agreement (but not beyond the original last exercise date of the grant); provided that if the 2008 Equity Award or any such other equity award consists of restricted stock, such additional vesting shall occur on the date such restricted stock would be treated as taxable income to the Executive.

Section 8. 280G Gross-Up.

(a) In the event that the Executive shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, or any arrangement or agreement with any person whose actions result in a change of ownership or effective control covered by Code Section 280G(b)(2) (a "280G Change in Control") or any person affiliated with the Company or such person) as a result of a 280G Change in Control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Code Section 4999 (and any similar tax that may hereafter be imposed by any taxing authority), subject to
Section 8(d) below the Company shall pay to the Executive at the time specified below (i) an additional amount (the "Gross-Up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this paragraph, but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments and (ii) an amount equal to the product of any deductions disallowed for federal, state or local income tax purposes because of the inclusion of the Gross-Up Payment in the Executive's adjusted gross income multiplied by the highest applicable marginal rate of federal, state or local income taxation, respectively, for the calendar year in which the Gross-Up Payment is to be made.

(b) Notwithstanding the foregoing, if it shall be determined that the Executive is entitled to a Gross-Up Payment, but that if the Company Payments (other than that portion valued under Treasury Regulation Section 1.280G, Q&A
24(c)) (the "Cash Payments") are reduced by the amount necessary such that the receipt of the Company Payments would not give rise to any Excise Tax (the "Reduced Payment") and the Reduced Payment would not be less than ninety-five percent (95%) of the Cash Payment, then no Gross-Up Payment shall be made to the Executive and the Cash Payments, in the aggregate, shall be reduced to the Reduced Payments. If the Reduced Payments is to be effective, payments shall be reduced in the following order (i) any cash severance based on a multiple of Base Salary or Annual Bonus, (ii) any other cash amounts payable to the Executive, (iii) any benefits valued as parachute payments; (iv) acceleration of vesting of any stock options for which the exercise price exceeds the then fair market value; and (v)

acceleration of vesting of any equity not covered by subsection (iv) above, unless the Executive elects another method of reduction by written notice to the Company prior to the change of ownership or effective control.

(c) In the event that the Internal Revenue Service or court ultimately makes a determination that the excess parachute payments plus the base amount is an amount other than as determined initially, an appropriate adjustment shall be made with regard to the Gross-Up Payment or Reduced Payment, as applicable to reflect the final determination and the resulting impact on whether the preceding Section 8(d) applies.

(d) For purposes of determining whether any of the Company Payments and Gross-Up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (i) the Total Payments shall be treated as "parachute payments" within the meaning of Code Section 280G(b)(2), and all "parachute payments" in excess of the "base amount" (as defined under Code Section 280G(b)(3)) shall be treated as subject to the Excise Tax, unless and except to the extent that, in the opinion of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Code Section 280G(b)(2)) or tax counsel selected by such accountants or the Company (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," including giving effect to the recalculation of stock options in accordance with Treasury Regulation Section 1.280G-1, Q&A 33, represent reasonable compensation for services actually rendered within the meaning of Code Section 280G(b)(4) in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (ii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Code Section 280G. To the extent permitted under Revenue Procedure 2003-68, the value determination shall be recalculated to the extent it would be beneficial to the Executive. In the event that the Accountants are serving as accountant or auditor for the individual, entity or group effecting the Change in Control, the Executive may appoint with the approval of the Company, which approval shall not be unreasonable or unreasonably delayed, another nationally recognized accounting firm to make the determinations hereunder (which accounting firm shall then be referred to as the "Accountants" hereunder). All determinations hereunder shall be made by the Accountants which shall provide detailed supporting calculations both to the Company and the Executive at such time as it is requested by the Company or the Executive. If the Accountants determine that payments under this Agreement must be reduced pursuant to this paragraph, they shall furnish the Executive with a written opinion to such effect. The determination of the Accountants shall be final and binding upon the Company and the Executive.

(e) For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay U.S. federal income taxes at the highest marginal rate of U.S. federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence for the calendar year in which the Company Payment is to be made, net of the maximum reduction in U.S. federal income

taxes which could be obtained from deduction of such state and local taxes if paid in such year. In the event that the Excise Tax is subsequently determined by the Accountants to be less than the amount taken into account hereunder at the time the Gross-Up Payment is made, the Executive shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the prior Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and U.S. federal, state and local income tax imposed on the portion of the Gross-up Payment being repaid by the Executive if such repayment results in a reduction in Excise Tax or a U.S. federal, state and local income tax deduction), plus interest on the amount of such repayment at the rate provided in Code Section 1274(b)(2)(B). Notwithstanding the foregoing, in the event any portion of the Gross-Up Payment to be refunded to the Company has been paid to any U.S. federal, state and local tax authority, repayment thereof (and related amounts) shall not be required until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed the interest received or credited to the Executive by such tax authority for the period it held such portion. The Executive and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expense thereof) if the Executive's claim for refund or credit is denied.

(f) In the event that the Excise Tax is later determined by the Accountant or the Internal Revenue Service to exceed the amount taken into account hereunder at the time the Gross-Up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect of such excess (plus any interest or penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

(g) The Gross-up Payment or portion thereof provided for above shall be paid not later than the thirtieth (30th) day following a 280G Change in Control which subjects the Executive to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments, subject to further payments pursuant to Section 8(c) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth (90th) day after the occurrence of the event subjecting the Executive to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, subject to Section 8(m) below, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) day after demand by the Company (together with interest at the rate provided in Code Section 1274(b)(2)(B)).

(h) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, the Executive shall permit the Company to control issues related to the Excise Tax (at its expense), but the Executive shall control any other issues unrelated to the Excise Tax. In the event that the issues are

interrelated, the Executive and the Company shall in good faith cooperate. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and his representative shall cooperate with the Company and its representative.

(i) The Company shall be responsible for all charges of the Accountant.

(j) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this provision.

(k) Nothing in this Section 8 is intended to violate the Sarbanes-Oxley Act and to the extent that any advance or repayment obligation hereunder would do so, such obligation shall be modified so as to make the advance a nonrefundable payment to the Executive and the repayment obligation null and void.

Section 9. Mitigation and Offset. The Executive is not required to seek other employment or otherwise mitigate the amount of any payments to be made by the Company pursuant to this Agreement. The payments provided in this Agreement shall not be reduced by any compensation earned by the Executive as the result of employment by another employer after the termination date or otherwise. However, the amounts payable under this Agreement (including, but not limited to, any Severance Payments) shall be subject to setoff for any amounts that the Executive owes to the Company, but not any other claim of the Company.

Section 10. Restrictive Covenants.

(a) Proprietary Information. In the course of service to the Company, the Executive will have access to confidential specifications, know-how, strategic or technical data, marketing research data, product research and development data, manufacturing techniques, confidential customer lists, sources of supply and trade secrets, all of which are confidential and may be proprietary and are owned or used by the Company, or any of its subsidiaries or affiliates. Such information shall hereinafter be called "Proprietary Information" and shall include any and all items enumerated in the preceding sentence and coming within the scope of the business of the Company or any of its subsidiaries or affiliates as to which the Executive may have access, whether conceived or developed by others or by the Executive alone or with others during the Executive's period of service with the Company, whether or not conceived or developed during regular working hours. Proprietary Information shall not include any records, data or information which are in the public domain during Executive's service with the Company or after the Executive's service with the Company has terminated, provided the same are not in the public domain as a consequence of disclosure by the Executive in violation of this Agreement.

(b) Non-Use and Non-Disclosure. The Executive shall not during the Term or at any time thereafter (i) disclose any Proprietary Information to any person other than (A) the Company, (B) the Company's or its affiliates' directors, officers or employees who, in the reasonable judgment of the Executive, need to know such Proprietary Information, (C) such other persons to whom the Executive has been specifically instructed to make disclosure by the Board; and in all such cases only to the extent required in the course of the Executive's service to the Company, (D) as required by law or court or administrative order, or (E) in the good faith performance of the Executive's duties hereunder or (ii) use any Proprietary Information, directly or indirectly, for his own benefit or for the benefit of any other person or entity.

(c) Return of Documents. All notes, letters, documents, records, tapes and other media of every kind and description containing Proprietary Information and any copies, in whole or in part, thereof (collectively, the "Documents"), whether or not prepared by the Executive, shall be the sole and exclusive property of the Company. The Executive shall safeguard all Documents in the Executive's possession and shall surrender to the Company at the time his employment terminates, or at such other time or times as the Board or its designee may specify, all Documents then in the Executive's possession or control; provided, that the Executive shall be permitted to retain his rolodex and similar address books, including those in electronic form.

(d) Non-Competition. At all times during the Executive's employment with the Company or any affiliate during the Term, and for a period of twelve (12) months following the termination during the Term of employment with the Company or any affiliate for any reason (or twenty-four (24) months in the case of termination following a Change in Control) (the "Restricted Period"), the Executive will not engage in Competition (as defined below) with the Company. For purposes of this Agreement, "Competition" shall mean engaging in, or otherwise directly or indirectly being employed by, or acting as a consultant or adviser (paid or unpaid) to, or being a director, officer, employee, principal, agent, stockholder, member, owner or partner of (i) Boeing, Lockheed, Alcatel Space or Astrium, (ii) PanAmSat, SES Astra, Intelsat, New Skies Satellites,
(iii) any business similar to the businesses described in clause (i) or (ii) above that competes with the services provided by the Company, (iv) any business that competes with a business that the Company engages in as of the date of the Executive's termination of employment with the Company, as described or otherwise contemplated in the Company's business plan for the year of such termination of employment, or (v) any business that competes with a business that the Company is, to the knowledge of the Executive, preparing to engage in as of the date of the Executive's termination of employment with the Company, and any transferee of or successor to any of the foregoing businesses; provided, however, that the foregoing shall not prevent or be violated by the Executive's service in a non-competitive portion of a company or business enterprise in Competition with the Company or, as a result thereof, owning compensatory equity in such a company or business enterprise in Competition with the Company; and further provided, however, that the prohibition of clauses (i) and (ii) above shall apply only so long as such entities compete with the services provided by the

Company. Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of a business enterprise in Competition with the Company or its subsidiaries which are publicly traded on a national or regional stock exchange or on the over-the-counter market if the Executive (i) is not a controlling person of or a member of a group which controls such business enterprise and (ii) does not, directly or indirectly, own five percent (5%) or more of any class of securities of such business enterprise or less than five percent (5%) in any mutual fund, private equity fund, hedge fund or similar collective investment, so long as the Executive's investment is passive.

(e) Non-Solicitation of Employees. At all times during the Restricted Period, except in the course of the Executive's service to the Company and consistent with Executives duties to the Company, the Executive will not directly or indirectly solicit or in any manner encourage employees of the Company or any affiliate who were employed by the Company within the six
(6)-month period prior to the termination of the Executive's employment with the Company or any affiliate to leave its employ and will not offer or cause to be offered employment to any such person; provided, however, that the restrictions in this paragraph shall not apply to (i) general solicitations that are not specifically directed to employees of the Company or any affiliate, (ii) any administrative support staff or (iii) serving as a reference at the request of an employee.

(f) Non-Solicitation of Customers or Suppliers. At all times during the Restricted Period, the Executive will not knowingly solicit or in any manner encourage, directly or indirectly, customers of or suppliers to the Company or any affiliate who were customers of or suppliers to the Company or any affiliate within the twelve-month period prior to the termination of the Executive's employment with the Company or any affiliate to terminate or diminish their relationship with the Company or any affiliate.

(g) Reasonableness. The Executive has carefully considered the nature, extent and duration of the restrictions and obligations contained in this Agreement, including, without limitation, provisions of this Section 10 and acknowledges and agrees that such restrictions are fair and reasonable in all respects to protect the legitimate interests of the Company and its affiliates and that these restrictions are designed for the reasonable protection of the business of the Company and that of its affiliates.

(h) Remedies. The Executive recognizes that any breach of this Section 8 shall cause irreparable injury to the Company or its affiliates, inadequately compensable in monetary damages. Accordingly, in addition to any other legal or equitable remedies that may be available to the Company, Executive agrees that the Company or its affiliates shall be able to seek and obtain injunctive relief in the form of a temporary restraining order, preliminary injunction, or permanent injunction against the Executive to enforce this Agreement. To the extent that any damages are calculable resulting from the breach of this Agreement, the Company and its affiliates shall also be entitled to recover such damages. Any recovery of damages by the Company and its affiliates shall be in addition to and not in lieu of the injunctive relief to which the Company and its affiliates are entitled and any Severance Mitigation.

Section 11. Severable Provisions. The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

Section 12. Notices. All notices hereunder, to be effective, shall be in writing and shall be delivered by hand or mailed by certified mail, postage and fees prepaid, as follows:

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If to the Company:      Loral Space & Communications Inc.
                        600 Third Avenue
                        New York, New York 10016
                        Attention: General Counsel

If to the Executive     to the address on file with the Company.
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or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 12. All notices to any person shall be deemed given when actually received by the person.

Section 13. Miscellaneous.

(a) Amendment. This Agreement may not be amended or revised except by a writing signed by the parties.

(b) Assignment and Transfer. The provisions of this Agreement shall be binding on and shall inure to the benefit of any successor in interest to the Company. Neither this Agreement nor any of the rights, duties or obligations of the Executive shall be assignable by the Executive, nor shall any of the payments required or permitted to be made to the Executive by this Agreement be encumbered, transferred or in any way anticipated, except as required by applicable laws. This Agreement shall not be terminated solely by reason of the merger or consolidation of the Company with any corporate or other entity or by the transfer of all or substantially all of the assets of the Company to any other person, corporation, firm or entity; provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the rights and duties of the Company as contained in this Agreement, either contractually or as a matter of law. However, all rights of the Executive under this Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, estates, executors, administrators, heirs and beneficiaries. All amounts payable to the Executive hereunder shall be paid, in the event of the Executive's death, to the Executive's estate, heirs or representatives.

(c) Withholding. The Company shall be entitled to withhold from any amounts to be paid or benefits provided to the Executive hereunder any federal, state, local, or foreign withholding or other taxes or charges which it is from time to time required to withhold. The Company shall be entitled to rely on an opinion of counsel if any question as to the amount or requirement of any such withholding shall arise.

(d) Waiver of Breach. A waiver by the Company or the Executive of any breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other or subsequent breach by the other party.

(e) Survival of Certain Provisions. Provisions of this Agreement shall survive any termination of employment and the expiration of the Term if so provided herein or if necessary or desirable fully to accomplish the purposes of such provision, including, without limitation, the obligations of the Company under Sections 7 and 8 hereof if the Executive is terminated during the Term and the obligations of the Executive under Section 10 hereof.

(f) Attorney's Fees.

(i) The Company shall pay the reasonable legal fees incurred by the Executive in connection with this Agreement and to the extent such payment is taxed to the Executive, the Company shall gross up such amount so that the Executive has no after-tax cost therefrom.

(ii) In the event that any action is brought to enforce any of the provisions of this Agreement, or to obtain money damages for the breach thereof, all expenses (including reasonable attorneys' fees and expenses) shall be paid by the party incurring such fees or expenses; provided, however, that the Company shall reimburse Executive for such fees and expenses to the extent that the Executive prevails on any issues raised in such action.

(g) Entire Agreement. This Agreement, the Stock Option Plan, the Option Agreements, the Indemnification Agreement referred to in Section 5 (f) hereof, the Certificates of Incorporation of the Company and of each of its affiliates and the SERP, constitute the entire understanding of the parties with respect to the subject matter hereof and supercede all prior negotiations, understandings, discussions, and agreements, whether written or oral, between them.

(h) Captions. Captions herein have been inserted solely for convenience of reference and in no way define, limit or describe the scope or substance of any provision of this Agreement.

(i) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and shall have the same effect as if the signatures hereto and thereto were on the same instrument.

(j) Governing Law. This Agreement and the enforcement thereof shall be governed and controlled in all respects by the internal laws of the State of New York, without application of the conflict of laws provisions thereof.

(k) Arbitration. Any dispute or controversy arising from or relating to this Agreement and/or the Executive's employment or relationship with the Company shall be resolved by binding arbitration, to be held in New York or in any other location mutually agreed to by the Company and the Executive in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(l) Acknowledgement of Representation. The Executive and the Company acknowledge that they have been represented by counsel of their own choosing and have received a full and complete explanation of their rights and obligations under this Agreement and, therefore, in the event of a dispute over the meaning of this Agreement or any provision thereof, neither party shall be entitled to any presumption of correctness in favor of the interpretation advanced by such party or against the interpretation advanced by the other party.

(m) Guarantee.

(i) Each of Loral Skynet Corporation and Space Systems/Loral, Inc. (each a "Guarantor") hereby acknowledge the benefit they will receive as a result of the Executive serving as Chief Executive Officer of the Company and accordingly, irrevocably and unconditionally guarantees the due and punctual payment and performance of all obligations of the Company under this Agreement; provided, however, that a Guarantor's guarantee obligation hereunder shall terminate and cease to have any force or effect immediately upon (x) such Guarantor ceasing to be a direct or indirect subsidiary or parent of the Company or (y) the sale of all or substantially all of such Guarantor's assets pursuant to an Approved Transaction (as defined below) in which a Guarantor does not receive all or substantially all of the consideration of such sale.

(ii) Notwithstanding anything in this Agreement to the contrary and for as long as the Guarantor's obligations hereunder are in effect, the Executive hereby acknowledges and agrees that at any time a Guarantor may effectuate, and this Agreement shall not in any way prohibit or restrict the Guarantor from effectuating, and the Executive shall not have any right or claim with respect to, rely upon, or challenge (A) any transfer by the Guarantor of any or all of its funds, assets or other property to either: (1) the Company or any of its direct or indirect subsidiaries or their successors (each a "Group Entity"), including by way of dividend, distribution, payment, lease, sale, assignment, transfer, merger, consolidation or otherwise, or (2) any other person, pursuant to a transaction that the Guarantor's Board of Directors determines in good faith to effect in furtherance of a legitimate business purpose of the Guarantor or any Group Entity (an "Approved Transaction") or (B) the liquidation or dissolution of a Guarantor.

(n) Code Section 409A. If any provision of this Agreement (or of any award of compensation, including equity compensation or benefits) would cause the Executive to incur any additional tax or interest under Code Section 409A or any regulations or Treasury guidance promulgated thereunder, the Company shall, after consulting with the Executive, reform such provision to comply with Code Section 409A; provided that the Company agrees to maintain, to the maximum extent practicable, the original intent and economic benefit to Executive of the applicable provision without violating the provisions of Code Section 409A. The Company shall indemnify and hold the Executive harmless, on an after tax basis, for any additional tax (including interest and penalties with respect there to) that may be imposed on the Executive by Code Section 409A as a result of the Option being granted subject to the Approvals.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

**LORAL SPACE & COMMUNICATIONS INC.**

*By: /s/ Avi Katz*
*Name: Avi Katz*
*Title: Vice President and General Counsel*

*/s/ Michael B. Targoff*
*Michael B. Targoff*

LORAL SKYNET CORPORATION (solely for purposes of Section 11(m) hereof)

*By: /s/ Avi Katz*
*Name: Avi Katz*
*Title: Vice President*

SPACE SYSTEMS/LORAL, INC. (solely for purposes of Section 11(m) hereof)

*By: /s/ Avi Katz*
*Name: Avi Katz*
*Title: Vice President*

## Schedule I

## Outside Business Relationships

1. Chairman of the Board of Directors and Chairman of the Audit Committee of Communication Power Industries.

2. Member of the Board of Directors and Chairman of the Audit Committee of Leap Wireless International, Inc.

3. Member of the Board of Directors of ViaSat Inc.

and any replacements for any of the foregoing that does not materially change the time commitment or violate Section 10 of the Employment Agreement.

## Perquisites and Individual Benefits

| EXECUTIVE LIFE INSURANCE ANNUAL PREMIUM NOT TO EXCEED | EXECUTIVE MEDICAL |
| --- | --- |
| $25,000 | $4,000 |

**Exhibit 10.11**

# EMPLOYMENT AGREEMENT

AGREEMENT, dated as of the 21st day of November, 2005, by and between Loral Space & Communications Inc., a Delaware corporation (the "Company"), Eric J. Zahler, a resident of New York, NY (the "Executive") and those subsidiaries of the Company signatory hereto solely for purposes of Section 11(m) hereof.

WHEREAS, the Company desires to engage the services of the Executive and the Executive desires to be employed by the Company on the terms and conditions hereinafter set forth; and

WHEREAS, the Company desires to be assured that all proprietary and confidential information of the Company will be preserved for the exclusive benefit of the Company;

NOW, THEREFORE, in consideration of such employment and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Executive agree as follows:

Section 1. Employment and Position. The Company hereby employs the Executive as its President & Chief Operating Officer, and the Executive hereby accepts such employment under and subject to the terms and conditions hereinafter set forth.

Section 2. Term. The term of employment under this Agreement shall begin on the Effective Date, as such term is defined in the Debtors' Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated June 3, 2005, as modified (the "Plan of Reorganization"), and, unless sooner terminated as provided in Section 6, shall conclude on the second (2nd) anniversary of the Effective Date (the "Term"). At the Executive's request within the last six months preceding the expiration of the Term, the Company shall, to the extent practicable within two weeks after any such request but without any obligation, provide the Executive with notice regarding whether the Company intends to renew or extend the Term under this Agreement, terminate the employment relationship between the parties on or shortly after the expiration of the Term or continue the Executive's employment on an "at will" basis with no guaranteed term. Unless the Executive's employment with the Company is terminated upon the expiration of the Term or the Term under this Agreement is renewed or extended, the Executive shall be employed by the Company after the Term on an "at will" basis.

Section 3. Duties. The Executive shall perform services in a managerial capacity in a manner consistent with the Executive's position as President & Chief Operating Officer, subject to the general supervision of the Chief Executive Officer of the Company or his designee. The Executive hereby agrees to devote his full business time to the faithful performance of such duties and to the promotion and forwarding of the business and affairs of the Company for the Term, provided, however, that Executive shall be permitted to engage in (i) other activities of a civic, religious, political or charitable nature, (ii) managing investments of the Executive and the Executive's family in securities, mutual funds or other collective investment funds, limited partner interests

or similar passive investments, (iii) corporate directorships and other business activities described in Schedule I attached hereto, or (iv) such other activities as may hereafter be specifically approved in writing, which in each case and in the aggregate do not materially interfere with the performance of his obligations hereunder, provided, further, however, that Executive may not engage in any such activities that would result in the Executive being in Competition (as defined in Section 8(d) below).

Section 4. Compensation.

(a) Salary. In consideration of the services rendered by the Executive under this Agreement, the Company shall pay the Executive a base salary (the "Base Salary") at the rate of $1,248,000 per calendar year. The Base Salary shall be paid in such installments and at such times as the Company pays its salaried executives and shall be subject to all necessary withholding taxes, FICA contributions and similar deductions. The Board of Directors (the "Board") of the Company may review from time to time the Base Salary payable to Executive hereunder and may, in its sole discretion, increase but not decrease, the Executive's salary rate. Any such increased salary shall be and become the "Base Salary" for purposes of this Agreement.

(b) Annual Bonus. The Company shall maintain an annual Management Incentive Bonus program ("MIB Program") for certain executives, and Executive shall be a participant in the MIB Program and shall be entitled to an annual bonus to the extent payable under such program ("Annual Bonus"). The Executive's target annual bonus opportunity under the MIB Program shall be forty percent (40%) of the Executive's Base Salary (the "Target Annual Bonus"). The Annual Bonus for the 2005 fiscal year under the MIB Program shall be earned and determined in accordance with the terms and conditions heretofore established by the Compensation Committee of the Board of Directors of Loral Space & Communications Ltd. With respect to the Annual Bonus for the 2006 fiscal year or any subsequent fiscal year, the Board shall, in its discretion, establish the terms and conditions of the MIB Program and may amend the MIB Program (other than by reducing the Target Annual Bonus percentage set forth above) accordingly. The Annual Bonus shall be paid on or before March 15 of the year following the year to which the Annual Bonus relates.

(c) Stock Options. The Company agrees to grant to the Executive an option to purchase 120,000 shares of common stock of the Company (the "Option") pursuant to the terms of the Company's 2005 Stock Incentive Plan (the "Stock Option Plan"). Except as set forth in the Option Agreement (defined below), the Option shall have a per share exercise price equal to $19.00. Such Option shall be granted on or about the thirtieth (30th) day following the Effective Date. The Option shall have such other terms and conditions as set forth in the Option Agreement attached hereto as Exhibit A (the "Option Agreement").

Section 5. Benefits. In addition to the compensation detailed in Section 4 of this Agreement, the Executive shall be entitled to the following additional benefits:

(a) Paid Vacation. The Executive shall be entitled to twenty (20) days paid vacation per calendar year in accordance with the Company's vacation policy in effect

from time to time, such vacation shall extend for such periods and shall be taken at such intervals as shall be appropriate and consistent with the proper performance of the Executive's duties hereunder.

(b) Welfare Plans. During the Term, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, programs, practices and policies provided generally by the Company to similarly situated executives of the Company (including, without limitation, any medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs that may be provided by the Company from time to time). Such plans, programs, practices and policies are subject to change from time to time by the Company.

(c) Other Benefit Plans. During the Term, the Executive shall be entitled to participate in all savings, retirement and pension plans (including the Company's Supplemental Executive Retirement Plan ("SERP")), programs, practices and policies applicable generally to similarly situated executives of the Company as determined by the Board from time to time. Such plans, programs, practices and policies are subject to change from time to time by the Company.

(d) Perquisites and Other Benefits. During the Term, the Executive shall be entitled to such additional perquisites and fringe benefits appertaining to his position in accordance with any practice established by the Board. During the Term, Executive shall be entitled to receive all benefits under any individual welfare benefit arrangements (including life insurance coverage) or other benefit arrangements currently in effect for such Executive in a manner consistent with past practice, and such arrangements are listed on Schedule I attached hereto.

(e) Reimbursement of Expenses. The Company shall reimburse the Executive for all reasonable and necessary expenses actually incurred by the Executive directly in connection with the business affairs of the Company and the performance of his duties hereunder, upon presentation of proper receipts or other proof of expenditure and subject to such reasonable guidelines or limitations provided by the Company from time to time. The Executive shall comply with such reasonable limitations and reporting requirements with respect to such expenses as the Board may establish from time to time.

(f) Indemnification. In addition to indemnification obligations of the Company pursuant to Section 8.7 of the Plan of Reorganization and the terms of any officers' liability insurance carried by the Company, the Executive (and his heirs, executors and administrators) shall be indemnified by the Company and its successors and assigns pursuant to a separate Indemnification Agreement in the form attached hereto as Exhibit B. The Executive shall be an insured person under or otherwise covered by directors and officers liability insurance in an amount consistent with past practice. The obligations of the Company pursuant to this Section shall survive the expiration of the Term or Executive's voluntary or involuntary termination or resignation for Good Reason.

Section 6. Termination. This Agreement shall terminate at the end of the Term. The Executive's employment may end earlier as follows:

(a) Death. The employment of the Executive shall automatically terminate upon the death of the Executive.

(b) Disability. In the event of any physical or mental disability of the Executive rendering the Executive substantially unable to perform his duties hereunder for a period of at least 120 days out of any twelve-month period and the further determination that the disability is permanent with regard to the Executive's ability to return to work in his full capacity, the Executive's employment shall be terminated on account of the Executive's disability. Any determination of permanent disability shall be made by the Board in consultation with a qualified physician or physicians selected by the Board and reasonably acceptable to the Executive. The failure of the Executive to submit to a reasonable examination by such physician or physicians shall act as an estoppel to any objection by the Executive to the determination of disability by the Board.

(c) By the Company For Cause. The employment of the Executive may be terminated by the Company for Cause (as defined below) at any time effective upon written notice to the Executive; provided, however, that if such termination is based upon any event set forth in clauses (iii), (iv), (v), (vi) or (vii) below, Executive shall be given not less than ten (10) days prior written notice by the Board of the intention to terminate him for Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based, and Executive shall have ten (10) days after the date that such written notice has been given to Executive in which to address the Board regarding any such alleged act or failure to act. If the Board makes a determination that Cause exists, the termination shall be effective on the date immediately following the expiration of the ten (10) day notice period. For purposes hereof, the term "Cause" shall mean that the Board has determined reasonably, in good faith and based on credible evidence that one or more of the following has occurred:

(i) the Executive shall have been after the Effective Date convicted of, or shall have pleaded guilty or nolo contendere to, any felony or any other crime that would have constituted a felony under the laws of the State of New York;

(ii) the Executive shall have been indicted for any felony or any other crime that would have constituted a felony under the laws of the State of New York in connection with or arising from the Executive's employment with the Company;

(iii) the Executive shall have breached any material provision of
Section 8 hereof;

(iv) the Executive shall have committed any fraud, embezzlement, misappropriation of funds, or breach of fiduciary duty against the Company, in each case of a material nature;

(v) the Executive shall have engaged in any willful misconduct resulting in or reasonably likely to result in a material loss to the Company or substantial damage to its reputation;

(vi) the Executive shall have willfully breached in any material respect any material provision of the Company's Code of Conduct and, to the extent any such breach is curable, the Executive shall have failed to cure such breach within ten (10) days after written notice of the alleged breach is provided to the Executive; or

(vii) the Executive shall have willfully breached in any material respect any material provision of Section 3 hereof.

(d) By the Company without Cause. The Company may terminate the Executive's employment at any time without Cause effective upon written notice to the Executive.

(e) By the Executive Voluntarily. The Executive may terminate his employment at any time effective upon at least thirty (30) days prior written notice to the Company.

(f) By the Executive for Good Reason. The Executive may terminate his employment for Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, within sixty (60) days of the occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and, if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. For this purpose, the term "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any substantial respect with the Executive's position, authority or responsibilities or any duties which are illegal or unethical or any material diminution of any of the Executive's significant duties;

(ii) any reduction in Base Salary, the Target Annual Bonus or any of the benefits described in Section 5 of this Agreement to the extent not permitted under Section 5;

(iii) the relocation by the Company of the Executive's primary place of employment with the Company to a location not within a thirty (30) mile radius of such place of employment as of the Effective Date; provided, however, that such relocation shall not be considered Good Reason if such location is closer to the Executive's home than the Executive's primary place of employment as of the Effective Date;

(iv) other material breach of this Agreement by the Company; or

(v) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company.

Notwithstanding anything in this Agreement to the contrary, any determination by the non-employee directors of the Board regarding the action the Company shall take with respect to (a) any personal claims of any of the Company's or its affiliates' officers (including Executive) or directors against the Company or any of its affiliates for indemnification arising from or in connection with alleged acts or omissions that occurred on or prior to the date of the commencement of the chapter 11 cases of Loral Space & Communications Ltd. and certain of its affiliates on July 15, 2003; and (b) the Shared Services Agreement or the Management Agreement, each of even date herewith, by and among the Company, Loral Skynet Corporation and Space Systems/Loral, Inc., shall not constitute Good Reason.

Section 7. Termination Payments and Benefits.

(a) Voluntary Termination, Termination For Cause. Upon any termination of employment during the Term either (i) by the Executive without Good Reason under
Section 6(e), or (ii) by the Company for Cause as provided in Section 6(c), all payments, salary and other benefits hereunder shall cease at the effective date of termination. Notwithstanding the foregoing, the Executive shall be entitled to receive from the Company (i) all salary earned or accrued through the date the Executive's employment is terminated, (ii) reimbursement for any and all monies advanced in connection with the Executive's employment for reasonable and necessary business expenses incurred by the Executive through the date the Executive's employment is terminated, (iii) all other payments and benefits to which the Executive may be entitled under the terms of any applicable compensation arrangement or benefit plan or program of the Company, including any earned and accrued, but unused vacation pay and benefits under and in accordance with the terms and provisions of the SERP, but excluding any entitlement to severance under any Company severance policy generally applicable to the Company's salaried employees, and (iv) excluding any accrued and unpaid Annual Bonus for the immediately preceding year (collectively, "Accrued Benefits").

(b) Death. In the event of a termination due to the Executive's death during the Term, the Company shall have no further obligations to the Executive or his beneficiaries other than to pay to the Executive's designated beneficiary or, if no beneficiary has been designated by the Executive, to his estate (i) all Accrued Benefits, plus (ii) any Base Salary through the end of the calendar month in which the Executive's death occurred, plus (iii) any accrued and unpaid Annual Bonus for the immediately preceding year, and (iv) at the times the Company pays its executives bonuses in accordance with its general payroll policies, an amount equal to that portion of the Annual Bonus which but for the Executive's death would have been earned by the Executive during the year of his death, pro rated based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his death during which the Executive was employed by the Company on an active status (the Accrued Benefits and the payment of the amounts set forth in clauses (iii) and
(iv) of this Section 7(b) are collectively referred to as "Enhanced Accrued Benefits"). In

addition, any unvested stock options under the Stock Option Plan and any deferred compensation under the Option Agreement that would have become vested on the next date of vesting applicable thereto shall become vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement as to a portion thereof based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his death during which the Executive was employed by the Company on an active status. The Executive's medical, prescription and dental coverage shall continue for the benefit of the Executive's family members through the end of the Term.

(c) Termination without Cause or for Good Reason. In the event that the Executive's employment is terminated during the Term by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to receive as his exclusive right and remedy in respect of such termination, (i) all Enhanced Accrued Benefits, (ii) severance pay equal to the greater of (A) the amount set forth on Schedule II hereto, or (B) the remaining amount of Base Salary the Executive would have received had the Executive been employed through the end of the Term ("Severance Payments"), with such Severance Payments to be paid in a lump sum as soon as practicable on or after termination (but not later than three business days after the release described in Section 7(f) becomes effective and not revocable). In addition, all unvested stock options under the Stock Option Plan and all deferred compensation under the Option Agreement shall become fully vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement, and the Executive shall continue to be covered, upon the same terms and conditions applicable generally to similarly situated executives who remain employed with the Company, by the same or equivalent medical, dental and life insurance coverage as in effect for the Executive immediately prior to the termination of his employment, until the earlier of (A) the expiration of a period of months determined by dividing the lump sum amount of severance pay he receives pursuant to clause (ii) of the preceding sentence by the Executive's monthly salary rate in effect on his date of termination, or (B) the date the Executive has commenced new employment and has thereby become eligible for comparable benefits, subject to the Executive's rights under COBRA. For avoidance of doubt, if the Executive is offered employment consistent with the terms of this Agreement with the person that acquires all or substantially all of the assets or stock of New FSS or New SSL (as such terms are defined in the Plan of Reorganization), any affiliate that directly or indirectly owns such acquirer, or any successor to the acquirer or any such affiliate and such person assumes this Agreement, the Executive shall not be treated as having a termination of employment without Cause or for Good Reason, regardless of whether the Executive refuses the offer of employment, by reason of the sale of such assets or stock.

(d) Termination due to Disability. In the event that the Executive's employment is terminated during the Term due to the Disability of the Executive, the Company shall have no further obligation to the Executive other than to pay the Executive (in addition to any disability insurance payments to which the Executive is entitled pursuant to Section 5 above) all Enhanced Accrued Benefits. In addition, any unvested stock options under the Stock Option Plan and any deferred compensation under the Option Agreement that would have become vested on the next date of vesting

applicable thereto shall become vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement, as to a portion thereof based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his Disability during which the Executive was employed by the Company on an active status.

(e) No Other Benefits. Except as specifically provided in this Section 7, the Executive shall not be entitled to any other compensation, severance or other benefits from the Company or any of its subsidiaries or affiliates upon the termination of this Agreement or the Executive's employment for any reason whatsoever. Payment by the Company of all Accrued Benefits, Enhanced Accrued Benefits and Severance Payments (if applicable) and contributions to the cost of the Executive's confirmed participation in the Company's group medical, dental and life insurance plans that may be due to the Executive under the applicable termination provision of this Section 7 shall constitute the entire obligation of the Company to the Executive. Notwithstanding anything contained in this Agreement to the contrary, the Executive (or his beneficiary or estate) shall be entitled, under all circumstances, to payment of all amounts under and in accordance with the terms and provisions of the SERP, including, without limitation, whether or not the Executive is employed by the Company.

(f) Condition. The Company will not be required to make the payment and provide the benefits stated in this Section 7 unless the Executive executes and delivers to the Company a waiver and release agreement in the form attached hereto as Exhibit C and such waiver and release is not unilaterally revocable by the Executive.

(g) Resignation from Company Offices. In the event of the Executive's termination of employment for any reason, the Executive shall resign and shall be deemed to have resigned immediately from the Board (if the Executive is then a member of the Board) and any and all other directorships, offices and positions with, on behalf of, or relating to the Company or any of its subsidiaries, effective as of the date of the Executive's termination of employment with the Company.

Section 8. Restrictive Covenants.

(a) Proprietary Information. In the course of service to the Company, the Executive will have access to confidential specifications, know-how, strategic or technical data, marketing research data, product research and development data, manufacturing techniques, confidential customer lists, sources of supply and trade secrets, all of which are confidential and may be proprietary and are owned or used by the Company, or any of its subsidiaries or affiliates. Such information shall hereinafter be called "Proprietary Information" and shall include any and all items enumerated in the preceding sentence and coming within the scope of the business of the Company or any of its subsidiaries or affiliates as to which the Executive may have access, whether conceived or developed by others or by the Executive alone or with others during the Executive's period of service with the Company, whether or not conceived or developed during regular working hours. Proprietary Information shall not include any records, data or information which are in the public domain during Executive's service with the Company or after the Executive's service with the Company has terminated, provided the

same are not in the public domain as a consequence of disclosure by the Executive in violation of this Agreement.

(b) Non-Use and Non-Disclosure. The Executive shall not during the Term or at any time thereafter (i) disclose any Proprietary Information to any person other than (A) the Company, (B) the Company's or its affiliates' directors, officers or employees who, in the reasonable judgment of the Executive, need to know such Proprietary Information, (C) such other persons to whom the Executive has been specifically instructed to make disclosure by the Board; and in all such cases only to the extent required in the course of the Executive's service to the Company or (D) as required by law, or (ii) use any Proprietary Information, directly or indirectly, for his own benefit or for the benefit of any other person or entity.

(c) Return of Documents. All notes, letters, documents, records, tapes and other media of every kind and description containing Proprietary Information and any copies, in whole or in part, thereof (collectively, the "Documents"), whether or not prepared by the Executive, shall be the sole and exclusive property of the Company. The Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such other time or times as the Board or its designee may specify, all Documents then in the Executive's possession or control.

(d) Non-Competition. At all times during the Executive's employment with the Company or any affiliate during the Term, and for a period of twelve (12) months following the termination during the Term of employment with the Company or any affiliate for any reason (the "Restricted Period"), the Executive will not engage in Competition (as defined below) with the Company. For purposes of this Agreement, "Competition" shall mean engaging in, or otherwise directly or indirectly being employed by, or acting as a consultant or adviser (paid or unpaid) to, or being a director, officer, employee, principal, agent, stockholder, member, owner or partner of (i) Boeing, Lockheed, Alcatel Space or Astrium, (ii) PanAmSat, SES Astra, Intelsat, New Skies Satellites, (iii) any business similar to the businesses described in clause (i) or (ii) above that competes with the services provided by the Company, (iv) any business that competes with a business that the Company engages in as of the date of the Executive's termination of employment with the Company, as described or otherwise contemplated in the Company's business plan for the year of such termination of employment, or (v) any business that competes with a business that the Company is, to the knowledge of the Executive, preparing to engage in as of the date of the Executive's termination of employment with the Company, and any transferee of or successor to any of the foregoing businesses. Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of a business enterprise in Competition with the Company or its subsidiaries which are publicly traded on a national or regional stock exchange or on the over-the-counter market if the Executive (i) is not a controlling person of or a member of a group which controls such business enterprise and (ii) does not, directly or indirectly, own five percent (5%) or more of any class of securities of such business enterprise.

(e) Non-Solicitation of Employees. At all times during the Restricted Period, the Executive will not directly or indirectly solicit or in any manner encourage employees

of the Company or any affiliate who were employed by the Company within the six-month period prior to the termination of the Executive's employment with the Company or any affiliate to leave its employ and will not offer or cause to be offered employment to any such person; provided, however, that the restrictions in this paragraph shall not apply to (i) general solicitations that are not specifically directed to employees of the Company or any affiliate and (ii) any administrative support staff.

(f) Non-Solicitation of Customers or Suppliers. At all times during the Restricted Period, the Executive will not knowingly solicit or in any manner encourage, directly or indirectly, customers of or suppliers to the Company or any affiliate who were customers of or suppliers to the Company or any affiliate within the twelve-month period prior to the termination of the Executive's employment with the Company or any affiliate to terminate or diminish their relationship with the Company or any affiliate.

(g) Reasonableness. The Executive has carefully considered the nature, extent and duration of the restrictions and obligations contained in this Agreement, including, without limitation, provisions of this Section 8 and acknowledges and agrees that such restrictions are fair and reasonable in all respects to protect the legitimate interests of the Company and its affiliates and that these restrictions are designed for the reasonable protection of the business of the Company and that of its affiliates.

(h) Remedies. The Executive recognizes that any breach of this Section 8 shall cause irreparable injury to the Company or its affiliates, inadequately compensable in monetary damages. Accordingly, in addition to any other legal or equitable remedies that may be available to the Company, Executive agrees that the Company or its affiliates shall be able to seek and obtain injunctive relief in the form of a temporary restraining order, preliminary injunction, or permanent injunction against the Executive to enforce this Agreement. To the extent that any damages are calculable resulting from the breach of this Agreement, the Company and its affiliates shall also be entitled to recover damages. Any recovery of damages by the Company and its affiliates shall be in addition to and not in lieu of the injunctive relief to which the Company and its affiliates are entitled. Without limiting the rights of the Company and its affiliates under this Section 8 or any other remedies that may be available to them, if a court of competent jurisdiction determines that the Executive has breached any of the provisions of this Section 8, the Company or its affiliates will have the right to cease making any payments or providing any benefits otherwise due to Executive under the terms and conditions of this Agreement, and the right to recover the Annual Bonus that may have been paid as part of the Enhanced Accrued Benefits and the Severance Payment that the Executive may have received under this Agreement.

Section 9. Severable Provisions. The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

Section 10. Notices. All notices hereunder, to be effective, shall be in writing and shall be delivered by hand or mailed by certified mail, postage and fees prepaid, as follows:

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If to the Company:   Loral Space & Communications Inc.
                     600 Third Avenue
                     New York, New York 10016
                     Attention: General Counsel

If to the Executive: Eric J. Zahler
                     860 Fifth Avenue
                     New York, NY 10021
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or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 10. All notices to any person shall be deemed given when actually received by the person.

Section 11. Miscellaneous.

(a) Amendment. This Agreement may not be amended or revised except by a writing signed by the parties.

(b) Assignment and Transfer. The provisions of this Agreement shall be binding on and shall inure to the benefit of any such successor in interest to the Company. Neither this Agreement nor any of the rights, duties or obligations of the Executive shall be assignable by the Executive, nor shall any of the payments required or permitted to be made to the Executive by this Agreement be encumbered, transferred or in any way anticipated, except as required by applicable laws. This Agreement shall not be terminated solely by reason of the merger or consolidation of the Company with any corporate or other entity or by the transfer of all or substantially all of the assets of the Company to any other person, corporation, firm or entity. However, all rights of the Executive under this Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, estates, executors, administrators, heirs and beneficiaries. All amounts payable to the Executive hereunder shall be paid, in the event of the Executive's death, to the Executive's estate, heirs or representatives.

(c) Withholding. The Company shall be entitled to withhold from any amounts to be paid or benefits provided to the Executive hereunder any federal, state, local, or foreign withholding or other taxes or charges which it is from time to time required to withhold. The Company shall be entitled to rely on an opinion of counsel if any question as to the amount or requirement of any such withholding shall arise.

(d) Waiver of Breach. A waiver by the Company or the Executive of any breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other or subsequent breach by the other party.

(e) Survival of Certain Provisions. Provisions of this Agreement shall survive any termination of employment and the expiration of the Term if so provided herein or if

necessary or desirable fully to accomplish the purposes of such provision, including, without limitation, the obligations of the Company under Section 7 hereof if the Executive is terminated during the Term and the obligations of the Executive under Section 8 hereof.

(f) Attorney's Fees. In the event that any action is brought to enforce any of the provisions of this Agreement, or to obtain money damages for the breach thereof, all expenses (including reasonable attorneys' fees) shall be paid by the party incurring such fees or expenses; provided, however, that the Company shall reimburse Executive for such fees and expenses to the extent that the Executive prevails on any issues raised in such action.

(g) Entire Agreement. This Agreement, the Stock Option Plan, the Option Agreement, the Indemnification Agreement referred to in Section 5 (f) hereof, the Certificates of Incorporation of the Company and of each of its affiliates, the SERP, the Plan of Reorganization and the Stipulation and Agreement among the Debtors and their Directors and Officers in Respect of Certain Indemnification Claims constitute the entire understanding of the parties with respect to the subject matter hereof and supercede all prior negotiations, understandings, discussions, and agreements, whether written or oral, between them.

(h) Captions. Captions herein have been inserted solely for convenience of reference and in no way define, limit or describe the scope or substance of any provision of this Agreement.

(i) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and shall have the same effect as if the signatures hereto and thereto were on the same instrument.

(j) Governing Law. This Agreement shall be construed under and enforced in accordance with the laws of the State of New York.

(k) Jurisdiction and Choice of Forum. The Executive and the Company irrevocably submit for any disputes arising under or in connection with this Agreement to the exclusive jurisdiction of any state or federal court located in the State of New York. Both the Executive and the Company (i) acknowledge that the forum stated in this Section has a reasonable relation to this Agreement and to the relationship between the Executive and the Company, (ii) waive, to the extent permitted by law, any objection to personal jurisdiction or the laying of venue of any action or proceeding in the forum stated in this section, (iii) agree not to commence any such action or proceeding in any forum other than the forum stated in this section and (iv) agree that, to the extent permitted by law, a final and non-appealable judgment in any such action or proceeding in any such court will be conclusive and binding on the Executive and the Company. However, nothing in this Agreement precludes the Executive or the Company from bringing any action or proceeding in any court for the purposes of enforcing the provisions of this section.

(l) Acknowledgement of Representation. The Executive and the Company acknowledge that they have been represented by counsel of their own choosing and have received a full and complete explanation of their rights and obligations under this Agreement and, therefore, in the event of a dispute over the meaning of this Agreement or any provision thereof, neither party shall be entitled to any presumption of correctness in favor of the interpretation advanced by such party or against the interpretation advanced by the other party.

(m) Guarantee. (i) Each of Loral Skynet Corporation and Space Systems/Loral, Inc. (each a "Guarantor") hereby irrevocably and unconditionally guarantees the due and punctual payment and performance of all obligations of the Company under this Agreement; provided, however, that a Guarantor's guarantee obligation hereunder shall terminate and cease to have any force or effect immediately upon (x) such Guarantor ceasing to be a direct or indirect subsidiary or parent of the Company or (y) the sale of all or substantially all of such Guarantor's assets pursuant to an Approved Transaction (as defined below) in which a Guarantor does not receive all or substantially all of the consideration of such sale.

(ii) Notwithstanding anything in this Agreement to the contrary and for as long as the Guarantor's obligations hereunder are in effect, the Executive hereby acknowledges and agrees that at any time a Guarantor may effectuate, and this Agreement shall not in any way prohibit or restrict the Guarantor from effectuating, and the Executive shall not have any right or claim with respect to, rely upon, or challenge (a) any transfer by the Guarantor of any or all of its funds, assets or other property to either: (i) the Company or any of its direct or indirect subsidiaries or their successors (each a "Group Entity"), including by way of dividend, distribution, payment, lease, sale, assignment, transfer, merger, consolidation or otherwise, or (ii) any other person, pursuant to a transaction that the Guarantor's Board of Directors determines in good faith to effect in furtherance of a legitimate business purpose of the Guarantor or any Group Entity (an "Approved Transaction") or (b) the liquidation or dissolution of a Guarantor.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

**LORAL SPACE & COMMUNICATIONS INC.**

By: /s/ Bernard L. Schwartz
------------------------------------
Name:
------------------------------------
Title:
------------------------------------

/s/ Eric J. Zahler
----------------------------------------
Eric J. Zahler

LORAL SKYNET CORPORATION (solely for purposes of Section 11(m) hereof)

*By: /s/ Bernard L. Schwartz*
*Name:*
*Title:*

SPACE SYSTEMS/LORAL, INC. (solely for purposes of Section 11(m) hereof)

*By: /s/ Bernard L. Schwartz*
*Name:*
*Title:*

## Schedule I

## Outside Business Relationships

### Service as a Director of EasyLink Services Corporation

## Perquisites and Individual Benefits

| EXECUTIVE LIFE INSURANCE | EXECUTIVE MEDICAL | OTHER |
|---|---|---|
| $1,500,000 | $4,000 | |

**Schedule II**

Section 7(c)(iii)(A) Severance Amount

For corporate office employees:

Severance Amount per the Consent Order Approving Key Employee Retention Plan and Other Relief for Certain Employees of the Debtors' Corporate Headquarters Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code dated December 18, 2003 is equal to (x) Enhanced Severance (2003 annual base salary multiplied by the percentage applicable to the Group in which the Executive has been placed, plus (y) Standard Severance of one week of annual base salary for each year of employment with the Company and its affiliates. As of the Effective Date, the Severance Amount is set forth below.

| ENHANCED | STANDARD | TOTAL |
|---|---|---|
| $1,750,000 | $367,200 | $2,117,200 |

**Exhibit 10.12**

# EMPLOYMENT AGREEMENT

AGREEMENT, dated as of the 21st day of November, 2005, by and between Loral Space & Communications Inc., a Delaware corporation (the "Company"), Richard J. Townsend, a resident of New Canaan, CT (the "Executive") and those subsidiaries of the Company signatory hereto solely for purposes of Section 11(m) hereof.

WHEREAS, the Company desires to engage the services of the Executive and the Executive desires to be employed by the Company on the terms and conditions hereinafter set forth; and

WHEREAS, the Company desires to be assured that all proprietary and confidential information of the Company will be preserved for the exclusive benefit of the Company;

NOW, THEREFORE, in consideration of such employment and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Executive agree as follows:

Section 1. Employment and Position. The Company hereby employs the Executive as its Executive Vice President & Chief Financial Officer, and the Executive hereby accepts such employment under and subject to the terms and conditions hereinafter set forth.

Section 2. Term. The term of employment under this Agreement shall begin on the Effective Date, as such term is defined in the Debtors' Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated June 3, 2005, as modified (the "Plan of Reorganization"), and, unless sooner terminated as provided in Section 6, shall conclude on the second (2nd) anniversary of the Effective Date (the "Term"). At the Executive's request within the last six months preceding the expiration of the Term, the Company shall, to the extent practicable within two weeks after any such request but without any obligation, provide the Executive with notice regarding whether the Company intends to renew or extend the Term under this Agreement, terminate the employment relationship between the parties on or shortly after the expiration of the Term or continue the Executive's employment on an "at will" basis with no guaranteed term. Unless the Executive's employment with the Company is terminated upon the expiration of the Term or the Term under this Agreement is renewed or extended, the Executive shall be employed by the Company after the Term on an "at will" basis.

Section 3. Duties. The Executive shall perform services in a managerial capacity in a manner consistent with the Executive's position as Executive Vice President & Chief Financial Officer, subject to the general supervision of the Chief Executive Officer of the Company or his designee. The Executive hereby agrees to devote his full business time to the faithful performance of such duties and to the promotion and forwarding of the business and affairs of the Company for the Term, provided, however, that Executive shall be permitted to engage in (i) other activities of a civic, religious,

political or charitable nature, (ii) managing investments of the Executive and the Executive's family in securities, mutual funds or other collective investment funds, limited partner interests or similar passive investments,
(iii) corporate directorships and other business activities described in Schedule I attached hereto, or (iv) such other activities as may hereafter be specifically approved in writing, which in each case and in the aggregate do not materially interfere with the performance of his obligations hereunder, provided, further, however, that Executive may not engage in any such activities that would result in the Executive being in Competition (as defined in Section 8(d) below).

Section 4. Compensation.

(a) Salary. In consideration of the services rendered by the Executive under this Agreement, the Company shall pay the Executive a base salary (the "Base Salary") at the rate of $881,920 per calendar year. The Base Salary shall be paid in such installments and at such times as the Company pays its salaried executives and shall be subject to all necessary withholding taxes, FICA contributions and similar deductions. The Board of Directors (the "Board") of the Company may review from time to time the Base Salary payable to Executive hereunder and may, in its sole discretion, increase but not decrease, the Executive's salary rate. Any such increased salary shall be and become the "Base Salary" for purposes of this Agreement.

(b) Annual Bonus. The Company shall maintain an annual Management Incentive Bonus program ("MIB Program") for certain executives, and Executive shall be a participant in the MIB Program and shall be entitled to an annual bonus to the extent payable under such program ("Annual Bonus"). The Executive's target annual bonus opportunity under the MIB Program shall be forty-one percent (41%) of the Executive's Base Salary (the "Target Annual Bonus"). The Annual Bonus for the 2005 fiscal year under the MIB Program shall be earned and determined in accordance with the terms and conditions heretofore established by the Compensation Committee of the Board of Directors of Loral Space & Communications Ltd. With respect to the Annual Bonus for the 2006 fiscal year or any subsequent fiscal year, the Board shall, in its discretion, establish the terms and conditions of the MIB Program and may amend the MIB Program (other than by reducing the Target Annual Bonus percentage set forth above) accordingly. The Annual Bonus shall be paid on or before March 15 of the year following the year to which the Annual Bonus relates.

(c) Stock Options. The Company agrees to grant to the Executive an option to purchase 85,000 shares of common stock of the Company (the "Option") pursuant to the terms of the Company's 2005 Stock Incentive Plan (the "Stock Option Plan"). Except as set forth in the Option Agreement (defined below), the Option shall have a per share exercise price equal to $19.00. Such Option shall be granted on or about the thirtieth (30th) day following the Effective Date. The Option shall have such other terms and conditions as set forth in the Option Agreement attached hereto as Exhibit A (the "Option Agreement").

Section 5. Benefits. In addition to the compensation detailed in Section 4 of this Agreement, the Executive shall be entitled to the following additional benefits:

(a) Paid Vacation. The Executive shall be entitled to twenty (20) days paid vacation per calendar year in accordance with the Company's vacation policy in effect from time to time, such vacation shall extend for such periods and shall be taken at such intervals as shall be appropriate and consistent with the proper performance of the Executive's duties hereunder.

(b) Welfare Plans. During the Term, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, programs, practices and policies provided generally by the Company to similarly situated executives of the Company (including, without limitation, any medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs that may be provided by the Company from time to time). Such plans, programs, practices and policies are subject to change from time to time by the Company.

(c) Other Benefit Plans. During the Term, the Executive shall be entitled to participate in all savings, retirement and pension plans (including the Company's Supplemental Executive Retirement Plan ("SERP")), programs, practices and policies applicable generally to similarly situated executives of the Company as determined by the Board from time to time. Such plans, programs, practices and policies are subject to change from time to time by the Company.

(d) Perquisites and Other Benefits. During the Term, the Executive shall be entitled to such additional perquisites and fringe benefits appertaining to his position in accordance with any practice established by the Board. During the Term, Executive shall be entitled to receive all benefits under any individual welfare benefit arrangements (including life insurance coverage) or other benefit arrangements currently in effect for such Executive in a manner consistent with past practice, and such arrangements are listed on Schedule I attached hereto.

(e) Reimbursement of Expenses. The Company shall reimburse the Executive for all reasonable and necessary expenses actually incurred by the Executive directly in connection with the business affairs of the Company and the performance of his duties hereunder, upon presentation of proper receipts or other proof of expenditure and subject to such reasonable guidelines or limitations provided by the Company from time to time. The Executive shall comply with such reasonable limitations and reporting requirements with respect to such expenses as the Board may establish from time to time.

(f) Indemnification. In addition to indemnification obligations of the Company pursuant to Section 8.7 of the Plan of Reorganization and the terms of any officers' liability insurance carried by the Company, the Executive (and his heirs, executors and administrators) shall be indemnified by the Company and its successors and assigns pursuant to a separate Indemnification Agreement in the form attached hereto as Exhibit B. The Executive shall be an insured person under or otherwise covered by directors and officers liability insurance in an amount consistent with past practice. The obligations of the Company pursuant to this Section shall survive the expiration of the Term or Executive's voluntary or involuntary termination or resignation for Good Reason.

Section 6. Termination. This Agreement shall terminate at the end of the Term. The Executive's employment may end earlier as follows:

(a) Death. The employment of the Executive shall automatically terminate upon the death of the Executive.

(b) Disability. In the event of any physical or mental disability of the Executive rendering the Executive substantially unable to perform his duties hereunder for a period of at least 120 days out of any twelve-month period and the further determination that the disability is permanent with regard to the Executive's ability to return to work in his full capacity, the Executive's employment shall be terminated on account of the Executive's disability. Any determination of permanent disability shall be made by the Board in consultation with a qualified physician or physicians selected by the Board and reasonably acceptable to the Executive. The failure of the Executive to submit to a reasonable examination by such physician or physicians shall act as an estoppel to any objection by the Executive to the determination of disability by the Board.

(c) By the Company For Cause. The employment of the Executive may be terminated by the Company for Cause (as defined below) at any time effective upon written notice to the Executive; provided, however, that if such termination is based upon any event set forth in clauses (iii), (iv), (v), (vi) or (vii) below, Executive shall be given not less than ten (10) days prior written notice by the Board of the intention to terminate him for Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based, and Executive shall have ten (10) days after the date that such written notice has been given to Executive in which to address the Board regarding any such alleged act or failure to act. If the Board makes a determination that Cause exists, the termination shall be effective on the date immediately following the expiration of the ten (10) day notice period. For purposes hereof, the term "Cause" shall mean that the Board has determined reasonably, in good faith and based on credible evidence that one or more of the following has occurred:

(i) the Executive shall have been after the Effective Date convicted of, or shall have pleaded guilty or nolo contendere to, any felony or any other crime that would have constituted a felony under the laws of the State of New York;

(ii) the Executive shall have been indicted for any felony or any other crime that would have constituted a felony under the laws of the State of New York in connection with or arising from the Executive's employment with the Company;

(iii) the Executive shall have breached any material provision of
Section 8 hereof;

(iv) the Executive shall have committed any fraud, embezzlement, misappropriation of funds, or breach of fiduciary duty against the Company, in each case of a material nature;

(v) the Executive shall have engaged in any willful misconduct resulting in or reasonably likely to result in a material loss to the Company or substantial damage to its reputation;

(vi) the Executive shall have willfully breached in any material respect any material provision of the Company's Code of Conduct and, to the extent any such breach is curable, the Executive shall have failed to cure such breach within ten (10) days after written notice of the alleged breach is provided to the Executive; or

(vii) the Executive shall have willfully breached in any material respect any material provision of Section 3 hereof.

(d) By the Company without Cause. The Company may terminate the Executive's employment at any time without Cause effective upon written notice to the Executive.

(e) By the Executive Voluntarily. The Executive may terminate his employment at any time effective upon at least thirty (30) days prior written notice to the Company.

(f) By the Executive for Good Reason. The Executive may terminate his employment for Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, within sixty (60) days of the occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and, if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. For this purpose, the term "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any substantial respect with the Executive's position, authority or responsibilities or any duties which are illegal or unethical or any material diminution of any of the Executive's significant duties;

(ii) any reduction in Base Salary, the Target Annual Bonus or any of the benefits described in Section 5 of this Agreement to the extent not permitted under Section 5;

(iii) the relocation by the Company of the Executive's primary place of employment with the Company to a location not within a thirty (30) mile radius of such place of employment as of the Effective Date; provided, however, that such relocation shall not be considered Good Reason if such location is closer to the Executive's home than the Executive's primary place of employment as of the Effective Date;

(iv) other material breach of this Agreement by the Company; or

(v) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company.

Notwithstanding anything in this Agreement to the contrary, any determination by the non-employee directors of the Board regarding the action the Company shall take with respect to (a) any personal claims of any of the Company's or its affiliates' officers (including Executive) or directors against the Company or any of its affiliates for indemnification arising from or in connection with alleged acts or omissions that occurred on or prior to the date of the commencement of the chapter 11 cases of Loral Space & Communications Ltd. and certain of its affiliates on July 15, 2003; and (b) the Shared Services Agreement or the Management Agreement, each of even date herewith, by and among the Company, Loral Skynet Corporation and Space Systems/Loral, Inc., shall not constitute Good Reason.

Section 7. Termination Payments and Benefits.

(a) Voluntary Termination, Termination For Cause. Upon any termination of employment during the Term either (i) by the Executive without Good Reason under
Section 6(e), or (ii) by the Company for Cause as provided in Section 6(c), all payments, salary and other benefits hereunder shall cease at the effective date of termination. Notwithstanding the foregoing, the Executive shall be entitled to receive from the Company (i) all salary earned or accrued through the date the Executive's employment is terminated, (ii) reimbursement for any and all monies advanced in connection with the Executive's employment for reasonable and necessary business expenses incurred by the Executive through the date the Executive's employment is terminated, (iii) all other payments and benefits to which the Executive may be entitled under the terms of any applicable compensation arrangement or benefit plan or program of the Company, including any earned and accrued, but unused vacation pay and benefits under and in accordance with the terms and provisions of the SERP, but excluding any entitlement to severance under any Company severance policy generally applicable to the Company's salaried employees, and (iv) excluding any accrued and unpaid Annual Bonus for the immediately preceding year (collectively, "Accrued Benefits").

(b) Death. In the event of a termination due to the Executive's death during the Term, the Company shall have no further obligations to the Executive or his beneficiaries other than to pay to the Executive's designated beneficiary or, if no beneficiary has been designated by the Executive, to his estate (i) all Accrued Benefits, plus (ii) any Base Salary through the end of the calendar month in which the Executive's death occurred, plus (iii) any accrued and unpaid Annual Bonus for the immediately preceding year, and (iv) at the times the Company pays its executives bonuses in accordance with its general payroll policies, an amount equal to that portion of the Annual Bonus which but for the Executive's death would have been earned by the Executive during the year of his death, pro rated based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his death during which the Executive was employed by the Company on an active status (the Accrued Benefits and the payment of the amounts set forth in clauses (iii) and
(iv) of this Section 7(b) are collectively referred to as "Enhanced Accrued Benefits"). In

addition, any unvested stock options under the Stock Option Plan and any deferred compensation under the Option Agreement that would have become vested on the next date of vesting applicable thereto shall become vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement as to a portion thereof based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his death during which the Executive was employed by the Company on an active status. The Executive's medical, prescription and dental coverage shall continue for the benefit of the Executive's family members through the end of the Term.

(c) Termination without Cause or for Good Reason. In the event that the Executive's employment is terminated during the Term by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to receive as his exclusive right and remedy in respect of such termination, (i) all Enhanced Accrued Benefits, (ii) severance pay equal to the greater of (A) the amount set forth on Schedule II hereto, or (B) the remaining amount of Base Salary the Executive would have received had the Executive been employed through the end of the Term ("Severance Payments"), with such Severance Payments to be paid in a lump sum as soon as practicable on or after termination (but not later than three business days after the release described in Section 7(f) becomes effective and not revocable). In addition, all unvested stock options under the Stock Option Plan and all deferred compensation under the Option Agreement shall become fully vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement, and the Executive shall continue to be covered, upon the same terms and conditions applicable generally to similarly situated executives who remain employed with the Company, by the same or equivalent medical, dental and life insurance coverage as in effect for the Executive immediately prior to the termination of his employment, until the earlier of (A) the expiration of a period of months determined by dividing the lump sum amount of severance pay he receives pursuant to clause (ii) of the preceding sentence by the Executive's monthly salary rate in effect on his date of termination, or (B) the date the Executive has commenced new employment and has thereby become eligible for comparable benefits, subject to the Executive's rights under COBRA. For avoidance of doubt, if the Executive is offered employment consistent with the terms of this Agreement with the person that acquires all or substantially all of the assets or stock of New FSS or New SSL (as such terms are defined in the Plan of Reorganization), any affiliate that directly or indirectly owns such acquirer, or any successor to the acquirer or any such affiliate and such person assumes this Agreement, the Executive shall not be treated as having a termination of employment without Cause or for Good Reason, regardless of whether the Executive refuses the offer of employment, by reason of the sale of such assets or stock.

(d) Termination due to Disability. In the event that the Executive's employment is terminated during the Term due to the Disability of the Executive, the Company shall have no further obligation to the Executive other than to pay the Executive (in addition to any disability insurance payments to which the Executive is entitled pursuant to Section 5 above) all Enhanced Accrued Benefits. In addition, any unvested stock options under the Stock Option Plan and any deferred compensation under the Option Agreement that would have become vested on the next date of vesting

applicable thereto shall become vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement, as to a portion thereof based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his Disability during which the Executive was employed by the Company on an active status.

(e) No Other Benefits. Except as specifically provided in this Section 7, the Executive shall not be entitled to any other compensation, severance or other benefits from the Company or any of its subsidiaries or affiliates upon the termination of this Agreement or the Executive's employment for any reason whatsoever. Payment by the Company of all Accrued Benefits, Enhanced Accrued Benefits and Severance Payments (if applicable) and contributions to the cost of the Executive's confirmed participation in the Company's group medical, dental and life insurance plans that may be due to the Executive under the applicable termination provision of this Section 7 shall constitute the entire obligation of the Company to the Executive. Notwithstanding anything contained in this Agreement to the contrary, the Executive (or his beneficiary or estate) shall be entitled, under all circumstances, to payment of all amounts under and in accordance with the terms and provisions of the SERP, including, without limitation, whether or not the Executive is employed by the Company.

(f) Condition. The Company will not be required to make the payment and provide the benefits stated in this Section 7 unless the Executive executes and delivers to the Company a waiver and release agreement in the form attached hereto as Exhibit C and such waiver and release is not unilaterally revocable by the Executive.

(g) Resignation from Company Offices. In the event of the Executive's termination of employment for any reason, the Executive shall resign and shall be deemed to have resigned immediately from the Board (if the Executive is then a member of the Board) and any and all other directorships, offices and positions with, on behalf of, or relating to the Company or any of its subsidiaries, effective as of the date of the Executive's termination of employment with the Company.

Section 8. Restrictive Covenants.

(a) Proprietary Information. In the course of service to the Company, the Executive will have access to confidential specifications, know-how, strategic or technical data, marketing research data, product research and development data, manufacturing techniques, confidential customer lists, sources of supply and trade secrets, all of which are confidential and may be proprietary and are owned or used by the Company, or any of its subsidiaries or affiliates. Such information shall hereinafter be called "Proprietary Information" and shall include any and all items enumerated in the preceding sentence and coming within the scope of the business of the Company or any of its subsidiaries or affiliates as to which the Executive may have access, whether conceived or developed by others or by the Executive alone or with others during the Executive's period of service with the Company, whether or not conceived or developed during regular working hours. Proprietary Information shall not include any records, data or information which are in the public domain during Executive's service with the Company or after the Executive's service with the Company has terminated, provided the

same are not in the public domain as a consequence of disclosure by the Executive in violation of this Agreement.

(b) Non-Use and Non-Disclosure. The Executive shall not during the Term or at any time thereafter (i) disclose any Proprietary Information to any person other than (A) the Company, (B) the Company's or its affiliates' directors, officers or employees who, in the reasonable judgment of the Executive, need to know such Proprietary Information, (C) such other persons to whom the Executive has been specifically instructed to make disclosure by the Board; and in all such cases only to the extent required in the course of the Executive's service to the Company or (D) as required by law, or (ii) use any Proprietary Information, directly or indirectly, for his own benefit or for the benefit of any other person or entity.

(c) Return of Documents. All notes, letters, documents, records, tapes and other media of every kind and description containing Proprietary Information and any copies, in whole or in part, thereof (collectively, the "Documents"), whether or not prepared by the Executive, shall be the sole and exclusive property of the Company. The Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such other time or times as the Board or its designee may specify, all Documents then in the Executive's possession or control.

(d) Non-Competition. At all times during the Executive's employment with the Company or any affiliate during the Term, and for a period of twelve (12) months following the termination during the Term of employment with the Company or any affiliate for any reason (the "Restricted Period"), the Executive will not engage in Competition (as defined below) with the Company. For purposes of this Agreement, "Competition" shall mean engaging in, or otherwise directly or indirectly being employed by, or acting as a consultant or adviser (paid or unpaid) to, or being a director, officer, employee, principal, agent, stockholder, member, owner or partner of (i) Boeing, Lockheed, Alcatel Space or Astrium, (ii) PanAmSat, SES Astra, Intelsat, New Skies Satellites, (iii) any business similar to the businesses described in clause (i) or (ii) above that competes with the services provided by the Company, (iv) any business that competes with a business that the Company engages in as of the date of the Executive's termination of employment with the Company, as described or otherwise contemplated in the Company's business plan for the year of such termination of employment, or (v) any business that competes with a business that the Company is, to the knowledge of the Executive, preparing to engage in as of the date of the Executive's termination of employment with the Company, and any transferee of or successor to any of the foregoing businesses. Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of a business enterprise in Competition with the Company or its subsidiaries which are publicly traded on a national or regional stock exchange or on the over-the-counter market if the Executive (i) is not a controlling person of or a member of a group which controls such business enterprise and (ii) does not, directly or indirectly, own five percent (5%) or more of any class of securities of such business enterprise.

(e) Non-Solicitation of Employees. At all times during the Restricted Period, the Executive will not directly or indirectly solicit or in any manner encourage employees

of the Company or any affiliate who were employed by the Company within the six-month period prior to the termination of the Executive's employment with the Company or any affiliate to leave its employ and will not offer or cause to be offered employment to any such person; provided, however, that the restrictions in this paragraph shall not apply to (i) general solicitations that are not specifically directed to employees of the Company or any affiliate and (ii) any administrative support staff.

(f) Non-Solicitation of Customers or Suppliers. At all times during the Restricted Period, the Executive will not knowingly solicit or in any manner encourage, directly or indirectly, customers of or suppliers to the Company or any affiliate who were customers of or suppliers to the Company or any affiliate within the twelve-month period prior to the termination of the Executive's employment with the Company or any affiliate to terminate or diminish their relationship with the Company or any affiliate.

(g) Reasonableness. The Executive has carefully considered the nature, extent and duration of the restrictions and obligations contained in this Agreement, including, without limitation, provisions of this Section 8 and acknowledges and agrees that such restrictions are fair and reasonable in all respects to protect the legitimate interests of the Company and its affiliates and that these restrictions are designed for the reasonable protection of the business of the Company and that of its affiliates.

(h) Remedies. The Executive recognizes that any breach of this Section 8 shall cause irreparable injury to the Company or its affiliates, inadequately compensable in monetary damages. Accordingly, in addition to any other legal or equitable remedies that may be available to the Company, Executive agrees that the Company or its affiliates shall be able to seek and obtain injunctive relief in the form of a temporary restraining order, preliminary injunction, or permanent injunction against the Executive to enforce this Agreement. To the extent that any damages are calculable resulting from the breach of this Agreement, the Company and its affiliates shall also be entitled to recover damages. Any recovery of damages by the Company and its affiliates shall be in addition to and not in lieu of the injunctive relief to which the Company and its affiliates are entitled. Without limiting the rights of the Company and its affiliates under this Section 8 or any other remedies that may be available to them, if a court of competent jurisdiction determines that the Executive has breached any of the provisions of this Section 8, the Company or its affiliates will have the right to cease making any payments or providing any benefits otherwise due to Executive under the terms and conditions of this Agreement, and the right to recover the Annual Bonus that may have been paid as part of the Enhanced Accrued Benefits and the Severance Payment that the Executive may have received under this Agreement.

Section 9. Severable Provisions. The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

Section 10. Notices. All notices hereunder, to be effective, shall be in writing and shall be delivered by hand or mailed by certified mail, postage and fees prepaid, as follows:

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If to the Company:   Loral Space & Communications Inc.
                     600 Third Avenue
                     New York, New York 10016
                     Attention: General Counsel

If to the Executive: Richard J. Townsend
                     34 White Oak Shade Road
                     New Canaan, CT 06840
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or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 10. All notices to any person shall be deemed given when actually received by the person.

Section 11. Miscellaneous.

(a) Amendment. This Agreement may not be amended or revised except by a writing signed by the parties.

(b) Assignment and Transfer. The provisions of this Agreement shall be binding on and shall inure to the benefit of any such successor in interest to the Company. Neither this Agreement nor any of the rights, duties or obligations of the Executive shall be assignable by the Executive, nor shall any of the payments required or permitted to be made to the Executive by this Agreement be encumbered, transferred or in any way anticipated, except as required by applicable laws. This Agreement shall not be terminated solely by reason of the merger or consolidation of the Company with any corporate or other entity or by the transfer of all or substantially all of the assets of the Company to any other person, corporation, firm or entity. However, all rights of the Executive under this Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, estates, executors, administrators, heirs and beneficiaries. All amounts payable to the Executive hereunder shall be paid, in the event of the Executive's death, to the Executive's estate, heirs or representatives.

(c) Withholding. The Company shall be entitled to withhold from any amounts to be paid or benefits provided to the Executive hereunder any federal, state, local, or foreign withholding or other taxes or charges which it is from time to time required to withhold. The Company shall be entitled to rely on an opinion of counsel if any question as to the amount or requirement of any such withholding shall arise.

(d) Waiver of Breach. A waiver by the Company or the Executive of any breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other or subsequent breach by the other party.

(e) Survival of Certain Provisions. Provisions of this Agreement shall survive any termination of employment and the expiration of the Term if so provided herein or if

necessary or desirable fully to accomplish the purposes of such provision, including, without limitation, the obligations of the Company under Section 7 hereof if the Executive is terminated during the Term and the obligations of the Executive under Section 8 hereof.

(f) Attorney's Fees. In the event that any action is brought to enforce any of the provisions of this Agreement, or to obtain money damages for the breach thereof, all expenses (including reasonable attorneys' fees) shall be paid by the party incurring such fees or expenses; provided, however, that the Company shall reimburse Executive for such fees and expenses to the extent that the Executive prevails on any issues raised in such action.

(g) Entire Agreement. This Agreement, the Stock Option Plan, the Option Agreement, the Indemnification Agreement referred to in Section 5 (f) hereof, the Certificates of Incorporation of the Company and of each of its affiliates, the SERP, the Plan of Reorganization and the Stipulation and Agreement among the Debtors and their Directors and Officers in Respect of Certain Indemnification Claims constitute the entire understanding of the parties with respect to the subject matter hereof and supercede all prior negotiations, understandings, discussions, and agreements, whether written or oral, between them.

(h) Captions. Captions herein have been inserted solely for convenience of reference and in no way define, limit or describe the scope or substance of any provision of this Agreement.

(i) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and shall have the same effect as if the signatures hereto and thereto were on the same instrument.

(j) Governing Law. This Agreement shall be construed under and enforced in accordance with the laws of the State of New York.

(k) Jurisdiction and Choice of Forum. The Executive and the Company irrevocably submit for any disputes arising under or in connection with this Agreement to the exclusive jurisdiction of any state or federal court located in the State of New York. Both the Executive and the Company (i) acknowledge that the forum stated in this Section has a reasonable relation to this Agreement and to the relationship between the Executive and the Company, (ii) waive, to the extent permitted by law, any objection to personal jurisdiction or the laying of venue of any action or proceeding in the forum stated in this section, (iii) agree not to commence any such action or proceeding in any forum other than the forum stated in this section and (iv) agree that, to the extent permitted by law, a final and non-appealable judgment in any such action or proceeding in any such court will be conclusive and binding on the Executive and the Company. However, nothing in this Agreement precludes the Executive or the Company from bringing any action or proceeding in any court for the purposes of enforcing the provisions of this section.

(l) Acknowledgement of Representation. The Executive and the Company acknowledge that they have been represented by counsel of their own choosing and have received a full and complete explanation of their rights and obligations under this Agreement and, therefore, in the event of a dispute over the meaning of this Agreement or any provision thereof, neither party shall be entitled to any presumption of correctness in favor of the interpretation advanced by such party or against the interpretation advanced by the other party.

(m) Guarantee. (i) Each of Loral Skynet Corporation and Space Systems/Loral, Inc. (each a "Guarantor") hereby irrevocably and unconditionally guarantees the due and punctual payment and performance of all obligations of the Company under this Agreement; provided, however, that a Guarantor's guarantee obligation hereunder shall terminate and cease to have any force or effect immediately upon (x) such Guarantor ceasing to be a direct or indirect subsidiary or parent of the Company or (y) the sale of all or substantially all of such Guarantor's assets pursuant to an Approved Transaction (as defined below) in which a Guarantor does not receive all or substantially all of the consideration of such sale.

(ii) Notwithstanding anything in this Agreement to the contrary and for as long as the Guarantor's obligations hereunder are in effect, the Executive hereby acknowledges and agrees that at any time a Guarantor may effectuate, and this Agreement shall not in any way prohibit or restrict the Guarantor from effectuating, and the Executive shall not have any right or claim with respect to, rely upon, or challenge (a) any transfer by the Guarantor of any or all of its funds, assets or other property to either: (i) the Company or any of its direct or indirect subsidiaries or their successors (each a "Group Entity"), including by way of dividend, distribution, payment, lease, sale, assignment, transfer, merger, consolidation or otherwise, or (ii) any other person, pursuant to a transaction that the Guarantor's Board of Directors determines in good faith to effect in furtherance of a legitimate business purpose of the Guarantor or any Group Entity (an "Approved Transaction") or (b) the liquidation or dissolution of a Guarantor.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

**LORAL SPACE & COMMUNICATIONS INC.**

*By: /s/ Bernard L. Schwartz*
------------------------------------
*Name:*
----------------------------------
*Title:*
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*/s/ Richard J. Townsend*
----------------------------------------
*Richard J. Townsend*

LORAL SKYNET CORPORATION (solely for purposes of Section 11(m) hereof)

*By: /s/ Bernard L. Schwartz*
*Name:*
*Title:*

SPACE SYSTEMS/LORAL, INC. (solely for purposes of Section 11(m) hereof)

*By: /s/ Bernard L. Schwartz*
*Name:*
*Title:*

## Schedule I

## Outside Business Relationships

## Perquisites and Individual Benefits

| EXECUTIVE LIFE INSURANCE | EXECUTIVE MEDICAL | OTHER |
| --- | --- | --- |
| $1,000,000 | $4,000 | |

## Schedule II

Section 7(c)(iii)(A) Severance Amount

For corporate office employees:

Severance Amount per the Consent Order Approving Key Employee Retention Plan and Other Relief for Certain Employees of the Debtors' Corporate Headquarters Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code dated December 18, 2003 is equal to (x) Enhanced Severance (2003 annual base salary multiplied by the percentage applicable to the Group in which the Executive has been placed, plus (y) Standard Severance of one week of annual base salary for each year of employment with the Company and its affiliates. As of the Effective Date, the Severance Amount is set forth below.

| ENHANCED | STANDARD | TOTAL |
|---|---|---|
| $1,400,000 | $152,640 | $1,552,640 |

**Exhibit 10.13**

# EMPLOYMENT AGREEMENT

AGREEMENT, dated as of the 21st day of November, 2005, by and between Loral Space & Communications Inc., a Delaware corporation (the "Company"), Avi Katz, a resident of Teaneck, NJ (the "Executive") and those subsidiaries of the Company signatory hereto solely for purposes of Section 11(m) hereof.

WHEREAS, the Company desires to engage the services of the Executive and the Executive desires to be employed by the Company on the terms and conditions hereinafter set forth; and

WHEREAS, the Company desires to be assured that all proprietary and confidential information of the Company will be preserved for the exclusive benefit of the Company;

NOW, THEREFORE, in consideration of such employment and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Executive agree as follows:

Section 1. Employment and Position. The Company hereby employs the Executive as its Vice President, Secretary and General Counsel, and the Executive hereby accepts such employment under and subject to the terms and conditions hereinafter set forth.

Section 2. Term. The term of employment under this Agreement shall begin on the Effective Date, as such term is defined in the Debtors' Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated June 3, 2005, as modified (the "Plan of Reorganization"), and, unless sooner terminated as provided in Section 6, shall conclude on the second (2nd) anniversary of the Effective Date (the "Term"). At the Executive's request within the last six months preceding the expiration of the Term, the Company shall, to the extent practicable within two weeks after any such request but without any obligation, provide the Executive with notice regarding whether the Company intends to renew or extend the Term under this Agreement, terminate the employment relationship between the parties on or shortly after the expiration of the Term or continue the Executive's employment on an "at will" basis with no guaranteed term. Unless the Executive's employment with the Company is terminated upon the expiration of the Term or the Term under this Agreement is renewed or extended, the Executive shall be employed by the Company after the Term on an "at will" basis.

Section 3. Duties. The Executive shall perform services in a managerial capacity in a manner consistent with the Executive's position as Vice President, Secretary and General Counsel, subject to the general supervision of the Chief Executive Officer of the Company or his designee. The Executive hereby agrees to devote his full business time to the faithful performance of such duties and to the promotion and forwarding of the business and affairs of the Company for the Term, provided, however, that Executive shall be permitted to engage in (i) other activities of a civic, religious, political or charitable nature, (ii) managing investments of the Executive and the Executive's family

in securities, mutual funds or other collective investment funds, limited partner interests or similar passive investments, (iii) corporate directorships and other business activities described in Schedule I attached hereto, or (iv) such other activities as may hereafter be specifically approved in writing, which in each case and in the aggregate do not materially interfere with the performance of his obligations hereunder, provided, further, however, that Executive may not engage in any such activities that would result in the Executive being in Competition (as defined in Section 8(d) below).

Section 4. Compensation.

(a) Salary. In consideration of the services rendered by the Executive under this Agreement, the Company shall pay the Executive a base salary (the "Base Salary") at the rate of $438,048 per calendar year. The Base Salary shall be paid in such installments and at such times as the Company pays its salaried executives and shall be subject to all necessary withholding taxes, FICA contributions and similar deductions. The Board of Directors (the "Board") of the Company may review from time to time the Base Salary payable to Executive hereunder and may, in its sole discretion, increase but not decrease, the Executive's salary rate. Any such increased salary shall be and become the "Base Salary" for purposes of this Agreement.

(b) Annual Bonus. The Company shall maintain an annual Management Incentive Bonus program ("MIB Program") for certain executives, and Executive shall be a participant in the MIB Program and shall be entitled to an annual bonus to the extent payable under such program ("Annual Bonus"). The Executive's target annual bonus opportunity under the MIB Program shall be forty percent (40%) of the Executive's Base Salary (the "Target Annual Bonus"). The Annual Bonus for the 2005 fiscal year under the MIB Program shall be earned and determined in accordance with the terms and conditions heretofore established by the Compensation Committee of the Board of Directors of Loral Space & Communications Ltd. With respect to the Annual Bonus for the 2006 fiscal year or any subsequent fiscal year, the Board shall, in its discretion, establish the terms and conditions of the MIB Program and may amend the MIB Program (other than by reducing the Target Annual Bonus percentage set forth above) accordingly. The Annual Bonus shall be paid on or before March 15 of the year following the year to which the Annual Bonus relates.

(c) Stock Options. The Company agrees to grant to the Executive an option to purchase 50,000 shares of common stock of the Company (the "Option") pursuant to the terms of the Company's 2005 Stock Incentive Plan (the "Stock Option Plan"). Except as set forth in the Option Agreement (defined below), the Option shall have a per share exercise price equal to $19.00. Such Option shall be granted on or about the thirtieth (30th) day following the Effective Date. The Option shall have such other terms and conditions as set forth in the Option Agreement attached hereto as Exhibit A (the "Option Agreement").

Section 5. Benefits. In addition to the compensation detailed in Section 4 of this Agreement, the Executive shall be entitled to the following additional benefits:

(a) Paid Vacation. The Executive shall be entitled to twenty (20) days paid vacation per calendar year in accordance with the Company's vacation policy in effect from time to time, such vacation shall extend for such periods and shall be taken at such intervals as shall be appropriate and consistent with the proper performance of the Executive's duties hereunder.

(b) Welfare Plans. During the Term, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, programs, practices and policies provided generally by the Company to similarly situated executives of the Company (including, without limitation, any medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs that may be provided by the Company from time to time). Such plans, programs, practices and policies are subject to change from time to time by the Company.

(c) Other Benefit Plans. During the Term, the Executive shall be entitled to participate in all savings, retirement and pension plans (including the Company's Supplemental Executive Retirement Plan ("SERP")), programs, practices and policies applicable generally to similarly situated executives of the Company as determined by the Board from time to time. Such plans, programs, practices and policies are subject to change from time to time by the Company.

(d) Perquisites and Other Benefits. During the Term, the Executive shall be entitled to such additional perquisites and fringe benefits appertaining to his position in accordance with any practice established by the Board. During the Term, Executive shall be entitled to receive all benefits under any individual welfare benefit arrangements (including life insurance coverage) or other benefit arrangements currently in effect for such Executive in a manner consistent with past practice, and such arrangements are listed on Schedule I attached hereto.

(e) Reimbursement of Expenses. The Company shall reimburse the Executive for all reasonable and necessary expenses actually incurred by the Executive directly in connection with the business affairs of the Company and the performance of his duties hereunder, upon presentation of proper receipts or other proof of expenditure and subject to such reasonable guidelines or limitations provided by the Company from time to time. The Executive shall comply with such reasonable limitations and reporting requirements with respect to such expenses as the Board may establish from time to time.

(f) Indemnification. In addition to indemnification obligations of the Company pursuant to Section 8.7 of the Plan of Reorganization and the terms of any officers' liability insurance carried by the Company, the Executive (and his heirs, executors and administrators) shall be indemnified by the Company and its successors and assigns pursuant to a separate Indemnification Agreement in the form attached hereto as Exhibit B. The Executive shall be an insured person under or otherwise covered by directors and officers liability insurance in an amount consistent with past practice. The obligations of the Company pursuant to this Section shall survive the expiration of the Term or Executive's voluntary or involuntary termination or resignation for Good Reason.

Section 6. Termination. This Agreement shall terminate at the end of the Term. The Executive's employment may end earlier as follows:

(a) Death. The employment of the Executive shall automatically terminate upon the death of the Executive.

(b) Disability. In the event of any physical or mental disability of the Executive rendering the Executive substantially unable to perform his duties hereunder for a period of at least 120 days out of any twelve-month period and the further determination that the disability is permanent with regard to the Executive's ability to return to work in his full capacity, the Executive's employment shall be terminated on account of the Executive's disability. Any determination of permanent disability shall be made by the Board in consultation with a qualified physician or physicians selected by the Board and reasonably acceptable to the Executive. The failure of the Executive to submit to a reasonable examination by such physician or physicians shall act as an estoppel to any objection by the Executive to the determination of disability by the Board.

(c) By the Company For Cause. The employment of the Executive may be terminated by the Company for Cause (as defined below) at any time effective upon written notice to the Executive; provided, however, that if such termination is based upon any event set forth in clauses (iii), (iv), (v), (vi) or (vii) below, Executive shall be given not less than ten (10) days prior written notice by the Board of the intention to terminate him for Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based, and Executive shall have ten (10) days after the date that such written notice has been given to Executive in which to address the Board regarding any such alleged act or failure to act. If the Board makes a determination that Cause exists, the termination shall be effective on the date immediately following the expiration of the ten (10) day notice period. For purposes hereof, the term "Cause" shall mean that the Board has determined reasonably, in good faith and based on credible evidence that one or more of the following has occurred:

(i) the Executive shall have been after the Effective Date convicted of, or shall have pleaded guilty or nolo contendere to, any felony or any other crime that would have constituted a felony under the laws of the State of New York;

(ii) the Executive shall have been indicted for any felony or any other crime that would have constituted a felony under the laws of the State of New York in connection with or arising from the Executive's employment with the Company;

(iii) the Executive shall have breached any material provision of
Section 8 hereof;

(iv) the Executive shall have committed any fraud, embezzlement, misappropriation of funds, or breach of fiduciary duty against the Company, in each case of a material nature;

(v) the Executive shall have engaged in any willful misconduct resulting in or reasonably likely to result in a material loss to the Company or substantial damage to its reputation;

(vi) the Executive shall have willfully breached in any material respect any material provision of the Company's Code of Conduct and, to the extent any such breach is curable, the Executive shall have failed to cure such breach within ten (10) days after written notice of the alleged breach is provided to the Executive; or

(vii) the Executive shall have willfully breached in any material respect any material provision of Section 3 hereof.

(d) By the Company without Cause. The Company may terminate the Executive's employment at any time without Cause effective upon written notice to the Executive.

(e) By the Executive Voluntarily. The Executive may terminate his employment at any time effective upon at least thirty (30) days prior written notice to the Company.

(f) By the Executive for Good Reason. The Executive may terminate his employment for Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, within sixty (60) days of the occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and, if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. For this purpose, the term "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any substantial respect with the Executive's position, authority or responsibilities or any duties which are illegal or unethical or any material diminution of any of the Executive's significant duties;

(ii) any reduction in Base Salary, the Target Annual Bonus or any of the benefits described in Section 5 of this Agreement to the extent not permitted under Section 5;

(iii) the relocation by the Company of the Executive's primary place of employment with the Company to a location not within a thirty (30) mile radius of such place of employment as of the Effective Date; provided, however, that such relocation shall not be considered Good Reason if such location is closer to the Executive's home than the Executive's primary place of employment as of the Effective Date;

(iv) other material breach of this Agreement by the Company; or

(v) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company.

Notwithstanding anything in this Agreement to the contrary, any determination by the non-employee directors of the Board regarding the action the Company shall take with respect to (a) any personal claims of any of the Company's or its affiliates' officers (including Executive) or directors against the Company or any of its affiliates for indemnification arising from or in connection with alleged acts or omissions that occurred on or prior to the date of the commencement of the chapter 11 cases of Loral Space & Communications Ltd. and certain of its affiliates on July 15, 2003; and (b) the Shared Services Agreement or the Management Agreement, each of even date herewith, by and among the Company, Loral Skynet Corporation and Space Systems/Loral, Inc., shall not constitute Good Reason.

Section 7. Termination Payments and Benefits.

(a) Voluntary Termination, Termination For Cause. Upon any termination of employment during the Term either (i) by the Executive without Good Reason under
Section 6(e), or (ii) by the Company for Cause as provided in Section 6(c), all payments, salary and other benefits hereunder shall cease at the effective date of termination. Notwithstanding the foregoing, the Executive shall be entitled to receive from the Company (i) all salary earned or accrued through the date the Executive's employment is terminated, (ii) reimbursement for any and all monies advanced in connection with the Executive's employment for reasonable and necessary business expenses incurred by the Executive through the date the Executive's employment is terminated, (iii) all other payments and benefits to which the Executive may be entitled under the terms of any applicable compensation arrangement or benefit plan or program of the Company, including any earned and accrued, but unused vacation pay and benefits under and in accordance with the terms and provisions of the SERP, but excluding any entitlement to severance under any Company severance policy generally applicable to the Company's salaried employees, and (iv) excluding any accrued and unpaid Annual Bonus for the immediately preceding year (collectively, "Accrued Benefits").

(b) Death. In the event of a termination due to the Executive's death during the Term, the Company shall have no further obligations to the Executive or his beneficiaries other than to pay to the Executive's designated beneficiary or, if no beneficiary has been designated by the Executive, to his estate (i) all Accrued Benefits, plus (ii) any Base Salary through the end of the calendar month in which the Executive's death occurred, plus (iii) any accrued and unpaid Annual Bonus for the immediately preceding year, and (iv) at the times the Company pays its executives bonuses in accordance with its general payroll policies, an amount equal to that portion of the Annual Bonus which but for the Executive's death would have been earned by the Executive during the year of his death, pro rated based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his death during which the Executive was employed by the Company on an active status (the Accrued Benefits and the payment of the amounts set forth in clauses (iii) and
(iv) of this Section 7(b) are collectively referred to as "Enhanced Accrued Benefits"). In

addition, any unvested stock options under the Stock Option Plan and any deferred compensation under the Option Agreement that would have become vested on the next date of vesting applicable thereto shall become vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement as to a portion thereof based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his death during which the Executive was employed by the Company on an active status. The Executive's medical, prescription and dental coverage shall continue for the benefit of the Executive's family members through the end of the Term.

(c) Termination without Cause or for Good Reason. In the event that the Executive's employment is terminated during the Term by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to receive as his exclusive right and remedy in respect of such termination, (i) all Enhanced Accrued Benefits, (ii) severance pay equal to the greater of (A) the amount set forth on Schedule II hereto, or (B) the remaining amount of Base Salary the Executive would have received had the Executive been employed through the end of the Term ("Severance Payments"), with such Severance Payments to be paid in a lump sum as soon as practicable on or after termination (but not later than three business days after the release described in Section 7(f) becomes effective and not revocable). In addition, all unvested stock options under the Stock Option Plan and all deferred compensation under the Option Agreement shall become fully vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement, and the Executive shall continue to be covered, upon the same terms and conditions applicable generally to similarly situated executives who remain employed with the Company, by the same or equivalent medical, dental and life insurance coverage as in effect for the Executive immediately prior to the termination of his employment, until the earlier of (A) the expiration of a period of months determined by dividing the lump sum amount of severance pay he receives pursuant to clause (ii) of the preceding sentence by the Executive's monthly salary rate in effect on his date of termination, or (B) the date the Executive has commenced new employment and has thereby become eligible for comparable benefits, subject to the Executive's rights under COBRA. For avoidance of doubt, if the Executive is offered employment consistent with the terms of this Agreement with the person that acquires all or substantially all of the assets or stock of New FSS or New SSL (as such terms are defined in the Plan of Reorganization), any affiliate that directly or indirectly owns such acquirer, or any successor to the acquirer or any such affiliate and such person assumes this Agreement, the Executive shall not be treated as having a termination of employment without Cause or for Good Reason, regardless of whether the Executive refuses the offer of employment, by reason of the sale of such assets or stock.

(d) Termination due to Disability. In the event that the Executive's employment is terminated during the Term due to the Disability of the Executive, the Company shall have no further obligation to the Executive other than to pay the Executive (in addition to any disability insurance payments to which the Executive is entitled pursuant to Section 5 above) all Enhanced Accrued Benefits. In addition, any unvested stock options under the Stock Option Plan and any deferred compensation under the Option Agreement that would have become vested on the next date of vesting

applicable thereto shall become vested and shall remain exercisable or be paid as provided under the terms of the applicable plan or agreement, as to a portion thereof based on a formula, the denominator of which shall be 365 and the numerator of which shall be the number of days during the year of his Disability during which the Executive was employed by the Company on an active status.

(e) No Other Benefits. Except as specifically provided in this Section 7, the Executive shall not be entitled to any other compensation, severance or other benefits from the Company or any of its subsidiaries or affiliates upon the termination of this Agreement or the Executive's employment for any reason whatsoever. Payment by the Company of all Accrued Benefits, Enhanced Accrued Benefits and Severance Payments (if applicable) and contributions to the cost of the Executive's confirmed participation in the Company's group medical, dental and life insurance plans that may be due to the Executive under the applicable termination provision of this Section 7 shall constitute the entire obligation of the Company to the Executive. Notwithstanding anything contained in this Agreement to the contrary, the Executive (or his beneficiary or estate) shall be entitled, under all circumstances, to payment of all amounts under and in accordance with the terms and provisions of the SERP, including, without limitation, whether or not the Executive is employed by the Company.

(f) Condition. The Company will not be required to make the payment and provide the benefits stated in this Section 7 unless the Executive executes and delivers to the Company a waiver and release agreement in the form attached hereto as Exhibit C and such waiver and release is not unilaterally revocable by the Executive.

(g) Resignation from Company Offices. In the event of the Executive's termination of employment for any reason, the Executive shall resign and shall be deemed to have resigned immediately from the Board (if the Executive is then a member of the Board) and any and all other directorships, offices and positions with, on behalf of, or relating to the Company or any of its subsidiaries, effective as of the date of the Executive's termination of employment with the Company.

Section 8. Restrictive Covenants.

(a) Proprietary Information. In the course of service to the Company, the Executive will have access to confidential specifications, know-how, strategic or technical data, marketing research data, product research and development data, manufacturing techniques, confidential customer lists, sources of supply and trade secrets, all of which are confidential and may be proprietary and are owned or used by the Company, or any of its subsidiaries or affiliates. Such information shall hereinafter be called "Proprietary Information" and shall include any and all items enumerated in the preceding sentence and coming within the scope of the business of the Company or any of its subsidiaries or affiliates as to which the Executive may have access, whether conceived or developed by others or by the Executive alone or with others during the Executive's period of service with the Company, whether or not conceived or developed during regular working hours. Proprietary Information shall not include any records, data or information which are in the public domain during Executive's service with the Company or after the Executive's service with the Company has terminated, provided the

same are not in the public domain as a consequence of disclosure by the Executive in violation of this Agreement.

(b) Non-Use and Non-Disclosure. The Executive shall not during the Term or at any time thereafter (i) disclose any Proprietary Information to any person other than (A) the Company, (B) the Company's or its affiliates' directors, officers or employees who, in the reasonable judgment of the Executive, need to know such Proprietary Information, (C) such other persons to whom the Executive has been specifically instructed to make disclosure by the Board; and in all such cases only to the extent required in the course of the Executive's service to the Company or (D) as required by law, or (ii) use any Proprietary Information, directly or indirectly, for his own benefit or for the benefit of any other person or entity.

(c) Return of Documents. All notes, letters, documents, records, tapes and other media of every kind and description containing Proprietary Information and any copies, in whole or in part, thereof (collectively, the "Documents"), whether or not prepared by the Executive, shall be the sole and exclusive property of the Company. The Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such other time or times as the Board or its designee may specify, all Documents then in the Executive's possession or control.

(d) Non-Competition. At all times during the Executive's employment with the Company or any affiliate during the Term, and for a period of twelve (12) months following the termination during the Term of employment with the Company or any affiliate for any reason (the "Restricted Period"), the Executive will not engage in Competition (as defined below) with the Company. For purposes of this Agreement, "Competition" shall mean engaging in, or otherwise directly or indirectly being employed by, or acting as a consultant or adviser (paid or unpaid) to, or being a director, officer, employee, principal, agent, stockholder, member, owner or partner of (i) Boeing, Lockheed, Alcatel Space or Astrium, (ii) PanAmSat, SES Astra, Intelsat, New Skies Satellites, (iii) any business similar to the businesses described in clause (i) or (ii) above that competes with the services provided by the Company, (iv) any business that competes with a business that the Company engages in as of the date of the Executive's termination of employment with the Company, as described or otherwise contemplated in the Company's business plan for the year of such termination of employment, or (v) any business that competes with a business that the Company is, to the knowledge of the Executive, preparing to engage in as of the date of the Executive's termination of employment with the Company, and any transferee of or successor to any of the foregoing businesses. Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of a business enterprise in Competition with the Company or its subsidiaries which are publicly traded on a national or regional stock exchange or on the over-the-counter market if the Executive (i) is not a controlling person of or a member of a group which controls such business enterprise and (ii) does not, directly or indirectly, own five percent (5%) or more of any class of securities of such business enterprise.

(e) Non-Solicitation of Employees. At all times during the Restricted Period, the Executive will not directly or indirectly solicit or in any manner encourage employees

of the Company or any affiliate who were employed by the Company within the six-month period prior to the termination of the Executive's employment with the Company or any affiliate to leave its employ and will not offer or cause to be offered employment to any such person; provided, however, that the restrictions in this paragraph shall not apply to (i) general solicitations that are not specifically directed to employees of the Company or any affiliate and (ii) any administrative support staff.

(f) Non-Solicitation of Customers or Suppliers. At all times during the Restricted Period, the Executive will not knowingly solicit or in any manner encourage, directly or indirectly, customers of or suppliers to the Company or any affiliate who were customers of or suppliers to the Company or any affiliate within the twelve-month period prior to the termination of the Executive's employment with the Company or any affiliate to terminate or diminish their relationship with the Company or any affiliate.

(g) Reasonableness. The Executive has carefully considered the nature, extent and duration of the restrictions and obligations contained in this Agreement, including, without limitation, provisions of this Section 8 and acknowledges and agrees that such restrictions are fair and reasonable in all respects to protect the legitimate interests of the Company and its affiliates and that these restrictions are designed for the reasonable protection of the business of the Company and that of its affiliates.

(h) Remedies. The Executive recognizes that any breach of this Section 8 shall cause irreparable injury to the Company or its affiliates, inadequately compensable in monetary damages. Accordingly, in addition to any other legal or equitable remedies that may be available to the Company, Executive agrees that the Company or its affiliates shall be able to seek and obtain injunctive relief in the form of a temporary restraining order, preliminary injunction, or permanent injunction against the Executive to enforce this Agreement. To the extent that any damages are calculable resulting from the breach of this Agreement, the Company and its affiliates shall also be entitled to recover damages. Any recovery of damages by the Company and its affiliates shall be in addition to and not in lieu of the injunctive relief to which the Company and its affiliates are entitled. Without limiting the rights of the Company and its affiliates under this Section 8 or any other remedies that may be available to them, if a court of competent jurisdiction determines that the Executive has breached any of the provisions of this Section 8, the Company or its affiliates will have the right to cease making any payments or providing any benefits otherwise due to Executive under the terms and conditions of this Agreement, and the right to recover the Annual Bonus that may have been paid as part of the Enhanced Accrued Benefits and the Severance Payment that the Executive may have received under this Agreement.

Section 9. Severable Provisions. The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

Section 10. Notices. All notices hereunder, to be effective, shall be in writing and shall be delivered by hand or mailed by certified mail, postage and fees prepaid, as follows:

```
If to the Company:   Loral Space & Communications Inc.
                     600 Third Avenue
                     New York, New York 10016
                     Attention: General Counsel

If to the Executive: Avi Katz
                     1460 Hudson Road
                     Teaneck, NJ 07666
```

or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 10. All notices to any person shall be deemed given when actually received by the person.

Section 11. Miscellaneous.

(a) Amendment. This Agreement may not be amended or revised except by a writing signed by the parties.

(b) Assignment and Transfer. The provisions of this Agreement shall be binding on and shall inure to the benefit of any such successor in interest to the Company. Neither this Agreement nor any of the rights, duties or obligations of the Executive shall be assignable by the Executive, nor shall any of the payments required or permitted to be made to the Executive by this Agreement be encumbered, transferred or in any way anticipated, except as required by applicable laws. This Agreement shall not be terminated solely by reason of the merger or consolidation of the Company with any corporate or other entity or by the transfer of all or substantially all of the assets of the Company to any other person, corporation, firm or entity. However, all rights of the Executive under this Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, estates, executors, administrators, heirs and beneficiaries. All amounts payable to the Executive hereunder shall be paid, in the event of the Executive's death, to the Executive's estate, heirs or representatives.

(c) Withholding. The Company shall be entitled to withhold from any amounts to be paid or benefits provided to the Executive hereunder any federal, state, local, or foreign withholding or other taxes or charges which it is from time to time required to withhold. The Company shall be entitled to rely on an opinion of counsel if any question as to the amount or requirement of any such withholding shall arise.

(d) Waiver of Breach. A waiver by the Company or the Executive of any breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other or subsequent breach by the other party.

(e) Survival of Certain Provisions. Provisions of this Agreement shall survive any termination of employment and the expiration of the Term if so provided herein or if

necessary or desirable fully to accomplish the purposes of such provision, including, without limitation, the obligations of the Company under Section 7 hereof if the Executive is terminated during the Term and the obligations of the Executive under Section 8 hereof.

(f) Attorney's Fees. In the event that any action is brought to enforce any of the provisions of this Agreement, or to obtain money damages for the breach thereof, all expenses (including reasonable attorneys' fees) shall be paid by the party incurring such fees or expenses; provided, however, that the Company shall reimburse Executive for such fees and expenses to the extent that the Executive prevails on any issues raised in such action.

(g) Entire Agreement. This Agreement, the Stock Option Plan, the Option Agreement, the Indemnification Agreement referred to in Section 5 (f) hereof, the Certificates of Incorporation of the Company and of each of its affiliates, the SERP, the Plan of Reorganization and the Stipulation and Agreement among the Debtors and their Directors and Officers in Respect of Certain Indemnification Claims constitute the entire understanding of the parties with respect to the subject matter hereof and supercede all prior negotiations, understandings, discussions, and agreements, whether written or oral, between them.

(h) Captions. Captions herein have been inserted solely for convenience of reference and in no way define, limit or describe the scope or substance of any provision of this Agreement.

(i) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and shall have the same effect as if the signatures hereto and thereto were on the same instrument.

(j) Governing Law. This Agreement shall be construed under and enforced in accordance with the laws of the State of New York.

(k) Jurisdiction and Choice of Forum. The Executive and the Company irrevocably submit for any disputes arising under or in connection with this Agreement to the exclusive jurisdiction of any state or federal court located in the State of New York. Both the Executive and the Company (i) acknowledge that the forum stated in this Section has a reasonable relation to this Agreement and to the relationship between the Executive and the Company, (ii) waive, to the extent permitted by law, any objection to personal jurisdiction or the laying of venue of any action or proceeding in the forum stated in this section, (iii) agree not to commence any such action or proceeding in any forum other than the forum stated in this section and (iv) agree that, to the extent permitted by law, a final and non-appealable judgment in any such action or proceeding in any such court will be conclusive and binding on the Executive and the Company. However, nothing in this Agreement precludes the Executive or the Company from bringing any action or proceeding in any court for the purposes of enforcing the provisions of this section.

(l) Acknowledgement of Representation. The Executive and the Company acknowledge that they have been represented by counsel of their own choosing and have received a full and complete explanation of their rights and obligations under this Agreement and, therefore, in the event of a dispute over the meaning of this Agreement or any provision thereof, neither party shall be entitled to any presumption of correctness in favor of the interpretation advanced by such party or against the interpretation advanced by the other party.

(m) Guarantee. (i) Each of Loral Skynet Corporation and Space Systems/Loral, Inc. (each a "Guarantor") hereby irrevocably and unconditionally guarantees the due and punctual payment and performance of all obligations of the Company under this Agreement; provided, however, that a Guarantor's guarantee obligation hereunder shall terminate and cease to have any force or effect immediately upon (x) such Guarantor ceasing to be a direct or indirect subsidiary or parent of the Company or (y) the sale of all or substantially all of such Guarantor's assets pursuant to an Approved Transaction (as defined below) in which a Guarantor does not receive all or substantially all of the consideration of such sale.

(ii) Notwithstanding anything in this Agreement to the contrary and for as long as the Guarantor's obligations hereunder are in effect, the Executive hereby acknowledges and agrees that at any time a Guarantor may effectuate, and this Agreement shall not in any way prohibit or restrict the Guarantor from effectuating, and the Executive shall not have any right or claim with respect to, rely upon, or challenge (a) any transfer by the Guarantor of any or all of its funds, assets or other property to either: (i) the Company or any of its direct or indirect subsidiaries or their successors (each a "Group Entity"), including by way of dividend, distribution, payment, lease, sale, assignment, transfer, merger, consolidation or otherwise, or (ii) any other person, pursuant to a transaction that the Guarantor's Board of Directors determines in good faith to effect in furtherance of a legitimate business purpose of the Guarantor or any Group Entity (an "Approved Transaction") or (b) the liquidation or dissolution of a Guarantor.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

**LORAL SPACE & COMMUNICATIONS INC.**

*By: /s/ Bernard L. Schwartz*
------------------------------------
*Name:*
----------------------------------
*Title:*
---------------------------------

*/s/ Avi Katz*
----------------------------------------
*Avi Katz*

LORAL SKYNET CORPORATION (solely for purposes of Section 11(m) hereof)

*By:* */s/ Bernard L. Schwartz*

*Name:*

*Title:*

SPACE SYSTEMS/LORAL, INC. (solely for purposes of Section 11(m) hereof)

*By:* */s/ Bernard L. Schwartz*

*Name:*

*Title:*

## Schedule I

## Outside Business Relationships

## Perquisites and Individual Benefits

| EXECUTIVE LIFE INSURANCE | EXECUTIVE MEDICAL | OTHER |
| --- | --- | --- |
| $1,000,000 | $4,000 | |

**Schedule II**

Section 7(c)(iii)(A) Severance Amount

For corporate office employees:

Severance Amount per the Consent Order Approving Key Employee Retention Plan and Other Relief for Certain Employees of the Debtors' Corporate Headquarters Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code dated December 18, 2003 is equal to (x) Enhanced Severance (2003 annual base salary multiplied by the percentage applicable to the Group in which the Executive has been placed, plus (y) Standard Severance of one week of annual base salary for each year of employment with the Company and its affiliates. As of the Effective Date, the Severance Amount is set forth below.

| ENHANCED | STANDARD | TOTAL |
| --- | --- | --- |
| $708,750 | $92,664 | $801,414 |

**Exhibit 10.17**

**SSL 2002**

# SPACE SYSTEMS/LORAL, INC. SUPPLEMENTAL EXECUTIVE

# RETIREMENT PLAN

**Informally Known As**

**The SS/L SERP**

and also as

**The Loral SERP**

Effective April 23, 1996
Restated to reflect
amendments made through
December 17, 2002

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## INTRODUCTION

In response to certain limitations under the Internal Revenue Code, as amended, on the maximum amount of compensation that can be taken into account and the maximum amount of benefits that can be paid from a qualified defined benefit plan, Space Systems/Loral, Inc. ("SS/L") has adopted this Plan effective April 23, 1996 to permit employees and their beneficiaries to be able to enjoy the benefits that would have been provided to them but for these limitations. The Plan is therefore an "excess benefit plan" as defined by the Employee Retirement Income Security Act of 1974, as amended. The Plan shall be known as the Space Systems/Loral, Inc. Supplemental Executive Retirement Plan, or as the SS/L SERP, or as the Loral SERP. The plan was restated, effective April 23, 1996, to reflect amendments made through December 17, 2002.

## Article I - Definitions

The following terms shall have the designated meaning, unless a different meaning is clearly required by the context:

**Annuity Starting Date.**

Subject to Section 2.5, "Annuity Starting Date" shall mean:

(a) generally, the "Annuity Starting Date" defined in the Basic Plan, provided that the Participant is fully vested under Article IV, and Proper Application has been made.

(b) With respect to any lump sum, the first day of the month coincident with or next following the date as of which the Participant is both (1) eligible to receive Plan payment and (2) has completed his Proper Application.

(c) With respect to any one of a series of payments over the life or life expectancy of one or more distributees, the first day of the month for which the Plan benefit is paid, even if this date is not the date of actual payment.

(d) The term "Annuity Starting Date" shall be determined with respect to Plan payments made to the Participant, rather than with respect to any survivor benefit payments.

(e) The term "Annuity Starting Date" shall, in all events, be defined by Code Regulation Section 1.401(a)-20.

**Advisory Committee.**

The group of one or more persons created and appointed, at the discretion of the Board, having authority to provide advice concerning the investment of Trust assets, as described in Section ?.

**Basic Plan.**

The qualified defined benefit pension plan sponsored by SS/L or an Employer in which an employee participates. If an employee has an interest in more than one such plan, then the term "Basic Plan" shall refer to such plans collectively except as the context shall otherwise require.

**Basic Plan Benefit.**

The amount accrued by a Participant from a Basic Plan.

**Beneficiary.**

Beneficiary means the person, trust, estate, or other entity entitled to receive benefits (if any) after the Participant's death under the Plan, which Beneficiary shall be the same as such Participant's beneficiary under the Basic Plan.

**Board.**

The Board of Directors of Space Systems/Loral, Inc., or the Board's Executive Committee.

**Code.**

The Internal Revenue Code of 1986, as amended from time to time, and all

appropriate regulations and administrative guidance.

**Committee.**

The administrative Committee appointed to administer the Plan pursuant to Article III.

**Employer.**

Any subsidiary or affiliate of SS/L which has adopted this Plan and its related trust, so as to become a participating employer in the Plan, with the consent of SS/L. Each Employer shall act by resolution of its Board of Directors. If the context of the Plan provision requires, the term "Employer" shall also include SS/L. Further, with respect to Article IV, "Employer" shall also include Loral Space & Communications Ltd.

**ERISA.**

The Employee Retirement Income Security Act of 1974, as amended, and all appropriate regulations and administrative guidance.

**Investment Committee.**

The group of one or more persons created, at the discretion of the Board, having investment authority over Trust assets, as described in Section 3.11.

**Participant.**

A Participant in a Basic Plan who accrues benefits thereunder on or after April 1, 1996 and whose Basic Plan Benefit is limited by Section 415 of the Code or whose compensation for purposes of calculating a Basic Plan Benefit is limited by Section 401(a)(17) of the Code. As context demands, the term "Participant" shall also include a former Participant.

**Plan.**

This Space Systems/Loral, Inc. Supplemental Executive Retirement Plan, as amended, and as from time to time in effect.

**Proper Application.**

For all Plan purposes, making any election, granting any consent, giving any notice or information, and making any communication whatsoever to the Committee or its delegates, in compliance with all Plan procedures, on forms provided by the Committee, and providing all information required by the Committee. A Proper Application will be deemed to have been made only if it is properly completed, as determined by the Committee.

**QDRO or Qualified Domestic Relations Order.**

A QDRO shall mean an order as defined in Code Section 414(p) and ERISA
Section 206(d)(3), and shall be subject to all administrative rules established under the Basic Plan. The Committee shall have full discretionary authority to determine whether any court order is a QDRO.

**SS/L.**

Space Systems/Loral, Inc., and depending on the context, its subsidiaries or affiliates. SS/L shall act by resolution of the Board.

**Trust Agreement or Trust.**

The document executed by SS/L and by the Trustee fixing the rights and liabilities of each with respect to holding assets to be used to pay Plan benefits, should any such assets be held in the Trust. The Trust is established pursuant to SS/L's intention that the Plan shall be an unfunded plan, as detailed in Section 5.4.

**Trustee.**

The trustee or trustees that may, from time to time, be in office, pursuant to the Trust Agreement.

## Article II - Benefits

2.1 Amount of Benefits.

The benefit payable from this Plan shall be in the form of a monthly annuity equal to the amount determined under Section 2.1.1 minus the amount determined under Section 2.1.2. Subject to Section 2.2, such benefit shall be payable as of the Participant's Annuity Starting Date and continue for the remainder of the Participant's life.

2.1.1 Formula Benefit. The benefit that would be payable to a Participant under the Basic Plan, in the form elected by the Participant pursuant to the provisions of the Basic Plan, irrespective of any limitations imposed by Section 415 or Section 401(a)(17)of the Code.

2.1.1.1 Notwithstanding the preceding paragraph, the benefit payable under this Section 2.1.1 shall be calculated to credit any deferred compensation that is paid after retirement, even if such deferred compensation would not be credited under the Basic Plan. That is, such deferred compensation shall, for the purposes of the preceding paragraph, be deemed to be credited by the Basic Plan, for the purposes of Section 2.1.1 (so as to augment the benefit payable by this Plan).

2.1.2 Actual Benefit. The Basic Plan Benefit actually paid to the Participant in whichever form he elects, after compliance with Sections 415 and 401(a)(17) of the Code, plus any additional benefits paid to the Participant under any non-qualified defined benefit plan (besides this Plan) sponsored by an

**Employer.**

2.1.2.1 Deferred compensation paid after retirement which is not credited under the Basic Plan, shall not be considered to be a 'Basic Plan Benefit that is actually paid, for the purposes of Section
2.1.2 (even if such deferred compensation is credited under Section 2.1.1.1.) Thus, such deferred compensation paid after retirement will never be used to reduce benefits calculated under this Section 2.1, if such deferred compensation is not credited under the Basic Plan.

2.1.2.2 If benefits under the Basic Plan are increased as a result of a change in the law that "raises the ceiling" in the limitations under Code Sections 415 or 401 (a)(17) (or corresponding provisions of applicable law), benefits under this Plan shall be reduced by the amount of any such increase.

2.2 Post-Retirement Death Benefits.

Upon the death of the Participant after his Annuity Starting Date, benefits will continue to be paid to such Participant's Beneficiary in an amount equal to the benefit determined under Section 2.1 multiplied by a fraction, the numerator of which is the benefit payable from the Basic Plan after the Participant's death, and the denominator of which is the benefit payable from the Basic Plan immediately before the Participant's death. No amount will be paid after the Participant's death under this Plan if no such benefits are paid under the Basic Plan.

2.3 Pre-Retirement Death Benefits.

Upon the death of the Participant prior to his Annuity Starting Date, his Beneficiary shall receive a benefit equal to the difference between the benefit received by such Beneficiary under the Basic Plan and the benefit that would have been paid under the Basic Plan irrespective of any limitations imposed by Sections 415 or 401(a)(17) of the Code. No amount will be paid under this Plan on account of the Participant's death prior to his Annuity Starting Date unless such benefits are paid under the Basic Plan.

2.4 Special Rules.

The following rules shall apply notwithstanding any other provision of this Plan.

2.4.1 Small Benefit Cashout. If the actuarial present value (utilizing the assumptions set forth in the small benefit cashout provisions of the Basic Plan) of a Participant's benefit under Section 2.1 or a Beneficiary's benefit under Section 2.3 is $3,500 or less (or whatever other amount is applicable, under Code Section 411(a)(11), to the Participant's Annuity Starting Date), then payment will be made from this Plan in a single lump sum as soon as practicable after the Annuity Starting Date (with respect to a benefit paid pursuant to Section 2.1) and the death of the Participant (with respect to a benefit paid pursuant to Section 2.3). Effective Should the amount of $3,500 be changed, under Code Section 411(a)(11), then the provisions of this Section 2.4.1 shall be construed to reflect this amended amounted

2.4.2 Lump Sum Benefit Limitation. Unless special approval of the Committee is obtained, and except for benefits paid pursuant to Section 2.4.1, no benefits

under this Plan shall be paid in a lump sum. Accordingly, if any benefits are paid under the Basic Plan to a Participant in a lump sum, the amount payable under this Plan pursuant to the methodology set forth in Section 2.1 shall nevertheless be paid in the form of a straight life annuity for the Participant, beginning on the Annuity Starting Date and ending with the payment for the month in which the Participant dies.

2.4.3 No Insured Death Benefit. No benefit pursuant to Section 2.3 shall be paid with respect to any death benefit under the Basic Plan which is provided by insurance, to the extent that such benefit exceeds the minimum benefit required to be provided under the Basic Plan under Code Section 401(a)(11).

2.5 Benefits under Multiple Qualified Plans.

The following rules shall apply if a Participant has a benefit under more than one Basic Plan:

2.5.1 Different Annuity Starting Dates. Benefits under this Plan shall be payable as of the Participant's earliest Annuity Starting Date under all such Basic Plans. In the event that the Participant has benefits payable under different Basic Plans, with different Annuity Starting Dates, then the amount of his benefit under this Plan shall initially be determined based only on the Basic Plans for which the Participant's Annuity Starting Date has occurred, as though such Plans were the only Basic Plans in which the Participant had accrued a benefit. When benefits later begin under the other Basic Plans, benefits hereunder shall be increased to reflect the intent of this Plan to fully make up to the Participant the benefits he had not received under all Basic Plans, as a result of the

Code's limitations.

2.5.2 Same Annuity Starting Dates. If a Participant's Annuity Starting Date is the same under all Basic Plans, then benefits under this Plan shall generally be payable as of such date, provided the Participant is fully vested under Article IV, and that Proper Application has been made.

2.5.3 Death Benefits. If benefits are paid under the Basic Plans in different forms, the death benefits pursuant to Section 2.2 shall be determined with respect to each individual plan.

## Article III - Administration; Accrued Benefits; Right to Amend

3.1 Committee's Discretionary Power to Interpret and Administer the Plan

3.1.1 Appointment. The Committee shall be appointed from time to time by the Board to serve at its pleasure. Any member of the Committee may resign by delivering his written resignation to the Board.

3.1.2 Role under ERISA. The Committee is the "named fiduciary" for operation and administration of the Plan, and the "administrator" under ERISA. The Committee is designated as agent for service of legal process.

3.1.3 Committee establishes Plan procedures. The Committee and its delegates shall from time to time establish rules and procedures for the administration and interpretation of the Plan and the transaction of its business.

3.1.4 Role of Human Resource and Benefits Personnel. Employees of an Employer who are human resources personnel or benefits representatives are the Committee's delegates and shall, under the authority of the Committee, perform the routine administration of the Plan, such as distributing and collecting forms and providing information about Plan procedures. They shall also establish Plan rules and procedures.

3.1.5 Discretionary Power to Interpret Plan.

3.1.5.1 The Committee has complete discretionary and final authority to (1) determine all questions concerning eligibility, elections,

contributions, and benefits under the Plan, (2) construe all terms under the Plan and the Trust, including any uncertain terms, and (3) determine all questions concerning Plan administration. All administrative decisions made by the Committee, and all its interpretations of the Plan documents, shall be given full deference by any court of law.

3.1.5.2 Information that concerns an interpretation of the Plan or a discretionary determination, can be properly provided only by the Committee, and not by any delegate (other than legal counsel).

3.1.5.3 Should any individual receive oral or written information concerning the Plan, which is contradicted by a subsequent determination by the Committee, then the Committee's final determination shall control.

3.2 Rules of the Committee.

3.2.1 Any act which the Plan authorizes or requires the Committee to do may be done by a majority of its members. The action of such majority, shall constitute the action of the Committee and shall have the same effect for all purposes as if made by all members of the Committee at the time in office. The Committee may act without any writing that records its decisions, and need not document its meetings or teleconferences. The Committee may also act through any authorized representative.

3.2.2 The members of the Committee may authorize one or more of their number to execute or deliver any instrument, make any payment or perform any other act

which the Plan authorizes or requires the Committee to do.

3.2.3 The Committee may employ counsel and other agents and may procure such clerical, accounting, actuarial and other services as they may require in carrying out the provisions of the Plan. Legal counsel are authorized as the Committee's delegates.

3.2.4 No member of the Committee shall receive any compensation for his services as such. All expenses of administering the Plan, including, but not limited to, fees of accountants, counsel and actuaries shall be paid by each Employer, to the extent that they are not paid under the Trust.

3.2.5 Each member of the Committee may delegate Committee responsibilities among Employer directors, officers, or employees, and may consult with or hire outside experts. The expenses of such experts shall be paid by each Employer, to the extent that they are not paid under the Trust.

3.3 Claims Procedure.

3.3.1 The Committee shall determine Participants' and Beneficiaries' rights to benefits under the Plan, In the event that a Participant or Beneficiary disputes an initial determination made by the Committee, then he may dispute the determination only by filing a written claim for benefits.

3.3.2 If a claim is wholly or partially denied, the Committee shall provide the claimant with a notice of denial, generally within 90 days of receipt, written in a manner calculated to be understood by the claimant and setting forth:

3.3.2.1 The specific reason(s) for such denial;

3.3.2.2 Specific references to the pertinent Plan provisions on which the denial is based;

3.3.2.3 A description of any additional material or information necessary for the claimant to perfect the claim with an explanation of why such material or information is necessary (if applicable); and

3.3.2.4 Appropriate information as to the steps to be taken if the claimant wishes the Committee to revise its initial denial. The notice of denial shall be given within a reasonable time period but no later than 90 days after the claim is received, unless circumstances require an extension of time for processing the claim. If such extension is required, written notice shall be furnished to the claimant within 90 days of the date the claim was received stating that an extension of time and the date by which a decision on the claim can be expected, which shall be no more than 180 days from the date the claim was filed.

3.3.2.5 If no written notice of denial is provided by the Committee, then the claim shall be deemed to be denied, and the claimant may appeal the claim as though the claim had been denied.

3.3.3 The claimant and/or his representative may appeal the denied claim and may:

3.3.3.1 Request a review by making a written request to the Committee provided that such a request is made, within 65 days of the date of the notification of the denied claim;

3.3.3.2 Review pertinent documents.

3.3.4 Upon receipt of a request for review, the Committee shall within a reasonable time period but not later than 60 days after receiving the request, provide written notification of its decision to the claimant stating the specific reasons and referencing specific plan provisions on which its decision is based, unless special circumstances require an extension for processing the review. If such an extension is required, the Committee shall notify the claimant of the date, no later than 120 days after receiving the request for review, on which the Committee will notify the claimant of its decision.

3.3.5 In the event of any dispute over benefits under this Plan, all remedies available to the disputing individual under this Article must be exhausted, within the specified deadlines, before legal recourse of any type is sought.

3.4 QDRO Claim.

Claims relating to or affected by a domestic relations order as defined by Code Section 414(p) ("QDROs") or draft order shall be determined under the Basic Plan Committee's

procedures concerning domestic relations orders. The claims procedure described in the preceding section shall not apply to any such domestic relations order claim.

3.5 Indemnification of Committee, Investment Committee, and Advisory Committee Members.

To the fullest extent permitted by law, each Employer agrees to indemnify, to defend, and hold harmless the members of the Investment Committee and the Advisory Committee (if either is created) and the Committee and its delegates, individually and collectively, against any liability whatsoever for any action taken or omitted by them in good faith in connection with this Plan or their duties hereunder and for any expenses or losses for which they may become liable as a result of any such actions or non-actions unless resultant from their own willful misconduct; and each Employer will purchase insurance for the Investment Committee, the Advisory Committee, and the Committee and its delegates to cover any of their potential liabilities with regard to the Plan.

3.6 Power to Execute Plan and Other Documents.

The Vice President of Administration of Loral SpaceCom Corporation or of Loral Space & Communications Ltd. and the Committee shall have the authority to execute governmental filings or other documents relating to the Plan (including the Plan document), or this authority may be delegated to another officer or employee of an Employer by either the Vice President of Administration of Loral SpaceCom Corporation, or of Loral Space & Communications Ltd., or the Board, or the Committee.

3.7 Conclusiveness of Records.

In administering the Plan, the Committee may conclusively rely upon the Basic Plan employer's payroll and personnel records maintained in the ordinary course of business.

3.8 No Personal Liability

No Committee member or delegate shall be personally liable by reason of any contract or other instrument executed by him or on his behalf in his capacity as a member or delegate of a Committee nor for any mistake of judgment made in good faith, and each Employer shall indemnify and hold harmless each member of the Committee and each other officer, employee, or director of any Employer to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expenses (including counsel fees) or liability (including any sum in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith.

3.9 How Plan Benefits are Accrued.

Benefits that would be accrued under the Basic Plan, but for the limiting provisions of Code Sections 415 and/or 401 (a)(l7), shall be deemed to be accrued under the Plan.

3.10 Right to Amend.

3.10.1 General Power to Amend. The Board may at any time amend the Plan in any respect or suspend or terminate the Plan in whole or in part without the consent of any Participant or Beneficiary or any Employer whose employees are covered by this Plan, subject to Section 3.10.2. Any such amendment, suspension or termination may be made with or without retroactive effect, save as provided in Section 3.10.2.

3.10.2 No Cut-Back of Accrued Benefits. Notwithstanding the previous Section 3.10.1, this Plan may not be amended or terminated in any respect that has the effect of reducing or eliminating any Plan benefit that had accrued as of the effective date of the amendment or termination, unless the affected Participants or Beneficiaries each gives his consent. That is, there shall be no retroactive cut-backs of accrued Plan benefits, without individual consent.

3.11 Investment Committee.

3.11.1 Appointment of Investment Committee. The Board may, within its discretion, appoint an Investment Committee, of at least one person. The appointment of an Investment Committee shall relieve the Board, SS/L, and all other participating Employers from all fiduciary responsibility for all Trust assets under the control of the Investment Committee, or its delegates, as provided by law. The Investment Committee, if it is created by the Board, shall be a fiduciary of the Plan, but shall not be the named fiduciary. The Board may also, within its discretion, decline to create an Investment Committee, or disband it at any time.

3.11.2 Powers of the Investment Committee. The

Investment Committee, if appointed, has final authority regarding the investment and management of Trust assets. The Investment Committee may delegate its responsibilities, appoint investment managers, oversee its delegates, and each Investment Committee member may execute documents on behalf of the Investment Committee, with respect to Trust assets. Should the Investment Committee appoint an investment manager, as that term is defined in ERISA, then the Investment Committee shall be relieved of all fiduciary duty with respect to Trust assets under the control of such an investment manager. The Investment Committee shall exercise its powers subject to the terms of the Trust.

3.11.2.1 Any act which the Plan or Trust authorizes or requires the Investment Committee to do may be done by a majority of its members. The action of such majority, shall constitute the action of the Investment Committee and shall have the same effect for all purposes as if made by all members of the Committee at the time in office. The Investment Committee may act without any writing that records its decisions, and need not document its meetings or teleconferences. The Investment Committee may also act through any authorized representative.

3.11.2.2 The members of the Investment Committee may authorize one or more of their number to execute or deliver any instrument, make any payment or perform any other act which the Plan authorizes or requires the Investment Committee to do.

3.11.2.3 The Investment Committee may employ counsel, outside experts, and other agents and may procure such clerical, accounting, actuarial and other

services as they may require in carrying out the provisions of the Plan.

3.11.2.4 No member of the Investment Committee shall receive any compensation for his services as such. All expenses relating to the Investment Committee's activities, including, but not limited to, fees of accountants, counsel and actuaries shall be paid by each Employer, to the extent that they are not paid under the Trust.

3.12 Advisory Committee

3.12.1 Appointment of Advisory Committee. The Board may, within its discretion, appoint an Advisory Committee, of at least one person. Its role shall be merely to advise the fiduciary that has authority to invest the Plan's assets, including the Investment Committee, if one is appointed. However, the Advisory Committee itself shall not have any authority or control over Plan investments, and shall not be a fiduciary of the Plan. The appointment of an Advisory Committee shall not relieve any other person or entity from any fiduciary responsibility for Trust assets. The Board may also, within its discretion, decline to create an Advisory Committee, or disband it at any time.

3.12.2 Powers of the Advisory Committee. The Advisory Committee, if appointed, shall be authorized to propose investment guidelines and to generally offer investment advice to whichever fiduciary has final authority over the investment and management of Trust assets. The Advisory Committee may delegate its responsibilities, appoint investment managers, and oversee its delegates, and each Advisory Committee member may execute documents on behalf of the Advisory Committee. The Advisory Committee shall exercise its powers subject to the terms of the Trust, although the Advisory Committee shall

retain its powers under this Plan, even if its appointment is not provided for in the Trust.

3.12.2.1 Any act which the Plan or Trust authorizes or requires the Advisory Committee to do may be done by a majority of its members. The action of such majority, shall constitute the action of the Advisory Committee and shall have the same effect for all purposes as if made by all members of the Committee at the time in office. The Advisory Committee may act without any writing that records its decisions, and need not document its meetings or teleconferences. The Advisory Committee may also act through any authorized representative.

3.12.2.2 The members of the Advisory Committee may authorize one or more of their number to execute or deliver any instrument, make any payment or perform any other act which the Plan authorizes or requires the Advisory Committee to do.

3.12.2.3 The Advisory Committee may employ counsel, outside experts, and other agents and may procure such clerical, accounting, actuarial and other services as they may require in carrying out the provisions of the Plan.

3.12.2.4 No member of the Advisory Committee shall receive any compensation for his services as such. All expenses relating to the Advisory Committee's activities, including, but not limited to, fees of accountants, counsel and actuaries shall be paid by each Employer, to the extent that they are not paid under the Trust.

## Article IV - Vesting and Forfeiture

4.1. Vesting.

4.1.1. A Participant shall be entitled to a benefit under this Plan only upon satisfying the vesting requirements set out in this Section 4.1.

4.1.2. Vesting, as defined by this Section 4.1, shall occur only when the Participant has (i) satisfied the vesting requirements of the Basic Plan and made any contributions that are required to receive benefits under the Basic Plan, (ii) terminated employment with his respective Employer, (iii) satisfied all eligibility requirements for benefits under this Plan, and (iv) applied and received Committee approval to receive Plan benefits, with respect to the forfeiture issues addressed by Section 4.1.3.

4.1.3. A Participant shall not be fully vested under this Section 4.1 until, following his termination and application for Plan benefits, the Committee has determined that he is not subject to forfeiture of his Plan benefits under this Section 4.1. Forfeiture of all Plan benefits (including death benefits and Plan benefits previously paid) under this Section 4.1 shall take place, notwithstanding any contrary Plan provision, if a Participant: (i) is Dismissed for Cause, as defined in Section 4.2, (ii) becomes employed by a company in substantial competition with an Employer, or (iii) engages in conduct detrimental or contrary to the best interests of an Employer.

4.2 Dismissed for Cause.

"Dismissed for Cause" means termination of employment for (a) theft, embezzlement, or malicious destruction of an Employer's property; (b) fraud or other wrongdoing against an Employer; or (c) improper disclosure of an Employer's trade secrets.

4.3 Forfeiture after Plan Benefits have Commenced.

Even though the Committee has made an initial favorable vesting determination under Section 4.1., it may nevertheless determine that a Participant's Plan benefits, after payment has commenced, are forfeited, if the Committee reconsiders the issues addressed in Section 4.1.3 and determines that forfeiture is in fact warranted. Such a forfeiture shall be effective as of the date that the Committee determines the events of forfeiture have occurred, as set out in Section 4.1.3. The Committee may therefore make a retroactive forfeiture determination. Any Plan benefits that have been paid after the effective date of the retroactive forfeiture determination shall be considered a mistaken payment under Section 5.11.

4.4 Determinations by Committee.

The Committee shall have full, final, and discretionary authority to make determinations under this Article IV. Any forfeiture determination made by the Committee shall be final, binding, and conclusive upon the Participant and his Beneficiaries.

## Article V - General Provisions

5.1 No Assignment or Alienation of Benefits.

Subject to Sections 2.2 and 2.3, and to any QDROs, payment of benefits pursuant to this Plan shall be made only to Participants. Such benefits shall not be subject in any manner to the debts or other obligations of the person to whom they are payable and shall not be subject to transfer, anticipation, sale, assignment, bankruptcy, pledge, attachment, charge or encumbrance in any manner, either voluntarily or involuntarily.

5.2 Withholding Taxes.

Whenever under the Plan payment is made to a Participant or Beneficiary, SS/L shall be entitled to require as a condition of payment that the recipient remit an amount, sufficient in SS/L's opinion, to satisfy all FICA, federal and other withholding tax requirements related thereto. SS/L shall be entitled to deduct such amount from any payment.

5.3 No Right to Continue Employment.

This Plan is voluntary on the part of SS/L and shall not be deemed to constitute an employment contract between SS/L and a Participant and/or consideration for or an inducement for or condition of employment of any Participant. Nothing in this Plan shall be deemed to give any employee the right to be retained in the service of SS/L or to interfere with the right of SS/L to discharge, terminate or lay off any Participant at any time for any reason.

5.4 Unfunded Plan.

The Plan is intended to constitute an unfunded, nonqualified pension plan for a

select group of management or highly compensated employees, for the purposes of
**ERISA.**

5.5 Governing Law.

It is intended that the Plan conform to and meet the applicable requirements of ERISA and the Code. Except to the extent preempted by ERISA, the validity of the Plan or of any of its provisions shall be determined under, and it shall be construed and administered according to, the laws of the State of New York (including its statute of limitations and all substantive and procedural law, and without regard to its conflict of laws provisions).

5.6 Payment of Benefits.

All benefits payable under the Plan shall be paid under the Trust Agreement. The rights or entitlement of any Participant or Beneficiary shall be no greater than those of an unsecured general creditor of SS/L, subject to the Trust Agreement.

5.7 Section Headings.

The section headings contained in the Plan are for purposes of convenience only and are not intended to define or limit the contents of said sections.

5.8 Payment to a Minor or Incompetent.

If any amount is payable under this Plan to a minor or other legally incompetent person, such amount may be paid in any one or more of the following ways, as the Committee in its sole discretion shall determine:

5.8.1 To the legal representatives of such minor or other incompetent person;

5.8.2 Directly to such minor or other incompetent person;

5.8.3 To a parent or guardian of such minor on other incompetent person, to the person with whom such minor or other incompetent person shall reside, or to a custodian for such minor under the Uniform Gifts to Minors Act (or similar statute) of any jurisdiction. Payment to any person in accordance with the foregoing provisions shall pro tanto discharge SS/L, the members of the Committee, and any person or corporation making such payment pursuant to the direction of the Committee, and none of the foregoing shall be required to see to the proper application of any such payment to such person pursuant to the provisions of this Section 5.8. Without in any manner limiting or qualifying the provisions of this Section 5.8, if any amount is payable under this Plan to a minor or any other legally incompetent person, the Committee may in its discretion utilize the procedures described in Section 5.8.

5.9 Doubt as to Right to Payment.

If at any time any doubt exists as to the right of any person to any payment under this Plan or the amount or time of such payment (including, without limitation, any case of doubt as to identity, or any case in which any notice has been received from any other person claiming any interest in amounts payable hereunder, or any case in which a claim from other persons may exist by reason of community property or similar laws), the Committee shall be entitled, in its discretion, to direct that such sum be held as a segregated amount in trust until such right or amount or time is determined or until order of a court of competent jurisdiction, or to pay such sum into court in accordance with appropriate rules of law in such case then provided, or to make payment only upon receipt of a bond or similar indemnification (in such amount and in such form as is satisfactory to the Committee).

5.10 Missing Payees.

If all or portion of a Participant's vested Plan benefit becomes payable and the Committee after a reasonable search cannot locate the Participant (or his Beneficiary if such Beneficiary is entitled to payment), then, 5 years after the Participant's benefit first became payable under the Plan, a notice shall be mailed to the last known address of the Participant. If the Participant does not respond within three months, the Committee may elect, upon advice of counsel, to remove all records of the Participant's accrued benefit from the Plan's current records and that benefit shall be used to offset future employer contributions. If the Participant or his Beneficiary subsequently presents a valid claim for benefits to the Committee, the Committee shall restore and pay the appropriate Plan benefit.

5.11 Mistaken Payments.

No Participant or Beneficiary shall have any right to any payment made
(1) in error, (2) in contravention to the terms of the Plan, the Code, or ERISA, or (3) because the Committee or its delegates were not informed of any death. The Committee shall have full rights under the law and ERISA to recover any such mistaken payment, and the right to recover attorney's fees and other costs incurred with respect to such recovery. Recovery shall be made from future Plan payments, or by any other available means.

5.12 Receipt and Release for Payments.

Any payment to any Participant, Beneficiary, or to any such person's legal representative, parent, guardian, or any person or entity specified by Section 5.8 or under any other Plan provision, shall be in full satisfaction of all claims that can be made under the Plan against the Trustee and SS/L. The Trustee and SS/L may require such Participant, Beneficiary, legal representative, or any other person or entity described in this Section 5.12, as a condition precedent to such payment, to execute a receipt and release thereof in such form as shall be determined by the Trustee or SS/L.

5.13 Illegality of Particular Provisions.

The illegality of any particular provision of this Plan shall not affect the other provisions thereof, but the Plan shall be construed in all respects as if such invalid provision were omitted.

5.14 Discharge of Liability.

If distribution in respect of a Participant is made under this Plan in a form, or to a person, reasonably believed by the Committee or its delegate to be proper, the Plan shall have no further liability with respect to the Participant (or his spouse or Beneficiary) to the extent of such distribution.

IN WITNESS WHEREOF, on behalf of Space Systems/Loral, Inc. and each of the Employers, and as agent for each Employer, the Vice President of Administration of Loral SpaceCom Corporation, an officer authorized under this Plan, has executed this Plan, the Space Systems/Loral, Inc. Supplemental Executive Retirement Plan, informally known as the Loral SERP, this 7th day of JAN, 2003.

**On behalf of SPACE SYSTEMS/LORAL, INC.**

*By: /s/ Stephen L. Jackson*

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*Stephen L. Jackson*
*Vice President of Administration*
*Loral SpaceCom Corporation*

**Exhibit 10.21**

**EXECUTION COPY**

# NON-QUALIFIED
# STOCK OPTION AGREEMENT

**UNDER**

## LORAL SPACE & COMMUNICATIONS INC.
## 2005 STOCK INCENTIVE PLAN

THIS AGREEMENT, made as of this 28th day of March, 2006 (the "Grant Date"), by and between Loral Space & Communications Inc., a Delaware corporation (the "Company"), and Michael B. Targoff (the "Optionee").

WHEREAS, the Optionee is employed by or is providing services to the Company or an Affiliate in a key capacity, and the Company desires to have Optionee remain in such employment or service and to afford Optionee the opportunity to acquire, or enlarge, Optionee's stock ownership of the Company's Common Stock, par value $.01 per share (the "Stock"), so that Optionee may have a direct proprietary interest in the Company's success;

WHEREAS, all capitalized terms not otherwise defined herein shall have the same meaning as set forth in Company's 2005 Stock Incentive Plan (the "Plan");

WHEREAS, the Company and the Optionee have entered into an Employment Agreement, of even date hereof (the "Employment Agreement"); and

WHEREAS, the Company intends to seek shareholder and any other necessary approvals required to amend the Plan to increase the number of shares available for grant thereunder (the "Approvals").

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto hereby agree as follows:

1. GRANT OF OPTION. Subject to the terms and conditions set forth herein and in the Plan, and subject to obtaining the Approvals, the Company hereby grants to the Optionee, during the period commencing on the Grant Date and ending on the date that is five years from the Grant Date (the "Option Period"), the right and option (the right to purchase any one share of Stock hereunder being an "Option") to purchase from the Company, at an exercise price of $26.915 per share (the "Option Price"), an aggregate of 825,000 shares of Stock. The Options are not intended to be "incentive stock options", as defined in Section 422 of the Internal Revenue Code of 1986, as amended. To the extent the Approvals are not obtained by December 31, 2007, the Options granted hereunder and this Agreement shall be void.

2. [RESERVED].

3. EXERCISE OF OPTIONS.

(a) Subject to the terms and conditions set forth herein and provided the Optionee's employment continues, the Options shall vest and become exercisable in accordance with the following schedule:

(i) 12 1/2% of the Options shall vest and become exercisable on the Grant Date;

(ii) an additional 25% of the Options shall vest and become exercisable on the first anniversary of the Grant Date;

(iii) an additional 25% of the Options shall vest and become exercisable on the second anniversary of the Grant Date;

(iv) an additional 25% of the Options shall vest and become exercisable on the third anniversary of the Grant Date; and

(v) the remainder of the Options shall vest and become exercisable on the fourth anniversary of the Grant Date;

provided, however, that no Options shall become exercisable (even though vested) prior to the date on which the Approvals have been obtained and the Options that would have become exercisable prior to the date the Approvals are obtained, but for this prohibition on exercisability prior to the date the Approvals are obtained, shall become exercisable on the date that the Approvals are obtained.

(b) The Options shall vest only as to full shares of Stock rounded down to the nearest full share during the first three vesting dates and all fractions shall be amalgamated and become exercisable on the last vesting date. Except as otherwise stated in this Agreement, the Options shall expire on the five-year anniversary of the Grant Date.

4. TERMINATION OF EMPLOYMENT.

(a) If the Optionee's employment or service with the Company and all Affiliates is terminated for Cause, all Options (whether vested or not) shall immediately expire.

(b) If the Optionee resigns from employment or service with the Company and all Affiliates other than for "Good Reason," all unvested Options shall expire and all vested Options shall remain outstanding and exercisable, but shall be exercisable only to the extent such Options are exercisable at the time of termination or become exercisable prior to the earlier of (i) three months following the date of termination or (ii) the remainder of the Option Period.

(c) If the Optionee's employment or service with the Company and all Affiliates is terminated by the Company or an Affiliate other than for Cause or the

Optionee resigns for "Good Reason", all unvested Options shall vest immediately, but shall not be exercisable unless the Approvals have been obtained, and all vested Options (including those that vest upon such termination) shall remain outstanding and exercisable, but shall be exercisable only to the extent such Options are exercisable at the time of termination, for the shorter of (i) the Post Termination Exercise Period (as defined below) or (ii) the remainder of the Option Period. The Post Termination Exercise Period shall mean (x) the period that is two years following the date of termination, if the termination occurs prior to the third anniversary of the Grant Date, or (y) the period that is one year following the date of termination, if the termination occurs on or following the third anniversary of the Grant Date but prior to the fifth anniversary of the Grant Date; provided, however, that if the Optionee's employment is terminated on account of death or Disability, the Post Termination Exercise Period shall not be shorter than one year following the date of the Optionee's termination of employment.

(d) If the Optionee's employment or service with the Company and all Affiliates terminates on account of the Optionee's death or Disability, a pro-rata portion of the next vesting traunch of the Option shall vest, all remaining unvested Options shall immediately expire and all vested Options will remain outstanding and exercisable, but shall be exercisable only to the extent such Options are exercisable at the time of termination or become exercisable prior to the earlier of (i) the Post Termination Exercise Period or (ii) the Option Period.

5. METHOD OF EXERCISING OPTION.

(a) Options which have become exercisable may be exercised by delivery of written notice of exercise to the Committee accompanied by payment of the Option Price. Payment for shares of Stock acquired pursuant to Options shall be made in full, upon exercise of the Options in immediately available funds in United States dollars, by certified or bank cashier's check or, in the discretion of the Committee, (i) by surrender to the Company of Mature Shares held by the Participant; (ii) by delivering to the Committee a copy of irrevocable instructions to a stockbroker to deliver promptly to the Company an amount of sale or loan proceeds sufficient to pay the aggregate Option exercise price; (iii) through a net exercise of the Options whereby the Participant instructs the Company to withhold that number of shares of Stock having a fair market value equal to the aggregate Option Price of the Options being exercised and deliver to the Participant the remainder of the shares subject to exercise or (iv) by any other means approved by the Committee. For purposes of this paragraph, the term "Mature Shares" shall mean shares of Stock for which the Optionee has good title, free and clear of all liens and encumbrances, and which the Optionee either (i) has held for at least six months or (ii) has purchased on the open market.

(b) At the time of exercise, (i) the Company shall have the right to withhold from the number of shares of Stock to be issued upon exercise, the minimum number of shares necessary or (ii) at the discretion of the Committee, the Optionee shall be obligated to pay to the Company such amount as the Company deems necessary, in either event, to satisfy its obligation to withhold Federal, state or local income or other taxes incurred by reason of the exercise or the transfer of shares thereupon.

6. ISSUANCE OF SHARES. As promptly as practical after receipt by the Company of a written notice of exercise and full payment to the Company of the aggregate Option Price and any required income tax withholding amount, the Company shall issue or transfer to the Optionee the number of shares of Stock with respect to which Options have been so exercised, or the net number of shares of Stock in the event of an exercise pursuant to Section 5(a)(iii), or to the extent applicable in Section 5(a)(iv), or after application of Section 5(b), or both, and shall deliver to the Optionee (or the Optionee's estate or beneficiary, if applicable) a certificate or certificates therefore, registered in the name of the Optionee (or such estate or beneficiary).

7. NON-TRANSFERABILITY. The Options are not transferable by the Optionee otherwise than by will or the laws of descent and distribution and are exercisable during the Optionee's lifetime only by Optionee. No assignment or transfer of the Options, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise (except by will or the laws of descent and distribution), shall vest in the assignee or transferee any interest or right herein whatsoever, but immediately upon such assignment or transfer the Options shall terminate and become of no further effect.

8. RIGHTS AS STOCKHOLDER. Neither the Optionee nor a permitted transferee of the Options shall have any rights as a stockholder with respect to any share of Stock covered by the Options until the Optionee or any transferee shall have become the holder of record of such share, and no adjustment shall be made for dividends or distributions or other rights in respect of such share for which the record date is prior to the date upon which the Optionee or any transferee shall become the holder of record thereof.

9. COMPLIANCE WITH LAW. Notwithstanding any of the provisions hereof, the Optionee hereby agrees that Optionee will not exercise the Options, and that the Company will not be obligated to issue or transfer any shares of Stock to the Optionee hereunder, if the exercise hereof or the issuance or transfer of such shares shall constitute a violation by the Optionee or the Company of any provisions of any law or regulation of any governmental authority. Any determination in this connection by the Committee shall be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended) or to take any other affirmative action in order to cause the exercise of the Options or the issuance or transfer of shares of Stock pursuant thereto to comply with any law or regulation of any governmental authority.

10. NOTICE. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided, provided that, unless and until some other address be so designated, all notices or communications by the Optionee to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Optionee may be given to the Optionee personally or may be mailed to Optionee at the Optionee's last known address, as reflected in the Company's records.

11. BINDING EFFECT. Subject to Section 7 hereof, this Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

12. GOVERNING LAW. This Agreement shall be construed and interpreted in accordance with the laws of the state of Delaware, without regard to the principles of conflicts of law thereof.

13. PLAN. The terms and provisions of the Plan are incorporated herein by reference; provided, however, that upon an acceleration of vesting of the Options in the event of a Change in Control, as provided in Section 13(a) of the Plan, the Options shall not be exercisable unless the Approvals have been obtained by the time the Change in Control occurs. In the event of a conflict or inconsistency between discretionary terms and provisions of the Plan and the express provisions of this Agreement, this Agreement shall govern and control. Except as specifically provided herein, in all other instances of conflicts or inconsistencies or omissions, the terms and provisions of the Plan shall govern and control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**LORAL SPACE & COMMUNICATIONS INC.**

By: /s/ Avi Katz
-----------------------------
Name:

Title:

**Accepted:**

/s/ Michael B. Targoff
----------------------------
Optionee

**Address**

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Social Security Number

**Exhibit 12.1**

## LORAL SPACE & COMMUNICATIONS LTD., A DEBTOR IN POSSESSION
## COMPUTATION OF DEFICIENCY OF EARNINGS TO COVER FIXED CHARGES

| | Successor Registrant | Predecessor Registrant | | |
|---|---|---|---|---|
| | For the Period October 2, 2005 to December 31, 2005 | For the Period January 1, 2005 to October 1, 2005 [3] | Years Ended December 31, | |
| | | | 2004 | 2003 |
| Loss from continuing operations before income taxes, equity income (losses) in affiliates and minority interest | $ (5,395) | $ (65,570) | $ (207,852) | $ (368,355) |
| Plus fixed charges: | | | | |
| Interest expense | 4,408 | 3,982 | 3,904 | 28,223 |
| Interest component of rent expense [1] | 1,625 | 4,949 | 9,059 | 10,402 |
| Less: capitalized interest | — | — | (957) | (14,143) |
| Earnings available to cover fixed charges | $ 638 | $ (56,639) | $ (195,846) | $ (343,873) |
| Fixed charges [2] | $ (8,700) | $ (8,931) | $ (12,963) | $ (45,345) |
| Deficiency of earnings to cover fixed charges | $ 8,062 | $ 65,570 | $ 208,809 | $ 389,218 |

(1) The interest component of rent expense is deemed to be approximately 25% of total rent expense.

(2) Preferred dividends have not been adjusted for income taxes, due to the composition of the taxing jurisdictions underlying our operations and the resulting impact on our effective tax rate. Fixed charges include the accrual of preferred dividends and interest on unsecured debt obligations (excluding bank debt) through July 15, 2003, the date of our Chapter 11 filing.

(3) Does not reflect the effect of the gain on the discharge of pre-petition obligations and fresh-start adjustments, and the interest expense and income tax benefit recognized in connection with the Plan of Reorganization.

**EXHIBIT 21.1**

The active subsidiaries owned directly or indirectly by Loral Space & Communications Inc. as of March 1, 2006, all 100% owned (except as noted below) consist of the following:

| Subsidiary | Jurisdiction |
|---|---|
| Loral Space & Communications Holdings Corporation | Delaware |
| Loral Skynet Corporation[1] | Delaware |
| Loral Asia Pacific Satellite (HK) Limited | Hong Kong |
| Loral Skynet International, L.L.C. | Delaware |
| Loral Satellite, Inc. | Delaware |
| Loral Holdings Ltd. | Bermuda |
| Loral Space do Brasil Ltda. | Brazil |
| Loral Skynet do Brasil Ltda. | Brazil |
| Loral Skynet (IOM) Limited | Isle of Man |
| Loral SpaceCom Corporation | Delaware |
| Loral Communications Services, Inc. | Delaware |
| Loral Ground Services, L.L.C. | Delaware |
| Earth Station Ecuador CIA Ltda. | Ecuador |
| Loralsat CIA Ltda.[2] | Ecuador |
| Loral Skynet Network Services, Inc. | Delaware |
| Loral Skynet Network Services (Europe) Ltd. | United Kingdom |
| LAD Telecommunications GmbH | Germany |
| Loral Skynet Network Services Holdings L.L.C. | Delaware |
| Loral CyberStar International, Inc. | Delaware |
| Tel-Link Communications Private Limited | India |
| Loral CyberStar GmbH[3] | Germany |
| ONS-Mauritius | Mauritius |
| Loral CyberStar Services, Inc. | Delaware |
| Loral CyberStar Holdings, L.L.C. | Delaware |
| Loral CyberStar de Argentina SRL | Argentina |
| Loral CyberStar, L.L.C. | Delaware |
| CyberStar, L.L.C. | Delaware |
| Loral Satmex Ltd. | Bermuda |
| Space Systems/Loral, Inc. | Delaware |
| International Space Technology, Inc[4] | Delaware |
| Cosmotech | Russian Federation |
| Loral General Partner, Inc. | Delaware |
| LGP (Bermuda) Ltd. | Bermuda |
| Loral Holdings L.L.C. | Delaware |
| Mexico Satellite, LLC[5] | Delaware |
| Loral Global Services N.V. | Netherlands Antilles |
| Loral Global Services B.V. | Netherlands |

**NOTES**

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1 100% of Loral Skynet Series A 12% Non-convertible Preferred Stock is owned by third parties
2 Only 95% owned directly or indirectly
3 Only 99.5 % owned directly or indirectly 4 Only 51.0 % owned directly or indirectly 5 Only 77.78% owned directly or indirectly

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael B. Targoff, certify that:

1. I have reviewed this Annual Report on Form 10-K of Loral Space & Communications Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL B. TARGOFF

*Michael B. Targoff*
*Chief Executive Officer*

March 28, 2006

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard J. Townsend, certify that:

1. I have reviewed this Annual Report on Form 10-K of Loral Space & Communications Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RICHARD J. TOWNSEND

*Richard J. Townsend*
*Executive Vice President and Chief Financial Officer*

March 28, 2006

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Loral Space & Communications Inc. (the "Company") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael B. Targoff, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL B. TARGOFF

*Michael B. Targoff*
*Chief Executive Officer*

March 28, 2006

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Loral Space & Communications Inc. (the "Company") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Townsend, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD J. TOWNSEND

*Richard J. Townsend*
*Executive Vice President and Chief Financial Officer*

March 28, 2006