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, 2008

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)

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, and accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Ruler 12b-2 of the Exchange Act. (Check one):

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

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

At March 2, 2009, 20,281,579 shares of the registrant's voting common stock and 9,505,673 shares of the registrant's non-voting common stock were outstanding.

As of June 30, 2008, the aggregate market value of the common stock, the only common equity of the registrant currently issued and outstanding, held by non-affiliates of the registrant, was approximately $231,062,865

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 ☐

Documents incorporated by reference are as follows:

Document	Part and Item Number of Form 10-K into which incorporated

Loral Notice of Annual Meeting of Stockholders and Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2009	Part II, Item 5(d) Part III, Items 11 through 14

LORAL SPACE AND COMMUNICATIONS INC.
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For the Year Ended December 31, 2008

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PART I

Item 1. *Business*

THE COMPANY

Overview

Loral Space & Communications Inc. ("Loral"), together with its subsidiaries, is a leading satellite communications company with substantial activities in satellite manufacturing and investments in satellite-based communications services. Loral, a Delaware corporation, was formed on June 24, 2005, to succeed to the business conducted by its predecessor registrant, Loral Space & Communications Ltd. ("Old Loral"), which emerged from chapter 11 of the federal bankruptcy laws on November 21, 2005 (the "Effective Date") pursuant to the terms of the fourth amended joint plan of reorganization, as modified ("the Plan of Reorganization").

The terms "Loral," the "Company," "we," "our" and "us" when used in this report with respect to the period prior to the Effective Date, are references to Old Loral, and when used with respect to the period commencing on and after the Effective Date, are references to Loral. These references include the subsidiaries of Old Loral or Loral, as the case may be, unless otherwise indicated or the context otherwise requires. The term "Parent Company" is a reference to Loral Space & Communications Inc., excluding its subsidiaries.

Loral is organized into two segments:

Satellite Manufacturing:

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

Satellite Services:

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

On October 31, 2007, Loral and its Canadian partner, Public Sector Pension Investment Board ("PSP"), through Telesat Holdings Inc. ("Telesat Holdco"), a newly-formed joint venture, completed the acquisition of Telesat Canada from BCE Inc. ("BCE"). In connection with this acquisition, Loral transferred on that same date substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada. Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat Holdco, the ultimate parent company of the resulting new entity (see Note 6 to the Loral consolidated financial statements). We use the equity method of accounting for our investment in Telesat Canada.

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

Segment Overview

Satellite Manufacturing

Space Systems/Loral, Inc. ("SS/L") has been designing, manufacturing and integrating satellites and space systems for a wide variety of commercial and government customers for more than 50 years. Its products include mid-and high-powered satellites designed for applications such as fixed satellite services ("FSS"), direct-to-home ("DTH") broadcasting, mobile satellite services ("MSS"), broadband data distribution, wireless telephony, digital radio, digital mobile broadcasting, military communications, weather monitoring and air traffic management. SS/L customers have included such satellite service providers and government organizations as APT Satellite, AsiaSat, DIRECTV, DISH Networks, EchoStar, Globalstar, Hisdesat, Hispasat, ICO, Intelsat, Japan's Ministry of Transport and Civil Aviation Bureau, the National Oceanic & Atmospheric Administration (NOAA), Optus (SingTel), SatMex, SES, Sirius XM Radio, Telesat Canada, TerreStar Networks, Thaicom, ViaSat, WildBlue Communications and XTAR. Since its inception, SS/L has delivered more than 220 satellites, which together have achieved more than 1,500 years of cumulative on-orbit service; many of these satellites significantly exceeded design life expectations. SS/L's satellite platform provides the flexibility to meet a broad range of customer requirements for the world's most powerful commercial satellites with up to 25 kilowatts of power. The capacity offered on these satellites ranges from one to as many as 150 transponders. According to industry research firm, Futron Corporation, global satellite manufacturing revenue was $11.6 billion in 2007 of which approximately $3.8 billion was for commercial satellites.

SS/L has a history of technology innovation and currently provides some of the world's most powerful commercial satellites. With 183 U.S. patents, the company has led the industry with research in advanced composites, antennas, multiplexers, power conversion, propulsion systems and on-orbit controls. Its highly flexible satellite platform accommodates a broad range of applications such as regional and spot-beam technology, hybrid systems that maximize the value of orbital slot location, and imagers for precision weather forecasting. The SS/L platform accommodates some of the world's highest power payloads for television, radio and multimedia broadcast. With increasing demand for mobile devices for video, audio and data, SS/L is also a leader in providing satellite systems that include Ground Based Beam Forming (GBBF) capability so that upgradeable ground equipment can grow with new innovations and market demands.

Satellite construction contract awards over the last few years have resulted in backlog at SS/L of $1.4 billion. In order to complete construction of all the satellites in backlog and to enable future growth, SS/L has modified and expanded its manufacturing facilities. SS/L can now accommodate as many as nine to 13 satellite awards per year, depending on the complexity and timing of the specific satellites, and can accommodate the integration and test of 13 to 14 satellites at any given time in its Palo Alto facility. The expansion has also reduced the company's reliance on outside suppliers for certain RF components and sub-assemblies.

Market and Competition

SS/L participates in the highly competitive commercial satellite manufacturing industry principally on the basis of superior customer relationships, technical excellence, reliability and pricing. Other competitors for satellite manufacturing contracts include Boeing, Lockheed Martin and Orbital Sciences in the U.S., Thales Alenia Space and EADS Astrium in Europe and Mitsubishi Electric Corporation in Japan. SS/L's continued success depends on its ability to provide highly reliable satellites on a cost-effective and timely basis. SS/L may also face competition in the future from emerging low-cost competitors in India, Russia and China. The number of satellite manufacturing contracts awarded varies annually and is difficult to predict. For example, based on readily available industry information, we believe that, while only two contracts for mid-and high-power (8 kW or higher) commercial satellites were awarded worldwide in 2002, there were 13 and 12 contracts awarded in 2008 and 2007, respectively. The current economic environment may adversely affect the satellite market in the near-term. While we expect the replacement market to be reliable over the next year, given the current credit crisis, potential customers who are highly leveraged or in the development stage may not be able to obtain the financing necessary to purchase satellites.

Satellite Manufacturing Performance

	Year ended December 31,		
	2008	2007	2006
	(In millions)		
Total segment revenues	$881	$814	$697
Eliminations	(12)	(53)	(60)
Revenues from satellite manufacturing as reported	$869	$761	$637
Segment Adjusted EBITDA before eliminations [(1)]	$ 45	$ 35	$ 66

(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 15 to the Loral consolidated financial statements for the definition of Adjusted EBITDA).

Total SS/L assets were $799 million and $963 million as of December 31, 2008 and 2007, respectively. The decrease is primarily due to the goodwill impairment charge of $188 million in 2008. Backlog at December 31, 2008 was $1.4 billion. This included $51.7 million of backlog for the construction of Nimiq 5 and Telstar 11N for Telesat Canada. Backlog at December 31, 2007 was $1.0 billion. This included $138 million of backlog for the construction of Nimiq 5 and Telstar 11N for Telesat Canada. It is expected that approximately 67% of the backlog as of December 31, 2008, will be recognized as revenues during 2009. During 2008, four of SS/L's customers accounted for approximately 20%, 15%, 14% and 10% of our consolidated revenues.

Satellite Services

Loral participates in satellite services operations principally through its investment in Telesat Canada. Telesat Canada is the world's fourth largest provider of FSS with industry leading backlog, and one of only three FSS providers operating on a global basis. Telesat Canada's satellite fleet operates 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 and provide reliable, high-bandwidth services anywhere in their coverage areas, serving as the backbone for many forms of telecommunications.

As of March 10, 2009, Telesat Canada has 12 in-orbit satellites, one recently launched satellite which is expected to enter service in the second quarter of 2009, and one satellite under construction which is 100% leased for at least the design life of the satellite. One satellite will be decommissioned in the second quarter of 2009. Telesat Canada provides video distribution and DTH video, as well as end-to-end communications services using both satellite and hybrid satellite-ground networks. According to industry research firm Euroconsult, the global FSS industry grew by 9.5% in 2007 generating approximately $8.9 billion in revenues.

Telesat Canada categorizes its satellite services operations into broadcast, enterprise services, and consulting and other, as follows:

Broadcast:

DTH. Both Canadian DTH service providers, Bell TV (formerly Bell ExpressVu) and Star Choice, use Telesat Canada's satellites as a distribution platform for their services, delivering a package of television programming, audio and information channels directly to customers' homes. In addition, EchoStar uses Anik F3, and DIRECTV uses one of Telesat Canada's orbital locations, for DTH services in the United States.

Video Distribution. Major broadcasters, cable networks and DTH service providers use Telesat Canada satellites for the full-time transmission of television programming. Additionally, certain broadcasters and DTH service providers bundle value-added services that include satellite capacity, digital encoding of video channels and uplinking and downlinking services to and from Telesat Canada satellites and teleport facilities. In Asia, Telesat Canada is a leader in the distribution of video content to cable head ends from which approximately 80 million households can receive television programming distributed over Telstar 10, including HBO, Sony, Disney and Hallmark. In Europe, Telstar 12 provides satellite services to

the largest cable distributor in Europe, UPC, and is used to transmit the television services of NBC and Fox. In both Brazil and Chile, Telesat Canada provides video distribution services on Telstar 14.

Occasional Use Services. Occasional use services consist of satellite transmission services for the timely broadcast of video news, sports and live event coverage on a short-term basis enabling broadcasters to conduct on-the-scene transmissions using small, portable antennas.

Enterprise Services:

North America Data Networks. Telesat Canada provides data networks in North America as well as the related ground segment and maintenance services supporting these networks. Telesat Canada is one of the largest operators of very small aperture terminal, or VSAT, systems in North America, managing over 23,000 VSAT terminals at customer sites in Canada and the United States. Some of these customers are provided end-to-end services including installation and maintenance of the end user terminal, maintenance of the VSAT hub, and provision of satellite capacity. Other customers may be provided a subset of these services, including maintenance of the VSAT terminal, while using other providers for hub maintenance and/or space segment capacity. Telesat Canada also provides networks that combine both satellite and digital subscriber lines (“DSL”). Examples of North American data network services include point of sale services for customers in Canada and communications services to remote locations for the oil and gas industry.

International Enterprise Networks. Telesat Canada provides Internet Protocol-based terrestrial extension services that allow enterprises to reach multiple locations worldwide — many of which cannot be connected via terrestrial means. Leveraging satellite’s one-to-many attributes, these managed services also enable multi-cast and broadcast functionality. These services are delivered to enterprises whose headquarters are typically in the United States or Europe through both terrestrial partners and directly to corporations.

Ka-band Internet Services. Telesat Canada provides Ka-band, two-way broadband Internet services in Canada through Barrett Xplore Inc. and other resellers, and Ka-band satellite capacity to WildBlue which uses it to provide services in the United States.

Telecommunication Carrier Services. Telesat Canada provides satellite capacity and end-to-end services for data and voice transmission to telecommunications carriers located throughout the world. These services include (i) connectivity and voice circuits to remote locations in Canada for customers such as Bell Canada and NorthwesTel and (ii) space segment capacity and terrestrial facilities for Internet backhaul and access, GSM backhaul, and services such as rural telephony to carriers around the world.

Government Services. The United States Government is the largest single consumer of fixed satellite services in the world and a significant user of Telesat Canada’s international satellites. Over the course of several years, Telesat Canada has implemented a successful strategy to sell through government service integrators, rather than directly to United States Government agencies. Satellite services are also provided to the Canadian Government, including a variety of services from a maritime network for a Canadian Government entity to protected satellite capacity to the Department of National Defense for the North Warning System.

Consulting & Other:

Consulting operations allow for increased operating efficiencies by leveraging Telesat Canada’s existing employees and facility base. With over 35 years of engineering and technical experience, Telesat Canada is a leading consultant in establishing, operating and upgrading satellite systems worldwide, having provided services to businesses and governments in more than 30 countries across six continents. Telesat Canada operates 13 satellites for third parties. Currently, the international consulting business provides satellite-related services to over 32 customers in approximately 18 countries.

Telesat Canada is the world’s fourth largest provider of FSS with an international platform supporting (i) strong video distribution and DTH neighborhoods in North America that result in long-term contracts with blue chip customers, industry leading backlog and fully contracted expansion DTH satellites, (ii) an efficient and

expanding enterprise services business that provides a wide range of North American customers with end-to-end communications services using satellite and hybrid satellite-DSL networks, and (iii) a strong international video distribution and enterprise services business that provides exposure to high-growth regions and satellite users around the world.

Through its commitment to customer service and focus on innovation and technical expertise, Telesat Canada has developed strong relationships with a diverse range of high-quality customers, including many of the world's largest video and data service providers. Its customers include North American DTH providers Bell TV, Star Choice and EchoStar, and leading telecommunications and media firms such as Disney, HBO, NBC, UPC, Canadian Broadcasting Corporation, Bell Canada, AT&T, Verizon, BT Group, Global Crossing and Lockheed Martin. Its North American Broadcast and Enterprise Services customer service contracts are typically multi-year in duration and, in the past, Telesat Canada has been successful in contracting all or a significant portion of a satellite's capacity prior to commencing construction. As a result, Telesat Canada had approximately $4.2 billion in contracted backlog as of December 31, 2008, of which approximately 12% will be recognized as revenues during 2009.

Market and Competition

The satellite services business sector is highly competitive and its players must also compete with non-satellite technologies for the provision of voice, data, video and Internet connectivity services. Telesat Canada operates in the FSS sector, providing communications links between fixed points on the earth's surface, referred to as point-to-point services, and the provision of satellite connectivity from one point to multiple points, referred to as point-to-multipoint services.

As the world's fourth largest satellite services company, Telesat Canada competes with the leading global operators, Intelsat, Ltd. and SES S.A., as well as with Eutelsat, S.A. in Europe. Intelsat, SES and Eutelsat are each substantially larger than Telesat Canada in terms of both the number of satellites they have in orbit as well as in terms of their revenues. In addition, Telesat Canada faces competition from regional players, some of which enjoy competitive advantages in their local markets. They are Sirius, Arabsat, Hellasat and Turksat in Europe, the Middle East and Africa; AsiaSat, Measat Satellite Systems, Shin Satellite Plc, APT Satellite Holdings Ltd. ("APT"), PT Telkom and Optus in Asia; Satelites Mexicanos S.A. de C.V., Star One, NahuelSat S.A., and Hispasat S.A. in Latin America; and Ciel and EchoStar in North America.

Telesat Canada also competes with terrestrial service providers, principally on point-to-point long distance routes, as well as for certain types of data networks. While satellites are more efficient than terrestrial systems for certain applications, such as broadcast or point-to-multipoint transmission of video and broadband data, terrestrial networks are generally less expensive than satellite networks for point-to-point services. In developing countries, satellite plays a larger role in telecommunications networks due to the relatively undeveloped terrestrial communications networks. As a result of deregulation and economic growth, these terrestrial communication networks are expanding in certain countries, increasing competition for satellite services.

The market for satellite consulting services is generally comprised of a few service providers qualified to provide services in specific areas of expertise. Telesat Canada's competitors are primarily United States and European-based companies.

Satellite Fleet & Ground Resources

As of March 10, 2009, Telesat Canada has a global fleet of 12 satellites in-orbit, which includes one satellite leased from APT under a prepaid lease through the end of its life, for which the company has risk of loss and the right to replace at the end of its life and another satellite leased from DIRECTV. In addition, one satellite was launched in February 2009 and is expected to enter service in the second quarter of 2009, while another satellite, which Telesat Canada has contracted to Bell TV for 15 years or such later date as the customer may request, is scheduled for launch later in 2009. One satellite will be decommissioned in the second quarter of 2009. In addition, the company leases fiber capacity around the world for use in developing hybrid terrestrial/satellite data networks for network services customers.

Telesat Canada also has ground facilities located around the world, providing both control services to its satellite fleet, as well as to the satellites of other operators as part of its consulting services offerings. It has two control centers located in Ottawa, Ontario and Allan Park, Ontario. In addition, Telesat Canada leases other technical facilities that provide customers with a host of teleport and hub services.

Telesat Canada's North American focused fleet is comprised of three owned FSS satellites, Anik F1-R, Anik F2 and Anik F3, and three owned direct broadcast services, or DBS, satellites, Nimiq 1, Nimiq 2 and Nimiq 4. Telesat Canada leases and operates one North American focused satellite, Nimiq 3, which is owned by DIRECTV but is located in Telesat Canada's orbital location and is used by Telesat Canada. Telesat Canada's international fleet is comprised of four owned FSS satellites, Anik F1, Telstar 12, Telstar 14/Estrela do Sul, and Telstar 18 and one satellite, Telstar 10, which is leased through end-of-life. Telstar 11N was launched in February 2009 and is expected to enter service in the second quarter.

The table below summarizes selected data relating to Telesat Canada's owned and leased in-orbit satellites as of March 10, 2009:

	Orbital Location Regions Covered	Launch Date	Manufacturer's End-of-Service-Life	Expected End-of-Commercial-Service Life(1)	Transponders(1)				Model
					C-band(2)	Ku-band(2)	Ka-band	L-band(3)	
Nimiq 1	91.0 °WL Canada, Continental United States	May 1999	2011	2024	—	32@24MHz	—	—	A2100 AX (Lockheed Martin)
Nimiq 2 [4]	91.0°WL Canada, Continental United States	December 2002	2015	2023	—	20@24MHz	2@500/100MHz	—	A2100 AX (Lockheed Martin)
Nimiq 3 [5]	82 °WL Canada Continental United States	June 1995	2007	2009	—	16@24MHz	—	—	BSS 601 (Boeing)
Nimiq 4	82 ° WL Canada	September 2008	2023	2027		32@24 MHz	8@54 MHz		E3000 (EADS Astrium)
Anik F1 [6]	107.3 °WL Canada, Continental United States, South America	November 2000	2016	2013	12@36MHz (S. America)	16@27MHz (S. America)	—	—	BSS702 (Boeing)
Anik F2	111.1 ° WL Canada, Continental United States	July 2004	2019	2028	24@36MHz	32@27MHz	31@56/112 MHz 6@500MHz 1@56/112MHz	—	BSS702 (Boeing)
Anik F1-R [3]	107.3 ° WL North America	September 2005	2020	2023	24@36MHz	32@27MHz	—	2@20MHz	E3000 (EADS Astrium)
Anik F3 [7]	118.7 °WL Canada, Continental United States	April 2007	2022	2026	24@36MHz	32@27MHz	2@75MHz (500MHz)	—	E3000 (EADS Astrium)
Telstar 10 [8]	76.5°EL Asia and Portions of Europe, Africa and Australia	October 1997	2009	2012	1@30MHz 26@36MHz	7@54MHz	—	—	SS/L 1300
Telstar 12 [9]	15 °WL Eastern United States, SE Canada, Europe, Russia, Middle East, North Africa, portions of South and Central America	October 1999	2012	2016	—	37@54MHz	—	—	SS/L 1300
Telstar 14/Estrela do Sul [10]	63 °WL Brazil And portions of Latin America, North America, Atlantic Ocean	January 2004	2019	2011	—	9@72MHz 10@36MHz 2@28MHz 1@56MHz	—	—	SS/L 1300
Telstar 18 [11][12]	138 ° EL India, South East Asia, China, Australia And Hawaii	June 2004	2017	2018	16@36MHz 1@54MHz	5@54MHz 1@40MHz	—	—	SS/L 1300

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(1) The number of available transponders and expected or nominal end of life shown in this table reflect Telesat Canada's current estimate of each satellite's capacity and useful life, taking account of anomalies and malfunctions the satellites have experienced and other factors such as remaining fuel levels and consumption rates and other available engineering data. Telesat Canada periodically reviews and updates these estimates based on a satellite's performance. Accordingly, these estimates are subject to change and it is possible that the actual commercial life of any of these satellites will be shorter than we currently anticipate. See Item 1A — "Risk Factors — After launch, satellites remain vulnerable to in-orbit failures which may result in reduced revenues and profits and other financial consequences."

(2) Includes extended C-band and extended Ku-band in certain cases.

(3) Telesat Canada has contracted the L-band capacity on Anik F1-R to Lockheed Martin for 10 years. This L-band spectrum is not Telesat Canada's; it is a United States spectrum licensed to Lockheed Martin.

(4) Due to malfunctions affecting available power on Nimiq 2, not all transponders carried on the satellite are operational.

(5) Nimiq 3 is leased from DIRECTV, but is in a Telesat Canada orbital position. DIRECTV can terminate its lease agreement if it experiences two or more catastrophic failures with its other satellites. In the event of such termination, Telesat Canada may lose the revenues associated with this satellite if it cannot redeploy that capacity to other satellites. This spacecraft will be decommissioned in the second quarter of 2009.

(6) Due to a gradual decrease in power on Anik Fl, transponders providing North American coverage have been turned off, and this satellite will experience a premature end-of-life estimated to be 2013.

(7) Telesat Canada has leased, through the satellite's end-of-life, all of the Ku-band capacity of Anik F3 to EchoStar.

(8) Telstar 10 does not include one transponder @ 36MHz and eight transponders @ 54MHz which have been turned off for satellite power management, and does not include one transponder @ 36MHz owned by APT.

(9) Telstar 12 has 38-54MHz transponders. Four of these transponders were given to Eutelsat to settle coordination issues, and Telesat Canada leases back three of these transponders.

(10) Telstar 14 has substantially reduced transponder capacity and a limited expected life due to the failure of a solar array to fully deploy upon launch.

(11) Includes 16.6MHz of C-band capacity provided to the Government of Tonga in lieu of a cash payment for the use of the orbital location.

(12) Telesat Canada has agreed to purchase two additional transponders from APT in 2009.

In addition, Telesat Canada has the rights to the following satellite capacity to end of life of those satellites:

- *Satmex 5:* 3-36MHz Ku transponders;
- *Satmex 6:* 2-36MHz C-band transponders; 2-36MHz Ku transponders; and
- *Agila (Mabuhay):* 3-36MHz C-band transponders

The table below summarizes selected data relating to Telesat Canada's satellites under construction as of December 31, 2008:

	Nimiq 5	Telstar 11N
Orbital Location	72.7 º WL	37.55 º WL
Regions Covered	Canada, Continental United States	North and Central America, Europe, Africa and the maritime Atlantic Ocean region
Planned In-Service Date	2009	2009 (1)
Manufacturer's End-of- Service-Life	15 Years	15 Years
Customer Committed Capacity	15 Years/Fixed	
Transponders:		
Ku-band	32@24MHz	39@54MHz
Model	SS/L 1300	SS/L 1300

(1) Telstar 11N was launched on February 26, 2009, is currently undergoing in-orbit testing and is expected to enter commercial service in the second quarter of 2009.

Satellite Services Performance

	Year ended December 31,		
	2008	2007	2006
	(In millions)		
Revenue:			
Total segment revenues	$ 685	$ 241	$164
Eliminations	—	(2)	(3)
Affiliate eliminations (2)	(685)	(118)	—
Revenues from satellite services as reported	$ —	$ 121	$161
Adjusted EBITDA:			
Total segment Adjusted EBITDA	$ 436	$ 118	$ 68
Eliminations	—	(2)	(3)
Affiliate eliminations (2)	(427)	(65)	—
Adjusted EBITDA from satellite services after eliminations (3)	$ 9	$ 51	$ 65

(1) Satellite Services segment's performance includes Loral Skynet through October 30, 2007 and Telesat Canada for the period from October 31, 2007 to December 31, 2007.

(2) Affiliate eliminations represent the elimination of amounts attributable to Telesat Canada.

(3) 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 15 to the consolidated financial statements for the definition of Adjusted EBITDA).

Total Telesat Canada assets were $4.3 billion and $5.6 billion as of December 31, 2008 and 2007, respectively. The decrease in asset carrying value is primarily due to exchange rate changes and impairment charges of $455 million in 2008, primarily to reduce orbital slot assets to their fair value. Backlog was $4.2 billion and $5.3 billion as of December 31, 2008 and 2007, respectively. The decline in backlog is primarily due to exchange rate changes. It is expected that approximately 12% of the backlog at December 31, 2008 will be recognized as revenue in 2009.

We use the equity method of accounting for our investment in Telesat Canada, and its results are not consolidated in our financial statements. Our investment in this company is included in equity in net losses of affiliates in our consolidated statements of operations and investments in affiliates in our consolidated balance sheet.

The following chart summarizes operating revenues and Adjusted EBITDA for Telesat Canada before the closing of the Telesat Canada transaction. Telesat Canada's Adjusted EBITDA as shown below is calculated in the same manner as Adjusted EBITDA in the segment chart above. The amounts presented below are in Canadian dollars ("CAD") and are presented in accordance with Canadian generally accepted accounting principles.

	Telesat Canada	
	For the Period from January 1, 2007 to October 30, 2007	For The Year Ended December 31, 2006
Total operating revenues	CAD 457.8	CAD 479.0
Adjusted EBITDA	CAD 263.2	CAD 261.0

Other

We also own 56% of XTAR, LLC (“XTAR”), a joint venture between us and Hisdesat Servicios Estrategicos, S.A. (“Hisdesat”). XTAR owns and operates an X-band satellite, XTAR-EUR located at 29 º E.L., which entered service in March 2005. The satellite is designed to provide X-band communications services exclusively to United States, Spanish and allied government users throughout the satellite’s coverage area, including Europe, the Middle East and Asia. The government of Spain granted XTAR rights to an X-band license, normally reserved for government and military use, to develop a commercial business model for supplying X-band capacity in support of military, diplomatic and security communications requirements. XTAR also leases 7.2 72 MHz X-band transponders on the Spainsat satellite located at 30 º W.L. owned by Hisdesat, which entered commercial service in April 2006. These transponders, designated as XTAR-LANT, allow XTAR to provide its customers in the U.S. and abroad with additional X-band services and greater flexibility. XTAR currently has contracts to provide X-band services to the U.S. Department of State, the Spanish Ministry of Defense, the Belgium Ministry of Defense and the Danish armed forces, but the take-up rate in its service continues to be slower than anticipated. For more information on XTAR see Note 6 to the Loral consolidated financial statements.

REGULATION

Satellite Manufacturing

Export Regulation and Economic Sanctions Compliance

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. For example, U.S. Government licenses or approvals generally will have to be obtained for the transfer of technical data and defense services between Loral and Telesat Canada, and between Telesat Canada and its U.S. subsidiaries. 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.

In addition, if a satellite project involves countries, individuals or entities that are the subject of U.S. economic sanctions ("Sanctions Targets") or, in certain situations, is intended to provide services to Sanctions Targets, SS/L's participation in the project may be prohibited altogether or licenses or other approvals from the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") may also be required. See Item 1A — "Segment Risk Factors — We are subject to export control and economic sanctions laws, which may result in delays, lost business and additional costs."

Satellite Services

Telecommunications Regulation

As an operator of a global satellite system, Telesat Canada is regulated by government authorities in Canada, the United States and other countries in which it operates and is subject to the frequency and orbital slot coordination process of the International Telecommunication Union ("ITU"). Telesat Canada's ability to provide satellite services in a particular country or region is subject also to the technical constraints of its satellites, international coordination, local regulation and licensing requirements.

Canadian Regulatory Environment

Telesat Canada's operations are subject to regulation and licensing by Industry Canada pursuant to the Radiocommunication Act (Canada) and by the Canadian Radio-Television and Telecommunications Commission ("CRTC"), under the Telecommunications Act (Canada). Industry Canada has the authority to issue licenses, establish standards, assign Canadian orbital locations, and plan the allocation and use of the radio frequency spectrum, including the radio frequencies upon which Telesat Canada's satellites and earth stations depend. The Minister responsible for Industry Canada has broad discretion in exercising this authority to issue licenses, fix and amend conditions of licenses, and to suspend or even revoke them. Telesat Canada's licenses to operate the Anik F and Nimiq satellites require it to comply with research and development and other industrial and public benefit commitments, to pay annual radio authorization fees, to provide all-Canada satellite coverage and to comply with foreign ownership restrictions.

The Canadian foreign ownership and control restrictions, with which Telesat must comply as a condition of its Industry Canada licenses, are set out in regulations under the Radiocommunication Act and in Industry Canada

policies. These require Telesat Canada to be Canadian owned and controlled within the meaning of those regulations and various other provisions of Canadian telecommunications law and policy.

Industry Canada traditionally licensed satellite radio spectrum and associated orbital locations on a first-come, first-served basis. Currently, however, a competitive licensing process is employed for certain spectrum resources where it is anticipated that demand will likely exceed supply, including the licensing of certain fixed-satellite service ("FSS") and broadcasting satellite service ("BSS") orbital locations and associated spectrum resources. Authorizations are granted for the life of a satellite, although radio licenses (e.g., FSS licenses) are renewed annually. As a result of policy concerns about the continuity of service and other factors, there is generally a strong presumption of renewal provided license conditions are met.

The Canadian Government opened Canadian satellite markets to foreign-licensed satellite operators as part of its 1998 World Trade Organization ("WTO") commitments to liberalize trade in basic telecommunications services, with the exception of direct-to-home ("DTH") television services that are provided through FSS or DBS facilities. In September 2005, the Canadian Government revised its satellite-use policy to permit the use of foreign-licensed satellites for digital audio radio services in Canada. Further liberalization of the policy may occur and could result in increased competition in Canadian satellite markets. On June 13, 2007, Industry Canada announced that Telesat Canada would be awarded five new licenses for Canadian satellite spectrum and rights to the related orbital positions. At that time, Industry Canada also announced that another Canadian-licensed satellite operator, Ciel, would be awarded seven new spectrum licenses. Ciel subsequently declined one of its licenses, which was subsequently awarded to Telesat Canada.

The Telecommunications Act authorizes the CRTC to regulate various aspects of the provision of telecommunications services by Telesat Canada and other telecommunications service providers. Since the passage of the Act in 1993, the CRTC has gradually forborne from regulating an increasing number of services provided by regulated companies. As of March 1, 2000, coincident with the end of Telesat Canada's FSS monopoly in Canada, the CRTC abandoned rate-of-return regulation of Telesat Canada's FSS services and no longer requires it to file tariffs in respect of these services. Under the current regulatory regime, Telesat Canada has pricing flexibility subject to a price ceiling of CAD 170,000 per transponder per month on certain full period FSS services offered in Canada under minimum five-year arrangements. Telesat Canada's DBS services offered within Canada are also subject to CRTC regulation, but have been treated as distinct from its fixed satellite services and facilities. To date, Telesat Canada has sought and received CRTC approval of customer agreements relating to the sale of capacity on all Nimiq DBS satellites, including the rates, terms and conditions of service set out therein. Section 28(2) of the Telecommunications Act provides that the CRTC may allocate satellite capacity to particular broadcasting undertakings if it is satisfied that the allocation will further the implementation of the broadcasting policy for Canada.

Telesat Canada was originally established by the Government of Canada in 1969, under the Telesat Act. As part of the Canadian government's divestiture of its shares in Telesat Canada, pursuant to the Telesat Canada Reorganization and Divestiture Act (1991), or the Telesat Divestiture Act, Telesat Canada was continued on March 27, 1992 as a business corporation under the Canada Business Corporations Act, the Telesat Act was repealed and the Government sold its shares in Telesat Canada. Under the Telesat Divestiture Act, Telesat Canada remains subject to certain special conditions and restrictions. The Telesat Divestiture Act provides that no legislation relating to the solvency or winding-up of a corporation applies to Telesat Canada and that its affairs cannot be wound up unless authorized by an Act of Parliament. In addition, Telesat Canada and its shareholders and directors cannot apply for Telesat Canada's continuation in another jurisdiction or dissolution unless authorized by an Act of Parliament.

United States Regulatory Environment

The Federal Communications Commission, or FCC, regulates the provision of satellite services to, from or within the United States. Certain of Telesat Canada's satellites are owned and operated through a US subsidiary and are regulated by the FCC.

Telesat has chosen to operate its US-authorized satellites on a non-common carrier basis, and it is not subject to rate regulation or other common carrier regulations enacted under the US Communications Act of 1934. Telesat

Canada pays FCC filing fees in connection with its space station and earth station applications and annual fees to defray the FCC's regulatory expenses. Annual and quarterly status reports must be filed with the FCC for interstate/international telecommunications, and Telesat Canada must contribute funds supporting the FCC's Universal Service Fund, or USF, with respect to eligible United States telecom revenues on a quarterly and annual basis. The USF contribution rate is adjusted quarterly and is currently set at 9.5% of eligible revenue for the first quarter of 2009. At the present time, the eligible revenue to determine USF contributions excludes revenue from bare transponder capacity (space segment only agreements).

The FCC currently grants satellite authorizations on a first-come, first-served basis to applicants who demonstrate that they are legally, technically and financially qualified, and where the public interest will be served by the grant. There are no assurances that applications will be granted. Under licensing rules, a bond must be posted for up to $3 million when an FSS satellite authorization is granted. Some or the entire amount of the bond may be forfeited if there is failure to meet any of the milestones imposed under the authorization (including milestones for satellite construction, launch and commencement of operations). Under current licensing rules, the FCC will issue new satellite licenses for an initial 15-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 the 15 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.

Telesat Canada, through its U.S. subsidiary, Skynet Satellite Corporation, has FCC authorization for one existing US-licensed satellite which operates in the Ku-band: Telstar 12 at 15° WL. In addition, Skynet Satellite Corporation has FCC authorization for Telstar 11N which will operate as a US-licensed satellite in the Ku-band at 37.55° WL.

To facilitate the provision of FSS satellite services in C- and Ku-band frequencies in the United States market, foreign licensed operators can apply to have their satellites placed on the FCC's Permitted Space Station List. Telesat Canada's Anik Fl, Anik Fl-R,

Anik F2, and Anik F3 satellites are currently on this list. The FCC Order placing Anik F2 on the list also approved Telesat Canada's application to use Ka-band capacity on this satellite to provide two-way broadband communications services in the United States.

The United States made no WTO commitment to open its DTH, DBS or digital audio radio services to foreign competition, and instead indicated that provision of these services by foreign operators would be considered on a case-by-case basis, based on an evaluation of the effective competitive opportunities open to United States operators in the country in which the foreign satellite was licensed (i.e., an ECO-sat test) as well as other public interest criteria. While Canada currently does not satisfy the ECO-sat test in the case of DTH and DBS service, the FCC has found, in a number of cases, that provision of these services into the United States using Canadian-licensed satellites would provide significant public interest benefits and would therefore be allowed. United States service providers, Digital Broadband Applications Corp., DIRECTV and EchoStar, have all received FCC approval to access Canadian-authorized satellites under Telesat Canada's direction and control in Canadian-licensed orbital locations to provide DTH-FSS or DBS service into the United States.

The approval of the FCC for the Telesat Canada transaction was conditioned upon compliance by Telesat Canada with commitments made to the Department of Justice, the Federal Bureau of Investigation, and the Department of Homeland Security relating to the availability of certain records and communications in the United States in response to lawful United States law enforcement requests for such access.

Regulation Outside Canada and the United States

Telesat Canada also operates satellites through licenses granted by countries other than Canada and the United States.

The Brazilian national telecommunications agency, ANATEL, has authorized Telesat Canada, through its subsidiary, Telesat Brasil Capacidade de Satelites Ltda. (TBCS), to operate a Ku-band FSS satellite. The satellite, known as Telstar 14 or as Estrela do Sul 1, is operating at 63° WL pursuant to a Concession Agreement with ANATEL. The Concession was initially issued for a fifteen (15) year term that began on May 5, 1999, and is

renewable for a second fifteen (15) year term. The Concession Agreement obligates TBCS to operate the satellite in accordance with Brazilian telecommunications law and contains provisions to enable ANATEL to levy fines for failure to perform according to the Concession terms. On December 19, 2008, TBCS entered into a new 15-year Concession Agreement with ANATEL. This agreement allows TBCS to operate a Ku-band satellite at 63 º WL, after May 2014, without the requirement to dedicate half of the prime power of the spacecraft to serve only Brazil. Because a concessionaire cannot have in effect two Concession Agreements for the same orbital slot at the same time, TBCS was required to surrender the May 1999 Concession. Brazil also has a Universal Service Fund (FUST) to subsidize the cost of telecommunications service in Brazil. The sale of "bare transponder capacity" in Brazil, however, which is TBCS's primary business, is not considered a telecommunications service and revenues from such sales are not assessable for contributions to the fund. TBCS is also our legal representative for sale of capacity on Telstar 12 in Brazil. Any Brazilian entity that wishes to lease Telstar 12 capacity must lease it from TBCS and remit payment in Brazil.

Pursuant to agreements with APT Satellite Holdings Limited (APT), Telesat Canada, through its subsidiary Telesat Asia Pacific Satellite (HK) Limited, has the fully-paid right to use and sublease the capacity of Telstar 10 (except for one C-band transponder). Telstar 10 is operated by APT which has been granted the right to use the 76.5° EL orbital location by the Government of Hong Kong, People's Republic of China. Telesat Canada, through its subsidiary Telesat Satellite LP, owns Telstar 18, which operates at the 138° EL orbital location under an agreement with APT, which has been granted the right to use the 138° EL orbital location by The Kingdom of Tonga. APT is the direct interface with these regulatory bodies. Because Telesat Canada gained access to these orbital locations through a third party (APT), there is uncertainty with respect to its ability to maintain access to these orbital locations for replacement satellites.

In addition to regulatory requirements governing the use of orbital locations, most countries regulate transmission of signals to and from their territory. Telesat Canada has landing rights in more than 140 countries worldwide.

International Regulatory Environment — International Telecommunication Union

The ITU is responsible for allocating the use by different countries of a finite number of orbital locations and radio frequency spectrum available for use by commercial communications satellites. The ITU Radio Regulations set forth the processes that governments must follow to apply for and secure rights to use orbital locations and the obligations and restrictions that govern such use. The ITU Radiocommunication Bureau (ITU-BR) is responsible for receiving, examining, tracking and otherwise managing the applications in the context of the rules set forth in the Radio Regulations. The process includes, for example, a "first in time, first in right" system for assigning rights to orbital locations and time limits for bringing orbital locations into use.

In accordance with the ITU Radio Regulations, as noted above, the Canadian and other governments have rights to use certain orbital locations and frequencies. These governments have in turn authorized Telesat Canada to use several orbital locations and radio frequencies in addition to those used by its current satellites. Under the ITU Radio Regulations, Telesat Canada must begin using these orbital locations and frequencies within a fixed period of time, or the governments in question would lose their priority rights and the orbital location and frequencies likely would become available for use by another satellite operator.

The ITU Radio Regulations also govern the process used by satellite operators to coordinate their operations with other nearby satellites, so as to avoid harmful interference. Under current international practice, satellite systems are entitled to protection from harmful radio frequency interference from all other satellite systems and other transmitters in the same frequency band only if the operator's authorizing government registers the orbital location, frequency and use of the satellite system in the ITU's Master International Frequency Register, or MIFR. Each member state is required to give notice of, coordinate and register its proposed use of radio frequency assignments and associated orbital locations with the ITU-BR. This ensures that there is an orderly process to accommodate each country's orbital location needs.

Once a member state has advised the ITU-BR that it desires to use a given frequency at a given orbital location, other member states notify that state and the ITU-BR of any use or intended use that would conflict with the original proposal. These nations are then obligated to negotiate with each other in an effort to coordinate the

proposed uses and resolve interference concerns. If all outstanding issues are resolved, the member state governments so notify the ITU-BR, and the frequency use is registered in the MIFR. Following this notification, the registered satellite networks are entitled under international law to interference protection from subsequent or nonconforming uses. A state is not entitled to invoke the protections in the ITU Radio Regulations against harmful interference if that state decided to operate a satellite at the relevant orbital location without completing the coordination and notification process.

In the event disputes arise during the coordination process or thereafter, the ITU Radio Regulations do not contain a mandatory dispute resolution mechanism or an enforcement mechanism. Rather, the rules invite a consensual dispute resolution process for parties to reach a mutually acceptable agreement. Neither the rules nor international law provide a clear remedy for a party where this voluntary process fails. Some of Telesat Canada's satellites have been coordinated and registered in the MIFR and therefore enjoy priority over all later-filed requests for coordination and any non-conforming uses. In other cases, entry into the MIFR is still pending. While the ITU Radio Regulations, however, set forth procedures for resolving disputes, as a practical matter, there is no mandatory dispute resolution and no mechanism by which to enforce an agreement or entitlement under the rules.

Although non-governmental entities, including Telesat Canada, participate at the ITU, only national administrations have full standing as ITU members. Consequently, Telesat Canada must rely on the government administrations of Canada, the United States, Brazil, Tonga, the United Kingdom and China (respectively, Industry Canada, the FCC, ANATEL, the Tonga administration, OFCOM and MII through APT) to represent its interests in those jurisdictions, including filing and coordinating orbital locations within the ITU process with the national administrations of other countries, obtaining new orbital locations and resolving disputes through the consensual process provided for in the ITU's rules.

PATENTS AND PROPRIETARY RIGHTS

Satellite Manufacturing

SS/L relies, in part, on patents, trade secrets and know-how to develop and maintain its competitive position. It holds 183 patents in the United States and has applications for eight 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 inspection technology. The SS/L patents that are currently in force expire between 2009 and 2025.

Satellite Services

Telesat Canada has 11 patents, all in the United States. These patents expire between 2016 and 2021. Telesat Canada also has three patents pending.

There can be no assurance that any of the foregoing pending patent applications will be issued. Moreover, there can be no assurance that infringement of existing third party patents has not occurred or will not occur. Additionally, because the U.S. and Canadian 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 or Telesat Canada would infringe. In such event, to obtain a license from a patent holder, royalties would have to be paid, which would increase the cost of doing business. Moreover, in the case of SS/L, it would be required to refund money to customers for components that are not useable as a result of such infringement or redesign its products in a manner to avoid infringement. SS/L may also be required under the terms of its customer contracts to indemnify its customers for related damages.

RESEARCH AND DEVELOPMENT

Satellite Manufacturing

SS/L's research and development expenditures involve the design, experimentation and the development of space and satellite products. Research and development costs are expensed as incurred. SS/L's research and development costs were $35 million for 2008, $37 million for 2007 and $20 million for 2006, respectively, and are included in selling, general and administrative expenses.

Satellite Services

Telesat Canada's research and development expenditures are incurred for the studies associated with advanced satellite system designs, and experimentation and development of space, satellite and ground communications products. This also includes the development of innovative and cost effective satellite applications for sovereignty, defense, broadcast, broadband, and enterprise services segments. Telesat Canada has undertaken proof-of-concept interactive broadband technologies trials to provide much needed health, education, government and other applications to remote and under-served areas. It continues to research advanced compression and transmission technology to support HDTV and other advanced television services and evaluate technology on behalf of the World Broadcast Union and European Space Agency. As a result of this work, Telesat Canada continues to maintain an international reputation as a leader in the investigation and development of both broadband and broadcast technologies and applications. Telesat Canada's research and development expenditures were approximately $2.7 million for 2008 and $0.5 million for the two month period ended December 31, 2007.

FOREIGN OPERATIONS

Loral's sales to foreign customers, primarily in Asia, Europe, Canada and Mexico represented 30%, 20% and 13% of our consolidated revenues for the years ended December 31, 2008, 2007 and 2006, respectively.

Satellite Manufacturing

SS/L's sales to foreign customers, primarily in Asia, Europe, Canada and Mexico, represented 29%, 16% and 6% of SS/L revenues for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008 and 2007, substantially all of our long-lived assets were located in the United States. See Item 1A — Risk Factors below for a discussion of the risks related to operating internationally. See Note 15 to the Loral consolidated financial statements for detail on our domestic and foreign sales.

Satellite Services

Telesat Canada's sales to non-U.S. customers, primarily in Canada, Asia, Europe and Latin America represented 66% of its consolidated revenues for the year ended December 31, 2008. At December 31, 2008, substantially all of its long-lived assets were located outside of the United States, primarily in Canada, with the exception of in-orbit satellites.

EMPLOYEES

As of December 31, 2008, Loral had approximately 2,300 full-time employees and approximately 200 contract employees, none of whom are subject to collective bargaining agreements. Almost all of the foregoing employees are employed in the satellite manufacturing segment. We consider our employee relations to be good.

As of December 31, 2008, Telesat Canada, including subsidiaries, had 455 full-time employees, approximately 2% of whom are subject to collective bargaining agreements. Telesat Canada considers its 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 Avenue, 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 and Telesat Canada Investment Risk Factors

Our revenues and profitability may be adversely affected by the current global financial downturn, and negative global economic conditions may have a material adverse effect on our customers and suppliers.

Worldwide economic conditions have recently deteriorated significantly affecting the global financial markets and have caused significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions in equity and currency values in financial markets and extreme volatility in credit, equity and fixed income markets and general economic uncertainty. Continuing adverse global economic conditions may have a materially adverse effect on us due to potential insolvency of suppliers and customers, inability of customers to obtain financing for their satellites and transponder leases, decreased or delayed customer demand, delays in supplier performance and contract terminations. Our customers may not have access to capital or a willingness to spend capital on satellites and transponder leases, and/or their levels of cash liquidity with which to pay for satellites and transponder leases may be adversely affected. Further, the economic downturn may adversely affect our suppliers' access to capital and liquidity with which to maintain their inventories, production levels and/or product quality, could cause them to raise prices or result in their ceasing operations. If global economic conditions remain uncertain or deteriorate further, we may experience a material adverse affect on our business, operating results and financial condition. These potential effects of the current financial situation are difficult to forecast and mitigate.

We have had a history of losses.

We have had a history of losses and expect such losses to continue in the near term. We incurred net losses of approximately $693 million, $87 million (not including the gain on the contribution of Loral Skynet to Telesat Canada and related derivative gains of $194 million, and the tax effect of $78 million), and $23 million for the years ended December 31, 2008, 2007 and 2006, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." There can be no assurance that Loral will achieve profitability in the near future.

The Space Systems/Loral credit agreement is subject to financial and other covenants that must be met for SS/L to utilize the Revolving Facility.

On October 16, 2008, SS/L entered into a credit agreement with several banks and other financial institutions. The SS/L credit agreement provides for a $100 million senior secured revolving credit facility. The revolver is for a term of three years, maturing on October 16, 2011. This credit agreement contains certain covenants, both financial and non-financial, which SS/L must be able to meet to draw on the revolver. The covenants include, among other things, a consolidated leverage ratio test, a consolidated interest coverage ratio test and restrictions on the incurrence of additional indebtedness, capital expenditures, investments, dividends or stock repurchases, asset sales, mergers and consolidations, liens, changes to the line of business and other matters customarily restricted in such agreements. There can be no assurances that SS/L will be able to meet its covenant requirements and maintain the availability to use the revolver. SS/L's liquidity would be materially and adversely affected if it is unable to do so.

During 2008, we used significant cash in our operations. For 2009, though we are projecting positive operating cash flow, there can be no assurances that we will achieve this and have sufficient funds to meet our cash requirements.

During 2008, the Company used cash of approximately $252 million before borrowings. Though our projections for 2009 reflect positive operating cash flows , there can be no assurances that we will be able to do so. We may be required to obtain new financing, either in the form of debt or equity, to increase our cash availability. In light of current market conditions, there can be no assurance that we will be able to obtain such financing on favorable terms, if at all. If we are not successful in obtaining such financing, our ability to manage unforeseen cash requirements, to meet contingencies and to fund growth opportunities will be materially and adversely affected.

Loral Space & Communications Inc., the parent company, is a holding company with no operations; we are dependent on cash flow from our operating subsidiaries and affiliates to meet our financial obligations.

The parent company is a holding company with three primary assets, its equity interests in its wholly-owned subsidiary, SS/L, and its affiliates, Telesat Canada and XTAR. The parent company has no independent operations or operating assets. The ability of SS/L, Telesat Canada and XTAR to make payments or distributions to the parent company, whether as dividends or as payments under applicable management agreements or otherwise, will depend on their operating results, including their ability to satisfy their own cash flow requirements and obligations including, without limitation, their debt service obligations. Moreover, covenants contained in the debt agreements of SS/L and Telesat Canada impose substantial limitations on their ability to remit funds to the parent company. Even if the applicable debt covenants would permit Telesat Canada to pay dividends, the parent company will not have the ability to cause Telesat Canada to do so. See below “While we own 64% of Telesat Canada on an economic basis, we own only 33 $^{1}/_{3}$% of its voting stock and therefore do not have the right to elect or appoint a majority of its Board of Directors.” Likewise, any dividend payments by XTAR would require the prior consent of our Spanish partner in the joint venture.

The parent company earns a management fee of $5 million a year from Telesat Canada. Telesat Canada’s loan documents permit this management fee from Telesat Canada to be paid to the parent company only in the form of notes, with such fee becoming payable in cash only at such time that Telesat Canada meets certain financial performance criteria set forth in the loan documents. We do not expect Telesat Canada to be able to meet this criteria in the next year.

SS/L pays the parent company a management fee of $1.5 million in cash each year. The parent company also allocates a portion of its annual overhead expenses to SS/L. The parent company did not require SS/L to make any overhead expense allocation payments to it in 2008. The SS/L credit agreement restricts payment to the parent company to an amount not to exceed $15 million in any fiscal year and imposes a liquidity restriction that must be met for SS/L to make such payment. There can be no assurance that SS/L will be permitted to make these payments in the future.

While we own 64% of Telesat Canada on an economic basis, we own only 33 $^{1}/_{3}$% of its voting stock and therefore do not have the right to elect or appoint a majority of its Board of Directors.

Because of Canadian foreign ownership restrictions, while we own 64% of the economic interests of Telesat Canada, we hold only 33 $^{1}/_{3}$% of its voting interests and cannot hold additional voting power in Telesat Canada absent a change in law. The governance and management of Telesat Canada is vested in its ten-member Board of Directors, comprised of three Loral appointed directors, three PSP appointed directors and four independent directors, two of whom also own Telesat Canada shares with nominal economic value and 30% and 6 $^{2}/_{3}$% of the voting interests for Telesat Canada directors, respectively. While we own a greater voting interest in Telesat Canada than any other single stockholder with respect to election of directors and we and PSP, which owns 30% of the voting interests for directors and 66 $^{2}/_{3}$% of the voting interests for all other matters, together own a majority of Telesat Canada’s voting power, circumstances may occur where our interests and those of PSP diverge or are in conflict. In that case, PSP, with the agreement of at least three of the four independent directors may, subject to veto rights that we have under Telesat Canada’s shareholders agreement, cause Telesat Canada to take actions contrary to

our wishes. These veto rights are however, limited to certain extraordinary actions — for example, the incurrence of more than $100 million of indebtedness or the purchase of assets at a cost in excess of $100 million. Moreover, our right to block these actions under the shareholders agreement falls away if either (i) ownership or control, directly or indirectly by Dr. Mark H. Rachesky (President of MHR Fund Management LLC, or MHR, which, through its affiliated funds is our largest stockholder) of our voting stock falls below certain levels or (ii) there is a change in the composition of a majority of the members of Loral's board of directors over a consecutive two-year period.

Our equity investment in Telesat Canada may be at risk because Telesat Canada is highly leveraged.

At December 31, 2008, Telesat Canada had outstanding indebtedness of CAD 3.5 billion and additional borrowing capacity of CAD 153 million under its revolving facility, based on a U.S. dollar/Canadian dollar exchange rate of $1.00/CAD 1.2188. Approximately CAD 2.5 billion of this total borrowing capacity is secured debt that is secured by substantially all of the assets of Telesat Canada. This indebtedness represents a significant amount of indebtedness for a company the size of Telesat Canada. The agreements governing this indebtedness impose operating and financial restrictions on Telesat Canada's activities. These restrictions on Telesat Canada's ability to operate its business could seriously harm its business by, among other things, limiting its ability to take advantage of financing, merger and acquisition and other corporate opportunities, which could in time adversely affect the value of our investment in Telesat Canada.

As of December 31, 2008, Telesat Canada has indebtedness of $2.0 billion which bears interest at variable rates. If market interest rates were to rise, this would result in higher debt service requirements. To alleviate a portion of this risk, in 2007 Telesat Canada entered into interest rate swaps that converts $600 million of its outstanding floating U.S. dollar debt and CAD 630 million of its outstanding Canadian dollar debt into fixed rate debt for periods extending into 2010 and 2011. In 2008, Telesat Canada converted its bridge loan facilities into fixed rate securities.

Telesat Canada's indebtedness includes $1.7 billion that is denominated in U.S. dollars and is unhedged with respect to foreign exchange rates. Unfavorable exchange rate changes could impact Telesat Canada's ability to repay or refinance this debt.

A breach of the covenants contained in any of Telesat Canada's loan agreements, including without limitation, a failure to maintain the financial ratios required under such agreements, could result in an event of default. If an event of default were to occur, the lenders would be able to accelerate repayment of the related indebtedness, and it may also trigger a cross default under other Telesat Canada indebtedness. If Telesat Canada is unable to repay its secured indebtedness when due (whether at the maturity date or upon acceleration as a result of a default), the lenders will have the right to proceed against the collateral granted to them to secure such indebtedness, which consists of substantially all of the assets of Telesat Canada and its subsidiaries. Telesat Canada's ability to make payments on, or repay or refinance its debt, will depend largely upon its future operating performance. In the event that Telesat Canada is not able to service its indebtedness, there would be a material adverse effect on the value of our equity investment in Telesat Canada.

Telesat Canada also has CAD 141 million of 7% senior preferred stock that may be redeemed by the holders thereof commencing October 31, 2019, which preferred stock enjoys rights of priority over the Telesat Canada equity securities held by us.

Certain asset sales by Telesat Canada may trigger material adverse tax consequences for us.

Upon completion of the Telesat Canada transaction, we deferred a tax gain of approximately $308 million arising from the contribution by Loral Skynet to Telesat Canada of substantially all of its assets and related liabilities. However, if Telesat Canada were to sell or otherwise dispose of substantially all of such contributed assets in a taxable transaction prior to November 1, 2012, we would be required to recognize this deferred gain with retroactive effect to 2007, resulting in additional tax liability to us of approximately $119 million plus interest. Telesat Canada has agreed that prior to November 1, 2012, without our prior consent, it will not dispose of assets having a value, whether individually or in the aggregate, in excess of $50 million if such disposition would, in our reasonable determination, result in an adverse tax consequence to us. If we were to exercise this veto right and

prevent Telesat Canada from consummating such an asset sale, it may, however, adversely affect the value of our investment in Telesat Canada.

The Telesat Canada information in this report is based solely on information provided to us by Telesat Canada.

Because we do not control Telesat Canada, we do not have the same control and certification processes with respect to the information contained in this report on our satellite services segment that we have for the reporting on our satellite manufacturing segment. We are also not involved in managing Telesat Canada's day to day operations. Accordingly, the Telesat Canada information contained in this report is based solely on information provided to us by Telesat Canada and has not been separately verified by us.

Telesat Canada's financial results and our U.S. dollar reporting of Telesat Canada's financial results will be affected by volatility in the Canadian/U.S. dollar exchange rate.

Portions of Telesat Canada's revenue, expenses and debt are denominated in U.S. dollars and changes in the U.S. dollar/Canadian dollar exchange rate can have a negative impact on Telesat Canada's financial results and impact the ability of Telesat Canada to repay or refinance its borrowings.

Loral reports its investment in Telesat Canada in U.S. dollars while Telesat Canada reports its financial results in Canadian dollars. Loral reports its investment in Telesat Canada using the equity method of accounting. As a result, Telesat Canada's results of operations will be subject to conversion from Canadian dollars to U.S. dollars. Changes in the U.S. dollar relationship to the Canadian dollar will affect how the financial results as they relate to Telesat Canada are reported in our financial statements. There was a significant movement in USD/CAD exchange rates during 2008; the exchange rate moved from US$1.00/CAD .9984 at December 31, 2007 to US$1.00/CAD 1.2188 at December 31, 2008.

Our indebtedness makes us vulnerable to adverse developments.

On October 16, 2008, SS/L entered into a $100 million secured credit agreement that contains financial and non-financial covenants which SS/L must operate under if it is to maintain the availability of the facility. There are currently no restrictions on the parent company to incur additional indebtedness. Restrictions that had existed under the terms of the February 2007 Loral preferred stock financing have been removed with the Implementing Order issued by the Court of Chancery of the State of Delaware in the *In re: Loral Space & Communications Consolidated Litigation* . If new debt is added, such indebtedness could impose additional restrictive covenants. The incurrence of the SS/L debt and any additional significant debt that we may incur, makes us vulnerable to, among other things, adverse changes in general economic, industry and competitive conditions.

XTAR has not generated sufficient revenues to meet all of its contractual obligations, which are substantial.

XTAR's take-up rate in its service has been slower than anticipated. As a result, it has deferred certain payments owed to us, Hisdesat and Telesat Canada, including payments due under an agreement with Hisdesat to lease certain transponders on the Spainsat satellite. These lease obligations were $13.2 million in 2007 and $23 million in 2008 with increases thereafter to a maximum of $28 million per year through the end of the useful life of the satellite. As of December 31, 2008, XTAR's lease payables to Hisdesat were $32.3 million. While Hisdesat has agreed to defer amounts owed to it under this lease agreement, XTAR's lease obligations to Hisdesat, which will aggregate in excess of $356 million over the life of the satellite, are substantial, especially in light of XTAR's limited revenues to date. XTAR has agreed that most of its excess cash balance would be applied towards making limited payments on these lease obligations, as well as payments of other amounts owed to Hisdesat and Telesat Canada in respect of services provided by them to XTAR. Unless XTAR is able to generate a substantial increase in its revenues, these lease obligations will continue to accrue and grow, which may have a material and adverse effect on our equity interests in XTAR. As of December 31, 2008, $1.3 million was due to Loral from XTAR.

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 affected by the amount of expense we record for our pension and other postretirement benefit plans. Generally accepted accounting principles in the United States (GAAP) 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 and, at the time of the measurement, we may be required to take 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." During 2008, we recorded expense of $9.5 million related to pension and other postretirement benefit plans and made $31 million in employer contributions. During 2009, based upon current estimates, we expect to expense approximately $21.5 million related to pension and other postretirement benefit plans and make approximately $28 million in employer contributions. Our expense and contributions in the future will depend, among other things, on the key economic factors underlying these assumptions.

The increase in expense from 2008 to 2009 is the result of the reduction in the value of our plan assets caused by significant declines in the financial markets. This expense increase is comprised of the lower expected return on plan assets and amortization of actuarial losses. Although cash contributions in 2009 are not projected to exceed 2008 contributions, we expect significant increases in funding requirements subsequent to 2009. Additional asset decreases like those experienced during 2008 could further increase future expenses recognized in our statement of operations and increase, typically over seven years, the requirement for future cash contributions by us.

II. Segment Risk Factors

• 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 Lockheed Martin, Boeing and Orbital Sciences in the United States, Thales Alenia Space and EADS Astrium in Europe and Mitsubishi Electric Corp. in Japan, nearly all of which are larger and better capitalized than we are. SS/L 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 comply with U.S. export control and other federal regulations that put them at a disadvantage when competing for foreign customers. Moreover, as a result of our acquisition of Telesat Canada, SS/L may experience difficulty in obtaining orders from certain customers engaged in the satellite services business who compete with Telesat Canada. 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. Buyers, as a result, have had the advantage over suppliers in negotiating prices, terms and conditions resulting in reduced margins and increased assumption of risk by SS/L.

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. In order to maintain its ability to compete as one of the leading prime contractors for technologically advanced space satellites, 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, thus reducing SS/L's flexibility to take action to reduce workforce costs in the event of a slowdown or downturn in its business. Further,

SS/L's ability to compete is dependent upon its maintaining specialized manufacturing and test facilities with fixed costs that cannot be adjusted to account for significant variance in production requirements or economic conditions.

SS/L's contracts are subject to adjustments, cost overruns 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 attainment of certain program milestones. If performance on these milestones is delayed, SS/L's receipt of the corresponding payments will also be delayed. As the prime contractor, SS/L is generally liable to its customer for schedule delays and other non-performance by SS/L's suppliers, which may be largely outside of its control.

Non-performance can increase costs and subject SS/L to damage claims from customers and termination of the contract for SS/L's default. A failure by SS/L to deliver a satellite to its customer by the specified delivery date, which may result from factors beyond SS/L's control, such as delayed performance or non-performance by its subcontractors or failure to obtain necessary governmental licenses for delivery, would also be harmful to SS/L unless mitigated by applicable contract terms, such as excusable delay. As a general matter, SS/L's failure to deliver beyond any contractually provided grace period would result in the incurrence of liquidated damages by SS/L, which may be substantial, and if SS/L is still unable deliver the satellite upon the end of the liquidated damages period, the customer will generally have the right to terminate the contract for default. If a contract is terminated for default, SS/L would be liable for a refund of customer payments made to date, and could also have additional liability for excess re-procurement costs and other damages incurred by its 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 may be terminated for convenience 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.

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.

Certain of SS/L's customers are not creditworthy and may not fulfill their contractual payment obligations to SS/L.

Historically, SS/L's customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, however, SS/L has added commercial customers that are highly leveraged, as well as those in the development stage that are only partially funded. There is a risk that these customers will be unable to meet their payment obligations to SS/L under their construction contracts. This risk is increased due to the current economic conditions. A customer's inability to fulfill its payment obligations to SS/L may materially and adversely affect SS/L's revenues.

Moreover, some 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. To the extent that SS/L provides vendor financing to customers, its financial exposure is further increased. In some cases, these arrangements are provided to customers that are start-up companies, companies in the early stages of building their businesses or highly leveraged companies, in some cases, with near-term debt maturities. As of December 31, 2008, SS/L had recorded orbital receivables of $181 million, of which $74 million was from these companies. 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 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. SS/L generally does not insure for these incentive payments (also known as orbital 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, 2008, SS/L had orbital receivables of $181 million to be received over 15 years from launch. 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. See above "SS/L's contracts are subject to adjustments, cost overruns and termination."

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 14 to the Loral 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 Telesat Canada, have experienced minor losses of power from their solar arrays.

Twenty-seven satellites built by SS/L have experienced partial 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 implemented remediation measures that SS/L believes will prevent satellites launched after June 2001 from experiencing similar anomalies. For further details see Note 14 to the Loral 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, Galaxy 27 (formerly Telstar 7) experienced an anomaly which caused it to completely cease operations for several days before it was partially recovered. In June 2008, Galaxy 26 (formerly Telstar 6) experienced a similar anomaly which caused the loss of power to one of the satellite's solar arrays. Three other satellites manufactured by SS/L for other customers have designs similar to Galaxy 27 and Galaxy 26 and, therefore, could be susceptible to similar anomalies in the future. A partial or complete loss of these satellites could result in the incurrence of warranty payments by SS/L of up to $4.6 million, of which $0.9 million has been accrued as of December 31, 2008.

We are subject to export control and economic sanctions laws, which may result in delays, lost business 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 or provide defense services to foreign persons. In addition, if a satellite project involves countries, individuals or entities that are the subject of U.S. economic sanctions, which we refer to here as Sanctions Targets, or is intended to provide services to Sanctions

Targets, SS/L's participation in the project may be prohibited altogether or licenses or other approvals from the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") may be required. The delayed receipt of or the failure to obtain the necessary U.S. Government licenses, approvals and agreements may prohibit entry into or interrupt the completion of a satellite contract by SS/L and could lead to a customer's termination of a contract for SS/L default, monetary penalties and/or the loss of incentive payments. We have in the past failed to obtain the export licenses necessary to deliver satellites to our Chinese customers.

Some of our customers and potential customers, along with insurance underwriters and brokers, have asserted that U.S. export control laws and regulations governing disclosures to foreign persons excessively restrict their access to information about the satellite during construction and on-orbit. OFAC sanctions and requirements may also limit certain business opportunities or also delay or restrict our ability to contract with potential foreign customers or operators. To the extent that our non-U.S. competitors are not subject to these export control or economic sanctions 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. For example, one of our European competitors, Thales Alenia Space, is offering "ITAR-free" telecommunications satellites, that purport to contain no components obtained from United States sources who are subject to the export and re-export limitations imposed by the U.S. International Traffic in Arms Regulations or ITAR. Customers concerned over the possibility that the U.S. government may deny the export license necessary for SS/L to deliver to them their purchased satellite, or the restrictions or delays imposed by the U.S. government licensing requirements even where an export license is granted, may elect to choose a purportedly "ITAR-free" satellite over an SS/L satellite. We are further disadvantaged by the fact that an "ITAR-free" satellite can be launched in China on the substantially cheaper Chinese Long March rocket, a launch vehicle that, because of ITAR restrictions, is not available to SS/L or other suppliers subject to ITAR restrictions.

The recent trend toward industry consolidation in the satellite services industry may adversely affect us; we do not control satellite procurement decisions at Telesat Canada.

The recent industry consolidation trend has resulted 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.

In the past, Loral Skynet has purchased all of its satellites from SS/L. We do not, however, control satellite procurement decisions at Telesat Canada, and there can be no assurance that Telesat Canada will purchase additional satellites from SS/L. Moreover, any decision relating to the enforcement of existing or future satellite contracts between Telesat Canada and SS/L will be made on arms length terms and, in certain cases, subject to approval by the disinterested directors of Telesat Canada.

The availability of facility space and qualified personnel may affect SS/L's ability to perform its contracts in a timely and efficient manner.

SS/L has won a number of satellite construction awards over the last few years and, as a result, its backlog has expanded significantly. In order to complete construction of all the satellites in backlog and to enable future growth, SS/L has modified and expanded its manufacturing facilities. SS/L can now accommodate as many as nine to 13 satellite awards per year, depending on the complexity and timing of the specific satellites, and can accommodate the integration and test of 13 to 14 satellites at any given time in its Palo Alto facility. Nevertheless, due to scheduling requirements, SS/L is reliant on availability of outside suppliers for certain production and testing activities, and there can be no assurance that such outside suppliers will be able to accommodate SS/L's schedule requirements. Further, there can be no assurance that SS/L will be able to hire or retain enough employees with the requisite skills and training and, accordingly, SS/L may not be able to perform its contracts as efficiently as planned or grow its business to the planned level.

Our ability to obtain certain satellite contract awards depends, in part, on our ability to provide the customer with financing.

During its history, SS/L has provided financing to customers to enable it to win certain contracts. The financing has been in the form of orbital receivables, vendor financing, loans and direct investments in our customer. The SS/L Credit Agreement limits SS/L's ability to provide the customer with financing. If SS/L is unable to provide financing to the customer, it could lose the construction contract to a competitor who could provide financing.

SS/L relies on certain key suppliers whose failure or delay in performance would adversely affect us.

To build its satellites, SS/L relies on suppliers, some of whom are competitors of SS/L, to provide it with certain component parts. The number of suppliers capable of providing these components are limited, and in some cases, the supplier is in a sole source position based upon the unique nature of its product or customer requirement to procure components with proven flight heritage whenever possible. These suppliers are not all large, well-capitalized companies, and to the extent they were to experience financial difficulties, their ability to timely deliver to SS/L components that satisfy SS/L's customer contractual specifications could be impaired. In the past, SS/L's performance under its construction contracts with its customers has been adversely affected because of a supplier's failure or delay in performance. As discussed above under "— SS/L's contracts are subject to adjustments, cost overruns and termination," a failure by SS/L to meet its contractual delivery requirements could well give rise to liquidated damage payments by SS/L and/or a customer's termination of its construction contract with SS/L for default.

We face risks in conducting business internationally.

For the year ended December 31, 2008, approximately 29% of SS/L's revenue was generated from customers outside of the United States. SS/L 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 its services or by political and economic instability in the countries in which it conducts business. Almost all of SS/L's contracts with foreign customers require payment in U.S. dollars, and customers in developing countries could have difficulty obtaining U.S. dollars to pay SS/L due to currency exchange controls and other factors. Exchange rate fluctuations may adversely affect the ability of SS/L customers to pay in U.S. dollars. If SS/L needs to pursue legal remedies against its foreign business partners or customers, it may have to sue them abroad where it could be difficult for SS/L to enforce its rights.

We rely on patents, trade secrets and know-how.

SS/L relies, in part, on patents, trade secrets and know-how to develop and maintain its competitive position. It holds 183 patents in the United States and has applications for eight 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 inspection technology. The SS/L patents that are currently in force expire between 2009 and 2025. Further, there is a risk that competitors could challenge or infringe SS/L's patents.

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

Telesat Canada derives a substantial amount of its revenues from only a few of its customers. A loss of one or more of these major customers, or a material adverse change in any of such customer's business, could materially reduce its revenues and backlog.

Telesat Canada's top five customers, which include Bell TV (formerly Bell ExpressVu) and Star Choice, account for 42% of its revenues for the year ending December 31, 2008, and 80% of its backlog at December 31, 2008. Any of these major customers could refuse to renew their contracts or could seek to negotiate concessions. If its customers experience a downturn in their business, these customers may find themselves in financial difficulties or consolidate, which could result in their ceasing or reducing their use of Telesat Canada's services or becoming unable to pay for services which they had contracted to buy. Additionally, Bell TV is a part of BCE. Since Telesat

Canada is no longer affiliated with BCE, there can be no assurance that Bell TV will continue using Telesat Canada's services after the expiration of its current contracts or continue to increase its use of Telesat Canada's services consistent with its past practice. A loss of a major customer would have a material adverse effect on Telesat Canada's results of operations, business prospects and financial condition, which would in turn adversely affect us.

Launch delays or failures may result in delays in operations.

Delays in launching satellites are not uncommon and result from construction delays, the unavailability of appropriate launch vehicles, launch failures and other factors. Delays in satellite launches would result in delays in Telesat Canada's revenues, could affect plans to replace an in-orbit satellite prior to the end of its useful life, could result in the expiration or cancellation of launch insurance, could result in the loss of orbital slot rights and may result in termination of its customer contracts. Upon such termination, Telesat Canada would be required to refund any prepayments made to it by its terminating customers, which in the case of its major customers, may be substantial.

Satellite launches are risky, and some launch attempts have ended in complete or partial failure. A significant delay or launch failure of a Telesat Canada satellite may have a material adverse effect on Telesat Canada's results of operations, business prospects and financial condition, which in turn would have a material adverse effect on our results and condition.

For example, the March 15, 2008 failure of a Proton rocket to lift its satellite payload to the appropriate orbit caused a delay in the planned launch of the Nimiq 4 satellite, originally scheduled to be launched on a Proton rocket in mid-2008. Although Nimiq 4 successfully launched in September, 2008, the launch delay adversely affected Telesat Canada's financial performance for 2008 and deferred the backlog run-off previously anticipated. The launch of Nimiq 5, which is planned for the second half of 2009, may likewise also be delayed if the launch vehicle on which it is scheduled to be launched suffers a failure prior to the launch of Nimiq 5.

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

Satellites utilize highly complex technology and operate in the harsh environment of space and therefore are subject to significant operational risks while in orbit. 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.

Some of Telesat Canada's satellites have had malfunctions and other anomalies, and in certain cases are currently operating using back-up components because of the failure of their primary components. If the back-up components fail, however, and Telesat Canada is unable to restore redundancy, these satellites could lose capacity or be total losses. Any single anomaly or series of anomalies or other failure could cause Telesat Canada's revenues, cash flows and backlog to decline materially, could require it to recognize an impairment loss and could require Telesat Canada to expedite its satellite replacement program, affecting its profitability and increasing its financing needs. It could also require Telesat Canada to repay prepayments made by customers of the affected satellite. It could also result in a customer terminating its contract for service on the affected satellite. If the affected satellite involves one of Telesat Canada's major customers, there could be a material adverse effect on Telesat Canada's operations, prospects, results and financial condition, which in turn would adversely affect us.

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 insurance.

Telesat Canada's satellite insurance does not protect it against all satellite-related losses. For example, satellite insurance will not protect it against business interruption, lost revenues or delay of revenues. Telesat Canada also does not have in-orbit insurance coverage for all of the satellites in its fleet. Telesat Canada's existing launch and in-orbit insurance policies 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 satellites that are known at the time the policy is written. To the extent Telesat Canada experiences a launch or in-orbit failure that is not fully insured, or for which insurance proceeds are delayed or disputed, it may not have sufficient resources to replace the affected satellite.

Launch and in-orbit policies on satellites may not continue to be available on commercially reasonable terms or at all. The loss of a satellite may have a material adverse effect on Telesat Canada's results of operations, business prospects and financial condition, which may not be adequately mitigated by insurance coverage.

Telesat Canada competes for market share, customers and orbital slots.

A trend toward consolidation of major FSS providers has resulted in the creation of global competitors which are substantially larger than Telesat Canada in terms of both the number of satellites they have in orbit as well as in terms of their revenues. Due to their larger sizes, these operators are able to take advantage of greater economies of scale, may be more attractive to customers, and may have greater flexibility to restore service to their customers in the event of a partial or total failure. Telesat Canada also faces competition from regional operators, which may enjoy competitive advantages in their local markets. Telesat Canada's affiliation with us may also adversely affect its ability to compete for certain contracts, especially in its consulting services business. In addition, Telesat Canada competes for local regulatory approval in places where more than one provider may want to operate and for scarce frequency assignments and fixed orbital positions.

Telesat Canada's business is also subject to competition from ground based forms of communications technology. For many point-to-point and other services, the offerings provided by terrestrial companies can be more competitive than the services offered via satellite. New technology could also render satellite-based services less competitive by satisfying consumer demand in other ways. Telesat Canada's failure to compete effectively would result in, among other things, a loss of revenue and a decline in profitability, and a decrease in the value of its business.

Changes in the Canadian competitive environment could adversely affect Telesat Canada.

A substantial portion of Telesat Canada's business is expected to continue in the Canadian domestic market. This market is characterized by increasing competition and rapid technological development among satellite providers. The Canadian regulatory framework has always required the use of Canadian-licensed satellites for the delivery of DTH programming in Canada. It is possible that this framework could change and allow non-Canadian satellite operators to compete for future business from DTH customers, which constitute some of Telesat Canada's major customers.

Industry Canada, the Canadian telecommunications authority, has authorized Telesat Canada to operate at a number of orbital locations. Industry Canada has also awarded a significant number of licenses to a new Canadian satellite provider, Ciel Satellite Group, including licenses to spectrum suitable for providing a variety of satellite services to Canadian customers. Increased competition in Canada may adversely affect Telesat Canada's access rights to certain Canadian orbital locations, which in turn could adversely affect Telesat Canada's results of operations, business prospects and financial condition.

Telesat Canada operates in a highly regulated industry and government regulations may adversely affect its business.

Telesat Canada is subject to the laws of Canada and the United States and the telecommunications regulatory authorities of the Canadian government, primarily the Canadian Radio-Television and Telecommunications Commission, or CRTC, and Industry Canada, as well as those of the United States government, primarily the Federal Communications Commission, or FCC, the International Telecommunications Union, or the ITU, the European Union, Brazil, China and Isle of Man. It is also subject to the laws and regulations of other countries to, from or within which it provides services. Regulatory authorities can modify, withdraw or impose charges or conditions upon, or deny or delay action on applications for, the licenses Telesat Canada needs for its business, including its access rights to orbital positions. Countries or regulatory authorities may adopt new laws, policies or

regulations, change their interpretation of existing laws, policies or regulations or otherwise take actions in a manner that could adversely affect Telesat Canada's operations or revenues.

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 Telesat Canada satellites. These negotiations have resulted in financial concessions in the past and there can be no assurance that such concessions may not be required in the future. The failure to reach an appropriate arrangement with a third party having priority rights at or near one of its orbital slots may result in substantial restrictions on the use and operation of its satellite at that location. In addition, while the ITU rules require later-in-time systems to coordinate with it, 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 Telesat Canada's satellites.

Failure to successfully coordinate Telesat Canada's satellites' frequencies or to resolve other required regulatory approvals could have an adverse effect on its financial condition, as well as on the value of its business, which would in turn adversely affect us.

Telesat Canada's ability to replace two of its satellites is subject to additional risk and cannot be assured.

In addition to the risks with respect to Telesat Canada's ability to renew its licenses to orbital locations discussed above, there are also specific risks with respect to it being able to replace Telstar 10 and Telstar 18. Telesat Canada operates Telstar 10 and Telstar 18 pursuant to agreements with a third party that has licenses to use orbital locations controlled by China and Tonga, respectively. Although its agreements with this third party provide it with renewal rights with respect to replacement satellites, there can be no assurance that renewal rights will be granted. Should Telesat Canada be unsuccessful in obtaining renewal rights for either or both of the orbital locations, because of the control over the orbital locations exercised by foreign governments, or Telesat Canada otherwise fails to enter into agreements with the third party with respect to such replacement satellites, all revenue obtained from the affected satellite or satellites would cease. This could result in a material adverse effect on Telesat Canada's results and financial condition, which would in turn adversely affect us.

III. Other Risks

We had a material weakness in our internal control over financial reporting as of December 31, 2007 related to income tax accounting; we corrected such material weakness in 2008, but our ability to continue to timely file our future financial reports depends on maintenance of the corrective measures that we implemented, as well as the timely delivery by Telesat Canada of its financial statements.

We were unable to file our Annual Report on Form 10-K for the year ended December 31, 2007 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, by the required date, even after giving effect to the 15-day extension period granted under Rule 12b-25. This failure was due to a material weakness in our internal control over financial reporting as of December 31, 2007 related to income tax accounting. Specifically, we did not maintain adequate processes and a sufficient number of technically qualified personnel to facilitate the timely resolution of issues associated with our income tax closing process primarily relating to the Telesat Canada transaction.

During 2008, we implemented several remedial steps to improve controls surrounding our income tax closing process, including enhancing the technical resources in the income tax accounting function and conducting an evaluation of organizational processes and structure to identify and implement the appropriate solutions regarding our income tax closing process including retaining additional internal and external resources. If we are unable to maintain the corrective measures taken to remedy this material weakness — for example, if we were, for any reason, to lose the additional resources that we have retained — the material weakness could recur and could result in late filings of future financial reports. Timely filings of our future Exchange Act reports are also dependent on Telesat Canada's ability to complete its financial statements sufficiently in advance of our SEC reporting deadlines in order for us to incorporate Telesat Canada's results in our financial statements. There can be no assurance that it will be able to do so.

Late filings of Exchange Act reports could cause our common stock to be delisted from NASDAQ, which would have a material adverse effect on its liquidity and value. Also, as a result of the late filing of our Form 10-K last year, we are not currently eligible to use SEC Form S-3 for new registrations of securities. Use of that Form requires, among other things, that an issuer be current in its reports under the Exchange Act for at least twelve months. If we timely file our Quarterly Report on Form 10-Q for the first quarter of 2009, we will regain eligibility for use of Form S-3. If, however, we are late in filing any Exchange Act reports in the future, we would again lose our eligibility to use Form S-3 for registration of our securities with the SEC. We will have to meet more demanding requirements to register our securities during the time when we are not eligible to use Form S-3, so it will be more difficult for us to effect public offering transactions, and our range of available financing alternatives could be narrowed.

Third parties have significant rights with respect to our affiliates.

Third parties have significant rights with respect to, and we do not have control over management of, our affiliates. For example, Hisdesat enjoys substantial approval rights in regard to XTAR, our X-band joint venture. Also, while we own 64% of the participating shares of Telesat Canada, we own only 33 $^{1}/_{3}$% of the voting power. The rights of these third parties and fiduciary duties under applicable law could result in others acting or failing to act in ways that are not in our best interest. While these entities are or have been customers of SS/L, due to these third party rights and the fiduciary duties of the boards of these entities, there can be no assurance that these entities will continue to be customers of SS/L, and SS/L does not expect to do business with these entities on other than fair and competitive terms.

We rely on key personnel.

We need highly qualified personnel. Michael Targoff, our chief executive officer, has an employment contract expiring in December 2010. 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 may be viewed as our controlling stockholder and may have conflicts of interest with us in the future.

As of December 31, 2008, various funds affiliated with MHR held approximately 39.3% of the outstanding voting common stock of Loral as well as all issued and outstanding shares of Loral non-voting common stock, which, when taken together, represent approximately 58.7% of the common equity of Loral as of December 31, 2008. As of March 2009, representatives of MHR occupy three of the nine seats on our board of directors (seven of which are currently occupied). In addition, one of our other directors was selected by the creditors’ committee in Old Loral’s 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. Under our agreement with PSP, in the event that either (i) ownership or control, directly or indirectly, by Dr. Mark H. Rachesky, President of MHR, of our voting stock falls below certain levels or (ii) there is a change in the composition of a majority of the members of the Loral board of directors over a consecutive two-year period, we will lose our veto rights relating to certain actions by Telesat Canada. In addition, after either of these events, PSP will have certain rights to enable it to exit from its investment in Telesat Canada, including a right to cause Telesat Canada to conduct an initial public offering in which PSP’s shares would be the first shares offered or, if no such offering has occurred within one year due to a lack of cooperation from Loral or Telesat Canada, to cause the sale of Telesat Canada and to drag along the other shareholders in such sale, subject to our right to call PSP’s shares at fair market value.

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

The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the 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, 2008, we had federal net operating loss carryforwards, or NOLs, and excess capital losses of approximately $525 million and state NOLs of various amounts that are available to offset future taxable income (see Notes 2 and 9 to the Loral consolidated financial statements for a description of the accounting treatment of such NOLs). As our reorganization on November 21, 2005 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 such effective date, is subject to an annual limitation of approximately $32.6 million, subject to increase or decrease based on certain factors. If Loral experiences an additional “ownership change” during any three-year period after November 21, 2005, future use of these tax attributes may become further limited. An ownership change may be triggered by sales or acquisitions of Loral equity interests in excess of 50% by shareholders owning five percent or more of our total equity value, i.e., the total market value of our equity interests (whether common or preferred), as determined on any applicable testing date. We would be adversely affected by an additional “ownership change” if at the time of such change, our total equity value multiplied by the federal applicable long-term tax exempt rate which at December 31, 2008 was 5.4%, was less than $32.6 million.

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. Trading activity in our stock has generally been light, averaging approximately 58,000 shares per day for the year ended December 31, 2008. Moreover, over 50% of our common stock is effectively held by MHR and several other stockholders. If any of our significant stockholders should sell some or all of their holdings, it will likely have an adverse effect on our share price. Although the funds affiliated with MHR have restrictions on their ability to sell our shares under U.S. securities laws, they have registration rights in respect of the common stock and non-voting common stock they hold in Loral that would, if exercised, eliminate such restrictions.

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

As of December 31, 2008, 20,286,992 shares of our voting common stock and 9,505,673 shares of our non-voting common stock were outstanding. On that date, there were outstanding options to purchase 2,034,202 shares of our common stock, of which 1,806,077 were vested and exercisable and of which 228,125 will become vested and exercisable over the next year. In addition, as of December 31, 2008, 651,258 shares of our common stock were available for future grants under our 2005 Stock Incentive Plan. On March 5, 2009, restricted stock units totaling 110,000 shares were granted to two of our executive officers, and we agreed to grant an additional 90,000 restricted stock units to one of those officers over the next two years.. Moreover, we may further amend our stock option plan in the future to provide for additional increases in the number of shares available for grant thereunder.

In connection with a stipulation entered into with certain directors and officers of Old Loral, certain claims aggregating $30 million may result in the distribution of our common stock in addition to the 20 million shares distributed under the Plan of Reorganization. For more detail about these stipulations, see Note 14 to the Loral consolidated financial statements.

We intend to seek approval at our 2009 stockholders meeting to increase the number of our authorized shares of common stock from 40,000,000 shares to 70,000,000 shares, of which 50,000,000 will be voting common stock and 20,000,000 will be non-voting common stock.

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.

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 14 to the Loral consolidated financial statements. In addition, we are involved in a number of disputes which might result in litigation. A decision against us in any of these lawsuits or disputes could have a material adverse affect on our financial condition and our results of operations.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Corporate

We lease approximately 16,000 square feet of space for our corporate offices in New York.

Satellite Manufacturing

SS/L's research, production and testing are conducted in SS/L-owned facilities covering approximately 564,000 square feet on 28 acres in Palo Alto, California. In addition, SS/L leases approximately 616,000 square feet of space on 38 acres from various third parties primarily in Palo Alto, Menlo Park and Mountain View, California. Management believes that the facilities for satellite manufacturing, including the recently completed modification and expansion are sufficient for current operations.

Satellite Services

Telesat Canada's primary satellite control center is located at its headquarters building in Ottawa, Ontario which consists of approximately 207,000 rentable square feet on 10 acres. The headquarters building is co-owned by Telesat Canada and a pension fund, each having a fifty percent (50%) interest as tenants-in-common. Telesat has entered into a fifteen year lease (terminable by Telesat Canada at any time after ten years on two years' notice), commencing February 1, 2009, for an area in the headquarters building of approximately 112,000 rentable square feet. The balance of the area in the headquarters building is occupied by third parties.

The Allan Park earth station, located northeast of Toronto, Ontario on 70 acres of land, houses a customer support center and a technical control center. This facility is also the back-up satellite control center and the main earth station complex. Allan Park's role in Telesat Canada's operations has expanded as a result of the closure and subsequent sale in 2008 of Loral Skynet's satellite control center in Hawley, Pennsylvania and the closure of its VSAT and Internet services management center in Rockville, Maryland.

In addition to these facilities, Telesat Canada leases approximately 175,000 square feet of office space for teleport facilities, satellite control operations and for administrative and sales offices.

Item 3. *Legal Proceedings*

We discuss certain legal proceedings pending against the Company in the notes to the Loral 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 14 to the Loral consolidated financial statements 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

Loral's amended and restated certificate of incorporation provides that the total authorized capital stock of the Company is fifty million (50,000,000) shares consisting of two classes: (i) forty million (40,000,000) shares of common stock, $0.01 par value per share ("Common Stock"), divided into two series, of which 30,494,327 shares are voting common stock ("Voting Common Stock") and 9,505,673 shares are non-voting common stock ("Non-Voting Common Stock") and (ii) ten million (10,000,000) shares of preferred stock, $0.01 par value per share. Each share of Voting Common Stock and each share of Non-Voting Common Stock are identical and are treated equally in all respects, except that the Non-Voting Common Stock does not have voting rights except as set forth in Article IV(a)(iv) of the amended and restated certificate of incorporation and as otherwise provided by law. Article IV(a)(iv) of Loral's amended and restated certificate of incorporation provides that Article IV(a) of the amended and restated certificate of incorporation, which provides for, among other things, the equal treatment of the Non-Voting Common Stock with the Voting Common Stock, may not be amended, altered or repealed without the affirmative vote of holders of a majority of the outstanding shares of the Non-Voting Common Stock, voting as a separate class. Except as otherwise provided in the amended and restated certificate of incorporation or bylaws of Loral, each holder of Loral Voting Common Stock is entitled to one vote in respect of each share of Loral Voting Common Stock held of record on all matters submitted to a vote of stockholders.

Holders of shares of 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. Upon a liquidation, dissolution or winding up of Loral, the assets of Loral available to stockholders will be distributed equally per share to the holders of Loral Common Stock. The holders of Loral Common Stock do not have any cumulative voting rights. Loral Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to Loral Common Stock. All outstanding shares of Loral Common Stock are fully paid and non-assessable.

Our Voting Common Stock trades on the NASDAQ National Market under the ticker symbol "LORL." The table below sets forth the high and low sales prices of Loral Voting Common Stock as reported on the NASDAQ National Market from January 1, 2007 through December 31, 2008.

	High	Low
Year ended December 31, 2008		
Quarter ended December 31, 2008	$15.86	$ 6.04
Quarter ended September 30, 2008	18.81	13.29
Quarter ended June 30, 2008	25.42	15.02
Quarter ended March 31, 2008	34.20	21.78
Year ended December 31, 2007		
Quarter ended December 31, 2007	$45.27	$31.67
Quarter ended September 30, 2007	50.42	34.83
Quarter ended June 30, 2007	51.82	44.50
Quarter ended March 31, 2007	53.10	39.00

(b) Approximate Number of Holders of Common Stock

At March 2, 2009, there were 409 holders of record of our voting common stock and five holders of record of our non-voting common stock.

(c) Dividends

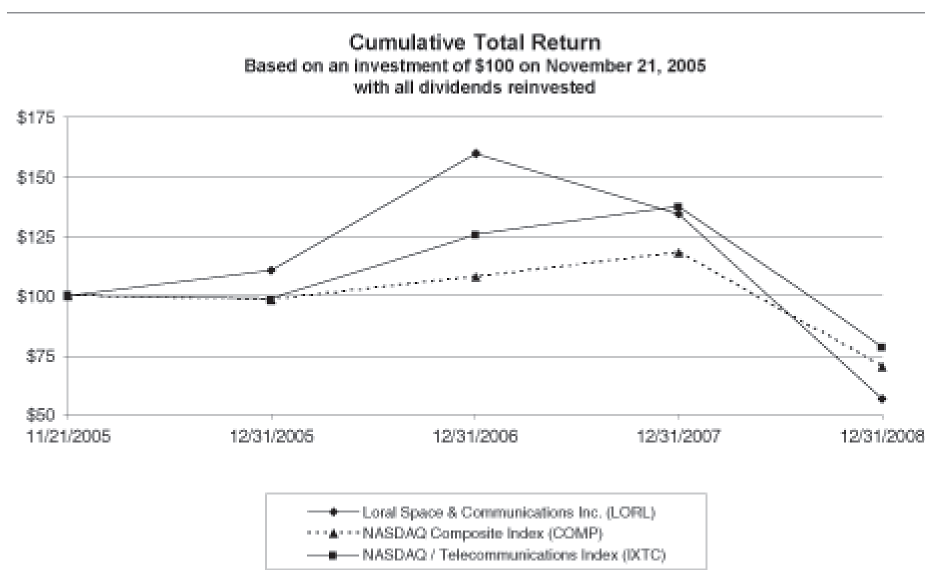
Loral's ability to pay dividends or distributions on its common stock will depend upon its earnings, financial condition and capital needs and other factors deemed pertinent by the Board of Directors. To date, Loral has not paid any dividends on its common stock.

(d) Securities Authorized for Issuance under Equity Compensation Plans

See Note 10 to the Loral consolidated financial statements for information regarding the Company's stock compensation plan. Compensation information required by Item 11 will be presented in the Company's 2009 definitive proxy statement which is incorporated herein by reference.

(e) Comparison of Cumulative Total Returns

Set forth below is a graph comparing the cumulative performance of our common stock with the NASDAQ Composite Index, and the NASDAQ Telecommunications Index from November 21, 2005, the initial issue date of our common stock upon emergence from bankruptcy, to December 31, 2008. The graph assumes that $100 was invested on November 21, 2005 in each of our common stock, the NASDAQ Composite Index and the NASDAQ Telecommunications Index and that all dividends were reinvested. The NASDAQ Telecommunications Index is a capitalization weighted index designed to measure the performance of all NASDAQ-traded stocks in the telecommunications sector, including satellite technology companies.



Item 6. ***Selected Financial Data***

The following table sets forth our selected historical financial and operating data for the years ended December 31, 2008, 2007 and 2006, the period October 2, 2005 to December 31, 2005, the period January 1, 2005 to October 1, 2005 and for the year ended December 31, 2004.

For all periods presented in the statement of operations data, 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.

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 Loral, which represented the satisfaction of the last material condition precedent to emergence from bankruptcy. We emerged

from bankruptcy on November 21, 2005 and pursuant to SOP 90-7 we adopted fresh-start accounting as of October 1, 2005. Upon emergence, our reorganization enterprise value as determined by the Bankruptcy Court was approximately $970 million, which after reduction for the fair value of Loral Skynet's 14% senior secured notes and the Loral Skynet preferred stock, resulted 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 Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* ("SFAS 141"). In addition, our accumulated deficit was eliminated, and our new debt and equity were recorded in accordance with distributions pursuant to the Plan of Reorganization. Our consolidated financial statements as of October 1, 2005 and for dates subsequent are not comparable in certain material respects to the historical consolidated financial statements for periods prior to that date.

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.

In connection with the Telesat Canada transaction, Loral, on October 31, 2007, transferred substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada. Therefore, Loral Skynet has been excluded from the selected financial data subsequent to October 31, 2007.

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	
		Year Ended December 31,		For the Period October 2, 2005 to December 31,	For the Period January 1, 2005 to October 1,	Year Ended December 31,
	2008	2007	2006	2005	2005	2004
Statement of operations data:						
Revenues:						
Satellite Manufacturing	$ 869,398	$761,363	$ 636,632	$ 161,069	$ 318,587	$ 299,608
Satellite Services	—	121,091	160,701	36,096	110,596	222,519 [1]
Total Revenues	869,398	882,454	797,333	197,165	429,183	522,127
Operating (loss) income from continuing operations [2]	(193,977)	45,256	29,818	(4,945)	(67,095)	(214,345)
Gain on discharge of pre-petition obligations and fresh-start adjustments	—	—	—	—	1,101,453 [3]	—
(Loss) income from continuing operations before income taxes, equity in net losses of affiliates and minority interest [4][5]	(151,523)	157,786	30,117	(5,395)	1,022,651	(207,852)
Income tax (provision) benefit	(45,744)	(83,457)	(20,880)	(1,752)	10,901	(13,284) [6]
(Loss) income from continuing operations before equity in net losses of affiliates and minority interest	(197,267)	74,329	9,237	(7,147)	1,033,552	(221,136)
Equity in net (losses) income of affiliates [7]	(495,649)	(21,430)	(7,163)	(5,447)	(2,796)	46,654
Minority interest	—	(23,240)	(24,794)	(2,667)	126	135
(Loss) income from continuing operations	(692,916)	29,659	(22,720)	(15,261)	1,030,882	(174,347)
Loss from discontinued operations, net of taxes	—	—	—	—	—	(2,348)
Gain on sale of discontinued operations, net of taxes	—	—	—	—	13,967	—
Net (loss) income	(692,916)	29,659	(22,720)	(15,261)	1,044,849	(176,695)
Preferred dividends	(24,067)	(19,379)	—	—	—	—
Beneficial conversion feature related to the issuance of Loral Series A-1 Preferred Stock [8]	—	(25,685)	—	—	—	—
Net (loss) income applicable to common shareholders	(716,983)	(15,405)	(22,720)	(15,261)	1,044,849	(176,695)
Basic and diluted (loss) earnings per share:						
Continuing operations	$ (35.13)	$ (0.77)	$ (1.14)	$ (0.76)	$ 23.37	$ (3.96)
Discontinued operations	—	—	—	—	0.32	(0.05)
(Loss) earnings per share	$ (35.13)	$ (0.77)	$ (1.14)	$ (0.76)	$ 23.69	$ (4.01)
Cash flow data:						
(Used in) provided by operating activities [9]	(202,210)	27,123	88,002	(38,531)	(143,827)	66,129
(Used in) provided by investing activities [10]	(47,308)	61,519	(175,978)	(5,089)	194,707	906,887
Provided by (used in) financing activities	52,372	39,510	(1,278)	120,763	—	(966,887)

	Successor Registrant				Predecessor Registrant
	December 31,				December 31,
	2008	2007	2006	2005	2004
Balance sheet data:					
Cash and cash equivalents	$117,548	$ 314,694	$ 186,542	$ 275,796	$ 147,773
Short-term investments	—	—	106,588	—	—
Total assets	995,867	1,702,939	1,729,911	1,678,977	1,218,733
Debt, including current portion	55,000	—	128,084	128,191	—
Non-current liabilities and minority interest	381,836	289,602	535,271	603,374	84,677
Liabilities subject to compromise (11)	—	—	—	—	1,916,000
Shareholders' equity (deficit)	209,657	973,558	647,002	627,164	(1,044,101)

(1) Satellite Services revenues for 2004 include $87.2 million relating to a sales-type lease.

(2) During 2008, we recorded a goodwill impairment charge of $187.9 million. In connection with the Telesat Canada transaction, which closed on October 31, 2007, we recognized a gain of $104.9 million in 2007 on the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada. See Note 6 to the Loral consolidated financial statements.

(3) 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.

(4) In connection with the Telesat Canada transaction during 2007, we recognized a gain on foreign exchange contracts of $89.4 million (see Note 13 to the Loral consolidated financial statements).

(5) During 2008, we recorded income of $58.3 million related to a gain on litigation recovery from Rainbow DBS and a loss of $19.5 million related to the award of attorneys' fees and expenses to the plaintiffs for shareholder litigation concluded during 2008.

(6) 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.

(7) Beginning October 31, 2007, our principal affiliate is Telesat Canada. Loral also has investments in XTAR and joint ventures providing Globalstar service, which are accounted for under the equity method. On December 21, 2007 Loral agreed to sell its interest in Globalstar do Brazil S.A. which resulted in Loral recording a charge of $11.3 million in 2007 (see Note 6 to the Loral consolidated financial statements). 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.

(8) As of December 23, 2008, in accordance with a court ordered restated certificate of incorporation, the previously issued Loral Series-1 Preferred stock was cancelled. As the fair value of Loral's common stock from January 1, to December 23, 2008 was less than the conversion price ($30.1504), we did not record any beneficial conversion feature during 2008 (see Note 10 to the Loral consolidated financial statements).

(9) Cash flow (used in) provided by operating activities includes cash flow from operating activities provided by discontinued operations in 2004.

(10) Cash flow (used in) provided by investing activities includes cash flow provided by (used in) investing activities of discontinued operations for the period January 1, 2005 to October 1, 2005 and 2004.

(11) As a result of our Chapter 11 filing, Old Loral's debt obligations, preferred stock obligations and certain other liabilities existing at July 15, 2003, the date Old Loral and certain of its subsidiaries filed voluntary petition for reorganization, were classified as liabilities subject to compromise on our balance sheets at December 31, 2004. These obligations were 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., a Delaware corporation, together with its subsidiaries is a leading satellite communications company with substantial activities in satellite manufacturing and investments in satellite-based communications services. Loral was formed on June 24, 2005 to succeed to the business conducted by its predecessor registrant, Loral Space & Communications Ltd. ("Old Loral"), which emerged from chapter 11 of the federal bankruptcy laws on November 21, 2005 (the "Effective Date") pursuant to the terms of the fourth amended joint plan of reorganization, as modified ("the Plan of Reorganization").

The terms, "Loral," the "Company," "we," "our" and "us," when used in this report with respect to the period prior to the Effective Date, are references to Old Loral, and when used with respect to the period commencing on and after the Effective Date, are references to Loral Space & Communications Inc. These references include the subsidiaries of Old Loral or Loral Space & Communications Inc., as the case may be, unless otherwise indicated or the context otherwise requires. The term "Parent Company" is a reference to Loral Space & Communications Inc., excluding its subsidiaries.

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

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

Disclosure Regarding Forward-Looking Statements

Except for the historical information contained in the following discussion and analysis, the matters discussed below are not historical facts, but are "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition, we or our representatives have made and may continue to make forward-looking statements, orally or in writing, in other contexts. These forward-looking statements can be identified by the use of words such as "believes," "expects," "plans," "may," "will," "would," "could," "should," "anticipates," "estimates," "project," "intend," or "outlook" or other variations of these words. These statements, including without limitation those relating to Telesat Canada, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or quantify. Actual events or results may differ materially as a result of a wide variety of factors and conditions, many of which are beyond our control. For a detailed discussion of these and other factors and conditions, please refer to the Commitments and Contingencies section below and to our other periodic reports filed with the Securities and Exchange Commission ("SEC"). We operate in an industry sector in which the value of securities may be volatile and may be influenced by economic and other factors beyond our control. We undertake no obligation to update any forward-looking statements.

Overview

Businesses

Loral is a leading satellite communications company with a satellite manufacturing unit and investments in satellite services businesses. Loral is organized into two operating segments, satellite manufacturing and satellite services. For the final two months of 2007 and going forward, Loral participates in satellite services operations principally through its investment in Telesat Canada.

Satellite Manufacturing

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

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

While its requirement for ongoing capital investment to maintain its current capacity is relatively low, over the past two years SS/L has modified and expanded its manufacturing facilities to accommodate an expanded backlog. SS/L can now accommodate as many as nine to 13 satellite awards per year, depending on the complexity and timing of the specific satellites, and can accommodate the integration and test of 13 to 14 satellites at any given time in its Palo Alto facility. The expansion has also reduced the company's reliance on outside suppliers for certain RF components and sub-assemblies.

The satellite manufacturing industry is a knowledge-intensive business, the success of which relies heavily on its technological heritage and the skills of its workforce. The breadth and depth of talent and experience resident in SS/L's workforce of approximately 2,500 personnel is one of our key competitive resources.

Satellites are extraordinarily complex devices designed to operate in the very hostile environment of space. This complexity may lead to unanticipated costs during the design, manufacture and testing of a satellite. SS/L establishes provisions for costs based on historical experience and program complexity to cover anticipated costs. As most of SS/L's contracts are fixed price, cost increases in excess of these provisions reduce profitability and may result in losses to SS/L, which may be material. Because the satellite manufacturing industry is highly competitive, buyers have the advantage over suppliers in negotiating prices, terms and conditions resulting in reduced margins and increased assumptions of risk by manufacturers such as SS/L.

Satellite Services

The satellite services business is capital intensive and the build-out of a satellite fleet requires substantial time and investment. Once these investments are made, however, the costs to maintain and operate the fleet are relatively low with the exception of in-orbit insurance. Upfront investments are earned back through the leasing of transponders to customers over the life of the satellite. After nearly 40 years of operation, Telesat Canada has established collaborative relationships with its customers so annual receipts from the satellite services business are fairly predictable with long term contracts and high contract renewal rates.

Competition in the satellite services market has been intense in recent years due to a number of factors, including transponder over-capacity in certain geographic regions and increased competition from fiber. This

competition puts pressure on prices, depending on market conditions in various geographic regions and frequency bands.

As of March 1, 2009, Telesat Canada had 12 in-orbit satellites (comprised of both owned and leased satellites). Nimiq 3 is expected to be decommissioned in the second quarter of 2009. Excluding the satellite to be decommissioned in 2009 Telesat Canada's fleet as of March 1, 2009 had an average of approximately 54% of their expected total service life remaining, with an average expected remaining service life in excess of 7.5 years. In addition, one satellite was launched in February 2009 and is expected to enter service in the second quarter of 2009, while one satellite under construction at SS/L is scheduled for launch later in 2009. The satellite under construction is already 100% contracted to Bell TV for 15 years or such later date as the customer may request.

Until the closing of the Telesat Canada transaction on October 30, 2007, Loral Skynet operated a global fixed satellite services business. As part of this business, Loral Skynet leased transponder capacity to commercial and government customers for video distribution and broadcasting, high-speed data distribution, Internet access and communications, and also provided managed network services to customers using a hybrid satellite and ground-based system. It also provided professional services to other satellite operators such as fleet operating services.

Future Outlook

Critical success factors for SS/L include maintaining its reputation for reliability, quality and superior customer service. These factors are vital to securing new customers and retaining current ones. At the same time, we must continue to contain costs and maximize efficiencies. SS/L is focused on increasing bookings and backlog, while maintaining the cost efficiencies and process improvements realized over the past several years. SS/L must continue to align its direct workforce with the level of awards. Additionally, long-term growth at SS/L generates working capital requirements, primarily for the orbital component of the satellite contract which is payable to SS/L over the life of the satellite.

The current economic environment may reduce the demand for satellites. While we expect the replacement market to be reliable over the next year, given the current credit crisis, potential customers who are highly leveraged or in the development stage may not be able to obtain the financing necessary to purchase satellites. If SS/L's satellite awards fall below, on average, four to five awards per year, we expect that we will reduce costs and capital expenditures to accommodate this lower level of business. The timing of any reduced demand for satellites is difficult to predict. It is therefore also difficult to anticipate when to reduce costs and capital expenditures to match any slowdown in business. A delay in matching the timing of a reduction in business with a reduction in expenditures would adversely affect our results of operations and liquidity. In addition, in order to maintain its ability to compete as one of the leading prime contractors for technologically advanced space satellites, 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, thus reducing SS/L's flexibility to take action to reduce workforce costs in the event of a slowdown or downturn in its business.

Loral holds a 64% economic interest and a 33 $^{1}/_{3}$% voting interest in Telesat Canada, the world's fourth largest satellite operator with approximately $4.2 billion of backlog as of December 31, 2008.

Telesat Canada is committed to continuing to provide the strong customer service and focus on innovation and technical expertise that has allowed it to successfully build its business to date. Building on its industry leading backlog and significant contracted growth, Telesat Canada's focus is on taking disciplined steps to grow the core business and sell newly launched and existing in-orbit satellite capacity, and, in a disciplined manner, use the strong cash flow generated by existing business, contracted expansion satellites and cost savings to strengthen the business.

Telesat Canada believes its existing satellite fleet offers a strong combination of existing backlog, contracted revenue growth (on Nimiq 4 which started service in the fourth quarter of 2008, and on the in-construction satellite Nimiq 5) and additional capacity (on the existing satellites and Telstar 11N which is expected to start service in the second quarter of 2009) that provides a solid foundation upon which it will seek to grow its revenues and cash flows.

Telesat Canada has received a non-binding offer for certain of its international satellites and related assets and business. These assets represented approximately 7% of Telesat Canada's revenues and 9% of its Adjusted EBITDA for the year ended December 31, 2008, and less than 2% of its backlog as of December 31, 2008. One of these satellites is nearing the end of its life and Telesat Canada must make a decision in 2009 with respect to replacing it, which would cost approximately $200 million to $300 million, incurred over a period of approximately three years. If it is not sold, Telesat Canada's current intention is to replace this satellite, although no final decision has been made at this time. Subject to Telesat Canada's obligations under its financing arrangements, proceeds from any sale of these assets would be used to fund replacement satellites or repay debt. The offer is subject to further due diligence and other conditions, and Telesat Canada cannot at this time assess the probability of concluding this transaction or any other sale of these satellite assets or at what price these satellites may be sold.

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

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

For 2009, Telesat Canada is focused on the execution of its business plan to serve its customers and the markets in which it participates, the sale of capacity on its existing satellites, the continuing efforts to achieve operating efficiencies, and on the completion and launch of its in-construction satellite (Nimiq 5).

We regularly explore and evaluate possible strategic transactions and alliances. We also periodically engage in discussions with satellite service providers, satellite manufacturers and others regarding such matters, which may include joint ventures and strategic relationships as well as business combinations or the acquisition or disposition of assets. In order to pursue certain of these opportunities, we will require additional funds. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for these transactions on favorable terms, if at all. In connection with the Telesat Canada transaction, Loral has agreed that, subject to certain exceptions described in Telesat Canada's shareholders agreement, for so long as Loral has an interest in Telesat Canada, it will not compete in the business of leasing, selling or otherwise furnishing fixed satellite service, broadcast satellite service or audio and video broadcast direct to home service using transponder capacity in the C-band, Ku-band and Ka-band (including in each case extended band) frequencies and the business of providing end-to-end data solutions on networks comprised of earth terminals, space segment, and, where appropriate, networking hubs.

Consolidated Operating Results

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

The following discussion of revenues and Adjusted EBITDA, (see Note 15 to the financial statements), reflects the results of our business segments for 2008, 2007 and 2006. The balance of the discussion relates to our consolidated results unless otherwise noted.

The common definition of EBITDA is "Earnings Before Interest, Taxes, Depreciation and Amortization." In evaluating financial performance, we use revenues and operating income (loss) before depreciation and amortization (including amortization of stock-based compensation) ("Adjusted EBITDA") as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before: goodwill and other impairment charges; gain (loss) on foreign exchange contracts; gains or losses on litigation not related to our operations; impairment of available for sale securities; loss on extinguishment of debt; other income (expense); equity in net losses of affiliates; and minority interest.

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

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

Loral is organized into two operating segments: Satellite Manufacturing and Satellite Services. Our segment reporting data includes unconsolidated affiliates that meet the reportable segment criteria of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.* The satellite services segment includes 100% of the results reported by Telesat Canada for the year ended December 31, 2008 and for the period from October 31, 2007 to December 31, 2007. Although we analyze Telesat Canada's revenue and expenses under the satellite services segment, we eliminate its results in our consolidated financial statements, where we report our 64% share of Telesat Canada's results as equity in net losses of affiliates.

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

Revenues:

	Year Ended December 31,		
	2008	2007	2006
		(in millions)	
Satellite Manufacturing	$ 881.4	$ 814.3	$696.5
Satellite Services	685.2	241.2	163.8
Segment revenues	1,566.6	1,055.5	860.3
Eliminations [(1)]	(12.0)	(55.2)	(63.0)
Affiliate eliminations [(2)]	(685.2)	(117.8)	—
Revenues as reported [(3)]	$ 869.4	$ 882.5	$797.3

Satellite Manufacturing segment revenue increased by $67 million in 2008 from 2007 primarily as a result of increased revenue from new satellite awards received during 2008 and 2007, partially offset by reduced revenue from programs completed or nearing completion. Satellite Services segment revenue increased by $444 million in 2008 from 2007 primarily due to the inclusion of Telesat Canada's revenue for the full year in 2008 compared to the period October 31, 2007 to December 31, 2007.

Satellite Manufacturing segment revenue increased by $118 million in 2007 from 2006 primarily due to new satellite awards received during 2007 and 2006. Satellite Services segment revenue increased by $77 million in 2007 from 2006 primarily due to the inclusion of Telesat Canada's revenue for the period October 31, 2007 to December 31, 2007.

Adjusted EBITDA:

	Year Ended December 31,		
	2008	2007	2006
		(in millions)	
Satellite Manufacturing	$ 45.1	$ 34.5	$ 65.9
Satellite Services	436.5	118.4	68.0
Corporate expenses [(4)]	(14.9)	(37.9)	(26.8)
Segment Adjusted EBITDA before eliminations	466.7	115.0	107.1
Eliminations [(1)]	(1.6)	(6.1)	(6.0)
Affiliate eliminations [(2)]	(427.2)	(65.3)	—
Adjusted EBITDA	$ 37.9	$ 43.6	$101.1

Satellite Manufacturing segment Adjusted EBITDA increased $11 million in 2008 from 2007 primarily as a result of improved margins of $20 million on higher sales volume in 2008, partially offset by $6 million of increased warranty expenses resulting from five launches in 2008 and a $3 million loss on foreign exchange forward contracts in 2008. Satellite Services segment Adjusted EBITDA increased by $318 million in 2008 from 2007 primarily due to the inclusion of Telesat Canada's operating results for the full year in 2008 as compared to the period October 31, 2007 to December 31, 2007 and a gain of $9 million related to distributions from a bankruptcy claim against a former customer of Loral Skynet. Corporate expenses decreased $23 million in 2008 from 2007 primarily due to reductions of $7 million for deferred compensation due to the decline in the market price of our common stock, $6 million of legal costs resulting from the conclusion of certain shareholder and noteholder lawsuits, $6 million of severance costs recorded in 2007 due to staff reductions and $5 million of lower compensation costs resulting from staff reductions. Increased management fees earned by Corporate for consulting services provided to affiliates (see Note 16 to the financial statements) were offset by decreased cost allocations to the Satellite Manufacturing and Satellite Services segments.

Satellite Manufacturing segment Adjusted EBITDA decreased $31 million in 2007 from 2006 as a result of transponder rights valued at $19 million received in 2006 related to the Satmex settlement agreement, $9 million for settlement of launch vehicle litigation in 2006, increased research and development expenses of $16 million in 2007, forward loss recognition of $14 million for certain satellite programs awarded during 2007 and increased marketing expenses of $5 million in 2007, partially offset by $20 million of margin increases from additional sales in 2007 and a $12 million reduction of warranty expenses. Satellite Services segment Adjusted EBITDA increased by $50 million in 2007 from 2006 primarily due to the inclusion of Telesat Canada's operating results for the period October 31, 2007 to December 31, 2007. Corporate expenses increased $11 million in 2007 from 2006 primarily due to legal costs of $7.1 million in connection with shareholders and noteholders lawsuits and severance costs of $7.0 million.

Reconciliation of Adjusted EBITDA to Net (Loss) Income:

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Adjusted EBITDA	$ 37.9	$ 43.6	$101.1
Depreciation, amortization and stock-based compensation [5]	(44.0)	(103.3)	(71.3)
Impairment of goodwill [6]	(187.9)	—	—
Gain on contribution of Loral Skynet [7]	—	104.9	—
Operating (loss) income	(194.0)	45.2	29.8
Interest and investment income	11.9	39.3	31.5
Interest expense [8]	(2.3)	(2.3)	(23.4)
Gain (loss) on foreign exchange contracts	—	89.4	(5.8)
Gain on litigation, net	38.8	—	—
Impairment of available for sale securities	(5.8)	—	—
Loss on extinguishment of debt	—	(16.2)	—
Other (expense) income	(0.1)	2.4	(2.0)
Income tax provision	(45.7)	(83.5)	(20.8)
Equity in net losses of affiliates	(495.7)	(21.4)	(7.2)
Minority interest	—	(23.2)	(24.8)
Net (loss) income	$(692.9)	$ 29.7	$ (22.7)

(1) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA, primarily for satellites under construction by SS/L for Loral and its wholly owned subsidiaries and for Satellite Services leasing transponder capacity to SS/L.

(2) Represents the elimination of amounts attributed to Telesat Canada whose results are reported in our consolidated statements of operations as equity in net losses of affiliates.

(3) Includes revenues from affiliates of $84.0 million, $22.0 million and $11.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

(4) Represents corporate expenses incurred in support of our operations and for the years ended December 31, 2008, 2007 and 2006 includes $0 million, $0.3 million and $1.2 million, respectively, of continuing expenses for bankruptcy related matters, which after the adoption of fresh-start accounting were classified as corporate general and administrative expenses.

(5) Includes non-cash stock-based compensation of $6.2 million and $21.5 million for the years ended December 31, 2008 and 2007, respectively, as a result of shareholder approval of the Stock Incentive Plan amendment on May 22, 2007 (see Note 10 to the financial statements).

(6) During the fourth quarter of 2008, we determined that the implied fair value of SS/L goodwill had dropped below its carrying value, and we recorded a charge to expense to reflect this impairment.

(7) In connection with the Telesat Canada transaction, which closed on October 31, 2007, we recognized a gain on the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada (see Note 6 to the financial statements).

(8) Interest expense for the year ended December 31, 2007 includes a reduction of $9 million resulting from the reduction of warranty liability.

2008 Compared with 2007 and 2007 Compared with 2006

The following compares our consolidated results for 2008, 2007 and 2006 as presented in our financial statements:

Revenues from Satellite Manufacturing

	Year Ended December 31,			% Increase (Decrease)	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
	(in millions)				
Revenues from Satellite Manufacturing	$881	$814	$697	8%	17%
Eliminations	(12)	(53)	(60)	(77)%	(12)%
Revenues from Satellite Manufacturing as reported	$869	$761	$637	14%	20%

Revenues from Satellite Manufacturing before eliminations increased $67 million for 2008 as compared to 2007, primarily as a result of $236 million of revenue from $1.2 billion of new orders received in 2008, partially offset by $163 million of reduced revenue from programs completed or nearing completion which were awarded in earlier periods. In addition, revenue in 2008 was reduced by $3 million from losses on foreign exchange forward contracts and revenue in 2007 included $3 million from the renegotiation of orbital incentives. Eliminations for 2008 consist primarily of revenues applicable to Loral's interest in a portion of the payload of the ViaSat-1 satellite which is being constructed by SS/L (see Note 16 to the financial statements). Eliminations for 2007 consisted primarily of revenues recorded until October 31, 2007 for the construction of Telstar 11N, a satellite then being manufactured by SS/L for Loral Skynet. As a result, revenues from Satellite Manufacturing as reported increased $108 million for 2008 as compared to 2007.

Revenues from Satellite Manufacturing before eliminations increased $117 million for 2007 as compared to 2006, primarily as a result of $155 million of revenue from $721 million of new orders received in 2007 and $236 million of increased revenue from $1 billion of new orders received in 2006, partially offset by $274 million of reduced revenue from programs completed or nearing completion which were awarded in earlier years. Eliminations consisted primarily of revenues recorded until October 31, 2007 for the construction of Telstar 11N, a satellite being manufactured by SS/L for Satellite Services. As a result, revenues from Satellite Manufacturing as reported increased $124 million in 2007 as compared to 2006.

Revenues from Satellite Services

	Year Ended December 31,			% Increase (Decrease)
	2008	2007	2006	2007 vs. 2006
	(in millions)			
Revenues from Satellite Services before specific items	$ —	$126	$149	(17)%
Customer termination payment	—	—	15	
Cash basis customer payments	—	(3)	—	
Eliminations	—	(2)	(3)	(26)%
Revenues from Satellite Services as reported	$ —	$121	$161	(25)%

Revenues from Satellite Services in 2008 decreased from 2007 as a result of the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada on October 31, 2007.

Revenues from Satellite Services before specific items in 2007 decreased $23 million compared to 2006. This reduction is driven by reduced revenues of $26 million due to the contribution of Loral Skynet to Telesat Canada on October 31, 2007, $8 million resulting from reduced revenue in 2007 due to Boeing's discontinuation of service on our Estrela do Sul satellite in late 2006, and reduced revenues of $4 million as a result of the restructuring of the network services business in late 2006. These reductions were offset by higher utilization of $11 million, including $2 million on the Satmex 6 transponders that were added to the fleet in the fourth quarter of 2006 and

$4 million of increased usage of our network services products. Revenues from Satellite Services as reported in 2007 were lower by $15 million as a result of Boeing's contract termination payment in 2006 and by $3 million due to timing of cash revenue recognition. Eliminations primarily consist of revenues from leasing transponder capacity to Satellite Manufacturing. As a result, Revenues from Satellite Services as reported decreased by $40 million in 2007 as compared to 2006.

Cost of Satellite Manufacturing

	Year Ended December 31,			% Increase (Decrease)	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
			(In millions)		
Cost of Satellite Manufacturing includes:					
Cost of Satellite Manufacturing before specific identified charges	$747	$657	$537	14%	23%
Depreciation, amortization and stock-based compensation	39	36	23	7%	56%
Transponder rights provided to SS/L in the Satmex settlement agreement	—	—	(19)		
Accrued warranty obligations	2	(4)	8		
Provisions for inventory obsolescence	—	—	2		
Cost of Satellite Manufacturing	$788	$689	$551	14%	25%
Cost of Satellite Manufacturing as a% of Satellite Manufacturing revenues as reported	91%	90%	87%		

Cost of Satellite Manufacturing as reported for 2008 increased by $99 million over 2007. Cost of Satellite Manufacturing before specific charges increased by $90 million. This increase is primarily due to $67 million of increased costs resulting from additional revenue during 2008 and costs of $23 million for Telstar 11N which prior to the Telesat Canada transaction were eliminated. Depreciation, amortization and stock-based compensation expense increased $3 million, primarily as a result of $1 million of compensation expense related to restricted stock units awarded in 2007 and $2 million of depreciation due to increased capital expenditures related to facility expansion. Warranty expenses increased $6 million as a result of five satellite launches in 2008.

Cost of Satellite Manufacturing as reported for 2007 increased by $138 million over 2006. Cost of Satellite Manufacturing before specific charges increased by $120 million. This increase is primarily due to $106 million of increased costs resulting from additional revenue during the year and forward loss recognition of $14 million for certain satellite programs awarded during 2007. Included in 2006 is a reduction of cost of $19 million related to transponder rights provided to SS/L by the Satmex settlement agreement. Warranty expenses improved $12 million based upon a resolution of certain warranty obligations for less than previously estimated amounts. Depreciation, amortization and stock-based compensation expense increased by $13 million as a result of additional amortization of fair value adjustments in connection with the adoption of fresh start accounting and $3 million from compensation expense related to restricted stock units awarded during 2007.

Cost of Satellite Services

	Year Ended December 31,			% Increase (Decrease)
	2008	2007	2006	2007 vs. 2006
	(In millions)			
Cost of Satellite Services includes:				
Cost of Satellite Services before specific identified charges	$ —	$ 42	$ 53	(21)%
Depreciation and amortization	—	44	46	(3)%
Cost of Satellite Services	$ —	$ 86	$ 99	(13)%
Cost of Satellite Services as a% of Satellite Services revenues as reported		71%	61%	

The decrease in Cost of Satellite Services in 2008 from 2007 resulted from the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada on October 31, 2007.

Cost of Satellite Services was $86 million and $99 million for the years ended December 31, 2007 and 2006, respectively. Cost of Satellite Services before specific identified charges decreased $11 million in 2007 as compared to 2006 primarily as a result of the contribution of Loral Skynet to Telesat Canada on October 31, 2007. In addition, in 2007 there was a $2 million reduction in personnel costs from 2006 due to lower headcount.

Selling, General and Administrative Expenses

	Year Ended December 31,			% Increase (Decrease)	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
	(in millions)				
Selling, general and administrative expenses includes:					
Selling, general and administrative expenses before specific charges	$ 87	$133	$118	(35)%	12%
Litigation costs	5	11	6	(58)%	90%
Stock based compensation	5	23	2	(77)%	
Continuing expenses for bankruptcy related matters	—	—	1		
Selling, general and administrative expenses as reported	$ 97	$167	$127	(42)%	31%
% of revenues as reported	11%	19%	16%		

Selling, general and administrative expenses as reported were $97 million and $167 million for the years ended December 31, 2008 and 2007, respectively. Selling, general and administrative expenses before specific charges decreased by $46 million in 2008 as compared to 2007, due primarily to a reduction of $28 million as a result of the contribution of Loral Skynet to Telesat Canada on October 31, 2007 and lower Corporate expenses of $17 million including reductions of $7 million for deferred compensation due to the decline in the market price of our common stock, $6 million of severance costs recorded in 2007 due to staff reductions (see Note 14 to the financial statements) and $5 million due to reduced compensation from the staff reductions. Litigation costs were $6 million lower in 2008 due to the conclusion of certain shareholder and noteholder lawsuits. The stock-based compensation expense reduction of $18 million resulted primarily from the 2007 charges of $6 million attributable to acceleration of options in connection with the Telesat Canada transaction and $8 million from the approval of stock option plan amendments at the stockholders meeting on May 22, 2007 (see Note 10 to the financial statements).

Selling, general and administrative expenses as reported were $167 million and $127 million for the years ended December 31, 2007 and 2006, respectively. Selling, general and administrative expenses before specific charges increased by $15 million as compared to 2006, primarily due to: increased SS/L costs of $16 million for research and development of payload product and satellite control improvements, $5 million for marketing related

expenses due to a higher volume of bid opportunities in the market place and $2 million for other expenses and increased corporate costs of $7 million for severance related to personnel reductions. These cost increases were partially offset by decreases at Satellite Services of $2 million in marketing related expenses, $3 million reversal of bad debt and other costs and $9 million as a result of the contribution of Loral Skynet to Telesat Canada on October 31, 2007. The increase in litigation costs was primarily a result of various shareholder and noteholders suits. Stock-based compensation expense of $23 million in 2007 included a charge of $6 million attributable to acceleration of options in connection with the Telesat Canada transaction and a charge of $8 million as a result of the approval of stock option plan amendments at the stockholders meeting on May 22, 2007. Continuing expenses for bankruptcy related matters decreased $1 million as a result of minimal professional fees incurred in 2007 as compared to 2006.

Gain on Recovery from Customer Bankruptcy

During 2008, we recorded a gain of $9 million related to distributions from a bankruptcy claim against a former customer of Loral Skynet. The receivables underlying the claim had been previously written-off or not recognized due to the customer's bankruptcy.

Impairment of Goodwill

During 2008, we determined that the implied fair value of SS/L goodwill, which was established in connection with our adoption of fresh — start accounting, had decreased below its carrying value. We recorded a charge to expense in the fourth quarter of 2008 of $187.9 million to reflect this impairment.

Gain on Contribution of Loral Skynet to Telesat Canada

Represents the gain in 2007 on the contribution of substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada on October 31, 2007, in connection with the Telesat Canada transaction, as follows (in millions):

Consideration received for the contribution of Loral Skynet to Telesat Holdco:	
Cash and marketable securities	$ 61.5
Fair value of equity in Telesat Holdco	670.5
Total consideration	732.0
Book value of contributed net assets of Loral Skynet	440.5
Consideration in excess of book value	$291.5
Gain recognized	$104.9

The consideration we received for the contribution of substantially all of Loral Skynet's assets and liabilities was $292 million greater than the carrying value of those assets and liabilities. In accordance with EITF 01-2, *Interpretations of APB Opinion No. 29* , we recognized a gain of $105 million, representing the gain attributable to PSP's economic interest in the contributed assets and liabilities of Loral Skynet through its 36% ownership interest in Telesat Canada. Loral will have a significant continuing interest in Telesat Canada and can only recognize a gain to the extent of PSP's interest in the contributed assets of Loral Skynet.

Gain on Litigation Settlement

Represents a $9 million recovery of launch vehicle deposits in 2006 in connection with a claim against a supplier for the wrongful termination of launch service agreements.

Interest and Investment Income

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Interest and investment income	$ 12	$ 39	$ 32

Interest and investment income decreased $27 million for 2008 as compared to 2007. This decrease includes $12 million due to lower average investment balances in 2008 of $230 million compared with $390 million in 2007, as a result of the closing of the Telesat Canada transaction on October 31, 2007 and the significant use of cash during 2008, $11 million from the decreased sales of Globalstar Inc. common stock in 2008 compared with 2007 and $4 million from reduced interest rates on investments. As a result of the fall in interest rates and our move to safer investments during the financial crisis, our investment returns decreased to approximately 3.00% in 2008 from approximately 5.25% in 2007.

Interest and investment income increased $7 million for the year ended December 31, 2007 as compared to 2006 primarily due to higher cash balances as a result of the completion of the $300 million preferred stock financing in February 2007 and higher short-term interest rates in 2007 over 2006. This includes increases of $4 million due to higher cash balances and short-term interest rates and an increase of $4 million primarily due to the partial sale of our holdings in Globalstar Inc. common stock. These increases were partially offset by lower interest income on vendor financing and orbital incentives of $1 million.

Interest Expense

	Year Ended December 31,		
	2008	2007	2006
	(In millions)		
Interest cost before capitalized interest	$ 3	$ 12	$ 26
Capitalized interest	(1)	(10)	(3)
Interest expense	$ 2	$ 2	$ 23

Interest cost before capitalized interest decreased by $9 million for the year ended December 31, 2008 as compared to 2007. This reduction included $16 million due to the extinguishment of Loral Skynet debt as a result of the Telesat Canada transaction, partially offset by reduced interest expense of $6 million in 2007 relating to warranty liabilities. Capitalized interest decreased by $9 million in 2008 due to the sale of the Telesat T11N satellite under construction to Telesat Canada on October 31, 2007.

Interest cost before capitalized interest decreased by $14 million for the year ended December 31, 2007 as compared to 2006, primarily due to reduced interest expense of $9 million relating to warranty liabilities. In addition, interest expense was lower in 2007 by $5 million due to the early extinguishment of the Loral Skynet 14% senior secured notes and the repayment of the Valley National Bank loan in connection with the Telesat Canada transaction (see Note 8 to the financial statements). Capitalized interest increased by $7 million due to higher construction in process balances primarily for the Telstar 11N satellite.

Gain (Loss) on Foreign Exchange Contracts

For the year ended December 31, 2007, we recorded a net gain of $89 million reflecting the change in the fair value of the forward contracts and currency basis swap entered into by Loral Skynet relating to the Telesat Canada transaction. The net gain on these transactions, which was realized when the instruments were contributed to Telesat Holdco on October 23, 2007, has been recognized in the statement of operations and avoided a corresponding increase in the US dollar purchase price equivalent that would have been paid to BCE for Telesat Canada. Loss on foreign exchange contracts in 2006 represents unrealized losses of $6 million on derivative contracts entered into in connection with the anticipated acquisition of Telesat Canada.

Gain on Litigation, Net

During 2008, we recorded income of $58 million related to a gain on litigation recovery from Rainbow DBS and expense of $19.5 million related to the award of attorneys' fees and expenses to the plaintiffs for shareholder litigation arising from the issuance of our Series-1 Preferred Stock which was concluded during 2008 (see Note 14 to the financial statements).

Impairment of Available for Sale Securities

During 2008, we recorded impairment charges of $5.8 million to reflect other-than-temporary declines in the value of our investment in Globalstar Inc. common stock (see Note 6 to the financial statements).

Loss on Extinguishment of Debt

For the year ended December 31, 2007, we recorded a charge for the early extinguishment of the Loral Skynet 14% senior secured notes, which is comprised of a $13 million redemption premium and a $4 million write-off of deferred financing costs.

Other (Expense) Income

Other income decreased $2 million in 2008 from 2007, primarily due to the recognition of a $4 million deferred gain realized in 2007 in connection with the sale of an orbital slot in 2006, partially offset by losses on foreign currency transactions in 2007 (other than the foreign exchange contracts related to the Telesat Canada transaction).

Other income increased $4 million, primarily due to the recognition of a $4 million deferred gain realized in 2007 in connection with the sale of an orbital slot in 2006 (compared to $1 million recognized in 2006) and the write-off of an investment of $3 million in the fourth quarter of 2006, partially offset by losses on foreign currency transactions (other than the foreign exchange contracts related to the Telesat Canada transaction).

Income Tax Provision

During 2008, 2007 and 2006, we continued to maintain a 100% valuation allowance against our net deferred tax assets, with the exception of our $12.5 million of deferred tax asset relating to AMT credit carryforwards. As of December 31, 2008, we had valuation allowances totaling $487.8 million, which included a balance of $185.9 million relating to Old Loral periods preceding our adoption of fresh-start accounting on October 1, 2005. We will continue to maintain the valuation allowance until sufficient positive evidence exists to support its reversal. In the future if we were to determine that we will be able to realize all or a portion of the benefit from our deferred tax assets, under SFAS 141 (R) all future reversals of the valuation allowance balance at October 1, 2005 will be recorded as a reduction to the income tax provision. During 2008 and 2007, we utilized the benefits from $38.6 million and $35.1 million, respectively, of deferred tax assets from Old Loral to reduce our current tax liability. The realization of these benefits created an excess valuation allowance of $38.6 million in 2008 and $35.1 million in 2007, the reversal of which was recorded as a reduction to goodwill in accordance with SFAS 141.

Our income tax provision can be summarized as follows: (i) for 2008, we recorded a current tax provision of $16.3 million, which included a provision of $41.6 million to increase our liability for uncertain tax positions and a current tax benefit of $25.4 million derived from tax strategies and a deferred tax provision of $29.4 million, resulting in a total provision of $45.7 million on a pre-tax loss of $151.5 million; (ii) for 2007, we recorded a current tax provision of $51.3 million, including a provision of $17.1 million to increase our liability for uncertain tax positions, and a deferred tax provision of $32.2 million, resulting in a total provision of $83.5 million on pre-tax income of $157.8 million; and (iii) for 2006, we recorded a current tax provision of $11.8 million and a deferred tax provision of $9.1 million, resulting in a total provision of $20.9 million on pre-tax income of $30.1 million.

The deferred income tax provision for 2008 of $29.4 million related primarily to (i) a provision of $38.6 million recorded as a result of having utilized deferred tax benefits from Old Loral to reduce our tax liability (where the excess valuation allowance was recorded as a reduction to goodwill) offset by (ii) a benefit of $9.2 million for the increase to our deferred tax asset for federal and state AMT credits.

The deferred income tax provision for 2007 of $32.2 million related primarily to (i) a provision of $35.1 million on current year income to the extent the taxes imposed on such income were reduced by deferred tax benefits from Old Loral (where the excess valuation allowance was recorded as a reduction to goodwill), (ii) a provision of $2.2 million for the decrease to our deferred tax asset for federal and state AMT credits (which excludes an increase to AMT credits of $2.2 million upon adoption of FIN 48), (iii) an additional valuation allowance of $3.0 million required against a net deferred tax asset created when we reduced the deferred tax credits in accumulated other comprehensive income by $3.0 million, offset by (iv) a benefit of $9.0 million relating to current activity.

The deferred income tax provision for 2006 of $9.1 million related to (i) a provision of $10.4 million on current year income to the extent the taxes imposed on such income were reduced by deferred tax benefits from Old Loral (where the excess valuation allowance was recorded as a reduction to goodwill), (ii) offset by a benefit of $1.3 million for the increase to our deferred tax asset for additional federal and state AMT credits.

During 2006, we also recorded a deferred tax provision of $26.0 million in accumulated other comprehensive income related primarily to our adoption of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158") (see Note 9 to the financial statements), which created an excess valuation allowance of $26.0 million that was recorded as a reduction to goodwill.

See Critical Accounting Matters — *Taxation* below for discussion of our accounting method for income taxes.

Equity in Net Losses of Affiliates

	Year Ended December 31,		
	2008	2007	2006
	(In millions)		
Telesat Canada	$(479.6)	$ (1.8)	$ —
XTAR	(16.1)	(10.6)	(7.4)
Other	—	(9.0)	0.2
	$(495.7)	$(21.4)	$(7.2)

On October 31, 2007, Loral and its Canadian Partner, PSP, through a newly-formed joint venture, completed the acquisition of Telesat Canada from BCE. In connection with this acquisition, Loral transferred substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada. Loral holds a 64% economic interest and a 33 1/3 % voting interest in Telesat Holdco, the ultimate parent company of the resulting new entity. Loral accounts for this investment using the equity method of accounting (see Note 6 to the financial statements).

Summary financial information for Telesat Canada for the year ended December 31, 2008 and the period October 31, 2007 to December 31, 2007 and as of December 31, 2008 and 2007 follows (in millions):

	Year Ended December 31, 2008	For the Period October 31, 2007 to December 31, 2007
Statement of Operations Data:		
Revenues	$ 685.2	$ 117.8
Operating expenses	(258.0)	(52.5)
Impairment of long-lived and intangible assets	(454.9)	—
Depreciation, amortization and stock-based compensation	(226.0)	(41.2)
Operating income	(253.7)	24.1
Interest expense	(231.1)	(41.3)
Other expense, net	(403.1)	(45.6)
Income tax benefit	139.9	61.5
Net loss	(748.0)	(1.3)

	December 31, 2008	December 31, 2007
Balance Sheet Data:		
Current assets	$ 179.8	$ 143.7
Total assets	4,273.2	5,610.0
Current liabilities	171.4	229.5
Long-term debt, including current portion	2,901.6	2,828.0
Total liabilities	3,760.2	4,156.7
Redeemable preferred stock	116.0	143.1
Shareholders’ equity	397.0	1,310.2

As described in Note 6 to the financial statements, Loral’s equity in net loss of Telesat Canada is based on our proportionate share of their results in accordance with U.S. GAAP and in U.S. dollars. Our equity in net loss of Telesat Canada excludes amortization of the fair value adjustments applicable to Telesat Canada’s acquisition of the Loral Skynet assets and liabilities. Our equity in net loss of Telesat Canada also reflects the elimination of our profit, to the extent of our beneficial interest, on satellites we are constructing for them.

Impairment of long-lived and intangible assets consists primarily of an impairment charge to reduce orbital slot assets to fair value. Other expense, net includes non-cash foreign exchange losses of $654.2 million and $121.4 million and non-cash gains on financial instruments of $254.7 million and $78.1 million in 2008 and 2007, respectively.

Telesat Canada’s operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. Telesat Canada’s main currency exposures as of December 31, 2008, lie in its U.S. dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated debt financing. We estimated that, after considering the impact of hedges, a five percent weakening of the Canadian dollar against the U.S. dollar at December 31, 2008 would have increased Telesat Canada’s net loss for the year 2008 by approximately $177 million, while a five percent strengthening of the Canadian dollar against the U.S. dollar at December 31, 2008 would have decreased Telesat Canada’s net loss for the year 2008 by approximately $177 million.

The equity losses in XTAR, L.L.C. (“XTAR”), our 56% owned joint venture, represent our share of XTAR losses incurred in connection with its operations. Other equity losses in affiliates for 2007 include $3 million of cash distributions received from Globalstar de Mexico for which our investment balance has been written down to zero

and a loss of $11 million recognized in connection with an agreement to sell our Globalstar investment partnership in Brazil. This sale was completed in the first quarter of 2008.

Minority Interest

Dividend expense on Loral Skynet's Series A Preferred Stock was $23.2 million and $24.8 million for the years ended December 31, 2007 and 2006, respectively, and is reflected as minority interest on our consolidated statements of operations. On November 5, 2007, Loral Skynet redeemed all issued and outstanding shares of this preferred stock in connection with the completion of the Telesat Canada transaction (see Note 10 to the financial statements).

Backlog

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

	2008	2007
Satellite Manufacturing	$ 1,381	$ 1,025
Satellite Services	4,207	5,251
Total backlog before eliminations	5,588	6,276
Satellite Manufacturing eliminations	(25)	—
Satellite Services eliminations	(4,207)	(5,251)
Total backlog	$ 1,356	$ 1,025

It is expected that 67% of satellite manufacturing backlog as of December 31, 2008 will be recognized as revenue during 2009.

Telesat Canada backlog at December 31, 2008 was approximately $4.2 billion, of which approximately 12% will be recognized as revenue during 2009. Included in backlog as of December 31, 2008 is a contract covering the entire capacity of the Nimiq 5 satellite, which has been leased for the life of the satellite. This contract contains provisions such that the customer, assuming the satellite is successfully and timely launched and is operating nominally, may only terminate its contract by paying Telesat Canada the present value of the entire contracted amounts that would have been due for the remaining life of the satellite.

As of December 31, 2008, Telesat Canada had received approximately $275.9 million of customer prepayments, including approximately $35.7 million relating to satellites under construction. If the launch of a satellite under construction were to fail or a customer were to terminate its contract with Telesat Canada as a result of a substantial delay in the launch of the satellite, Telesat Canada would be obligated to return the customer prepayments applicable to such satellite. Such repayment obligations would be funded by insurance proceeds (if any), cash on hand and/or borrowing availability under the revolving credit facility.

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 required all of our assets and liabilities to be stated at estimated fair value. Significant judgment was exercised by management in estimating the fair values.

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.

Billed receivables, vendor financing and long-term receivables

We are required to estimate the collectibility of our billed receivables which are included in contracts in process on our consolidated balance sheet, 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 for the years ended December 31, 2008, 2007 and 2006, were $0.7 million, $(2.4) million, and $0.3 million, respectively. At December 31, 2008 and 2007, billed receivables were net of allowances for doubtful accounts of $0.9 million and $0.2 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 consolidated statements of operations for the years ended December 31, 2008 and 2007 were insignificant. Charges for inventory obsolescence recorded to the consolidated statement of operations for the year ended December 31, 2006 were $1.7 million.

Fair Value Measurements

All available for sale securities are measured at fair value based on quoted market prices at the end of the reporting period. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), to define fair value, establish a framework for measuring fair value in accordance with U.S. GAAP and expand disclosures about fair value measurements. SFAS 157 establishes a fair value measurement hierarchy to price a particular asset or liability. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* , which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and liabilities (such as goodwill), except those that are recognized or disclosed in the Company’s financial statements at fair value at least annually. Accordingly, the Company adopted the provisions of SFAS 157 only for its financial assets and liabilities recognized or disclosed at fair value on a recurring basis effective January 1, 2008. The Company’s financial assets measured at fair value on a recurring basis as of December 31, 2008 consist of marketable securities which were valued at $0.2 million and foreign exchange forward contracts valued at $14.6 million. The Company has no financial liabilities measured at fair value on a recurring basis as of

December 31, 2008. The marketable securities are classified as Level 1 and the foreign exchange forward contracts are classified as Level 2 in the fair value measurement hierarchy under SFAS 157 as of December 31, 2008.

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

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

Level 1 — Loral's marketable securities, which are included in other current assets, consisted entirely of an investment in the common stock of Globalstar Inc. (see Note 6 to the financial statements). Loral's investment in Globalstar Inc. is accounted for as an "available for sale" security under the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"). Generally, unrealized gains and losses on this investment are recorded as a component of accumulated other comprehensive income. For the year ended December 31, 2008, we recorded impairment charges of $5.8 million for other-than-temporary declines in the value of our investment in Globalstar Inc. common stock.

Level 2 — During 2008, Loral entered into a series of foreign exchange forward contracts, with maturities through 2011, designed to manage the risk of currency exchange rate fluctuations on cash receipts associated with a satellite manufacturing contract denominated in EUROs. These contracts have been designated as cash flow hedges and are tested quarterly for effectiveness. The effective portion of the gain or loss on a cash flow hedge is recorded as a component of accumulated other comprehensive income and the remaining gain or loss is included in income. The Company has elected to use the income approach to value the derivatives, using observable Level II market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount assuming participants are motivated, but not compelled to transact. Level II inputs are limited to quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability (including interest rates and credit risk). As of December 31, 2008, the fair value of these contracts was $14.6 million, of which $8.9 million was included in other current assets and $5.7 million was included in other assets based upon the maturity dates of the forward contracts. During the year ended December 31, 2008, we recorded a reduction to revenue of $2.7 million and recorded an unrealized gain in accumulated other comprehensive income of $18.2 million related to these contracts.

Evaluation of Investments in Affiliates for Impairment

The carrying values of our investments in affiliates are reviewed for impairment in accordance with Accounting Principles Board ("APB") Opinion No. 18, *Equity Method of Accounting for Investments in Common Stock* . We monitor our equity method investments for factors indicating other-than-temporary impairment. An impairment loss would be recognized when there has been a loss in value of the affiliate that is other than temporary. Evaluating investments in affiliates for impairment requires significant subjective judgments by management.

Taxation

Loral is subject to U.S. federal, state and local income taxation on its worldwide income and foreign taxes on certain income from sources outside the United States. Our foreign subsidiaries are subject to taxation in local jurisdictions. Telesat Canada is subject to tax in Canada and other jurisdictions and Loral will provide in operating earnings any additional U.S. current or deferred tax required on distributions received or deemed distributions from Telesat Canada.

We use the liability method in accounting for taxes whereby income taxes are recognized during the year in which transactions are recorded in the financial statements. 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.

For 2008, we continued to maintain the 100% valuation allowance against our net deferred tax assets increasing the valuation allowance at December 31, 2007 of $241.2 million by $246.5 million to a balance of $487.8 million at December 31, 2008, which included $185.9 million relating to the opening balance at October 1, 2005. As of December 31, 2008, we had gross deferred tax assets of approximately $532.5 million, which when offset by our deferred tax liabilities of $32.2 million and our valuation allowance of $487.8 million, resulted in a net deferred tax asset of $12.5 million on our consolidated balance sheet. We will maintain the valuation allowance until sufficient positive evidence exists to support its reversal. In the future, if we were to determine that we will be able to realize all or a portion of the benefit from our deferred tax assets, under SFAS 141 (R) any reduction to the valuation allowance balance at October 1, 2005 will be recorded as a reduction to the income tax provision. During 2008, we reversed $38.6 million of excess valuation allowance relating to the balance as of October 1, 2005, which was recorded as a reduction to goodwill in accordance with SFAS 141.

Effective January 1, 2007, we adopted the Financial Accounting Standards Board (“FASB”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For benefits to be recognized in the financial statements, a tax position must be more-likely-than-not to be sustained upon examination by the taxing authorities based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense (see Note 9 to the financial statements).

Prior to adopting FIN 48, our policy was to establish tax contingency liabilities for potential audit issues. The tax contingency liabilities were based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits.

Management has concluded that, as of December 31, 2008, the previously reported material weakness relating to our accounting for and disclosure of income taxes has been remediated.

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, based on a hypothetical yield curve developed from a portfolio of high quality, corporate, non-callable bonds with maturities that match our projected benefit payment stream. The resulting discount rate reflects the matching of the plan liability cash flows to the yield curve. Changes in applicable high-quality long-term corporate bond indices, such as the Moody’s AA Corporate Bond Index, are also considered. The discount rate determined on this basis was 6.5% as of December 31, 2008, which was unchanged from December 31, 2007.

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 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 twenty five year historical return of our asset mix has been 9.0%. The expected long-term rate of return on plan assets determined on this basis was 8.5% for 2008, 8.5% for 2007 and 9% for 2006. For 2009, we will use an expected long-term rate of return of 8%.

These pension and other employee postretirement benefit costs are expected to increase to approximately $21.5 million in 2009 from $9.5 million in 2008, primarily due to the decrease in the expected return on assets and increased amortization of actuarial losses. Lowering the discount rate and the expected long-term rate of return each by 0.5% would have increased these pension and other employee postretirement benefits costs by approximately $0.2 million and $1.4 million, respectively, in 2008.

The benefit obligations for pensions and other employee benefits exceeded the fair value of plan assets by $235 million at December 31, 2008 (the "unfunded benefit obligations"). We are required to recognize the funded status of a benefit plan on our balance sheet. Market conditions and interest rates significantly affect future assets and liabilities of Loral's pension and other employee benefits plans.

Stock-Based Compensation

We use the fair value method of accounting for stock-based compensation, pursuant to the provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"). In addition, we account for options granted to non-employees in accordance with EITF Issue No. 96-18, " *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ". We use the Black-Scholes-Merton option-pricing model to measure fair value of these stock option awards. 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. Changes in these assumptions could have a material impact on the amount of stock-based compensation we recognize. (See Notes 2 and 10 to the financial statements).

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, as of October 1, 2005, the date we adopted fresh-start accounting. Pursuant to the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is not amortized. Goodwill is subject to an annual impairment test, or if events and circumstances change and indicators of impairment are present, goodwill will be tested for impairment between annual tests. As a result of the decline of Loral's stock price and the decline in comparable company values, we performed an interim impairment test as of June 30, 2008 and updated our annual impairment test through November 30, 2008. This most recent impairment test resulted in the recording of an impairment charge in 2008 for the entire goodwill balance of $187.9 million (see Notes 2 and 7 to the financial statements). The Company's estimate of the fair value of SS/L employed both a comparable public company analysis, which considered the valuation multiples of companies deemed comparable, in whole or in part, to the Company and a discounted cash flow analysis that calculated a present value of the projected future cash flows of SS/L. The Company considered both quantitative and qualitative factors in assessing the reasonableness of the underlying assumptions used in the valuation process. Testing goodwill for impairment requires significant subjective judgments by management.

Goodwill also had been reduced by the decreases to the valuation allowance as of October 1, 2005 and other tax adjustments (see Income Taxes, below) and the transfer in October 2007 of substantially all of the assets and related liabilities of Loral Skynet in connection with the Telesat Canada transaction. For the year ended December 31, 2008 we recorded a reduction to goodwill in the amount of $38.6 related to the reduction of our income tax valuation allowance as of October 1, 2005.

As of December 31, 2008, intangible assets consist primarily of internally developed software and technology and trade names recorded in connection with the adoption of fresh-start accounting. The fair values of our intangible assets 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. This process involves subjective judgment by management. Identifiable intangible assets with finite useful lives are amortized on a straight-line basis over the estimated useful lives of the assets.

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. We accrue for costs relating to litigation, claims and other contingent matters when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management's judgment, as appropriate. Actual amounts paid may differ from amounts estimated, and such differences will be charged to operations in the period in which the final determination of the liability is made. Management considers the assessment of loss contingencies as a critical accounting policy because of the significant uncertainty relating to the outcome of any potential legal actions and other claims and the difficulty of predicting the likelihood and range of the potential liability involved, coupled with the material impact on our results of operations that could result from legal actions or other claims and assessments. The most important contingencies affecting our financial statements are detailed in Note 14 to the financial statements, "Commitments and Contingencies."

Liquidity and Capital Resources

Loral

As described above, the Company's principal assets are ownership of 100% of the issued and outstanding capital stock of SS/L and a 64% non-controlling economic interest in Telesat Canada. In addition, the Company has a 56% non-controlling economic interest in XTAR. SS/L's operations are consolidated in the Company's financial statements while the operations of Telesat Canada and XTAR are not consolidated but presented using the equity method of accounting. The Parent Company has no debt. SS/L and Telesat Canada both have third party debt with financial institutions and XTAR has debt to its LLC member, Hisdesat, Loral's joint venture partner in XTAR. In addition, XTAR has an obligation to Arianespace, S.A. which it expects will be fully satisfied by June 30, 2009. The Parent Company has provided a guarantee of the SS/L debt but has not provided a guarantee for the Telesat Canada or XTAR debt. Cash is maintained at the Parent Company, SS/L, Telesat Canada and at XTAR to support the operating needs of each respective entity. The ability of SS/L and Telesat Canada to pay dividends and management fees in cash to the Parent Company is governed by applicable covenants relating to the debt at each of those entities and in the case of Telesat Canada and XTAR by their respective shareholder agreements.

Cash and Available Credit

At December 31, 2008, the Company had $118 million of cash and cash equivalents and $6 million of restricted cash. On October 16, 2008, SS/L entered into a $100 million revolving credit agreement with a group of banks (the "SS/L Credit Agreement") and as of December 31, 2008, $55 million was drawn in the form of loans and approximately $5 million was issued in the form of letters of credit. Restricted cash decreased approximately $19 million during 2008 due to the release of restrictions on cash relating to the Skynet Noteholders Litigation ($12 million) and to the replacement of SS/L's former Letter of Credit Facility ($7 million). At February 27, 2009, the Company had approximately $126 million of cash and cash equivalents, restricted cash remained at the year end level, and SS/L had reduced its borrowings under the SS/L Credit Agreement to $25 million. This improvement in our net cash position is primarily the result of receipt of satellite contract milestone payments in the first quarter of 2009.

Cash Management

We have a cash management investment program that seeks a competitive return while maintaining a conservative risk profile. Our cash management investment policy establishes what we believe to be conservative guidelines relating to the investment of surplus cash. The policy allows us to invest in commercial paper, money market funds and other similar short term investments but does not permit us to engage in speculative or leveraged transactions, nor does it permit us to hold or issue financial instruments for trading purposes. The cash management investment policy was designed to preserve capital and safeguard principal, to meet all of our liquidity requirements

and to provide a competitive rate of return. The policy addresses dealer qualifications, lists approved securities, establishes minimum acceptable credit ratings, sets concentration limits, defines a maturity structure, requires all firms to safe keep securities on our behalf, requires certain mandatory reporting activity and discusses review of the portfolio. We operate the cash management investment program under the guidelines of our investment policy and continuously monitor the investments to avoid risks.

We currently invest our cash in several liquid money market funds. These money market funds include Treasury funds, Government funds, and Prime AAA funds. The dispersion across funds reduces the exposure of a default at one fund. We do not currently hold any investments in auction rate securities or enhanced money market funds that have been subject to liquidity issues and price declines.

Liquidity

At the Parent Company, we expect that our cash and cash equivalents will be sufficient to fund our projected expenditures for the year. For 2009, these expenditures include funding operating costs of approximately $12.3 million, net of management fees, funding approximately $21.3 million for our portion of the construction and launch of the ViaSat 1 satellite, $8.8 million of attorney fees that were paid in January as required under the Implementing Order by the Court of Chancery in the Delaware Plaintiffs litigation regarding the issuance of our Series-1 Preferred Stock to MHR in 2007 (see Note 14 to the financial statements) and an additional $4.5 million investment in XTAR (see Note 6 to the financial statements). The Company has also received a request for indemnification from its directors who are affiliated with MHR for legal costs in the Delaware Plaintiffs litigation (see Note 14 to the financial statements) that may or may not be recoverable from insurance. We believe that SS/L, Telesat Canada and XTAR will have sufficient liquidity to fund their respective operations and capital requirements and make all required debt service as discussed below.

Telesat Canada's debt agreements contain restrictions relating to the cash payments under Loral's consulting agreement with Telesat Canada and restrict the payment of cash dividends above $75 million. As a result, the Parent Company expects that in the next year the $5 million annual fee under its consulting agreement with Telesat Canada will continue to be paid in subordinated notes rather than cash, and that it will not receive cash dividends from Telesat Canada.

In addition to our cash on hand we may consider accessing the capital markets for debt or equity at the Parent Company. The proceeds of a debt or equity offering would be used to further strengthen our balance sheet, given the ongoing difficult financial environment, and provide liquidity to fund various potential growth opportunities for our business lines. This would not only provide for the contingencies at SS/L discussed below but also bolster the confidence of SS/L's customers in SS/L as a critical supplier. Given the current environment, however, there can be no assurance that the Company will be able to obtain such financing on favorable terms acceptable to us, if at all.

Space Systems/Loral

Cash

In 2008, SS/L, largely related to supporting growth, used approximately $180 million of cash from operations primarily from increased contract assets of approximately $173 million resulting from milestone payments from customers that lagged behind SS/L expenditures, and the funding of approximately $44 million of orbital receivables (net of $19 million prepayment) on its satellite contracts in the normal course, offset by approximately $43 million in net income adjusted for non-cash items. In addition, capital expenditures of approximately $54 million in 2008 were in excess of recurring requirements which we expect to normalize at $25 million to $30 million in future years as SS/L substantially completed its facility expansion and continues its program of upgrading next-generation test equipment.

In 2009, SS/L anticipates that it will significantly improve its cash flow. While SS/L will continue to build its orbital receivable balance, overall cash flow from operations in 2009 is expected to be positive, as the same satellite construction contracts that used cash in 2008 have significant milestone payments that become due during 2009. In addition, capital expenditures at SS/L in 2009 are anticipated to be approximately $41 million, significantly lower than the 2008 level reflecting substantial completion of its facility expansion. SS/L maintains the flexibility to defer

or reduce a significant portion of its ongoing capital expenditures if the volume of ongoing business is materially reduced or as other circumstances may require. During the first two months of 2009, SS/L repaid $30 million of the $55 million of outstanding debt on December 31, 2008 under the SS/L Credit Agreement.

Available Credit and Liquidity

The SS/L Credit Agreement, which is guaranteed pursuant to a Parent Guarantee Agreement (the “Parent Guarantee”), provides SS/L with a $100 million revolving credit facility, including a $50 million letter of credit sublimit. The SS/L Credit Agreement matures on October 16, 2011, and is secured by the assets and common stock of SS/L. The SS/L Credit Agreement contains certain covenants which, among other things, limit the incurrence of additional indebtedness, capital expenditures, investments, dividends or stock repurchases, asset sales, mergers and consolidations, liens, changes to the line of business and other matters customarily restricted in such agreements. It also contains financial covenants whereby SS/L must maintain a certain consolidated leverage ratio and consolidated interest coverage ratio. SS/L anticipates that over the coming year it will be in compliance with its financial covenants and have the full $100 million available to it under the SS/L Credit Agreement. The Parent Guarantee limits the amount of dividends or other distributions to our stockholders that can be made by Loral from the disposition of any capital stock of Telesat Holdings Inc. to the greater of (i) 66 $^{2}/_{3}$% of the proceeds or (ii) the amount by which the proceeds exceed $200 million.

SS/L agreed to make up to $100 million in loans to a customer, Sirius Satellite Radio Inc. (“Sirius”), in the Amended and Restated Customer Credit Agreement (the “Sirius Credit Agreement”) relating to the construction of the satellites known as FM-5 and FM-6 (the “FM-5 Satellite” and “FM-6 Satellite”, respectively). As per this agreement, on December 20, 2008, the ability of Sirius to reimburse itself for milestone payments previously paid permanently expired, and no amounts were outstanding thereunder. In addition, as per the Sirius Credit Agreement, given the timing of future milestone payments on FM-5 and the date at which Sirius’ availability to draw on FM-5 milestone payments expires, Loral anticipates that Sirius will not be able to draw on future milestone payments owed on FM-5.

Drawings under the Sirius Credit Agreement would be secured by a first-priority security interest in the FM-6 Satellite. We currently believe that Sirius does not meet all of the conditions precedent to draw under the Sirius Credit Agreement, including the condition that Sirius have a public market equity value of at least $1 billion. There can be no assurance that Sirius will not meet such conditions in the future (see Note 14 to the financial statements). If Sirius were to meet the conditions to draw on the Credit Agreement for FM-6 it would have the ability to finance approximately $32 million against future milestone payments. As of February 27, 2009, Sirius is current with all of its required milestone payments to SS/L. Absent unforeseen circumstances, over the coming year SS/L believes that with its cash on hand, cash flow from operations and availability under the SS/L Credit Agreement, it has adequate liquidity to operate its business and finance loans contemplated by the Sirius Credit Agreement.

Satellite construction contracts often include provisions for orbital incentives where a portion of the contract value (typically about 10%) is received over the 12 to 15 year life of the satellite. Receipt of these orbital incentives is contingent upon performance of the satellite in accordance with contractual specifications. As of December 31, 2008, SS/L has orbital receivables of approximately $181 million, of which $3 million is in current assets (see Note 4 to the financial statements). Approximately $49 million of these receivables are related to satellites in-orbit and $132 million are related to satellites that are under construction. SS/L expects to increase its orbital receivable asset by approximately $68 million during 2009. Continued growth in the Satellite Manufacturing business will result in a corresponding growth in the amount of orbital receivables.

Current economic conditions could affect the ability of customers to make payments, including orbital incentive payments, under satellite construction contracts with SS/L. Though most of SS/L’s customers are substantial corporations for which creditworthiness is generally high, SS/L has certain customers which are either highly leveraged or are in the developmental stage and are not fully funded. Customers that are facing near-term maturities on their existing debt also have elevated credit risk under current market conditions. There can be no assurances that these customers will not delay contract payments to, or seek financial relief, from SS/L. If customers fall behind or are unable to meet their payment obligations, SS/L’s liquidity will be adversely affected. As of

December 31, 2008, such customers accounted for billed and unbilled accounts receivable of approximately $82 million, orbital receivables of approximately $74 million and backlog of $204 million. For the quarter ending March 31, 2009 SS/L has received, and anticipates it will receive $77 million from such customers.

There can be no assurance that SS/L's customers, particularly those that SS/L has identified as having elevated credit risk, will not default on their obligations to SS/L in the future and that such defaults will not materially and adversely affect SS/L and Loral. In the event of an uncured contract default by the customer, SS/L's construction contracts generally provide SS/L with significant rights even if their customers (or successors) have paid significant amounts under the contract. These rights typically include the right to stop work on the satellite and the right to terminate the contract for default. In the latter case, SS/L would generally have the right to retain, and sell to other customers, the satellite or satellite components that are under construction. However, the exercise of such rights could be impeded by the assertion by customers of defenses and counterclaims, including claims of breach of performance obligations on the part of SS/L, and our recovery could be reduced by the lack of a ready resale market for the affected satellites or their components. In either case, our liquidity could be adversely affected pending the resolution of such customer disputes.

SS/L's contracts impose a variety of contractual obligations on SS/L including the requirement to deliver the satellite by an agreed upon date, subject to negotiated allowances. If SS/L were unable to meet its contract obligations, including delivering the satellite at the agreed upon date in a contract the customer would have the right to terminate the contract for contractor default. If a contract is terminated for contractor default, SS/L would be required to refund the payments made to SS/L to date, which could be significant. In such circumstances, SS/L would, however, keep the satellite under construction and be able to recoup some of its losses through the resale of the satellite or its components to another customer. It has been SS/L's experience that as the satellite is generally critical to the execution of a customer's operations and business plan such customers will usually renegotiate a revised delivery date with SS/L versus terminating the contract for contractor default and losing the satellite. Nonetheless, the obligation to return all funds paid to SS/L in the later stages of a contract, due to termination for contractor default, would have a material adverse effect on SS/L's liquidity.

The current economic environment may also reduce the demand for satellites. If SS/L's satellite awards fall below, on average, four to five awards per year, SS/L will be required to reduce costs and capital expenditures to accommodate this lower level of activity. The timing of any reduced demand for satellites is difficult to predict. It is, therefore, difficult to anticipate when to reduce costs and capital expenditures to match any slowdown in business. A delay in matching the timing of a reduction in business with a reduction in expenditures could adversely affect our liquidity. We believe that SS/L's existing liquidity along with the availability under the SS/L Credit Agreement are sufficient to finance SS/L, even if we receive fewer than four to five awards in 2009. If SS/L were to experience a shortage of orders below the four to five awards per year for multiple years, SS/L could require additional financing, the amount and timing of which would depend on the magnitude of the order shortfall coupled with the timing of a reduction in costs and capital expenditures. There can be no assurances that the SS/L could obtain such financing on favorable terms, if at all.

Telesat Canada

Cash and Available Credit

As of December 31, 2008, Telesat Canada had CAD 98 million of cash and short-term investments as well as approximately CAD 153 million of borrowing availability under its Revolving Facility. Telesat Canada believes that cash and short-term investments as of December 31, 2008, net cash provided by operating activities, cash flow from customer prepayments, and drawings on the available lines of credit under the Credit Facility (as defined below) will be adequate to meet its expected cash requirement for activities in the normal course of business, including interest and required principal payments on debt as well as planned capital expenditures through at least the next 12 months.

Telesat Canada has adopted conservative policies relating to and governing the investment of its surplus cash. The investment policy does not permit Telesat Canada to engage in speculative or leveraged transactions, nor does it permit Telesat Canada to hold or issue financial instruments for trading purposes. The investment policy was designed to preserve capital and safeguard principal, to meet all liquidity requirements of Telesat Canada and to

provide a competitive rate of return. The investment policy addresses dealer qualifications, lists approved securities, establishes minimum acceptable credit ratings, sets concentration limits, defines a maturity structure, requires all firms to safe keep securities, requires certain mandatory reporting activity and discusses review of the portfolio. Telesat Canada operates its investment program under the guidelines of its investment policy.

Liquidity

The Telesat Canada purchase price of CAD 3.25 billion as well as transaction fees and expenses, the repayment of existing Loral Skynet debt and preferred stock, and Telesat Canada debt were funded by cash from Loral and PSP as well as borrowings by Telesat Canada.

A large portion of Telesat Canada's annual cash receipts are reasonably predictable because they are primarily derived from an existing backlog of long-term customer contracts and high contract renewal rates. Telesat Canada believes its cash flow from operations will be sufficient to provide for its capital requirements and to fund its interest and debt payment obligations through 2009. Cash required for the construction of the Nimiq 5 and Telstar 11N satellites will be funded from some or all of the following: cash and short-term investments, cash flow from operations, cash flow from customer prepayments or through borrowings on available lines of credit under the Credit Facility.

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

Debt

In connection with the acquisition, Telesat Canada entered into agreements with a syndicate of banks to provide Telesat Canada with, in each case as described below, senior secured credit facilities (the "Credit Facility"), a senior bridge loan facility (the "Senior Bridge Loan") and a senior subordinated bridge loan facility (the "Senior Subordinated Bridge Loan") (together the "Facilities"). The Facilities are also guaranteed by Telesat Holdings Inc. and certain Telesat Canada subsidiaries.

Senior Secured Credit Facilities

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

The Credit Facility is secured by substantially all of Telesat Canada's assets. Under the terms of the Credit Facility, Telesat Canada is required to comply with certain covenants which are usual and customary for highly leveraged transactions, including financial reporting, maintenance of certain financial covenant ratios for leverage and interest coverage, a requirement to maintain minimum levels of satellite insurance, restrictions on capital expenditures, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions and restrictions on transactions with affiliates. Telesat Canada was also required to enter into swap agreements that will effectively fix or cap the interest rates on at least 50% of its funded debt for a 3 year period ending October 31, 2010. Each tranche of the Credit Facility is subject to mandatory principal repayment requirements, which, in the initial years, are generally 1/4 of 1% of the initial aggregate principal amount.

Revolving Facility

The Revolving Facility is a CAD 153 million loan facility with a maturity date of October 31, 2012. Loans under the Revolving Facility currently bear interest at a floating rate of the Bankers Acceptance borrowing rate plus an applicable margin of 275 basis points. The applicable margin is subject to a leverage pricing grid. The Revolving Facility currently has an unused commitment fee of 50 bps that is subject to adjustment based upon a leverage pricing grid. As of December 31, 2008, other than approximately CAD 0.2 million in drawings related to letters of credit, there were no borrowings under this facility.

Canadian Term Loan Facility

The Canadian Term Loan Facility is a CAD 200 million loan with a maturity date of October 31, 2012. The Canadian Term Loan Facility bears interest at a floating rate of the Bankers Acceptance borrowing rate plus an applicable margin of 275 basis points. The required repayments on the Canadian term loan facility were $5 million for the year ended December 31, 2008 and will be $10 million for the year ended December 31, 2009.

U.S. Term Loan Facility

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

The U.S. Term Loan II Facility has an unused commitment fee of $^{1}/_{2}$ the applicable margin which is 150 basis points. Telesat Canada drew the full amount of this facility during the 12 month availability period. As of December 31, 2008, $150 million of the facility was drawn.

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

Senior Bridge Loan

The Senior Bridge Loan was a $692.8 million senior unsecured loan advanced on the closing date. The Senior Bridge Loan had a maturity of October 31, 2008 and an initial interest rate per annum equal to the greater of 9% or three-month LIBOR plus the applicable margin. The applicable margin increased over time subject to an interest rate cap of 11%. The Senior Bridge Loan was subject to a securities demand on or after April 28, 2008.

On June 30, 2008, Telesat exchanged the outstanding $692.8 million Senior bridge loan for $692.8 million Senior notes. The Senior notes bear interest at an annual rate of 11.0% and are due November 1, 2015. The Senior notes include covenants or terms that restrict Telesat's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel the Company's satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the Senior notes prior to May 1, 2012, in each case subject to exceptions provided in the Senior notes indenture.

Senior Subordinated Bridge Loan

The Senior Subordinated Bridge Loan is a $217.2 million senior subordinated unsecured loan advanced on the closing date. The Senior Subordinated Bridge Loan had a maturity of October 31, 2008 and an initial interest rate per annum equal to the greater of 10.5% or three-month LIBOR plus the applicable margin. The applicable margin increased over time subject to an interest rate cap of 12.5%. The Senior Subordinated Bridge Loan was subject to a securities demand on or after April 28, 2008.

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

Interest Expense

An estimate of the interest expense on the Facilities is based upon assumptions of LIBOR and Bankers Acceptance rates and the applicable margin for the Credit Facility, the Senior Bridge Loan and the Senior Subordinated Bridge Loan. Telesat Canada's estimated interest expense for 2009 is approximately CAD 288 million.

Derivatives

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

Telesat Canada uses forward contracts to hedge its foreign currency risk on anticipated transactions, mainly related to the construction of satellites. At December 31, 2008, Telesat Canada had outstanding foreign exchange contracts which require them to pay Canadian dollars to receive $58.7 million for future capital expenditures. The fair value of these derivative contract liabilities resulted in an unrealized gain of CAD 10.8 million as of December 31, 2008. These forward contracts are due between February 2, 2009 and December 1, 2009.

In order to hedge the currency risk for Telesat Canada, both at closing and over the life of the loans, Loral Skynet entered into a currency basis swap to synthetically convert $1.054 billion of the U.S. Term Loan Facility debt into CAD 1.224 billion of debt. Loral Skynet transferred the currency basis swap to Telesat Canada prior to closing. The fair value of this derivative contract at December 31, 2008 resulted in an unrealized gain of CAD 8.8 million.

On November 30, 2007, Telesat Canada entered into a series of five interest rate swaps to fix interest rates on $600 million of U.S. dollar denominated debt and CAD 630 million of Canadian dollar denominated debt for an average term of 3.2 years. Average rates achieved, before any borrowing spread, were 4.12% on the U.S. dollar denominated swaps and 4.35% on the Canadian dollar denominated swaps. As of December 31, 2008, the fair value of these derivative contract liabilities was an unrealized loss of CAD 81.9 million. With these transactions, Telesat Canada met its requirement under the Credit Facility to effectively fix or cap at least 50% of its funded debt for a three year period from October 31, 2007.

Capital Expenditures

Telesat Canada has entered into contracts for construction, insurance and launch of the Nimiq 5 and Telstar 11N satellites. The outstanding commitments as of December 31, 2008 on these contracts are approximately $163.4 million. These expenditures will be funded from some or all of the following: cash and short-term investments, cash flow from operations , cash flow from customer prepayments or through borrowings on available lines of credit under the Credit Facility.

XTAR

In January 2009, XTAR reached an agreement with Arianespace, S.A. to settle its revenue-based fee that was to be paid over time. To enable XTAR to be able to make these settlement payments, XTAR has issued a capital call to its LLC members for $8 million in 2009. The capital call required Loral to increase its investment in XTAR by approximately $4.5 million, representing its 56% share of $8 million. This settlement benefits XTAR by providing a significant reduction to amounts that it would have been required to pay in the future and satisfies XTAR's obligations to Arianespace.

Contractual Obligations and Other Commercial Commitments

The following tables aggregate our contractual obligations and other commercial commitments as of December 31, 2008 (in thousands).

Contractual Obligations:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Operating leases (1)	$ 38,011	$ 9,723	$ 15,295	$ 5,904	$ 7,089
Unconditional purchase obligations (2)	507,862	356,992	150,870	—	—
Other long-term obligations (3)	53,209	24,010	29,199	—	—
Revolving credit agreement (4)	55,000	—	55,000	—	—
Total contractual cash obligations (5)	$654,082	$390,725	$250,364	$ 5,904	$ 7,089

Other Commercial Commitments:

	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Stand by letter of credit	$ 4,927	$ 4,927	$ —	$ —	$ —

(1) Represents future minimum payments under operating leases with initial or remaining terms of one year or more.

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

(3) Represents our commitment in connection with an agreement entered into between Loral and ViaSat for the purchase by Loral of a portion of the ViaSat-1 satellite which is being constructed by SS/L for ViaSat (see Note 16 to the financial statements).

(4) On October 16, 2008, SS/L entered into a Credit Agreement with several banks and other financial institutions. The Credit Agreement provides for a $100 million senior secured revolving credit facility. The Revolving Facility includes a $50 million letter of credit sublimit. The Credit Agreement is for a term of three years, maturing on October 16, 2011 (see Note 8 to the financial statements). Payment amounts shown exclude interest which is not expected to be significant.

(5) Does not include our FIN 48 liabilities for uncertain tax positions of $109.0 million. Because the timing of future cash outflows associated with our FIN 48 liabilities for uncertain tax positions is highly uncertain, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities (see Note 9 to the financial statements).

Net Cash (Used in) Provided by Operating Activities

Net cash used in operating activities for 2008 was $202 million. This was primarily due to an increase in contracts in process of $216 million and a decrease in customer advances of $20 million, primarily resulting from progress on new satellite programs, a decrease in taxes payable of $55 million, primarily due to tax payments, net of refunds, of $30 million, a decrease in pension and post retirement liabilities of $19 million and a decrease in accrued expenses and other current liabilities of $22 million which includes a Telesat Canada post-closing final adjustment payment to PSP of $9 million, partially offset by an increase in accounts payable of $24 million, an increase in long term liabilities of $33 million, primarily due to a $41 million liability for uncertain tax positions and a net loss after adjustment for non-cash items of $69 million.

Net cash provided by operating activities for 2007 was $27 million. This was primarily due to a decrease in accounts receivable of $65 million from the collection of vendor financing from a customer and a $22 million increase in cash from net income adjusted for non-cash items including an increase in income taxes payable attributable to taxes expensed in 2007 to be paid in 2008 related to the gain from the contribution of substantially all of the Loral Skynet assets and related liabilities to Telesat Canada. These sources of cash were partially offset by an increase in contracts-in-process of $61 million and a reduction in customer advances of $17 million due to continued progress on the related satellite programs.

Net cash provided by operating activities for 2006 was $88 million. This was primarily due to the net loss adjusted for non-cash items of $86 million, an increase in customer advances of $51 million resulting from timing of satellite program milestone payments and higher accrued expenses and other current liabilities of $18 million in part due to higher accrued interest. This change was partially offset by an increase in inventory of $32 million, which

was made to accommodate increased volume and a reduction of $20 million in pension and other postretirement liabilities primarily due to contributions made to the pension plan of $28 million (see Note 12 to the financial statements).

Net Cash (Used in) Provided By Investing Activities

Net cash used in investing activities for 2008 was $47 million, primarily resulting from capital expenditures of $65 million, partially offset by a decrease in restricted cash of $19 million as a result of the release of restrictions on $12 million of cash relating to the Skynet Noteholder Litigation and the release of restrictions on $7 million of cash due to the replacement of SS/L's former Letter of Credit Facility.

Net cash provided by investing activities for 2007 was $62 million, primarily resulting from the net effect of cash management of short-term investments of $118 million and net proceeds received for the contribution of Loral Skynet to Telesat Canada of $58 million. These changes were partially offset by capital expenditures of $96 million, an increase in restricted cash of $20 million and a net distribution from an equity investment of $2 million.

Net cash used in investing activities for 2006 was $176 million, resulting from capital expenditures of $82 million and the Company's purchase of short-term investments of $107 million, partially offset by proceeds from the sale of available-for-sale securities of $7 million and proceeds received from the disposition of an orbital slot of $6 million.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for 2008 was $52 million, primarily resulting from the proceeds, net of expenses, from borrowings under the SS/L Credit Agreement.

Net cash provided by financing activities for 2007 was $40 million, primarily resulting from the proceeds, net of expenses, from the sale of preferred stock of $284 million, the borrowing of a term loan of $141 million from Valley National to fund redemption of the Loral Skynet Notes and the proceeds from the exercise of stock options of $2 million, partially offset by the distribution of proceeds for the redemption of the Loral Skynet Preferred Stock of $238 million, the repayment of the Loral Skynet Notes of $126 million, the redemption premium of $13 million paid on the extinguishment of the Loral Skynet Notes and cash dividends paid on the Loral Skynet Preferred Stock of $12 million.

Net cash used in financing activities for 2006 was $1 million, resulting from the cash dividend payment on the Loral Skynet Preferred Stock made in the third quarter.

Other

During 2008, we made approximately $28 million in contributions to the qualified pension plan and funded approximately $3 million for other employee post-retirement benefit plans. During 2007, Loral made no contributions to the qualified pension plan and funded approximately $3 million for other employee post-retirement benefit plans. In September 2006, Loral made the minimum required contribution of $2 million to the pension plan and made an additional voluntary contribution to the pension plan of $25 million. The additional voluntary contribution was made to improve the funded status of the pension plan and to reduce future expected contributions. During 2009, based on current estimates, we expect to contribute approximately $24 million to the qualified pension plan and expect to fund approximately $4 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 Note 6 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):

	Year Ended December 31,		
	2008	2007	2006
		(In millions)	
Revenues	$84.0	$22.0	$11.3
Elimination of Loral's proportionate share of (profits) losses relating to affiliate transactions	(5.0)	1.9	0.4
Profits (losses) relating to affiliate transactions not eliminated	2.8	(1.1)	(0.3)

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 14 to the financial statements.

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

Foreign Currency

The Company, in the normal course of business, is subject to the risks associated with fluctuations in foreign currency exchange rates. As of December 31, 2008, SS/L had the following amounts denominated in Japanese Yen and EUROs (which have been translated into U.S. dollars based on the December 31, 2008 exchange rates) that were unhedged (in millions):

	Foreign Currency		U.S. $
Future revenues — Japanese Yen	¥	64.9	$ 0.7
Future expenditures — Japanese Yen	¥	3,491.2	$38.6
Contracts-in-process, unbilled receivables — Japanese Yen	¥	10.4	$ 0.1
Future expenditures — EUROs	€	6.2	$ 8.8

Derivatives

Hedges of foreign currency denominated contract revenues and related purchases are designated as cash flow hedges and evaluated for effectiveness at least quarterly. Effectiveness is tested using regression analysis. The effective portion of the gain or loss on a cash flow hedge is recorded as a component of other comprehensive income and reclassified to income in the same period or periods in which the hedged transaction affects income. Any remaining gain or loss on the hedge is included in income.

On July 9, 2008, SS/L was awarded a satellite contract denominated in EUROs and SS/L entered into a series of foreign exchange forward contracts with maturities through 2011 to hedge the associated foreign currency exchange risk. These foreign exchange forward contracts have been designated as cash flow hedges of future Euro denominated receivables.

During the year ended December 31, 2008, losses of $2.5 million were excluded from the assessment of hedge effectiveness and were recorded as a reduction of revenue, and unrealized gains of $18.2 million were included in accumulated other comprehensive income.

The fair value of the cash flow hedges at December 31, 2008 was $14.6 million of which $8.9 million is included in other current assets and $5.7 million is included in other assets.

We estimate that $9.2 million of net derivative gain included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

The maturity of foreign currency exchange contracts held as of December 31, 2008 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows (in thousands):

	To Sell		
Maturity	Euro Amount	At Contract Rate	At Market Rate
2009	€ 65,540	$ 99,793	$ 91,376
2010	19,210	29,388	26,734
2011	23,493	35,663	32,608
	€108,243	$164,844	$150,718

	To Buy		
Maturity	Euro Amount	At Contract Rate	At Market Rate
2009	€4,520	$ 6,294	$6,315

The Company is exposed to credit-related losses in the event of non-performance by counter parties to these financial instruments, but does not expect any counter party to fail to meet its obligation because we execute foreign exchange contracts only with well capitalized financial institutions. Loral does not enter into foreign currency transactions for trading and speculative purposes.

On June 20, 2008, in anticipation of receiving the July 9, 2008 satellite contract described above, Loral entered into a currency option transaction that allowed Loral to convert €97.7 million into $149.5 million. Loral paid a premium of $0.5 million for this option. For the year ended December 31, 2008, Loral recorded a charge of $0.5 million, as the options expired unexercised on July 10, 2008.

Interest

The Company had $55 million of borrowings outstanding under the SS/L Credit Agreement at December 31, 2008. Borrowings under this facility are limited to Eurodollar Loans for periods ending in one, two, three or six months or ABR Loans which rate is adjusted daily based upon changes in the Prime Rate of Federal Funds Rate. Because of the nature of the borrowing under a revolving credit facility, the borrowing rate adjusts to changes in interest rates over time. For a $100 million credit facility, if it were fully borrowed, a 1.00% change in interest rates would effect the Company's interest expense by $1 million for the year. The Company had no other long-term debt or other exposure to changes in interest rates with respect thereto. Prior to the close of the Telesat Canada transaction in 2007, Loral Skynet had debt at a fixed rate of 14.0%.

As of December 31, 2008, the only marketable securities held by the Company was 984,173 shares of Globalstar Inc. common stock. During the year, our excess cash was invested in money market securities; we did not hold any other marketable securities.

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 Exchange Act) as of December 31,

2008, 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. The term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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 ("COSO"). Based on our evaluation under such criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its attestation report which is included below.

Remediation of Previously Disclosed Material Weakness

As reported in our Annual Report on Form 10-K for the year ended December 31, 2007, our management previously concluded that a material weakness existed related to our accounting for and disclosure of income taxes. Specifically, the Company did not maintain adequate processes and a sufficient number of technically qualified personnel to enable the timely resolution of issues associated with the Company's income tax closing process primarily relating to those issues attributable to the Telesat Canada transaction.

Management has concluded that, as of December 31, 2008, the previously reported material weakness has been remediated. The remediation actions taken during 2008 included the following:

- The Company hired a Director of Tax, who assists our Vice President of Tax with the management of all tax planning, accounting and reporting processes.
- The Company augmented its internal resources by engaging an accounting firm to assist in the preparation of our tax accounting and disclosure.
- A full process evaluation was completed and process improvements were implemented.

Changes in Internal Controls Over Financial Reporting

Other than the control improvements discussed above, there were no changes in our internal control over financial reporting during the quarter ended December 31, 2008 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 Board of Directors and Stockholders of
Loral Space & Communications Inc.
New York, New York

We have audited the internal control over financial reporting of Loral Space & Communications Inc. and subsidiaries (the "Company") as of December 31, 2008, 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, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, 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 schedule as of and for the year ended December 31, 2008, of the Company and our report dated March 16, 2009 expressed an unqualified opinion on those consolidated financial statements and included explanatory paragraphs relating to the Company's adoption of new accounting standards.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 16, 2009

Item 9B. ***Other Information***

None.

PART III

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

Executive Officers of the Registrant

The following table sets forth information concerning the executive officers of Loral as of March 1, 2009.

Name	Age	Position
Michael B. Targoff	64	Chief Executive Officer since March 1, 2006, President since January 2008 and Vice Chairman of the Board of Directors since November 2005. Prior to that, founder of Michael B. Targoff & Co.
C. Patrick DeWitt	62	Senior Vice President since January 2008. Vice President from November 2005 to January 2008. Vice President of Old Loral from January 2002 to November 2005. Chief Executive Officer of SS/L since June 2006. President of SS/L from November 2001 to June 2006.
Avi Katz	50	Senior Vice President, General Counsel and Secretary since January 2008. Vice President, General Counsel and Secretary from November 2005 to January 2008. Vice President, General Counsel and Secretary of Old Loral from November 1999 to November 2005.
Richard P. Mastoloni	44	Senior Vice President of Finance and Treasurer since January 2008. Vice President and Treasurer from November 2005 to January 2008. Vice President and Treasurer of Old Loral from February 2002 to November 2005. Vice President of Old Loral from September 2001 to February 2002.
Harvey B. Rein	55	Senior Vice President and Chief Financial Officer since January 2008. Vice President and Controller from November 2005 to January 2008. Vice President and Controller of Old Loral from April 1996 to November 2005.
John Capogrossi	55	Vice President and Controller since January 2008. Executive Director, Financial Planning and Analysis, from October 2006 to January 2008. Assistant Controller from November 2005 to October 2006. Assistant Controller of Old Loral from January 2001 to November 2005.

The remaining information required under Item 10 will be presented in the Company's 2009 definitive proxy statement which is incorporated herein by reference.

Item 11. ***Executive Compensation***

Information required under Item 11 will be presented in the Company's 2009 definitive proxy statement which is incorporated herein by reference.

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

Information required under Item 12 will be presented in the Company's 2009 definitive proxy statement which is incorporated herein by reference.

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

Information required under Item 13 will be presented in the Company's 2009 definitive proxy statement which is incorporated herein by reference.

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

Information required under Item 14 will be presented in the Company's 2009 definitive proxy statement which is incorporated herein by reference.

PART IV

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

(a) 1. Financial Statements

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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)
2.3	Letter Agreement among Loral Space & Communications Inc., Loral Skynet Corporation, Public Sector Pension Investment Board, 4363205 Canada Inc. and 4363213 Canada Inc. dated December 14, 2006(6)
2.4	Share Purchase Agreement among 4363213 Canada Inc., BCE Inc. and Telesat Canada dated December 16, 2006(6)
2.5	Letter Agreement among Loral Space & Communications Inc., Public Sector Pension Investment Board and BCE Inc. dated December 16, 2006(6)
2.6	Asset Transfer Agreement, dated as of August 7, 2007, by and among 4363205 Canada Inc., Loral Skynet Corporation and Loral Space & Communications Inc.(9)
2.7	Amendment No. 1 to Asset Transfer Agreement, dated as of September 24, 2007, by and among 4363205 Canada Inc., Loral Skynet Corporation and Loral Space & Communications Inc.(10)
2.8	Asset Purchase Agreement, dated as of August 7, 2007, by and among Loral Skynet Corporation, Skynet Satellite Corporation and Loral Space & Communications Inc.(9)
3.1	Amended and Restated Certificate of Incorporation of Loral Space & Communications Inc. dated December 23, 2008(20)
3.2	Amended and Restated Bylaws of Loral Space & Communications Inc. dated December 23, 2008(20)
10.1	Amended and Restated Customer Credit Agreement, dated as of July 30, 2007, by and between Sirius Satellite Radio Inc. and Space Systems/Loral, Inc.(8)
10.2	First Amendment and Waiver to Amended and Restated Credit Agreement dated as of May 22, 2008 between Sirius Satellite Radio Inc. and Space Systems/Loral, Inc.(15)
10.3	Credit Agreement, dated as of October 16, 2008, among Space Systems/Loral, Inc., as Borrower, the several lenders from time to time party thereto, Bank of America, N.A., as Documentation Agent, ING Bank, N.V., as Syndication Agent, and JPMorgan Chase Bank, N.A., as Administrative Agent(18)
10.4	Parent Guarantee Agreement, dated as of October 22, 2008, by Loral Space & Communications Inc. in favor of JPMorgan Chase Bank, N.A., as Administrative Agent.(18)
10.5	Ancillary Agreement, dated as of August 7, 2007, by and among Loral Space & Communications Inc., Loral Skynet Corporation, Public Sector Pension Investment Board, 4363205 Canada Inc. and 4363230 Canada Inc.(9)
10.6	Adjustment Agreement, dated as of October 29, 2007, between Telesat Interco Inc. (formerly 4363213 Canada Inc.), BCE Inc. and Telesat Canada(11)
10.7	Omnibus Agreement, dated as of October 30, 2007, by and among Loral Space & Communications Inc., Loral Skynet Corporation, Public Sector Pension Investment Board, Red Isle Private Investments Inc. and Telesat Holdings Inc. (formerly 4363205 Canada Inc.)(11)
10.8	Shareholders Agreement, dated as of October 31, 2007, between Public Sector Pension Investment Board, Red Isle Private Investments Inc., Loral Space & Communications Inc., Loral Space & Communications Holdings Corporation, Loral Holdings Corporation, Loral Skynet Corporation, John P. Cashman, Colin D. Watson, Telesat Holdings Inc. (formerly 4363205 Canada Inc.), Telesat Interco Inc. (formerly 4363213 Canada Inc.), Telesat Canada and MHR Fund Management LLC(11)
10.9	Consulting Services Agreement, dated as of October 31, 2007, by and between Loral Space & Communications Inc. and Telesat Canada(11)
10.10	Indemnity Agreement, dated as of October 31, 2007, by and among Loral Space & Communications Inc., Telesat Canada, Telesat Holdings Inc., Telesat Interco Inc. and Henry Gerard (Hank) Intven(11)
10.11	Acknowledgement and Indemnity Agreement, dated as of October 31, 2007, between Loral Space & Communications Inc., Telesat Canada, Telesat Holdings Inc. (formerly 4363205 Canada Inc.), Telesat Interco Inc. (formerly 4363213 Canada Inc.) and McCarthy Tétrault LLP(11)
10.12	Amended and Restated Registration Rights Agreement dated December 23, 2008 by and among Loral Space & Communications Inc. and the Persons Listed on the Signature Pages Thereof(20)

Exhibit Number	Description
10.13	Partnership Interest Purchase Agreement dated December 21, 2007 by and among GSSI, LLC, Globalstar, Inc., Loral/DASA Globalstar, LP, Globalstar do Brasil, SA., Loral/DASA do Brasil Holdings Ltda., Loral Holdings LLC, Global DASA LLC, LGP (Bermuda) Ltd., Mercedes-Benz do Brasil Ltda. (f/k/a DaimlerChrysler do Brasil Ltda.) and Loral Space & Communications Inc.(12)
10.14	Beam Sharing Agreement, dated as of January 11, 2008, by and between Loral Space & Communications Inc. and ViaSat Inc.(13)
10.15	Option Agreement, dated as of January 11, 2008, by and between Loral Space & Communications Inc. and Telesat Canada(13)
10.16	Employment Agreement between Loral Space & Communications Inc. and Michael B. Targoff dated as of March 28, 2006 and amended and restated as of December 17, 2008† ‡
10.17	Form of Officers' and Directors' Indemnification Agreement between Loral Space & Communications Inc. and Loral Executives(3) ‡
10.18	Officers' and Directors' Indemnification Agreement between Space Systems/Loral, Inc. and C. Patrick DeWitt dated November 21, 2005(3)‡
10.19	Loral Space Management Incentive Bonus Program (Adopted as of December 17, 2008) (20) ‡
10.20	Loral Space & Communications Inc. 2005 Stock Incentive Plan (Amended and Restated as of November 7, 2008)† ‡
10.21	Form of Amended and Restated Non-Qualified Stock Option Agreement under Loral Space & Communications Inc. 2005 Stock Incentive Plan for Senior Management dated as of December 21, 2005 and amended and restated as of November 10, 2008† ‡
10.22	Non-Qualified Stock Option Agreement under Loral Space & Communications Inc. 2005 Stock Incentive Plan between Loral Space & Communications Inc. and Michael B. Targoff dated March 28, 2006(4) ‡
10.23	Restricted Stock Unit Agreement dated March 5, 2009 between Loral Space & Communications Inc. and Michael B. Targoff(21)
10.24	Restricted Stock Unit Agreement dated March 5, 2009 between Loral Space & Communications Inc. and C. Patrick DeWitt(21)
10.25	Form of Director 2006 Restricted Stock Agreement(7) ‡
10.26	Form of Director 2007 Restricted Stock Agreement(7) ‡
10.27	Form of Director 2008 Restricted Stock Agreement† ‡
10.28	Form of Employee Restricted Stock Agreement(7) ‡
10.29	Amended and Restated Space Systems/Loral, Inc. Supplemental Executive Retirement Plan (Amended and Restated as of December 17, 2008) (20) ‡
10.30	Loral Savings Supplemental Executive Retirement Plan (Amended and Restated as of December 17, 2008) (20) ‡
10.31	Loral Space & Communications Inc. Severance Policy for Corporate Officers (Amended and Restated as of December 17, 2008) (20) ‡
14.1	Code of Conduct, Revised as of June 11, 2008(16)
21.1	List of Subsidiaries of the Registrant†
23.1	Consent of Deloitte & Touche LLP†
23.2	Consent of Deloitte & Touche LLP†
23.3	Consent of Deloitte & Touche LLP†
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†

Exhibit Number	Description
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†
99.1	Credit Agreement, dated as of October 31, 2007, among Telesat Interco Inc. (formerly 4363213 Canada Inc.), Telesat Holdings Inc. (formerly 4363205 Canada Inc.), 4363230 Canada Inc., Telesat LLC, certain subsidiaries of Telesat Holdings Inc., as guarantors, the lenders party thereto from time to time, Morgan Stanley Senior Funding, Inc., as administrative agent, and Morgan Stanley & Co. Incorporated, as collateral agent for the lenders, UBS Securities LLC, as syndication agent, JPMorgan Chase Bank, N.A., The Bank of Nova Scotia, as issuing bank, and Citibank, N.A., Canadian Branch or any of its lending affiliates, as co-documentation agents, and Morgan Stanley & Co. Incorporated, UBS Securities LLC and J.P. Morgan Securities Inc., as joint lead arrangers and joint book running managers(11)
99.2	Articles of Incorporation of Telesat Holdings Inc. (formerly 4363205 Canada Inc.)(11)
99.3	By-Law No. 1 of Telesat Holdings Inc. (formerly 4363205 Canada Inc.)(11)
99.4	Letter Agreement dated March 28, 2008 among Loral Space & Communications Inc., Loral Skynet Corporation, Public Sector Pension Investment Board, Red Isle Private Investment Inc. and Telesat Holdings Inc.(14)
99.5	Memorandum Opinion dated September 19, 2008 of the Court of Chancery of the State of Delaware in In re Loral Space & Communications Inc. Consolidated Litigation and GPC XLI L.L.C., et al. v. Loral Space & Communications Inc., et al.(17)
99.6	Implementing Order of the Court of Chancery of the State of Delaware dated November 10, 2008(19)

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(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 Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

(5) Incorporated by reference from the Company's Current Report on Form 8-K/A filed by the Company on June 26, 2006.

(6) Incorporated by reference from the Company's Current Report on Form 8-K filed on December 21, 2006.

(7) Incorporated by reference from the Company's Current Report on Form 8-K filed on May 29, 2007.

(8) Incorporated by reference from the Company's Current Report on Form 8-K filed on August 2, 2007.

(9) Incorporated by reference from the Company's Current Report on Form 8-K filed on August 9, 2007.

(10) Incorporated by reference from the Company's Current Report on Form 8-K filed on September 27, 2007.

(11) Incorporated by reference from the Company's Current Report on Form 8-K filed on November 2, 2007.

(12) Incorporated by reference from the Company's Current Report on Form 8-K filed December 21, 2007.

(13) Incorporated by reference from the Company's Current Report on Form 8-K filed on January 16, 2008.

(14) Incorporated by reference from the Company's Current Report on Form 8-K filed on March 31, 2008.

(15) Incorporated by reference from the Company's Current Report on Form 8-K filed on May 28, 2008.

(16) Incorporated by reference from the Company's Current Quarterly Report on Form 10-Q filed on June 16, 2008.

(17) Incorporated by reference from the Company's Current Report on Form 8-K filed on September 23, 2008.

(18) Incorporated by reference from the Company's Current Report on Form 8-K filed on October 22, 2008.

(19) Incorporated by reference from the Company's Current Report on Form 8-K filed on November 12, 2008.

(20) Incorporated by reference from the Company's Current Report on Form 8-K filed on December 23, 2008.

(21) Incorporated by reference from the Company's Current Report on Form 8-K filed on March 10, 2009.

† 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
Vice Chairman of the Board,
Chief Executive Officer and President
Dated: March 16, 2009

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 Michael B. Targoff	Vice Chairman of the Board, Chief Executive Officer and President	March 16, 2009
/s/ MARK H. RACHESKY, M.D. Mark H. Rachesky, M.D.	Director, Non-Executive Chairman of the Board	March 16, 2009
/s/ SAI S. DEVABHAKTUNI Sai S. Devabhaktuni	Director	March 16, 2009
/s/ HAL GOLDSTEIN Hal Goldstein	Director	March 16, 2009
/s/ JOHN D. HARKEY, JR. John D. Harkey, Jr.	Director	March 16, 2009
/s/ ARTHUR L. SIMON Arthur L. Simon	Director	March 16, 2009
/s/ JOHN P. STENBIT John P. Stenbit	Director	March 16, 2009
/s/ HARVEY B. REIN Harvey B. Rein	Senior Vice President and CFO (Principal Financial Officer)	March 16, 2009
/s/ JOHN CAPOGROSSI John Capogrossi	Vice President and Controller (Principal Accounting Officer)	March 16, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Loral Space & Communications Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of Loral Space & Communications Inc. and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 9 to the consolidated financial statements, as of January 1, 2007, the Company changed its method of accounting for uncertain tax positions to adopt the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB No. 109.*

As discussed in Note 12 to the consolidated financial statements, as of December 31, 2006, the Company changed its method of accounting for pensions and other employee benefits to adopt the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans.*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, 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 16, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 16, 2009

LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,548	$ 314,694
Contracts-in-process	213,651	109,376
Inventories	109,755	96,968
Restricted cash	690	12,816
Other current assets	53,596	36,034
Total current assets	495,240	569,888
Property, plant and equipment, net	188,270	147,828
Long-term receivables	184,701	132,400
Investments in affiliates	72,642	566,196
Goodwill	—	227,058
Intangible assets, net	31,578	42,854
Other assets	23,436	16,715
Total assets	$ 995,867	$1,702,939
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 91,052	$ 69,205
Accrued employment costs	41,819	42,890
Customer advances and billings in excess of costs and profits	184,592	251,954
Income taxes payable	233	31,239
Accrued interest and preferred dividends	207	4,979
Other current liabilities	31,471	39,512
Total current liabilities	349,374	439,779
Borrowings under revolving credit facility	55,000	—
Pension and other postretirement liabilities	230,660	152,341
Long-term liabilities	151,176	137,261
Total liabilities	786,210	729,381
Commitments and contingencies Shareholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding at December 31, 2008	—	—
Series A-1 cumulative 7.5% convertible preferred stock, $0.01 par value; 2,200,000 shares authorized, 141,953 shares issued and outstanding at December 31, 2007	—	41,873
Series B-1 cumulative 7.5% convertible preferred stock, $0.01 par value; 2,000,000 shares authorized, 900,821 shares issued and outstanding at December 31, 2007	—	265,777
Common Stock:		
Voting common stock, $.01 par value; 30,494,327 shares authorized, 20,286,992 and 20,292,746 shares issued and outstanding	203	203
Non-voting common stock, $0.1 par value; 9,505,673 shares authorized, issued and outstanding at December 31, 2008	95	—
Paid-in capital	1,007,011	663,127
Accumulated deficit	(750,922)	(33,939)
Accumulated other comprehensive (loss) income	(46,730)	36,517
Total shareholders' equity	209,657	973,558
Total liabilities and shareholders' equity	$ 995,867	$1,702,939

See notes to consolidated financial statements.

LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2008	2007	2006
Revenues from satellite manufacturing	$ 869,398	$ 761,363	$636,632
Revenues from satellite services	—	121,091	160,701
Total revenues	869,398	882,454	797,333
Cost of satellite manufacturing	787,758	688,991	550,821
Cost of satellite services	—	86,213	98,614
Selling, general and administrative expenses	97,015	166,936	127,080
Gain on recovery from customer bankruptcy	(9,338)	—	—
Impairment of goodwill	187,940	—	—
Gain on contribution of Loral Skynet	—	(104,942)	—
Gain on litigation settlement	—	—	(9,000)
Operating (loss) income	(193,977)	45,256	29,818
Interest and investment income	11,857	39,279	31,526
Interest expense	(2,268)	(2,312)	(23,449)
Gain (loss) on foreign exchange contracts	—	89,364	(5,750)
Gain on litigation, net	38,823	—	—
Impairment of available for sale securities	(5,823)	—	—
Loss on extinguishment of debt	—	(16,155)	—
Other (expense) income	(135)	2,354	(2,028)
(Loss) income before income taxes, equity in net losses of affiliates and minority interest	(151,523)	157,786	30,117
Income tax provision	(45,744)	(83,457)	(20,880)
(Loss) income before equity in net losses of affiliates and minority interest	(197,267)	74,329	9,237
Equity in net losses of affiliates	(495,649)	(21,430)	(7,163)
Minority interest	—	(23,240)	(24,794)
Net (loss) income	(692,916)	29,659	$ (22,720)
Preferred dividends	(24,067)	(19,379)	—
Beneficial conversion feature related to the issuance of Loral Series A-1 Preferred Stock	—	(25,685)	—
Net loss applicable to common shareholders	$(716,983)	$ (15,405)	$ (22,720)
Basic and diluted loss per share:			
Basic and diluted loss per share	$ (35.13)	$ (0.77)	$ (1.14)
Weighted average shares outstanding:			
Basic and diluted	20,407	20,087	20,000

See notes to consolidated financial statements.

LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Series A-1 Convertible Preferred Stock		Series B-1 Convertible Preferred Stock		Common Stock						Accumulated Other	
					Voting		Non-Voting			Accumulated	Comprehensive	Total
	Shares Issued	Amount	Shares Issued	Amount	Shares Issued	Amount	Shares Issued	Amount	Paid-In Capital	Earnings (Deficit)	Income (Loss)	Shareholders' Equity
Balance, January 1, 2006					20,000	$ 200			$ 642,210	$ (15,261)	$ 15	$ 627,164
Adjustment to initially apply SFAS 158, net of tax											29,951	29,951
Net loss										(22,720)		
Other comprehensive income											10,109	
Comprehensive loss												(12,611)
Stock based compensation									2,498			2,498
Balance, December 31, 2006					20,000	200			644,708	(37,981)	40,075	647,002
Cumulative effect related to adoption of FIN 48										(6,238)		(6,238)
Net income										29,659		
Other comprehensive loss											(3,558)	
Comprehensive income												26,101
Issuance of Series -1 preferred stock	137	$ 40,237	859	$ 253,013					(8,864)			284,386
Issuance of Series -1 preferred stock as payment for dividend	5	1,636	42	12,764								14,400
Exercise of stock options					108	1			1,920			1,921
Restricted shares surrendered to fund withholding taxes					(20)	—			(982)			(982)
Stock based compensation					205	2			26,345			26,347
Preferred stock dividends										(19,379)		(19,379)
Balance, December 31, 2007	142	41,873	901	265,777	20,293	203			663,127	(33,939)	36,517	973,558
Net loss										(692,916)		
Other comprehensive loss											(83,247)	
Comprehensive loss												(776,163)
Issuance of Series -1 preferred stock as payment for dividend	3	822	78	23,427								24,249
Restricted shares surrendered to fund withholding taxes					(18)				(338)			(338)
Stock based compensation					12				7,621			7,621
Series-1 preferred dividends	—	618	—	4,179								4,797
Cancellation and conversion of Series-1 preferred stock to non-voting common stock	(145)	(43,313)	(979)	(293,383)			9,506	95	336,601			
Preferred stock dividends										(24,067)		(24,067)
Balance, December 31, 2008	—	$ —	—	$ —	20,287	$ 203	9,506	$ 95	$1,007,011	$ (750,922)	$ (46,730)	$ 209,657

See notes to consolidated financial statements.

LORAL SPACE & COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2008	2007	2006
Operating activities:			
Net (loss) income	$(692,916)	$ 29,659	$ (22,720)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Non-cash items	762,210	(35,971)	108,584
Changes in operating assets and liabilities:			
Accounts receivable	—	64,828	(9,129)
Contracts-in-process	(216,354)	(60,884)	5,551
Inventories	(12,787)	(15,872)	(31,990)
Long-term receivables	13,947	(266)	(2,214)
Other current assets and other assets	3,393	6,369	7,964
Accounts payable	23,681	6,041	(12,812)
Accrued expenses and other current liabilities	(22,455)	15,866	17,756
Customer advances	(19,710)	(17,751)	50,634
Income taxes payable	(55,034)	28,719	391
Pension and other postretirement liabilities	(19,010)	8,663	(20,453)
Long-term liabilities	32,825	(2,282)	(3,725)
Other	—	4	165
Net cash (used in) provided by operating activities	(202,210)	27,123	88,002
Investing activities:			
Capital expenditures	(64,559)	(95,761)	(82,157)
Decrease (increase) in restricted cash in escrow	18,637	(19,709)	(323)
Proceeds received for the contribution of Loral Skynet net of cash contributed	—	57,591	—
Proceeds received from disposition of orbital slot	—	—	5,742
Distribution from an equity investment	—	2,955	250
Proceeds from the sale of short-term investments and available-for-sale securities	162	468,571	7,098
Purchase of short-term investments	(500)	(350,895)	(106,588)
Investments in and advances to affiliates	(1,048)	(1,233)	—
Net cash (used in) provided by investing activities	(47,308)	61,519	(175,978)
Financing activities:			
Borrowings under SS/L revolving credit facility	55,000	—	—
Debt issuance costs	(2,628)	—	—
Proceeds from term loan (Loral Skynet Notes refinancing facility)	—	141,050	—
Repayment of Loral Skynet Notes	—	(126,000)	—
10% redemption fee on extinguishment of Loral Skynet Notes	—	(12,600)	—
Preferred stock issuance costs	—	(8,864)	—
Proceeds from the sale of Series-1 preferred stock	—	293,250	—
Redemption of Loral Skynet Preferred Stock	—	(237,599)	—
Proceeds from the exercise of stock options	—	2,097	—
Cash dividends paid on Loral Skynet Preferred Stock	—	(11,824)	(1,278)
Net cash provided by (used in) financing activities	52,372	39,510	(1,278)
(Decrease) increase in cash and cash equivalents	(197,146)	128,152	(89,254)
Cash and cash equivalents — beginning of year	314,694	186,542	275,796
Cash and cash equivalents — end of year	$ 117,548	$ 314,694	$ 186,542

See notes to consolidated financial statements.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Principal Business

Loral Space & Communications Inc. ("Loral"), together with its subsidiaries, is a leading satellite communications company with substantial activities in satellite manufacturing and investments in satellite-based communications services. Loral, a Delaware corporation, was formed on June 24, 2005, to succeed to the business conducted by its predecessor registrant, Loral Space & Communications Ltd. ("Old Loral"), which emerged from chapter 11 of the federal bankruptcy laws on November 21, 2005 (the "Effective Date") pursuant to the terms of the fourth amended joint plan of reorganization, as modified ("the Plan of Reorganization").

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

Loral is organized into two segments:

Satellite Manufacturing:

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

Satellite Services:

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

On October 31, 2007, Loral and its Canadian partner, Public Sector Pension Investment Board ("PSP"), through Telesat Holdings Inc. ("Telesat Holdco"), a newly-formed joint venture, completed the acquisition of Telesat Canada from BCE Inc. ("BCE"). In connection with this acquisition, Loral transferred on that same date substantially all of the assets and related liabilities of Loral Skynet to Telesat Canada. Loral holds a 64% economic interest and a 33 1/3% voting interest in Telesat Holdco, the ultimate parent company of the resulting new entity (see Note 6). We use the equity method of accounting for our investment in Telesat Canada.

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

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Basis of Presentation

The consolidated financial statements include the results of Loral and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany transactions have been eliminated.

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

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

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("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 plant and equipment, and finite lived intangible assets, the fair value of indefinite lived intangible assets and goodwill, the fair value of stock based compensation, the realization of deferred tax assets, gains or losses on derivative instruments and our pension liabilities.

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

As of December 31, 2008, the Company had $117.5 million of cash and cash equivalents, and $5.7 million of restricted cash ($0.7 million included in other current assets and $5.0 million included in other assets on our consolidated balance sheet). Cash and cash equivalents include liquid investments with maturities of less than 90 days at the time of purchase. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date. Investments in publicly traded common stock are classified as available for sale securities. Available for sale securities are carried at fair value with unrealized gains and losses, if any, reported in accumulated other comprehensive income (loss).

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts, contracts-in-process, long-term receivables and advances and loans to affiliates (see Note 6). Our cash and cash equivalents are maintained with high-credit-quality financial

institutions. Historically, our customers have been primarily large multinational corporations and U.S. and foreign governments for which the creditworthiness was generally substantial. In recent years, we have added commercial customers which are highly leveraged, as well as those in the development stage which are partially funded. Management believes that its credit evaluation, approval and monitoring processes combined with contractual billing arrangements provide for management of potential credit risks with regard to our current customer base. However, the global financial markets have been adversely impacted by the current market environment that includes illiquidity, market volatility, widening credit spreads, changes in interest rates, and currency exchange fluctuations. These credit and financial market conditions may have a negative impact on certain of our customers and could negatively impact the ability of such customers to pay amounts owed or to enter into future contracts with us.

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 fair value. Cost is determined using the first-in-first-out (FIFO) or average cost method. As of December 31, 2008 and 2007, inventory was reduced by an allowance for obsolescence of $27.2 million and $28.4 million, respectively.

Fair Value Measurements

All available for sale securities are measured at fair value based on quoted market prices at the end of the reporting period. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), to define fair value, establish a framework for measuring fair value in accordance with U.S. GAAP and expand disclosures about fair value measurements. SFAS 157 establishes a fair value measurement hierarchy to price a particular asset or liability. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* , which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and liabilities (such as goodwill), except those that are recognized or disclosed in the Company’s financial statements at fair value at least annually. Accordingly, the Company adopted the provisions of SFAS 157 only for its financial assets and liabilities recognized or disclosed at fair value on a recurring basis effective January 1, 2008. The Company’s financial assets measured at fair value on a recurring basis as of December 31, 2008 consist of marketable securities which were valued at $0.2 million and foreign exchange forward contracts valued at $14.6 million. The Company has no financial liabilities measured at fair value on a recurring basis as of December 31, 2008. The marketable securities are classified as Level 1 and the foreign exchange forward contracts are classified as Level 2 in the fair value measurement hierarchy under SFAS 157 as of December 31, 2008.

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

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

Level 1 — Loral’s marketable securities, which are included in other current assets, consisted entirely of an investment in the common stock of Globalstar Inc. (see Note 6). Loral’s investment in Globalstar Inc. is accounted for as an “available for sale” security under the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (“SFAS 115”). Generally, unrealized gains and losses on this investment are recorded as a component of accumulated other comprehensive income (loss). For the year ended December 31, 2008, we recorded impairment charges of $5.8 million for other-than-temporary declines in the value of our investment in Globalstar Inc. common stock.

Level 2 — During 2008, Loral entered into a series of foreign exchange forward contracts, with maturities through 2011, designed to manage the risk of currency exchange rate fluctuations on cash receipts associated with a satellite manufacturing contract denominated in EUROs. These contracts have been designated as cash flow hedges

and are tested quarterly for effectiveness. The effective portion of the gain or loss on a cash flow hedge is recorded as a component of accumulated other comprehensive income (loss) and the remaining gain or loss is included in income. The Company has elected to use the income approach to value the derivatives, using observable Level II market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount assuming participants are motivated, but not compelled to transact. Level II inputs are limited to quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability (including interest rates and credit risk). As of December 31, 2008, the fair value of these contracts was $14.6 million, of which $8.9 million was included in other current assets and $5.7 million was included in other assets based upon the maturity dates of the forward contracts. During the year ended December 31, 2008, we recorded a reduction to revenue of $7 million and recorded an unrealized gain in accumulated other comprehensive income of $18.2 million related to these contracts.

In addition, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”) was effective for us on January 1, 2008. SFAS 159 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. We did not elect the fair value option for any of our qualifying financial instruments.

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. 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 accelerated methods 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, 2008:

	Years
Land improvements	20
Buildings and building improvements	10 to 45
Leasehold improvements	2 to 17
Equipment, furniture and fixtures	5 to 10

Costs incurred through October 30, 2007 in connection with the construction and successful deployment of Loral Skynet satellites and related equipment were capitalized. Such costs included 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 2007 and 2006 was $8.4 million and $2.2 million, respectively. All capitalized satellite costs were 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 were reevaluated periodically based on updated engineering analyses. Losses from unsuccessful launches and in-orbit failures of our satellites, net of insurance proceeds (so long as such amounts were determinable and receipt was probable), were recorded in the period a loss occurred (see Valuation of Long-Lived Assets below). Satellite transponder rights, representing the contractual right to satellite transponder capacity for the economic life of a satellite, were accounted for as capital leases, included in fixed assets and depreciated over their estimated useful life. Depreciation of satellite transponder rights was included in cost of satellite services. On October 31, 2007, all Loral Skynet satellites and related equipment were contributed to Telesat Canada in connection with the Telesat Canada transaction (see Note 6).

Valuation of Long-Lived Assets

The carrying values of our satellites and long-lived assets are reviewed for impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-lived Assets* . We periodically evaluate potential

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 the future undiscounted expected cash flows to be 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 carrying value in excess of its estimated fair value. Changes in estimates of future cash flows could result in an impairment of the asset in a future period.

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, as of October 1, 2005, the date we adopted fresh-start accounting. Pursuant to the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is not amortized. Goodwill is subject to an annual impairment test, or if events and circumstances change and indicators of impairment are present, goodwill will be tested for impairment between annual tests. As a result of the decline of Loral's stock price and the decline in comparable company values we performed an interim impairment test as of June 30, 2008 and updated our 2008 annual impairment test through November 30, 2008. This most recent impairment test resulted in the recording of an impairment charge in 2008 for the entire goodwill balance of $187.9 million (see Note 7). The Company's estimate of the fair value of SS/L employed both a comparable public company analysis, which considered the valuation multiples of companies deemed comparable, in whole or in part, to the Company and a discounted cash flow analysis that calculated a present value of the projected future cash flows of SS/L. The Company considered both quantitative and qualitative factors in assessing the reasonableness of the underlying assumptions used in the valuation process. Testing goodwill for impairment requires significant subjective judgments by management.

Goodwill also had been reduced by the decreases to the valuation allowance as of October 1, 2005 and other tax adjustments (see Income Taxes, below) and the transfer in October 2007 of substantially all of the assets and related liabilities of Loral Skynet in connection with the Telesat Canada transaction. For the year ended December 31, 2008 we recorded a reduction to goodwill in the amount of $38.6 million related to the reduction of our income tax valuation allowance as of October 1, 2005.

Intangible assets consist primarily of backlog, internally developed software and technology and trade names all of which were recorded at fair value in connection with the adoption of fresh-start accounting. 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.

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. We accrue for costs relating to litigation, claims and other contingent matters when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management's judgment, as appropriate. Actual amounts paid may differ from amounts estimated, and such differences will be charged to operations in the period in which the final determination of the liability is made.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revenue Recognition

Satellite Manufacturing

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.

Loral Skynet

Through the closing of the Telesat Canada transaction on October 31, 2007, satellite capacity and network services were provided under lease and network services agreements that generally provided 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 had certain obligations, including providing spare or substitute capacity, if available, in the event of satellite failure. If no spare or substitute capacity was available, the agreement may be terminated. Revenue under transponder lease and network services agreements was recognized as services were performed, provided that a contract existed, the price was fixed or determinable and collectibility was reasonably assured. Revenues under contracts that included fixed lease payment increases were recognized on a straight-line basis over the life of the lease.

Lease contracts qualifying for capital lease treatment, typically based, among other factors, upon the term of the lease and the transfer of substantially all of the benefits and risks incident to the ownership of the transponder or satellite, were accounted for as sales-type leases. For sales-type lease transactions, we recognized as revenue the net present value of the future minimum lease payments or the cash received for prepaid lease arrangements. The cost basis of the transponder was charged to cost of sales. During the life of the lease, we recognized as interest income in each respective period, that portion of each periodic lease payment, if any, deemed to be attributable to interest. The balance of each periodic lease payment, representing principal repayment, was recognized as a reduction of the net investment in sales-type leases.

Other terrestrial communications equipment represents network elements (such as antennas and transmission equipment) necessary to enable communication between multiple terrestrial locations through a customer- selected satellite communications service provider. Revenue from equipment sales was recognized upon acceptance by the customer or upon delivery, if the equipment already met all of the criteria and specifications in the customer-specific acceptance provision, provided that a contract existed, the price was fixed or determinable and collectibility

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

was reasonably assured. Revenues under arrangements that included both services and equipment elements were allocated based on the relative fair values of the elements of the arrangement; otherwise, revenue was recognized as services were provided over the life of the arrangement.

Research and Development

Independent research and development costs, which are expensed as incurred, were $34.6 million, $36.5 million and $20.5 million for 2008, 2007 and 2006, respectively, and are included in selling, general and administrative expenses in our statement of operations.

Derivative Instruments

We follow SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133") as amended and interpreted, which among other things requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives that have been designated as cash flow hedging instruments are included in the "Unrealized gains on cash flow hedges" as a component of other comprehensive income (loss) in the accompanying consolidated statements of stockholders' equity to the extent of the effectiveness of such hedging instruments. Any ineffective portion of the change in fair value of the designated hedging instruments is included in the consolidated statements of operations. Changes in fair value of derivatives that are not designated as hedging instruments will be included in the consolidated statements of operations (see Notes 6 and 13).

Minority Interest

On November 21, 2005, Loral Skynet issued one million of its two million authorized shares of Series A 12% non-convertible preferred stock, $0.01 par value per share (the "Loral Skynet Preferred Stock"), which were distributed in accordance with the Plan of Reorganization.

Dividend expense on Loral Skynet Preferred Stock is reflected as minority interest on our consolidated statements of operations for the years ended December 31, 2007 and 2006. On November 5, 2007 all of the issued and outstanding shares of Loral Skynet Preferred Stock were redeemed in connection with the completion of the Telesat Canada transaction (See Note 10).

Stock-Based Compensation

We follow SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), for accounting for stock based compensation, for all stock options granted by us. Stock options granted to non-employees are accounted for in accordance with EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ("EITF 96-18"). Under SFAS 123(R), stock-based compensation expense is measured at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the award's vesting period. We use the Black-Scholes-Merton option-pricing model to measure fair value of these stock option awards. 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.

Under SFAS 123(R), the Company is required to estimate expected forfeitures of stock-based awards at the grant date and recognize compensation cost only for those awards expected to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions may impact the timing of the total amount of expense recognized over the vesting period. Estimated forfeitures are reassessed in subsequent periods and may change based on new facts and circumstances. We emerged from bankruptcy on November 21, 2005, and as a result, we did not have sufficient stock price history upon which to base our volatility assumption for measuring our stock options. In determining the volatility used in our model, we considered the

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. We based our estimate of the average life of a stock option using the midpoint between the vesting and expiration dates as allowed by SEC Staff Accounting Bulletin No. 107, *Share-Based Payment* . Our risk-free rate of return assumption for options was based on term-matching, nominal, monthly U.S. Treasury constant maturity rates as of the date of grant. We assumed no dividends during the expected term.

Deferred Compensation

Pursuant to the Plan of Reorganization we entered into deferred compensation arrangements for certain key employees that generally vest over four years and expire after seven years. The initial deferred compensation awards were calculated by multiplying $9.44 by the number of shares of common stock underlying the stock options granted to these key employees (see Note 10). We are accreting the liability through charges to expense over the vesting period. The value of the deferred compensation may increase or decrease depending on stock price performance within a defined range, until the occurrence of certain events, including the exercise of the related stock options and vesting will accelerate if there is a change of control as defined. During 2008, stock-based compensation was reduced by $4.6 million due to the decline in the Company's share price. The deferred compensation cost charged to expense, net of estimated forfeitures, was $6.4 million and $3.3 million for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2008, no deferred compensation has been recognized because the share price of Loral was below $19 per share. If the share price of Loral were to exceed $19, we would recognize compensation expense up to a maximum of $6.7 million at a share price of $28.44. In connection with the Telesat Canada transaction which closed on October 31, 2007, deferred compensation cost of $2.6 million was charged to expense due to accelerated vesting from change in control provisions.

Income Taxes

Loral Space & Communications Inc. and its subsidiaries are subject to U.S. federal, state and local income taxation on their worldwide income and foreign taxation on certain income from sources outside the United States. Telesat Canada is subject to tax in Canada and other jurisdictions and Loral will provide in operating earnings any additional U.S. current or deferred tax required on distributions received or deemed distributions from Telesat Canada.

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. Under SOP 90-7, for periods prior to January 1, 2009 any reduction to the balance of the valuation allowance as of October 1, 2005 first reduced goodwill, then other intangible assets with any excess treated as an increase to paid-in-capital. Upon adoption of SFAS 141(R) on January 1, 2009, all future reversals of the valuation allowance balance as of October 1, 2005 will be recorded as a reduction to the income tax provision. (see Note 9).

Effective January 1, 2007, we adopted the Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For benefits to be recognized in the financial statements, a tax position must be more-likely-than-not to be sustained upon examination by the taxing authorities based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

transition. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense.

Prior to adopting FIN 48, our policy was to maintain tax contingency liabilities for potential audit issues. The tax contingency liabilities were based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits.

Additional Cash Flow Information

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

	Year Ended December 31,		
	2008	2007	2006
Non-cash operating items:			
Gain on contribution of Loral Skynet	$ —	$(104,942)	$ —
Equity in net losses of affiliates	495,649	21,430	7,163
Satmex settlement	—	—	(18,605)
Minority interest	—	23,240	24,794
Deferred taxes	29,385	32,205	9,105
Depreciation and amortization	36,367	76,910	68,300
Stock based compensation	7,621	26,347	2,997
Impairment of cost basis investment	—	—	3,000
Provisions for inventory obsolescence	—	543	1,678
Warranty expense accruals (accrual reversals)	431	(18,879)	12,180
(Recoveries of) provisions for bad debts on billed receivables	700	(1,917)	356
Adjustment to revenue straightlining assessment	—	(204)	—
Write-off of construction in process	—	2,164	—
Loss on disposition of fixed assets	63	—	—
Loss on extinguishment of debt	—	16,155	—
Impairment of goodwill	187,940		
Impairment of available for sale securities	5,823	—	—
Curtailment gain	—	(1,686)	—
Amortization of prior service credit and actuarial gains	(3,200)	(3,285)	—
Gain on disposition of an orbital slot	—	(3,600)	(1,149)
Amortization of fair value adjustments related to orbital incentives	(3,088)	—	—
Gain on disposition of available for sale securities	(162)	(11,088)	(7,098)
Unrealized loss on non-qualified pension plan assets	1,391	—	—
Non-cash net interest	(149)	—	113
Loss/(gain) on foreign currency transactions and contracts	3,439	(89,364)	5,750
Net non-cash operating items	$762,210	$ (35,971)	$108,584
Non-cash investing activities:			
Available for sale securities received in connection with the sale of Globalstar do Brazil	$ 6,000	$ —	$ —
Capital expenditures incurred not yet paid	$ 1,706	$ —	$ —
Investment in affiliate not yet paid	$ 1,048	$ —	$ —

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31,		
	2008	2007	2006
Non-cash financing activities:			
Issuance of Preferred stock by subsidiary as payment for dividend	$ —	$23,343	$14,260
Issuance of Loral Series-1 Preferred Stock as payment for dividend	$ 24,248	$14,400	$ —
Accrued dividends on Loral Series-1 Preferred Stock	$ 4,797	$ 4,979	$ —
Issuance of non-voting common stock and cancellation of Loral Series-1 Preferred Stock	$336,696	$ —	$ —
Supplemental information:			
Interest paid	$ 2,380	$24,891	$17,921
Taxes paid, net of refunds	$ 29,835	$ 5,292	$ 6,365
Cash paid for reorganization items:			
Professional fees		$ (160)	$ (9,581)
Restructuring costs		$ —	$ (740)
Interest income		$ —	$ —
Vendor settlement		$ —	$ (432)

Recent Accounting Pronouncements

SFAS 141(R)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS 141(R) expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS 141(R) requires the acquirer to recognize an adjustment to income tax expense for changes in the valuation allowance for acquired deferred tax assets and FIN 48 liabilities. SFAS 141 (R) is effective for the Company on January 1, 2009. As a result of the adoption of SFAS No. 141(R), any future reductions in our deferred tax valuation allowance and FIN 48 liabilities as of October 1, 2005 (our fresh start accounting date), will reduce income tax expense.

FSP FAS 142-3

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

FSP FAS 157-3

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* ("FSP FAS 157-3"). FSP FAS 157-3 amends SFAS 157 to illustrate key considerations in determining the fair value of a financial asset in an inactive market. FSP FAS 157-3 did not

prescribe any new disclosure requirements but it emphasizes SFAS 157's requirements for an entity to disclose significant unobservable inputs (Level 3 inputs). FSP FAS 157-3 was effective upon issuance and did not have a material impact on our consolidated financial statements.

SFAS 160

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 requires that a non-controlling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the non-controlling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any non-controlling equity investment retained in a deconsolidation. SFAS 160 is effective for the Company on January 1, 2009. The adoption of SFAS 160 is not expected to have a material impact on our consolidated financial statements.

SFAS 161

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

FSP FAS 132(R)-1

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers' Disclosure about Postretirement Benefit Pan Assets* ("FSP FAS 132(R)-1"). FSP FAS 132(R)-1 amends SFAS 132 *Employers' Disclosure about Postretirement Benefits* , to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other retirement plan. FSP FAS 132(R)-1 is effective for the Company on January 1, 2009. The Company will provide the additional disclosures required by FSP FAS 132(R)-1 beginning in 2009.

EITF 08-6

In November 2008, the FASB ratified the Emerging Issues Task Force ("EITF") consensus on Issue *"Equity Method Investment Accounting Considerations"* ("EITF 08-6") which addresses certain effects of SFAS Nos. 141(R) and 160 on an entity's accounting for equity-method investments. The consensus indicates, among other things, that transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor's ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. EITF 08-6 is effective for transactions occurring after December 31, 2008. The Company does not expect this standard to have a material impact on our consolidated results of operations or financial condition.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Other Comprehensive Income (Loss) December 31,	
	2008	2007
Cumulative translation adjustment	$ —	$ 498
Proportionate share of Telesat Holdco other comprehensive income	(4,065)	—
Reclassification of our proportionate share of Telesat Holdco other comprehensive income	4,065	—
Unrealized gain on foreign currency hedge	18,182	—
Unrealized gains on available-for-sale securities, net of taxes of $(2,108) and $(4,447) for 2008 and 2007, respectively	3,302	6,987
Reclassification adjustment for (losses) included in net income, net of taxes of $2,204 and $4,542 for 2008 and 2007, respectively	(3,186)	(6,546)
Net actuarial (losses) gains, net of taxes of $(26,123) and $(26,086) for 2008 and 2007, respectively	(57,288)	40,072
Amortization of actuarial gains and prior service credits	(5,246)	(2,000)
Reclassification due to contribution of Loral Skynet, net of taxes of $3,015 for 2008 and 2007	(2,494)	(2,494)
Total	$(46,730)	$36,517

	Other Comprehensive Income (Loss) Year Ended December 31,		
	2008	2007	2006
Cumulative translation adjustment	$ (498)	$ 211	$ 272
Proportionate share of Telesat Holdco other comprehensive income	(4,065)	—	—
Reclassification of our proportionate share of Telesat Holdco other comprehensive income	4,065	—	—
Unrealized gain on foreign currency hedge	18,182	—	—
Unrealized (losses) gains on available-for-sale securities, net of taxes of $2,339, $1,976 and $(6,423) for 2008,2007 and 2006, respectively	(3,685)	(2,850)	9,837
Reclassification adjustment for gains (losses) included in net income, net of taxes of $(2,338) and $4,542 for 2008 and 2007, respectively	3,360	(6,546)	—
Net actuarial (losses) gains, net of taxes of $(37) and $(6,532) for 2008 and 2007, respectively	(97,360)	10,121	—
Amortization of actuarial gains and prior service credits	(3,246)	(2,000)	—
Reclassification due to contribution of Loral Skynet, net of taxes of $3,015 for 2007	—	(2,494)	—
Adjustment to initially apply SFAS 158, net of taxes of $(19,554) for 2006	—	—	29,951
Total	$(83,247)	$ (3,558)	$40,060

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Contracts-in-Process and Long-Term Receivables

Contracts-in-Process

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

	December 31, 2008	December 31, 2007
U.S. government contracts:		
Amounts billed	$ 2,218	$ 193
Unbilled receivables	2,448	1,166
	4,666	1,359
Commercial contracts:		
Amounts billed	120,237	60,355
Unbilled receivables	88,748	47,662
	208,985	108,017
	$213,651	$109,376

Unbilled amounts include recoverable costs and accrued profit on progress completed, which have not been billed. Such amounts are billed in accordance with the contract terms, typically upon shipment of the product, achievement of contractual milestones, or completion of the contract and, at such time, are reclassified to billed receivables. Fresh-start fair value adjustments relating to contracts-in-process are amortized on a percentage of completion basis as performance under the related contract is completed.

Long-Term Receivables

Billed receivables relating to long-term contracts are expected to be collected within one year. We classify deferred billings 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, billings deferred and the Telesat Canada consulting services fee (see Note 16) as of December 31, 2008 are scheduled to be received as follows (in thousands):

	Long-Term Receivables
2009	$ 2,728
2010	4,669
2011	16,746
2012	12,309
2013	12,757
Thereafter	138,220
	187,429
Less, current portion included in contracts-in-process	(2,728)
Long-term receivables	$ 184,701

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 $(1.8) million, $(4.7) million and $(18.2) million in 2008, 2007 and 2006, respectively.

5. Property, Plant and Equipment

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

	December 31,	
	2008	2007
Land and land improvements	$ 26,913	$ 26,799
Buildings	59,038	49,917
Leasehold improvements	10,870	8,691
Equipment, furniture and fixtures	133,916	94,844
Satellite capacity under construction (see note 16)	10,478	—
Other construction in progress	21,863	18,552
	263,078	198,803
Accumulated depreciation and amortization	(74,808)	(50,975)
	$188,270	$147,828

Depreciation and amortization expense for property, plant and equipment was $23.8 million in 2008, $62.8 million in 2007 and $69.7 million in 2006.

In September 2006, Loral Skynet terminated a customer's leasehold interests with respect to two transponders on Telstar 18 by exercising its option to accelerate the lease termination payment that would otherwise have been payable by Loral Skynet to the customer in August 2009. In connection with the early termination, Loral Skynet made a payment to the customer of $9.1 million. We recorded a charge to Satellite Services cost of sales of $1.0 million in connection with this transaction, which represents the difference between the payment made and the present value of our lease termination obligation for the two transponders at the date of the transaction. The remaining lease termination obligation was assumed by Telesat Canada in connection with the Telesat Canada transaction.

On August 17, 2006, The Boeing Company ("Boeing") delivered to Loral Skynet a termination notice pursuant to which all the transponders leased by it on our Estrela do Sul satellite were to be terminated by December 31, 2006. On September 29, 2006, an affiliate of Boeing signed an agreement with Loral Skynet to lease transponder capacity on Estrela do Sul for a period of 20 months beginning January 2007 and ending August 2008, with an option to renew the contract for two consecutive one year periods. To exercise the termination option, Boeing paid a termination fee of $14.9 million on September 29, 2006. This termination fee has been recognized as Revenue from Satellite Services in our consolidated statement of operations in 2006. In addition, Boeing prepaid $4.0 million for future services under the September 2006 agreement.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Investments in Affiliates

Investments in affiliates consist of (in thousands):

	December 31, 2008	December 31, 2007
Telesat Holdings Inc. [1]	$ —	$479,579
XTAR, LLC	70,547	86,617
Other	2,095	—
	$72,642	$566,196

(1) As of December 31, 2008 our investment in Telesat Canada has been reduced to zero as a result of recording our interest in Telesat Canada's losses. Equity in losses of affiliates is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist.

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

	Year Ended December 31, 2008	2007	2006
Telesat Holdings Inc.	$(479,579)	$ (1,792)	$ —
XTAR, LLC	(16,070)	(10,585)	(7,413)
Globalstar, L.P. and Globalstar service provider partnerships	—	(9,053)	250
	$(495,649)	$(21,430)	$(7,163)

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

	Year Ended December 31, 2008	2007	2006
Revenues	$83,974	$21,968	$11,262
Elimination of Loral's proportionate share of (profits) losses relating to affiliate transactions	(4,969)	1,935	412
Profits (losses) relating to affiliate transactions not eliminated	2,808	(1,082)	(324)

Telesat Canada

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

Contribution of Loral Skynet

In connection with the transactions contemplated under the Share Purchase Agreement, on August 7, 2007, we and Loral Skynet entered into an asset transfer agreement (the "Asset Transfer Agreement") with Telesat Holdco, and an asset purchase agreement (the "Asset Purchase Agreement") with a subsidiary of Telesat Canada. Pursuant to the Asset Transfer Agreement, we agreed, subject to certain exceptions, to transfer substantially all of Loral Skynet's assets and related liabilities to Telesat Canada in return for an equity interest in Telesat Holdco. In

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addition, pursuant to the Asset Purchase Agreement, we agreed to transfer certain of Loral Skynet's assets located in the U.S. and related liabilities to the Telesat Canada subsidiary in exchange for $25.5 million in marketable securities. On August 7, 2007, we, Loral Skynet, PSP, Telesat Holdco and a subsidiary of Telesat Holdco also entered into an Ancillary Agreement providing, among other things, for the settlement of payments by and among us, PSP and Telesat Holdco in connection with the Telesat Canada acquisition, the transactions contemplated under the Asset Transfer Agreement, and related transactions. As a result, we received true-up payments of $45.6 million from PSP in 2007 to bring the equity contributions into the required economic positions. As part of the Telesat Canada transaction, a final adjustment payment of approximately $9.2 million was made by Loral to PSP on April 4, 2008 and is included as a payable in our financial statements as of December 31, 2007.

The Telesat Canada transaction closed on October 31, 2007.

Summary balance sheet information for the assets and liabilities of Loral Skynet contributed to Telesat Canada on October 31, 2007 is as follows (in thousands):

Current assets	$ 25,360
Property, plant and equipment, net	443,776
Foreign currency contracts	83,614
Goodwill	42,246
Intangible assets, net	50,404
Other assets	3,183
Total assets	$648,583
Current liabilities	$181,045
Long-term liabilities	27,000
Total liabilities	$208,045

The following summarizes the gain on the contribution of substantially all of the Loral Skynet assets and related liabilities on October 31, 2007:

Consideration received for the contribution of Loral Skynet to Telesat Holdco:	
Cash and marketable securities	$ 61,480
Fair value of equity in Telesat Holdco	670,562
Total consideration	732,042
Book value of contributed net assets of Loral Skynet	440,538
Consideration in excess of book value	$291,504
Gain recognized	$104,942

The consideration we received for the contribution of substantially all of the Loral Skynet assets and related liabilities was $291.5 million greater than the carrying value of those assets and liabilities. In accordance with EITF 01-2, *Interpretations of APB Opinion No. 29* , we recognized a gain of $104.9 million, representing the gain attributable to PSP's economic interest in the contributed assets and liabilities of Loral Skynet through their 36% ownership interest in Telesat Canada. Loral has a significant continuing interest in Telesat Canada and could only recognize a gain to the extent of PSP's economic interest in the contributed assets and liabilities of Loral Skynet. The amount recorded as our investment in Telesat Canada is based on our retained interest in the historical book value of the contributed assets and liabilities of Loral Skynet and the gain recognized.

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Following the transfer of the assets of Loral Skynet's fixed satellite services business pursuant to the Asset Transfer Agreement and Asset Purchase Agreement, Telesat Canada now operates a fleet of twelve in-orbit satellites. In addition, one satellite was launched in February 2009 and will enter service in the second quarter of 2009, while one satellite which is 100% leased is under construction at SS/L. Telesat Canada provides fixed satellite services (FSS) on a global basis, including video distribution and direct-to-home (DTH) video, as well as end-to-end communications services using both satellite and hybrid satellite-ground networks.

The following table presents summary financial data for Telesat Canada in accordance with U.S. GAAP, as of December 31, 2008 and 2007 and for the year ended December 31, 2008 and the period October 31, 2007 to December 31, 2007, subsequent to the acquisition by Loral and PSP (in thousands):

	For the Year Ended December 31, 2008	For the Period October 31, 2007 to December 31, 2007
Statement of Operations Data:		
Revenues	$ 685,187	$ 117,767
Operating expenses	(258,010)	(52,484)
Impairment of long-lived and intangible assets	(454,896)	—
Depreciation, amortization and stock-based compensation	(225,949)	(41,200)
Operating income	(253,668)	24,083
Interest expense	(231,062)	(41,375)
Other expense, net	(403,102)	(45,550)
Income tax benefit	139,872	61,520
Net loss	(747,960)	(1,322)

	December 31, 2008	December 31, 2007
Balance Sheet Data:		
Current assets	$ 179,769	$ 143,656
Total assets	4,273,162	5,610,047
Current liabilities	171,423	229,540
Long-term debt, including current portion	2,901,620	2,828,017
Total liabilities	3,760,164	4,156,720
Redeemable preferred stock	116,044	143,138
Shareholders' equity	396,954	1,310,189

Impairment of long-lived and intangible assets consists primarily of an impairment charge to reduce orbital slot assets to fair value. Other expense, net includes non-cash foreign exchange losses of $654.2 million and $121.4 million and non-cash gains on financial instruments of $254.7 million and $78.1 million in 2008 and 2007, respectively.

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

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

XTAR

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

XTAR owns and operates an X-band satellite, XTAR-EUR, located at 29° E.L., which entered service in March 2005. The satellite is designed to provide X-band communications services exclusively to United States, Spanish and allied government users throughout the satellite’s coverage area, including Europe, the Middle East and Asia. The government of Spain granted XTAR rights to an X-band license, normally reserved for government and military use, to develop a commercial business model for supplying X-band capacity in support of military, diplomatic and security communications requirements. XTAR also leases 7.2 72MHz X-band transponders on the Spainsat satellite located 30° W.L., owned by Hisdesat, which entered commercial service in April 2006. These transponders, designated as XTAR-LANT, provide capacity to XTAR for additional X-band services and greater coverage and flexibility.

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

XTAR’s lease obligation to Hisdesat for the XTAR-LANT transponders was $23.1 million in 2008, with increases thereafter to a maximum of $28 million per year through the end of the useful life of the satellite. Under this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. For 2008, XTAR agreed with Hisdesat that XTAR’s excess cash balance (as defined) would be applied towards making limited payments on these lease obligations, as well as payments of other amounts owed to Hisdesat, Telesat Canada and Loral in respect of services provided by them to XTAR. XTAR is currently making payments in accordance with this agreement. During the first quarter of 2008, we also agreed with Hisdesat that interest on XTAR’s outstanding lease obligations to Hisdesat will be paid through the issuance of a class of non-voting membership interests in XTAR, which would enjoy priority rights with respect to dividends and distributions over the ordinary membership interests currently held by us and Hisdesat. As of December 31, 2008, $4.2 million of lease interest has been converted into non-voting member interests in XTAR.

XTAR-EUR was launched on Arianespace, S.A.’s Ariane ECA launch vehicle in 2005. The price for this launch had two components — the first, consisting of a $15.8 million 10% interest paid-in-kind loan provided by Arianespace, was repaid in full by XTAR on July 6, 2007. The second component of the launch price consists of a revenue-based fee to be paid to Arianespace over XTAR-EUR’s 15 year in-orbit operations. This fee, also referred to as an incentive fee, equals 3.5% of XTAR’s annual operating revenues, subject to a maximum threshold (the “Incentive Cap”). On February 29, 2008, XTAR paid Arianespace $1.5 million representing the incentive fee through December 31, 2007. On January 27, 2009, Arianespace agreed to eliminate the incentive portion of the Launch Services Agreement in exchange for $8.0 million payable in three installments. The first payment of $4.0 million was made in February 2009. The second and third payments, each $2.0 million are due on April 15, 2009 and June 30, 2009. Upon the final payment on June 30, 2009, XTAR shall have satisfied in full all of its obligations under the Launch Services Agreement and the Launch Services Agreement shall then be terminated.

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To enable XTAR to make these settlement payments to Arianespace, XTAR has issued a capital call to its LLC members. The capital call required Loral to increase its investment in XTAR by approximately $4.5 million in the first quarter of 2009, representing Loral's 56% share of the $8 million capital call.

The following table presents summary financial data for XTAR as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 (in thousands):

Statement of Operations Data:

	Year Ended December 31,		
	2008	**2007**	**2006**
Revenues	$ 20,405	$ 19,339	$ 15,334
Operating expenses	(34,500)	(24,015)	(14,262)
Depreciation and amortization	(9,650)	(9,747)	(9,681)
Operating loss	(23,751)	(14,423)	(8,633)
Net loss	(28,597)	(18,421)	(12,629)

	December 31,	
	2008	**2007**
Balance Sheet Data:		
Current assets	$ 9,107	$ 8,899
Total assets	115,437	124,898
Current liabilities	41,314	29,650
Total liabilities	79,386	64,440
Members' equity	36,051	60,458

Satmex

In 1997, in connection with the privatization of Satelites Mexicanos, S.A. de C.V. ("Satmex") by the Mexican Government, Loral acquired a 49% indirect economic interest in Satmex, which we accounted for using the equity method.

On August 11, 2006, Satmex filed a voluntary petition for reorganization under Chapter 11 in the U.S. Bankruptcy Court to implement its restructuring plan. Satmex emerged from Chapter 11 on November 30, 2006. As a result of the restructuring that was implemented in its reorganization proceeding, our equity interest in Satmex was reduced to 1.33%. Satmex is accounted for as a cost basis investment subsequent to November 30, 2006.

In connection with Satmex's restructuring, and as a settlement of certain liabilities owed by Satmex to SS/L pursuant to the June 14, 2005 settlement agreement, we received on November 30, 2006, a *usufructo* to four transponders on Satmex 6. A *usufructo* is a property right under Mexican law which grants the holder a right to use the subject property. SS/L assigned its rights to the *usufructo* to Loral Skynet in consideration of a cash payment equal to the fair value of the four Satmex 6 transponders. As a result of the finalization of Satmex's restructuring plan in the fourth quarter of 2006, we recorded satellite transponder rights of $20.0 million representing the fair value of the four Satmex 6 transponders, a $18.6 million reduction to cost of satellite manufacturing and deferred revenue of $1.4 million.

At the same time that we received the *usufructo* to the Satmex 6 transponders, Loral Skynet's end of life lease for three transponders on Satmex 5 was also converted to a *usufructo* . The Satmex 5 and Satmex 6 *usufructo* rights have been transferred to Telesat Canada as part of the Telesat Canada transaction. The equity interest in Satmex is retained by Loral.

Other

As of December 31, 2007, the Company held various indirect ownership interests in three foreign companies that currently serve as exclusive service providers for Globalstar service in Brazil, Mexico and Russia. The Company accounts for these ownership interests using the equity method of accounting. Loral had written-off its investments in these companies, and, because we have no future funding requirements relating to these investments, there is no requirement for us to provide for our allocated share of these companies net losses. For the year ended December 31, 2007, the Company recognized earnings of $3.0 million from our Globalstar investment partnerships which were attributable to a cash distribution received from one of our investments.

On December 21, 2007, Loral and certain of its subsidiaries and DASA Globalstar LLC entered into an agreement to sell their respective interests in Globalstar do Brasil S.A. ("GdB"), the Globalstar Brazilian service provider, to Globalstar Inc. Closing of the transaction occurred on March 25, 2008. Pursuant to the sale agreement, Loral received 883,393 shares of common stock of Globalstar Inc. in consideration for the sale of its interest. The shares have been registered under the Securities Act of 1933 and may be sold by Loral without restriction. In addition, Loral agreed to indemnify Globalstar Inc. for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. Loral has agreed that proceeds from the sale of the Globalstar Inc. stock received in the transaction will be kept in a segregated account and may be used only for payment of the indemnified liabilities. As a result of the sale and taking into account our estimate of the indemnified liabilities, we recorded a loss of $11.3 million during the year ended December 31, 2007. As of December 31, 2008, remaining indemnified liabilities of $8.8 million are included in current liabilities and $1.4 million are included in long-term liabilities in the consolidated balance sheet.

As of December 31, 2008, we owned 984,173 shares of Globalstar Inc. common stock, which are accounted for as available-for-sale securities, with a fair value of $0.2 million. During 2008, management determined that there has been an other-than-temporary impairment in the fair value of the Globalstar Inc. stock obtained in the sale of GdB. Accordingly, in accordance with SFAS 115, impairment charges of $5.8 million were included in our consolidated statements of operations for the year ended December 31, 2008. Unrealized gains on other Globalstar shares were $0.1 million, net of taxes for the year ended December 31, 2008.

7. Goodwill and Intangible Assets

Goodwill

Goodwill represents the amount by which the Company's reorganization equity value exceeded the fair value of its tangible assets and identified intangible assets less its liabilities, as of October 1, 2005, the date we adopted fresh-start accounting. Pursuant to the provisions of SFAS No. 142, goodwill is not amortized. Goodwill is subject to an annual impairment test, or if events and circumstances change and indicators of impairment are present, goodwill will be tested for impairment between annual tests. As a result of the decline of Loral's stock price and the decline in comparable company values, we performed an interim impairment test as of June 30, 2008 and updated our annual impairment test through November 30, 2008. This most recent impairment test resulted in the recording of an impairment charge in 2008 for the entire goodwill balance of $187.9 million. The Company's estimate of the fair value of SS/L employed both a comparable public company analysis, which considered the valuation multiples of companies deemed comparable, in whole or in part, to the Company and a discounted cash flow analysis that calculated a present value of the projected future cash flows of SS/L. The Company considered both quantitative and qualitative factors in assessing the reasonableness of the underlying assumptions used in the valuation process. Testing goodwill for impairment requires significant subjective judgments by management.

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The following table summarizes the changes in the carrying amount of goodwill for the period December 31, 2006 to December 31, 2008 (in thousands):

Goodwill — January 1, 2007	$ 305,691
Cumulative effect of adopting FIN 48	7,542
Settlement of FIN 48 liabilities	(2,000)
Reversal of excess valuation allowance on deferred tax assets	(35,088)
Reversal of Old Loral deferred state tax liabilities	(6,840)
Contribution of Loral Skynet to Telesat Canada	(42,247)
Goodwill — December 31, 2007	227,058
Reversal of FIN 48 liabilities for statute expiration	(531)
Reversal of excess valuation allowance on deferred tax assets	(38,587)
Goodwill impairment charge	(187,940)
Goodwill — December 31, 2008	$ —

Intangible Assets

Intangible Assets were established in connection with our adoption of fresh-start accounting and consist of (in thousands):

	Weighted Average Remaining Amortization Period (Years)	December 31, 2008		December 31, 2007	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Internally developed software and technology	3	$59,027	$ (35,154)	$59,027	$ (24,338)
Trade names	17	9,200	(1,495)	9,200	(1,035)
Total		$68,227	$ (36,649)	$68,227	$ (25,373)

Total amortization expense for intangible assets was $11.3 million, $18.5 million and $21.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. Annual amortization expense for intangible assets for the five years ended December 31, 2013 is estimated to be as follows (in thousands):

2009	$11,276
2010	9,192
2011	2,931
2012	2,315
2013	460

8. Debt Obligations

Long-term debt consists of (in thousands):

	December 31,	
	2008	2007
Space Systems/Loral, Inc Revolving Credit Facility	$55,000	$ —

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SS/L Credit Agreement

On October 16, 2008, SS/L entered into a Credit Agreement (the “Credit Agreement”) with several banks and other financial institutions. The Credit Agreement provides for a $100.0 million senior secured revolving credit facility (the “Revolving Facility”). The Revolving Facility includes a $50.0 million letter of credit sublimit. The Credit Agreement is for a term of three years, maturing on October 16, 2011 (the “Maturity Date”).

The Credit Agreement also includes a feature that will allow SS/L, on a one-time basis, to increase the available commitment by $25.0 million, subject to securing additional commitments from the current lenders or other lending institutions. In addition, the Credit Agreement contains customary conditions precedent to each borrowing, including absence of defaults and accuracy of representations and warranties. The Revolving Facility is available to finance the working capital needs and general corporate purposes of SS/L.

The obligations under the Credit Agreement are secured by (i) a first mortgage on certain real property owned by SS/L, (ii) a first priority security interest in certain tangible and intangible assets of SS/L and certain of its subsidiaries and (iii) a pledge of all issued and outstanding common stock of SS/L and certain of its subsidiaries. As part of the transaction, Loral entered into an agreement (the “Parent Guarantee”) guaranteeing loans under the Credit Agreement and SS/L’s other monetary obligations thereunder. The Parent Guarantee contains a covenant that limits the amount of dividends or other distributions to our stockholders that can be made by Loral from the disposition of any capital stock of Telesat Holdings to the greater of (i) $66\,^{2}/_{3}$% of the proceeds and (ii) the amount by which the proceeds exceed $200 million.

At SS/L’s election, outstanding indebtedness under the Revolving Facility bears interest at an annual rate equal to either: (a) 2.75% plus the greater of (1) the Prime Rate then in effect and (2) the Federal Funds Rate then in effect plus 0.5% (the “ABR Rate”) or (b) the Eurodollar Rate plus 3.75%. Interest on an ABR loan is paid quarterly and interest on a Eurodollar loan is paid either on the last day of the interest period or quarterly, whichever is shorter. In addition, the Credit Agreement requires the Company to pay certain customary fees, costs and expenses of the lenders.

The Credit Agreement contains certain covenants which, among other things, limit the incurrence of additional indebtedness, capital expenditures, investments, dividends or stock repurchases, asset sales, mergers and consolidations, liens, changes to the line of business and other matters customarily restricted in such agreements. The material financial covenants, ratios or tests contained in the Credit Facility are:

- SS/L must not permit its consolidated leverage ratio as of (i) the last day of any period of four consecutive fiscal quarters or (ii) the date of incurrence of certain indebtedness to exceed 3.50 to 1.00 from October 16, 2008 to September 29, 2009, 3.25 to 1.00 from September 30, 2009 through December 30, 2009 and 3.00 to 1.00 from December 31, 2009 and thereafter until the Maturity Date.
- SS/L must maintain a minimum consolidated interest coverage ratio of at least 3.50 to 1.00 as of the last day of any fiscal quarter for the period of four consecutive fiscal quarters ending on such day.

SS/L may prepay outstanding principal in whole or in part, together with accrued interest, without premium or penalty. The Credit Agreement requires SS/L to prepay outstanding principal and accrued interest upon certain events, including certain asset sales. If an event of default shall occur and be continuing, the commitments of all Lenders under the Credit Agreement may be terminated and the principal amount outstanding, together with all accrued and unpaid interest, may be declared immediately due and payable. Under the Credit Agreement, events of default include, among other things, non-payment of amounts due under the Credit Agreement, default in payment of certain other indebtedness, breach of certain covenants, bankruptcy, violations under ERISA, violations under certain United States export control laws and regulations, a change of control of SS/L and if certain liens on the collateral securing the obligations under the Credit Agreement fail to be perfected. All outstanding principal is payable in full upon the Maturity Date.

At December 31, 2008, SS/L had outstanding borrowings of $55.0 million under the revolving credit facility and had $4.9 million in outstanding letters of credit under the $50.0 million letter of credit sublimit. The interest rate on the revolver borrowings at December 31, 2008 was 4.2575%. Interest expense related to the Credit Agreement was $0.3 million for the year ended December 31, 2008.

The Company incurred debt issuance costs of $2.6 million, which have been recorded on the accompanying consolidated balance sheet. Such amount is being amortized over the life of the revolving credit facility and is reflected as a component of interest expense on the accompanying consolidated statements of operations. Amortization of issuance costs for the year ended December 31, 2008 was $0.2 million.

SS/L Letter of Credit Facility

On November 30, 2007, SS/L entered into a second amendment to its amended and restated letter of credit agreement with JP Morgan Chase Bank extending the maturity of the $15.0 million facility to December 31, 2008. This facility was terminated on October 16, 2008 with the closing of the SS/L Credit Agreement. Letters of credit outstanding under this facility at that time were transferred to the Credit Agreement.

Loan Payable Valley National Bank

On September 4, 2007, Loral Skynet entered into a Loan and Security Agreement (the “Loan Agreement”) with Valley National Bank (“Valley National”). The purpose of the Loan Agreement was to make available to Loral Skynet a loan (the “Loan”) to fund the redemption (the “Note Redemption”) of Loral Skynet’s 14% Senior Secured Cash/PIK Notes due 2015. Pursuant to the Loan Agreement, Valley National made the Loan in a single advance of $141.1 million, which Loral Skynet used to fund the Note Redemption on September 5, 2007.

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

The interest rate on the Loan was 4.10% per annum. Interest expense related to the Loan was $0.9 million for the year ended December 31, 2007. On October 31, 2007, the loan was assumed by Telesat Canada as part of the Telesat Canada transaction and was repaid in full that same day by Telesat Canada. Also on October 31, 2007, the cash collateral CD was released and the cash was returned to Loral.

Loral Skynet Notes

On November 21, 2005, pursuant to the Plan of Reorganization, Loral Skynet issued $126.0 million principal amount of 14% Senior Secured Cash/PIK Notes due 2015 under an Indenture, dated as of November 21, 2005 (the “Indenture”), which notes were guaranteed on a senior secured basis by our subsidiary Loral Asia Pacific Satellite (HK) Limited and all of Loral Skynet’s existing domestic, wholly-owned subsidiaries. On September 5, 2007 Loral Skynet paid $141.1 million in the aggregate to redeem the notes at a redemption price of 110% including accrued and unpaid interest from July 15, 2007 of $2.5 million.

Interest expense related to these notes was $12.1 million and $17.8 million for the years ended December 31, 2007 and 2006, respectively. In addition to the $2.5 million of cash interest paid on the redemption of the notes discussed above, Loral Skynet made cash interest payments of $8.8 million on the Loral Skynet Notes on each of January 15 and July 16, 2007.

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

Litigation with respect to the redemption of the Loral Skynet Notes brought by certain holders of Loral Skynet Notes has been decided in favor of the Company.

9. Income Taxes

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

	Year Ended December 31,		
	2008	2007	2006
Current:			
U.S. Federal	$ (21,213)	$ 31,142	$ 4,018
State and local	37,572	19,712	2,467
Foreign	—	398	5,290
Total current	$ 16,359	$ 51,252	$11,775
Deferred:			
U.S. Federal	(137,102)	47,209	7,342
State and local	(36,023)	(31,291)	1,763
Valuation allowance	202,510	16,287	—
Total deferred	29,385	32,205	9,105
Total income tax provision	$ 45,744	$ 83,457	$20,880

Our income tax provision can be summarized as follows: (i) for 2008, we recorded a current tax provision of $16.3 million, which included a provision of $41.6 million to increase our liability for uncertain tax positions and a current tax benefit of $25.4 million derived from tax strategies and a deferred tax provision of $29.4 million, resulting in a total provision of $45.7 million on a pre-tax loss of $151.5 million; (ii) for 2007, we recorded a current tax provision of $51.3 million, including a provision of $17.1 million to increase our liability for uncertain tax positions, and a deferred tax provision of $32.2 million, resulting in a total provision of $83.5 million on pre-tax income of $157.8 million; and (iii) for 2006, we recorded a current tax provision of $11.8 million and a deferred tax provision of $9.1 million, resulting in a total provision of $20.9 million on pre-tax income of $30.1 million.

For the year ended December 31, 2008, 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 $12.5 million deferred tax asset relating to AMT credit carryforwards.

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The components of our FIN 48 provision for uncertain tax positions included in the current provision were (in thousands):

	Year Ended December 31,	
	2008	2007
Unrecognized tax benefits	$ 25,962	$ 12,652
Interest expense	6,169	4,186
Interest income	—	(41)
Penalties	9,427	303
Total	$ 41,558	$ 17,100

For 2008, the deferred income tax provision of $29.4 million related primarily to (i) a provision of $38.6 million recorded as a result of having utilized deferred tax benefits from Old Loral to reduce our tax liability derived from tax strategies (where the excess valuation allowance was recorded as a reduction to goodwill offset by (ii) a benefit of $9.2 million for the increase to our deferred tax asset for federal and state AMT credits.

For 2007, the deferred income tax provision of $32.2 million related primarily to (i) a provision of $35.1 million on current year income to the extent the taxes imposed on such income were reduced by deferred tax benefits from Old Loral (where the excess valuation allowance was recorded as a reduction to goodwill), (ii) a provision of $2.2 million for the decrease to our deferred tax asset for federal and state AMT credits (which excludes an increase to AMT credits of $2.2 million upon adoption of FIN 48), (iii) an additional valuation allowance of $3.0 million required against a net deferred tax asset created when we reduced the deferred tax credits in accumulated other comprehensive income by $3.0 million, offset by (iv) a benefit of $9.0 million relating to current activity.

For 2006, the deferred income tax provision of $9.1 million related to (i) a provision of $10.4 million on current year income to the extent the taxes imposed on such income were reduced by deferred tax benefits from Old Loral (where the valuation allowance was recorded as a reduction to goodwill) (ii) offset by a benefit of $1.3 million for the increase to our deferred tax asset for additional federal and state AMT credits.

The provision for income taxes presented above excludes the following items for 2007 and 2006: (i) a deferred tax benefit of $6.3 million related to the initial adoption of FIN 48, effective January 1, 2007, which was adjusted by $4.1 million during 2007 for a change to our FIN 48 liability, resulting in a $2.2 million increase to our AMT credits upon adoption of FIN 48; (ii) a deferred tax benefit of $6.5 million and a deferred tax provision of $6.4 million for the years ended December 31, 2007 and 2006, respectively, related to the unrealized gain on available-for-sale securities recorded in accumulated other comprehensive income; (iii) a deferred tax provision of $3.5 million and $19.6 million for the years ended December 31, 2007 and 2006, respectively, related to pension actuarial gains and prior service credits and the initial adoption of SFAS 158 recorded in accumulated other comprehensive income; and (iv) a deferred tax benefit of $6.8 million related to the reversal of Old Loral deferred state tax liabilities recorded as a reduction to goodwill for the year ended December 31, 2007. There were no items excluded for 2008.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The provision for income taxes on the (loss) income before income taxes, equity in net losses of 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):

	Year Ended December 31,		
	2008	2007	2006
Tax provision(benefit) at U.S. Statutory Rate of 35%	$ (53,033)	$55,225	$10,541
Permanent adjustments which change statutory amounts:			
State and local income taxes, net of federal income tax	1,496	(5,101)	2,749
Additional tax imposed on foreign source income	21	94	3,438
Equity in net losses of affiliates	(173,477)	(7,162)	(2,585)
Impairment of goodwill	65,779	—	—
Losses in litigation	6,815	—	—
Tax gain on transfer of Loral Skynet assets to Telesat Canada	—	16,419	—
Provision for unrecognized tax benefits	(5,811)	8,370	—
Nondeductible expenses	1,501	2,682	3,065
Change in valuation allowance	202,510	16,287	—
Other, net	(57)	(3,357)	3,672
Total income tax provision	$ 45,744	$83,457	$20,880

On January 1, 2007, we adopted the provisions of FIN 48 with unrecognized tax benefits relating to uncertain tax positions of $42.5 million and also recorded the cumulative effect of adopting FIN 48 as an increase of $6.2 million to accumulated deficit, an increase of $7.5 million to goodwill, a decrease of $6.3 million to deferred income tax liabilities and an increase of $20.0 million to long-term liabilities.

The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense. As of January 1, 2007 in connection with the adoption, we recorded approximately $5.7 million and $12.6 million for the payment of tax-related interest and penalties, respectively. In 2007 we recognized additional interest charges of $4.1 million. Interest and penalties of $1.5 million and $0.1 million, respectively, were transferred to Telesat Canada in connection with the Telesat Canada transaction.

In 2008, we recognized additional charges of $6.8 million and $9.4 million for the payment of tax-related interest and penalties, respectively. During 2008, the statute of limitations for assessment of additional tax expired with regard to our federal income tax return filed for 2004, resulting in the reversal of $0.7 million and $0.4 million for accrued interest and penalties, respectively. At December 31, 2008, we have accrued $14.4 million and $21.5 million for the payment of tax-related interest and penalties, respectively.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the activity related to our unrecognized tax benefits (in thousands):

	Year Ended December 31,	
	2008	2007
Balance at January 1	$ 59,903	$42,484
Increases related to prior year tax positions	5,312	157
Decreases related to prior year tax positions	(1,225)	(342)
Decrease as a result of statute expirations	(1,832)	—
Decrease as a result of tax settlements	—	(1,508)
Increases related to current year tax positions	46,434	21,707
Decrease for indemnified liabilities transferred to Telesat Canada and recorded in other long term liabilities	—	(2,595)
Balance at December 31	$108,592	$59,903

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2004. Earlier years related to certain foreign jurisdictions remain subject to examination. Various state and foreign income tax returns are currently under examination. While we intend to contest any future tax assessments for uncertain tax positions, no assurance can be provided that we would ultimately prevail. During the next twelve months, the statute of limitations for assessment of additional tax will expire with regard to several of our state income tax returns filed for 2004 and federal and state income tax returns filed for 2005, potentially resulting in a $3.2 million reduction to our unrecognized tax benefits.

The liability for uncertain tax positions ("FIN 48 Liability") is included in long-term liabilities in the consolidated balance sheets. For 2008, we increased our FIN 48 Liability for uncertain tax positions from $68.0 million to $109.0 million. The net increase of $41.0 million related to (i) an increase of $27.7 million to our current provision for tax positions derived from tax strategies adopted in 2008, (ii) an increase of $16.2 million to our current provision for potential additional interest and penalties, offset by (iii) a decrease of $2.9 million from the reversal of FIN 48 liabilities due to the expiration of the statute of limitations for the assessment of additional federal tax for 2004, of which $0.5 million was recorded as a reduction to goodwill, $0.6 million was treated as current income tax benefit and $1.8 million reduced our deferred tax assets.

For 2007, we increased our FIN 48 Liability for uncertain tax positions from $61.1 million to $68.0 million. The net increase of $6.9 million related to (i) current year provisions of $17.5 million for tax positions and potential additional interest and penalties, offset by (ii) the settlement of liabilities with certain tax authorities totaling $2.4 million, of which $2.0 million was recorded as a reduction to goodwill and $0.4 million was treated as a current income tax benefit, (iii) a reduction of $4.1 million to the deferred tax asset established at adoption, and (iv) the transfer of $4.1 million of uncertain tax positions to Telesat Canada in the Telesat Canada transaction offset by a contractual indemnification.

Prior to adopting FIN 48, our policy was to establish tax contingency liabilities for potential audit issues. The tax contingency liabilities were based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits. At December 31, 2006, we had $42.6 million of tax contingency liabilities included in long-term liabilities. During 2006, we had increased the tax contingency liabilities by $5.0 million through the current income tax provision, settled $0.4 million with payment and reversed $4.2 million of the opening balance as of October 1, 2005 to goodwill for issues where the statute of limitations on assessment of tax had expired during 2006.

After the adoption of SFAS 141 (R) on January 1, 2009, if our positions are sustained by the taxing authorities, approximately $108.2 million of the FIN 48 Liability will reduce the Company's income tax provision

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and $0.8 million will reduce deferred tax assets. Other than as described above, there were no significant changes to our unrecognized tax benefits during the twelve months ended December 31, 2008, and we do not anticipate any other significant increases or decreases to our unrecognized tax benefits during the next twelve months.

In connection with the Telesat Canada transaction, Loral provided a contractual indemnification to Telesat Canada for Loral Skynet tax liabilities, offset by tax deposits, relating to periods preceding 2007. The unrecognized tax benefits related to the Loral Skynet subsidiaries were transferred to Telesat Canada subject to the tax indemnification provided by Loral. Loral's net indemnified liability at December 31, 2008 is not material.

At December 31, 2008, we had federal NOL and capital loss carryforwards of approximately $525 million and state carryforwards of various amounts representing deferred tax assets of approximately $169.5 million and $15.5 million for federal and state, respectively, (before reduction for the valuation allowance) and federal research credits of $2.0 million, which expire from 2022 to 2028, as well as AMT credit carryforwards of approximately $12.5 million that may be carried forward indefinitely.

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 NOLs and tax credits generated prior to the ownership change, are subject to an annual limitation of approximately $32.6 million, subject to increase or decrease based on certain factors. Our annual limitation was increased significantly during 2006, 2007 and 2008 for the additional benefit from the recognition of our "net unrealized built-in gains," (i.e., the excess of fair market value over tax basis for our assets) as of the Effective Date.

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 our net deferred tax assets.

As of December 31, 2008, we had valuation allowances totaling $487.8 million, which included a balance of $185.9 million relating to Old Loral periods preceding our adoption of fresh-start accounting on October 1, 2005.

We will continue to maintain the valuation allowance until sufficient positive evidence exists to support full or partial reversal. In the future, if we were to determine that we will be able to realize all or a part of the benefit from our deferred tax assets, under SFAS 141 (R) any reduction to the valuation allowance balance at October 1, 2005 will be recorded as a reduction to the income tax provision.

During 2008, our valuation allowance increased by $246.5 million. The net change consisted primarily of (i) an increase of $202.5 million charged to continuing operations, (ii) a decrease of $38.6 million relating to the reversal of an excess valuation allowance recorded as a reduction to goodwill, (iii) an increase of $35.6 million charged to accumulated other comprehensive income and (iv) an increase of $47.0 million offset by a corresponding increase to the deferred tax asset.

During 2007 our valuation allowance decreased by $63.7 million. The net change consisted primarily of (i) a decrease of $35.1 million relating to the reversal of an excess valuation allowance recorded as a reduction to goodwill, (ii) a decrease of $45.2 million offset by a corresponding decrease to the deferred tax asset, (iii) an increase of $0.3 million as part of the cumulative effect of adopting FIN 48, and (iv) an increase of $16.3 million charged to continuing operations.

During 2006, our valuation allowance decreased by $32.4 million to a balance of $304.9 million. The net change consisted primarily of a decrease of $36.4 million relating to an excess valuation allowance, the reversal of which was recorded as a reduction to goodwill and an increase of $4.0 million to provide an additional valuation allowance against Old Loral deferred tax assets recorded to goodwill.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	December 31,	
	2008	2007
Deferred tax assets:		
Postretirement benefits other than pensions	$ 28,321	$ 31,591
Inventoried costs	19,456	17,943
Net operating loss and tax credit carryforwards	199,460	205,209
Compensation and benefits	20,663	22,802
Deferred research & development costs	14,126	18,948
Income recognition on long-term contracts	13,382	26,707
Investments in and advances to affiliates	138,524	—
Other, net	7,370	7,086
Federal benefit of uncertain tax positions	21,431	3,610
Pension costs	69,772	35,612
Total deferred tax assets before valuation allowance	532,505	369,508
Less valuation allowance	(487,762)	(241,228)
Net deferred tax asset	44,743	128,280
Deferred tax liabilities:		
Property, plant and equipment	(18,637)	(18,653)
Intangible assets	(13,582)	(18,569)
Investments in and advances to affiliates	—	(87,704)
Total deferred tax liability	(32,219)	(124,926)
Net deferred tax asset	$ 12,524	$ 3,354

At December 31, 2008 the Company had $4.0 million of net current deferred tax assets included in other current assets and $8.5 million of net non-current deferred tax assets included in other assets. At December 31, 2007 the Company had $17.5 million of net current deferred tax assets included in other current assets and $14.1 million of net non-current deferred tax liabilities included in long-term liabilities.

10. Shareholders' Equity and Minority Interest

Common Stock

In accordance with the Plan of Reorganization, Loral issued 20 million shares of voting common stock, par value $0.01 per share (the "Voting Common Stock"), which shares were distributed in accordance with the Plan of Reorganization.

On November 10, 2008, the Court of Chancery of the State of Delaware (the "Court") issued an Implementing Order (the "Implementing Order") in the *In re: Loral Space & Communications Consolidated Litigation* . The Implementing Order provided that it would become effective upon entry of a further order of the Court resolving plaintiffs' attorneys' applications for attorneys' fees and expenses (the "Attorneys' Fees Application"). On December 22, 2008, the Court entered an order (the "Attorneys' Fees Order") resolving the Attorneys' Fees Application and, therefore, the Implementing Order became effective on that date.

Pursuant to the Implementing Order, the Securities Purchase Agreement by and between Loral and MHR Fund Management LLC (together with its affiliates, "MHR"), as amended and restated on February 27, 2007 (the "SPA"), was reformed to provide for MHR to have purchased 9,505,673 shares of Loral Non-Voting Common

Stock, which are in all respects identical to and treated equally with shares of Loral Voting Common Stock except for the absence of voting rights (other than as provided in the New Charter (defined below) or as provided by law), in exchange for the net payment of $293.3 million made by MHR to Loral on February 27, 2007 in connection with the SPA. Pursuant to the Implementing Order, all other terms of the SPA are of no further force or effect.

Pursuant to the Implementing Order, on December 23, 2008, Loral and MHR entered into an Amended and Restated Registration Rights Agreement, (the "New Registration Rights Agreement"). The New Registration Rights Agreement provides for registration rights for the shares of Non-Voting Common Stock, in addition and substantially similar to, the registration rights provided for the shares of Common Stock held by MHR. In addition, in the New Registration Rights Agreement, Loral has agreed, subject to certain exceptions, to file on or before June 1, 2009 a shelf registration statement covering shares of Common Stock and Non-Voting Common Stock held by MHR.

Pursuant to the Implementing Order, on December 23, 2008, Loral filed an Amended and Restated Certificate of Incorporation (the "New Charter"). The New Charter has been accepted by the Secretary of State of Delaware and is the operative certificate of incorporation of Loral.

The New Charter is substantially the same as the Restated Certificate of Incorporation of Loral previously in effect, except that the New Charter provides that the total authorized capital stock of the Company is fifty million (50,000,000) shares consisting of two classes: (i) forty million (40,000,000) shares of Common Stock, $0.01 par value per share divided into two series, of which 30,494,327 shares are Voting Common Stock and 9,505,673 shares are Non-Voting Common Stock, and (ii) ten million (10,000,000) shares of Preferred Stock, $0.01 par value per share. The New Charter further provides that each share of Voting Common Stock and each share of Non-Voting Common Stock shall be identical and treated equally in all respects, except that the Non-Voting Common Stock shall not have voting rights except for certain situations as noted in the New Charter and as otherwise provided by law. The New Charter provides for, among other things, the equal treatment of the Non-Voting Common Stock with the Voting Common Stock, shall not be amended, altered or repealed without the affirmative vote of holders of a majority of the outstanding shares of the Non-Voting Common Stock, voting as a separate class.

As a result of the cancellation of the Loral Series-1 Preferred Stock and the issuance of the Non-Voting Common Stock on December 23, 2008, shareholders' equity in our consolidated balance sheet has been adjusted to include the Non-Voting Common Stock at its fair value on December 23, 2008 and remove the Loral Series-1 Preferred Stock balances. Fair value was determined based on the closing market price per share of Loral common stock on December 23, 2008. The difference between the fair value of the 9,505,673 shares of Non-Voting Common Stock and the carrying value of the Loral Series-1 Preferred Stock including accrued dividends thereon has been reflected as an increase to paid-in capital.

In addition, the Certificates of Designation of the Series A Preferred Stock and Series B Preferred Stock were eliminated and are of no further force and effect.

Also, pursuant to the Implementing Order, upon effectiveness of the Implementing Order, the Amended and Restated Bylaws of Loral dated February 27, 2007 (the "Old Bylaws") were rescinded and are of no further force and effect, and the operative bylaws of Loral are the Amended and Restated Bylaws of Loral dated December 23, 2008 (the "New Bylaws"). The New Bylaws are substantially the same as the Old Bylaws previously in effect, except that the provision authorizing holders of record of Series A Preferred Stock and Series B Preferred Stock to request that a special meeting of stockholders be convened to exercise certain voting rights that such holders had has been removed.

In connection with a stipulation entered into with certain directors and officers of Old Loral, certain claims aggregating $30 million may result in the distribution of our Common Stock in addition to the 20 million shares distributed under the Plan of Reorganization (see Note 14).

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Preferred Stock

On February 27, 2007 (the "Issuance Date"), Loral completed a $300.0 million preferred stock financing pursuant to the SPA, under which Loral sold 136,526 shares of its Series A-1 cumulative 7.5% convertible preferred stock (the "Series A-1 Preferred Stock") and 858,486 shares of its Series B-1 cumulative 7.5% convertible preferred stock (the "Series B-1 Preferred Stock" and, together with the Series A-1 Preferred Stock, the "Loral Series-1 Preferred Stock") at a purchase price of $301.504 per share to various funds affiliated with MHR (the "MHR Funds").

Prior to the conversion of the Loral Series-1 Preferred Stock to Non-Voting Common Stock, the Loral Series-1 Preferred Stock had, among others, the following terms:

Each share of the Series A-1 Preferred Stock was convertible, at the option of the holder, into ten shares of Loral common stock at a conversion price of $30.1504 per share. The conversion price reflected a premium of 12% to the closing price of Loral's common stock on October 16, 2006. The conversion price was subject to customary adjustments. Dividends on the Loral Series-1 Preferred Stock were paid in kind (i.e., in additional shares of Loral Series-1 Preferred Stock).

The Company paid dividends of $24.2 million through the issuance of 2,725 shares and 77,698 shares of Series A-1 and Series B-1 Preferred Stock, respectively, during the year ended December 31, 2008. During the year ended December 31, 2007, the Company paid dividends of $14.4 million through the issuance of 5,427 shares of Series A-1 Preferred Stock and 42,335 shares of Series B-1 Preferred Stock. Accrued dividends at the date of conversion of the Loral Series-1 Preferred Stock were $4.8 million.

The price of Loral's common stock on October 16, 2006, the day before we signed the SPA, was $26.92 and the conversion price was $30.1504. The price of Loral's common stock on February 27, 2007, when the financing closed was $47.40. Because of the difference between the fair value of the common stock on the date the financing closed, as compared to the conversion price, the Company was required to reflect a beneficial conversion feature of the Loral Series A-1 Preferred Stock as a component of its net loss applicable to common shareholders for the year ended December 31, 2007. This beneficial conversion feature was recorded as an increase to net loss applicable to common shareholders and resulted in a reduction of both basic and diluted loss per share. For the year ended December 31, 2007, we recorded an increase to net loss applicable to common shareholders of $25.7 million. Due to the fact that the fair value of Loral's common stock on the ending date of all four quarters of 2008 was less than the conversion price, we did not record any beneficial conversion feature for the year ended December 31, 2008.

Loral incurred issuance costs of $8.9 million in connection with this preferred stock financing. In addition, Loral paid MHR a placement fee of $6.8 million upon closing of the financing.

Loral Skynet Series A Preferred Stock

On November 21, 2005, Loral Skynet Corporation issued 1.0 million of its 2.0 million authorized shares of Series A 12% non-convertible preferred stock, $0.01 par value per share (the "Loral Skynet Preferred Stock"), which were distributed in accordance with the Plan of Reorganization. The issued shares 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) were payable in kind (in additional shares of Loral Skynet Preferred Stock) if the amount of any dividend payment would exceed certain thresholds.

Dividend expense of $23.2 million and $24.8 million for the years ended December 31, 2007 and 2006, respectively, related to the Loral Skynet Preferred Stock and is reflected as minority interest on our consolidated statements of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Dividends paid on Loral Skynet Preferred Stock are as follows (in thousands, except share data):

Payment Date	Dividend Period	Cash Dividends	PIK Dividends		Total Dividends
			Shares	Amount	
November 5, 2007	7/14/07 to 11/05/07	$ 8,790	—	$ —	$ 8,790
July 13, 2007	1/14/07 to 7/13/07	1,260	61,282	12,260	13,520
January 12, 2007	7/14/06 to 1/13/07	1,770	55,434	11,090	12,860
July 14, 2006	11/21/05 to 7/13/06	1,270	71,281	14,260	15,530

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

Stock Plans

On November 21, 2005, the 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 initially reserved and available for issuance under the Stock Incentive Plan was 1,390,452 shares. In addition, shares of Common Stock that are issuable under awards 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 issued on December 21, 2005, totaling 1,390,452 shares, have 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. However, because communications to certain employees with options totaling 643,500 shares were made on January 9, 2006, recognition of the grant of these options was delayed to such date. The Awards provide for accelerated vesting if there is a change in control, as defined in the Stock Incentive Plan.

On May 22, 2007, at our annual meeting of stockholders, our stockholders approved the Company's Amended and Restated 2005 Stock Incentive Plan (the "Plan") to increase by 1,582,000 the number of shares available for grant thereunder. These amendments covered the following grants that were all subject to stockholder approval of the plan amendments: (a) the grant in March 2006 of options to purchase 825,000 shares to our Chief Executive Officer in connection with his entering into an employment agreement with us (the "CEO March 2006 Option Grant"), (b) the grant in June 2006 of options to purchase 20,000 shares to our former Chief Financial Officer in connection with his entering into an amendment to his employment agreement, (c) the grant in June 2006 of options to purchase 120,000 shares to a former director in connection with his entering into a consulting agreement and (d) grants of approximately 175,700 shares of restricted stock, to employees of SS/L and others. In addition, these amendments covered 31,000 shares of restricted stock granted to our directors as part of their compensation. These grants were recognized and measured upon stockholder approval of the amendments. As a result of the approval of the amendments, we recorded compensation cost related to the first three grants of $3.8 million and $17.7 million for 2008 and 2007, respectively, based on the estimated fair value of these grants and stock compensation costs of $2.4 million and $3.8 million were recorded for 2008 and 2007, respectively, for the grant of restricted shares.

The above-mentioned grant to a former director in connection with his entering into a consulting agreement has been accounted for in accordance with EITF 96-18 as a non-employee grant and resulted in compensation expense of $2.6 million in 2007 (see Notes 2 and 16).

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of employee and non-employee awards granted in 2007 and 2006 was estimated using the Black-Scholes-Merton model based on the assumptions below for the periods indicated:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Risk — free interest rate	4.5%	4.3%
Expected life (years)	2.80	4.75%
Estimated volatility	32.8%	27.4%
Expected dividends	None	None

A summary of the status of stock options awarded under the Stock Incentive Plan as of December 31, 2008 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2006	746,952	$ 28.44	7 years	
Granted (weighted average grant date fair value $7.66 per share)	643,500	$ 28.44		
Exercised	—			
Forfeited	(80,000)	$ 28.44		
Outstanding at December 31, 2006	1,310,452	$ 28.44	5.8 years	$ 16,091
Granted (weighted average grant date fair value $23.46 per share)	965,000	$ 26.95		
Exercised	(208,750)	$ 27.82		$ 2,930
Forfeited	(15,000)	$ 27.57		
Outstanding at December 31, 2007	2,051,702	$ 27.81	4.2 years	$ 13,216
Forfeited	(17,500)	$ 27.69		
Outstanding at December 31, 2008	2,034,202	$ 27.81	3.2 years	$ 0.0
Vested and expected to vest at December 31, 2008	2,031,936	$ 27.81	3.2 years	$ 0.0
Exercisable at December 31, 2008	1,806,077	$ 27.85	3.3 years	$ 0.0

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of non-vested restricted stock as of December 31, 2008 is presented below (restricted stock generally vests over a two to four year period):

	Shares	Weighted Average Grant- Date Fair Value
Non-vested restricted stock at January 1, 2007	—	—
Granted	206,700	$ 46.65
Vested (intrinsic value of $3.0 million)	(62,777)	$ 46.65
Forfeited	(1,919)	$ 46.65
Non-vested restricted stock at December 31, 2007	142,004	$ 46.65
Granted	15,000	$ 19.70
Vested (intrinsic value of $1.1 million)	(57,463)	$ 46.65
Forfeited	(3,836)	$ 46.65
Non-vested restricted stock at December 31, 2008	95,705	$ 42.43

The total fair value of options vested was $9.4 million, $21.6 million and $2.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

In connection with the Telesat Canada transaction, pursuant to change of control provisions in certain stock option agreements, vesting on 503,113 shares was accelerated and resulted in stock compensation cost of $6.1 million charged to expense in 2007. Total compensation cost charged to expense, net of estimated forfeitures, for stock options and restricted stock was $7.6 million, $26.3 million and $3.0 million in 2008, 2007 and 2006, respectively. The tax benefit recognized in our statement of operations for this compensation cost was $0.6 million, $10.3 million and $1.1 million in 2008, 2007 and 2006, respectively. As of December 31, 2008, there was $4.7 million of total unrecognized compensation cost related to non-vested stock options and restricted stock which is expected to be recognized over the next year.

As of December 31, 2008, there were 651,258 shares of Loral common stock available for future grant under the Stock Incentive Plan.

On March 5, 2009, the Compensation Committee approved awards of restricted stock units (the “RSUs”) for certain executives of the Company. Each RSU has a value equal to one share of Voting Common Stock and generally provides the recipient with the right to receive one share of Voting Common Stock or cash equal to the value of one share of Voting Common Stock, at the option of the Company, on the settlement date.

Michael B. Targoff, Chief Executive Officer of Loral, was awarded 85,000 RSUs (the “Initial Grant”) on March 5, 2009. In addition, the Company agreed to grant to Mr. Targoff 50,000 RSUs on the first anniversary of the grant date and 40,000 RSUs on the second anniversary of the grant date (the “Subsequent Grants”). Vesting of the Initial Grant requires the satisfaction of two conditions: a time-based vesting condition and a stock price vesting condition. Vesting of the Subsequent Grants is subject only to the stock-price vesting condition. The time-based vesting condition for the Initial Grant will be satisfied upon Mr. Targoff’s continued employment through March 5, 2010, the first anniversary of the grant date. The stock price vesting condition, which applies to both the Initial Grant and the Subsequent Grants, will be satisfied only when the average closing price of the Voting Common Stock over a period of 20 consecutive trading days is at or above $25 during the period commencing on the grant date and ending on March 31, 2013.

C. Patrick DeWitt, Senior Vice President of Loral and Chief Executive Officer of SS/L, was awarded 25,000 RSUs on March 5, 2009, of which 66.67% vest on March 5, 2010, with the remainder vesting ratably over the subsequent two years.

11. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based upon the weighted average number of shares of Voting and Non-Voting Common Stock outstanding. For the years ended December 31, 2008, 2007 and 2006, the effect of approximately 2,034,202, 2,051,702 and 1,310,452, stock options outstanding, 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. In addition, for the years ended December 31, 2008 and 2007, the effect of 95,705 and 142,004 shares of non-vested restricted stock was excluded from the calculation of diluted loss per share as the effect would have been antidilutive.

12. 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 may contribute to the pension plan in order to receive enhanced benefits. Benefits are based primarily 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 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.

We recognize the long term nature of pension liabilities, the benefits of diversification across asset classes and the effects of inflation. Loral's diversified pension portfolio is designed to maximize returns consistent with levels of liquidity and investment risk that are prudent and reasonable. The assets are invested using specified Russell-designed funds as directed by the plan's investment committee. Russell uses a multi-asset, multi-style, multi-manager investment approach in designing its funds. Portfolio risk is controlled through this diversification process and Russell's constant monitoring of money managers. Performance results and fund accounting are provided to the Company on a monthly basis. Periodic reviews of the portfolio are done with Russell and the plan's investment committee. The performance of the pension plans are reported to the board of directors at the quarterly board meetings. The portfolio includes holdings of domestic, non-U.S. and private equities, fixed income investments and alternative investments.

Effective July 1, 2006, we amended our pension plan to standardize the future benefits earned at all company locations for eligible employees. These amendments did not change any benefits earned through June 30, 2006. As a result of the amendments, all locations now have a career average plan that requires an employee contribution in order to receive the highest level of benefits. All current participants now earn future benefits under the same formula and have the same early retirement provisions. The amendments did not apply to certain employees under a bargaining unit arrangement. Additionally, employees hired after June 30, 2006, do not participate in the defined benefit pension plan, but participate in our defined contribution savings plan with an additional Company contribution. As a result of these amendments, our ongoing pension expense and cash funding requirement has been reduced commencing July 1, 2006.

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 generally 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.

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Curtailment

In connection with the Telesat Canada transaction, the pension benefits of Loral Skynet employees have been frozen and they will no longer earn additional benefits under the pension plans. Unvested pension plan participants will receive credit for Telesat Canada service for vesting purposes only. In addition, only service prior to the date of the Telesat Canada transaction will be considered to determine eligibility for retiree, medical and life insurance benefits. As a result, and because of other related employee actions, a curtailment gain has been recorded upon completion of the Telesat Canada transaction and is reflected in the tables below. The net pension liability has been excluded from the Telesat Canada transaction and retained by Loral.

Funded Status

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for 2008 and 2007, and a statement of the funded status as of December 31, 2008 and, 2007, respectively. We use a December 31 measurement date for the pension plans and other post retirement benefit plans. The effect of the curtailment on 2007 was measured as of October 31, 2007, the date of the Telesat Canada transaction.

	Pension Benefits Year Ended December 31,		Other Benefits Year Ended December 31,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Reconciliation of benefit obligation				
Obligation at beginning of period	$ 367,870	$371,883	$ 73,788	$ 85,652
Service cost	9,214	10,145	1,056	1,607
Interest cost	23,367	22,455	4,108	4,995
Participant contributions	1,385	1,612	1,792	1,827
Amendments	—	—	—	(2,815)
Actuarial loss (gain)	2,146	(15,492)	(9,393)	(3,125)
Benefit payments	(22,630)	(21,382)	(4,764)	(5,008)
Curtailment gain	(433)	(1,351)	—	(1,169)
Transfer of liability due to Telesat Canada transaction	—	—	—	(8,176)
Obligation at December 31,	$ 380,919	$367,870	$ 66,587	$ 73,788
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of period	$ 284,283	$284,275	$ 955	$ 866
Actual return on plan assets	(80,059)	18,936	27	89
Employer contributions	27,904	—	2,732	3,181
Participant contributions	1,385	1,612	1,792	1,827
Benefit payments	(21,531)	(20,540)	(4,764)	(5,008)
Fair value of plan assets at December 31,	$ 211,982	$284,283	$ 742	$ 955
Funded status at end of period	$(168,937)	$ (83,587)	$(65,845)	$(72,833)

The benefit obligations for pensions and other employee benefits exceeded the fair value of plan assets by $234.8 million at December 31, 2008, (the "unfunded benefit obligations"). The unfunded benefit obligations were measured using a discount rate of 6.5% at December 31, 2008 and 2007. Lowering the discount rate by 0.5% would have increased the unfunded benefit obligations by approximately $24.7 million and $27.8 million as of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2008 and 2007, respectively. Market conditions and interest rates will significantly affect future assets and liabilities of Loral's pension and other employee benefits plans.

Plan assets decreased from December 31, 2007 to December 31, 2008 primarily due to current economic conditions.

In connection with our adoption of Statement of Financial Accounting Standards No. 158, *Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans* , ("SFAS 158"), as of December 31, 2006, we were required to recognize the funded status of a benefit plan on our balance sheet. As a result, as of December 31, 2006, we reduced our recorded liability for pensions by $50.5 million, with a corresponding credit to accumulated other comprehensive income, and increased our recorded liability for other benefits by $1.0 million, with a corresponding charge to accumulated other comprehensive income, to adjust to our actual unfunded benefit obligations.

The pre-tax amounts recognized in accumulated other comprehensive income (loss) as of December 31, 2008 and 2007 consist of (in thousands):

	Pension Benefits December 31,		Other Benefits December 31,	
	2008	2007	2008	2007
Actuarial (loss) gain	$(80,213)	$26,477	$ 7,216	$(2,103)
Amendments-prior service credit	28,111	30,829	2,966	3,446
	$(52,102)	$57,306	$10,182	$ 1,343

The amounts recognized in other comprehensive income (loss) during the year ended December 31, 2008 consist of (in thousands):

	Pension Benefits	Other Benefits
Actuarial (loss) gain during the period	$ (106,672)	$ 9,349
Amortization of actuarial gain	(18)	(30)
Amortization of prior service credit	(2,718)	(480)
Total recognized in other comprehensive income	$ (109,408)	$ 8,839

Amounts recognized in the balance sheet consist of (in thousands):

	Pension Benefits December 31,		Other Benefits December 31,	
	2008	2007	2008	2007
Current Liabilities	$ 1,070	$ 892	$ 3,051	$ 3,187
Long-Term Liabilities	167,867	82,695	62,794	69,646
	$168,937	$83,587	$65,845	$72,833

The estimated actuarial loss and prior service credit for the pension benefits that will be amortized from accumulated other comprehensive income into net periodic cost over the next fiscal year is $3.6 million and $2.7 million, respectively. The estimated actuarial gain and prior service credit for other benefits that will be amortized from accumulated other comprehensive income into net periodic cost over the next fiscal year is $0.1 million and $0.5 million, respectively.

The accumulated pension benefit obligation was $375.8 million and $364.3 million at December 31, 2008 and 2007, respectively.

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During 2008, we contributed $27.9 million to the qualified pension plan and $2.7 million for other employee post-retirement benefit plans. During 2009, based on current estimates, we expect to contribute approximately $24 million to the qualified pension plan and expect to fund approximately $4 million for other employee post-retirement benefit plans.

The following table provides the components of net periodic cost for the plans for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	Pension Benefits For the Year Ended December 31,			Other Benefits For the Year Ended December 31,		
	2008	2007	2006	2008	2007	2006
Service cost	$ 9,214	$ 10,145	$ 10,926	$1,056	$ 1,607	$1,482
Interest cost	23,367	22,455	21,835	4,108	4,995	4,834
Expected return on plan assets	(24,469)	(23,768)	(22,229)	(72)	(36)	(52)
Amortization of prior service credit	(2,718)	(2,784)	(1,399)	(480)	(553)	(239)
Amortization of net actuarial loss (gain)	(18)	(59)	—	(30)	111	127
Curtailment gain	(433)	(2,345)	—	—	(1,862)	—
Net periodic cost	$ 4,943	$ 3,644	$ 9,133	$4,582	$ 4,262	$6,152

The discount rate used to determine net periodic pension cost was 6.5% for the period ended December 31, 2008. The discount rate used to determine net periodic pension cost was 6.0% for the period January 1, 2007 to October 31, 2007 and, as a result of the remeasurement for the curtailment as of October 31, 2007, 6.5% for the period November 1, 2007 to December 31, 2007. Assumptions used to determine net periodic cost:

	For the Year Ended December 31,		
	2008	2007	2006
Discount rate	6.50%	6.00%/6.50%	5.75%
Expected return on plan assets	8.50%	8.50%	9.00%
Rate of compensation increase	4.25%	4.25%	4.25%

Assumptions used to determine the benefit obligation:

	December 31,		
	2008	2007	2006
Discount rate	6.50%	6.50%	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, 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 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 twenty five year historical return of our investment managers has been 9.0%. The expected long-term rate of return on plan assets determined on this basis was 8.5% for the years ended December 31, 2008 and 2007 and 9.0% for the year ended December 31, 2006. As of January 1, 2009 we changed our expected long-term rate of return on plan assets to 8.0% from 8.5%.

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Our pension and other employee benefits plan asset allocations by asset category as of December 31, 2008 and 2007 are as follows:

	December 31, 2008	December 31, 2007
Equity investments	51%	54%
Fixed income investments	49%	46%
	100%	100%

Actuarial assumptions to determine the benefit obligation for other benefits as of December 31, 2008, used a health care cost trend rate of 10% decreasing gradually to 5% by 2018. Actuarial assumptions to determine the benefit obligation for other benefits as of December 31, 2007, used a health care cost trend rate of 9.5% decreasing gradually to 4.5% by 2014. 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 2008 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	$ 421	$ (342)
Effect on the health care component of the accumulated postretirement benefit obligation	$ 5,300	$ (4,408)

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

		Other Benefits	
	Pension Benefits	Gross Benefit Payments	Medicare Subsidy Receipts
2009	$ 24,640	$ 4,209	$ 295
2010	25,385	4,496	324
2011	26,053	4,771	357
2012	26,170	5,017	393
2013	26,508	5,219	426
2014 to 2018	143,117	28,685	2,671

Assets designated to fund the obligations of our supplementary retirement plan are held in a trust. Such assets amounting to $3.5 million and $6.0 million as of December 31, 2008 and 2007, 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, other current assets included $0.8 million of these assets as of December 31, 2008 and 2007, and other assets included $2.7 million and $5.2 million of these assets as of December 31, 2008 and 2007, respectively.

Employee Savings (401k) Plan

We have an employee savings (401k) plan, to which the Company provides contributions which match up to 6% of a participant's base salary at a rate of 66 2/3%, and retirement contributions. Retirement contributions represent contributions made by the Company to provide added retirement benefits to employees hired on or after July 1, 2006, as they are not eligible to participate in our defined benefit pension plan. Retirement contributions are provided regardless of an employee's contribution to the savings (401k) plan. Matching contributions and retirement contributions are collectively known as Company contributions. Company contributions are made in cash and placed in each participant's age appropriate "life cycle" fund. For the years ended December 2008, 2007,

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and 2006, Company contributions were $8.3 million, $7.7 million, and $5.5 million, respectively. Participants of the savings (401k) plan are able to redirect Company contributions to any available fund within the plan. Participants are also able to direct their contributions to any available fund.

13. Financial Instruments, Derivative Instruments and Hedging

Financial Instruments

The carrying amount of cash equivalents and restricted cash approximates fair value because of the short maturity of those instruments. The fair value of short-term investments, investments in available-for-sale securities and supplemental retirement plan assets is based on market quotations. The carrying value of our debt of $55.0 million at December 31, 2008 approximates fair value.

Foreign Currency

The Company, in the normal course of business, is subject to the risks associated with fluctuations in foreign currency exchange rates. To limit this foreign exchange rate exposure, the Company seeks to denominate its contracts in U.S. dollars. If we are unable to enter into a contract in U.S. dollars, we review our foreign exchange exposure and, where appropriate, enter into foreign exchange contracts to hedge fluctuations in exchange rates that can impact our operating results and cash flows.

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

	Foreign Currency	U.S. $
Future revenues — Japanese Yen	¥ 64,874	$ 718
Future expenditures — Japanese Yen	¥ 3,491,204	$38,637
Contracts-in-process, unbilled receivables — Japanese Yen	¥ 10,374	$ 115
Future expenditures — EUROs	€ 6,270	$ 8,839

Derivatives

Hedges of foreign currency denominated contract revenues and related purchases are designated as cash flow hedges and evaluated for effectiveness at least quarterly. Effectiveness is tested using regression analysis. The effective portion of the gain or loss on a cash flow hedge is recorded as a component of other comprehensive income and reclassified to income in the same period or periods in which the hedged transaction affects income. Any remaining gain or loss on the hedge is included in income.

On July 9, 2008, SS/L was awarded a satellite contract denominated in EUROs and entered into a series of foreign exchange forward contracts with maturities through 2011 to hedge the associated foreign currency exchange risk. These foreign exchange forward contracts have been designated as cash flow hedges of future Euro denominated receivables.

For the year ended December 31, 2008, losses of $2.5 million were excluded from the assessment of hedge effectiveness and were recorded as a reduction of revenue, and unrealized gains of $18.2 million were included in accumulated other comprehensive income.

The fair value of the cash flow hedges at December 31, 2008 was $14.6 million of which $8.9 million is included in other current assets and $5.7 million is included in other assets.

We estimate that $9.2 million of net derivative gain included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

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The maturity of foreign currency exchange contracts held as of December 31, 2008 is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts. These foreign exchange contracts mature as follows (in thousands):

	To Sell		
Maturity	Euro Amount	At Contract Rate	At Market Rate
2009	€ 65,540	$ 99,793	$ 91,376
2010	19,210	29,388	26,734
2011	23,493	35,663	32,608
	€108,243	$164,844	$150,718

	To Buy		
Maturity	Euro Amount	At Contract Rate	At Market Rate
2009	€4,520	$ 6,294	$6,315

The Company is exposed to credit-related losses in the event of non-performance by counter parties to these financial instruments, but does not expect any counter party to fail to meet its obligation because we execute foreign exchange contracts only with what we believe are well capitalized financial institutions. Loral does not enter into foreign currency transactions for trading and speculative purposes.

On June 20, 2008, in anticipation of receiving the July 9, 2008 satellite contract described above, Loral entered into a currency option transaction that allowed Loral to convert €97.7 million into $149.5 million. Loral paid a premium of $0.5 million for this option. For the year ended December 31, 2008, Loral recorded charges of $0.5 million as the options expired unexercised on July 10, 2008.

As part of the Telesat Canada transaction, Telesat Holdco received financing commitments from a syndicate of banks for $2.279 billion (based on an exchange rate of $1.00/CAD 0.9429 as of October 31, 2007) of senior secured credit facilities, $692.8 million of a senior unsecured bridge facility and $217.2 million of a senior subordinated unsecured bridge facility. The purchase price of Telesat Canada was in Canadian dollars, while most of the debt financing was in U.S. dollars. Accordingly, to insulate themselves from Canadian dollar versus U.S. dollar fluctuations, Loral, through Loral Skynet, and PSP, entered into financial commitments to lock in exchange rates to convert some of the U.S. dollar denominated debt proceeds to Canadian dollars. On October 23, 2007, Loral Skynet transferred its financial commitments under these contracts to Telesat Holdco.

A summary of these transactions is as follows:

1) In December 2006, Loral Skynet entered into a currency basis swap with a single bank counterparty effectively converting $1.054 billion of U.S. debt into CAD 1.224 billion of Canadian debt for a seven year period beginning December 17, 2007. This debt amortizes 1% per year with a final maturity of December 17, 2014. No cash payment was made by Loral Skynet for entering into this transaction. Loral Skynet recognized cumulative losses of $39.0 million through the date of transfer of the swap to Telesat Holdco on October 23, 2007.

2) In December 2006, Loral Skynet entered into forward foreign currency contracts with a single bank counterparty selling $497.4 million for CAD 570.1 million ($1.00/CAD 1.1461) with a settlement date of December 17, 2007. In January 2007, Loral Skynet entered into additional forward foreign currency contracts with the same single bank counterparty selling $200.0 million for CAD 232.8 million ($1.00/CAD 1.1512) with a settlement date of December 17, 2007. No cash payments were made by Loral Skynet to the counterparty for entering into these transactions. Skynet recognized cumulative gains of $122.6 million through the date of transfer of the foreign currency contracts to Telesat Holdco on October 23, 2007.

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14. Commitments and Contingencies

Financial Matters

As of December 31, 2008, SS/L has a Credit Agreement which provides for a $100.0 million senior secured revolving credit facility. As of December 31, 2008, SS/L had outstanding borrowings of $55.0 million and letters of credit of $4.9 million (see Note 8).

Due to the long lead times required to produce purchased parts, we have entered into various purchase commitments with suppliers. These commitments aggregated approximately $508 million as of December 31, 2008 and primarily relate to Satellite Manufacturing backlog.

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

SS/L has deferred revenue and accrued liabilities for performance warranty obligations relating to satellites sold to customers, which could be affected by future performance of the satellites. These reserves for expected costs for warranty reimbursement and support are based on historical failure rates. However, in the event of a catastrophic failure of a satellite, which cannot be predicted, these reserves likely will not be sufficient. SS/L periodically reviews and adjusts the deferred revenue and accrued liabilities for warranty reserves based on the actual performance of each satellite and remaining warranty period. A reconciliation of such deferred amounts for the years ended December 31, 2008, 2007 and 2006, is as follows (in thousands):

Balance of deferred amounts at January 1, 2006	$ 41,692
Accruals for deferred amounts issued during the period	4,800
Accruals relating to pre-existing contracts (including changes in estimates)	7,380
Balance of deferred amounts at December 31, 2006	53,872
Warranty costs incurred including payments	(10,790)
Accruals relating to pre-existing contracts (including changes in estimates)	(8,056)
Balance of deferred amounts at December 31, 2007	35,026
Warranty costs incurred including payments	(956)
Accruals relating to pre-existing contracts (including changes in estimates)	2,185
Balance of deferred amounts at December 31, 2008	$ 36,255

The increase of the deferred amounts during the year ended December 31, 2008 was primarily attributable to the recognition of the warranty obligations on five satellites that were launched during 2008. The reduction of the deferred amounts during the year ended December 31, 2007, was primarily attributable to a resolution of certain warranty obligations for less than previously estimated amounts. In connection with the reduction of the deferred amounts, interest expense was reduced by $4.5 million for the year ended December 31, 2007.

In connection with the Telesat Canada transaction, Loral initiated a restructuring of its corporate functions. Through 2008, Loral has reduced the number of employees at its headquarters, consolidating some functions at
In the fourth quarter of 2007, Loral charged approximately $7.0 million to selling, general and administrative expenses, mainly for severance and related costs, and expects to make cash payments related to the restructuring primarily during 2008 and 2009. Loral has paid restructuring costs of approximately $5.5 million and $5.7 million for the year ended December 31, 2008 and cumulative to date, respectively. At December 31, 2008, the liability recorded in the consolidated balance sheet for the restructuring was $1.3 million.

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

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Some of these arrangements are provided to customers that are start-up companies, companies in the early stages of building their businesses or highly leveraged companies, including some with near-term debt maturities. There can be no assurance that these companies or their businesses will be successful and, accordingly, that these customers will be able to fulfill their payment obligations under their contracts with SS/L. We believe that these provisions will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided. Moreover, SS/L's receipt of orbital payments is subject to the continued performance of its satellites generally over the contractually stipulated life of the satellites. Because these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/L will be able to collect all or a portion of these receivables. Orbital receivables and vendor financing receivables included in our consolidated balance sheet as of December 31, 2008 were $181.4 million and $0, respectively.

On July 30, 2007, SS/L entered into an Amended and Restated Customer Credit Agreement (the "Sirius Credit Agreement") with Sirius Satellite Radio Inc. ("Sirius"). Under the Sirius Credit Agreement, SS/L agreed, subject to the terms and conditions contained therein, to make loans to Sirius up to an aggregate principal amount of $100 million to make milestone payments under the Amended and Restated Satellite Purchase Agreement between Sirius and SS/L dated as of July 23, 2007 (the "Satellite Purchase Agreement") for the purchase of the Sirius FM-5 and FM-6 Satellites (the "Sirius Satellites"). Pursuant to the Sirius Credit Agreement, on December 19, 2008, Sirius' ability to borrow under the Sirius Credit Agreement to reimburse itself for milestone payments it had previously made with its own funds expired. Any loans made under the Sirius Credit Agreement are secured by Sirius' right, title and interest in its rights under the Satellite Purchase Agreement, including its rights in and to the Sirius Satellites. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc. and any future material subsidiary that may be formed or acquired by Sirius, other than XM Radio and any other subsidiary designated as an "unrestricted subsidiary" under the indenture governing Sirius's 9 5/8% senior notes due 2013. The maturity date of the loans is the earliest to occur of (i) June 10, 2010, (ii) 90 days after the FM-6 Satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the FM-6 Satellite. Loans made under the Sirius Credit Agreement generally bear interest at a variable rate equal to three-month LIBOR plus a margin. The Sirius Credit Agreement permits Sirius to prepay all or a portion of the loans outstanding without penalty. In addition, Sirius is required to prepay the loans in certain circumstances, including loans in respect of the FM-5 Satellite upon the earliest to occur of (x) April 6, 2009, (y) 90 days after the FM-5 Satellite becomes available for shipment and (z) 30 days prior to the launch of the FM-5 Satellite. SS/L believes that, as of March 10, 2009, Sirius is not eligible for any borrowings on the FM-5 Satellite and, subject to satisfaction of the conditions set forth in the Sirius Credit Agreement, would be eligible to borrow up to $32 million under the Sirius Credit Agreement upon incurrence of future milestone payments on the FM-6 Satellite. SS/L believes that Sirius does not currently meet all of the conditions precedent to draw under the Sirius Credit Agreement, including the condition that Sirius have a market capitalization of at least $1 billion. There can be no assurance, however, that Sirius will not meet such conditions in the future. As of December 31, 2008, no loans were outstanding under the Sirius Credit Agreement.

SS/L and Sirius are disputing whether SS/L owes Sirius $15 million in liquidated damages with respect to the claimed late delivery of the FM-5 Satellite. SS/L believes that, in accordance with the Satellite Purchase Agreement, SS/L is not subject to the liquidated damages penalty because the Agreement provides that penalties for delivery schedule delays are not applicable when the delays were due solely to technical reasons affecting SS/L's subcontractors. SS/L is pursuing resolution of this matter through arbitration pursuant to the provisions of the Satellite Purchase Agreement. There can be no assurance that SS/L will prevail in this dispute.

During the year ended December 31, 2008, we recorded income of $9.3 million for cash received related to distributions from a bankruptcy claim against a former customer of Loral Skynet. The receivables underlying the claim had previously been written-off or not recognized due to the customer's bankruptcy. Additional amounts which may be recovered in the future have not been recognized in our statement of operations as their realization has not been assured beyond a reasonable doubt.

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See Note 16 — Related Party Transactions — *Transactions with Affiliates — Telesat Canada* for commitments and contingencies relating to our agreement to indemnify Telesat Canada for certain liabilities and our arrangements with ViaSat, Inc. and Telesat Canada.

Satellite Matters

Satellites are built with redundant components or additional components to provide excess performance margins to permit their continued operation in case of component failure, an event that is not uncommon in complex satellites. Twenty-seven of the satellites built by SS/L and launched since 1997 have experienced some loss 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. SS/L has implemented remediation measures that SS/L believes will prevent satellites launched after June 2001 from experiencing similar anomalies. Based upon information currently available relating to the power losses, we believe that this matter will not have a material adverse effect on our consolidated financial position or our results of operations, although no assurance can be provided.

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

In November 2004, Galaxy 27 (formerly Telstar 7) experienced an anomaly which caused it to completely cease operations for several days before it was partially recovered. In June 2008, Galaxy 26 (formerly Telstar 6) experienced a similar anomaly which caused the loss of power to one of the satellite's solar arrays. Three other satellites manufactured by SS/L for other customers have designs similar to Galaxy 27 and Galaxy 26 and, therefore, could be susceptible to similar anomalies in the future. A partial or complete loss of these satellites could result in the incurrence of warranty payments by SS/L of up to $4.6 million, of which $0.9 million has been accrued as of December 31, 2008.

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

See Note 16 — Related Party Transactions — *Transactions with Affiliates — Telesat Canada* for commitments and contingencies relating to SS/L's obligation to make payments to Telesat Canada for transponders on Telstar 10.

Regulatory Matters

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 or provision of defense services 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 and equipment 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
Year ended December 31, 2008	$12,154	$ (6)	$12,148
Year ended December 31, 2007	$26,302	$ (76)	$26,226
Year ended December 31, 2006	$27,317	$ (20)	$27,297

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, 2008 (in thousands):

2009	$ 9,723
2010	8,967
2011	6,328
2012	3,782
2013	2,122
Thereafter	7,089
	$38,011

Legal Proceedings

Delaware Shareholder Litigation

On or about May 14, 2007, the Court of Chancery of the State of Delaware in and for New Castle County (the "Chancery Court") entered an order consolidating two civil actions previously commenced by certain stockholders of the Company against the Company, MHR and certain funds (the "MHR Funds") and other entities affiliated with MHR (collectively, MHR, the MHR Funds and such other entities, the "MHR Entities") and the individual members of the Company's board of directors under the caption *In re: Loral Space and Communications Inc. Consolidated Litigation* . The litigation arose out of the Company's sale of $300 million of preferred stock to the MHR Funds pursuant to the Securities Purchase Agreement dated October 17, 2006, as amended and restated on February 27, 2007 (the "Securities Purchase Agreement"). The plaintiffs alleged, among other things, that the sale was not fair to the Company and resulted from breach of fiduciary duties by Loral's directors.

On September 19, 2008, the Chancery Court issued an opinion (the "Opinion") finding that the sale of the preferred stock to the MHR Funds did not meet the entire fairness standard under Delaware law, and, on November 10, 2008, the Chancery Court entered an implementing order (the "Implementing Order") providing for a remedy. Pursuant to the Implementing Order, which became effective on December 22, 2008 upon entry of an order (the "Attorneys' Fees Order") resolving plaintiffs' attorneys' applications for attorneys' fees and expenses discussed below, the Securities Purchase Agreement was reformed to provide for MHR to have purchased 9,505,673 shares of Loral Non-Voting Common Stock, which are in all respects identical to and treated equally

with shares of Loral Common Stock except for the absence of voting rights (other than as provided in Loral's amended and restated certificate of incorporation or as provided by law), in exchange for the net payment of $293.3 million made by the MHR Funds to Loral on February 27, 2007 in connection with the Securities Purchase Agreement. Pursuant to the Implementing Order, all other terms of the Securities Purchase Agreement are of no further force or effect (see Note 10 — *Shareholders' Equity and Minority Interest*). In the Implementing Order, the Chancery Court also entered final judgment in favor of directors Olmstead and Stenbit and resolving all claims against the other directors on the basis set forth in its Opinion. The Chancery Court stated in its Opinion that, because the remedy being entered is one that can be effected as between the MHR Funds and Loral, it was not necessary to make findings about the extent to which the other individual director defendants would be subject to liability for breach of fiduciary duty, if at all.

Pursuant to the Implementing Order, on December 23, 2008, Loral filed an Amended and Restated Certificate of Incorporation providing that its 40,000,000 authorized shares of Common Stock be divided into two series, of which 30,494,327 shares are Voting Common Stock and 9,505,673 shares are Non-Voting Common Stock. The Amended and Restated Certificate of Incorporation provides that the Common Stock and Non-Voting Common Stock are identical and treated equally in all respects, except for the absence of voting rights (other than as provided in the Amended and Restated Certificate of Incorporation or as provided by law). The Chancery Court also ordered that Loral's Board of Directors ratify and recommend to stockholders that they ratify the Amended and Restated Certificate of Incorporation, that Loral include a proposal at its next scheduled annual meeting of stockholders to consider and vote upon the Amended and Restated Certificate of Incorporation and that the named and representative parties vote all of their shares in favor of ratification of the Amended and Restated Certificate of Incorporation. Prior to the stockholder meeting, any transfer of Loral Common Stock by a named or representative party to the litigation or any subsequent transferee may only be made subject to the transferee providing an irrevocable and unconditional proxy to vote all such transferred Common Stock in favor of the ratification of the Amended and Restated Certificate of Incorporation. Furthermore, the Chancery Court ordered that, upon request of the holders of a majority of the then outstanding shares of Non-Voting Common Stock, Loral shall apply for and use best efforts to obtain the listing of the Non-Voting Common Stock on a national securities exchange or automated quotation system as so requested by such holders and register the Non-Voting Common Stock under all applicable securities laws. Also, pursuant to the Implementing Order, on December 23, 2008, Loral and the MHR Funds entered into an Amended and Restated Registration Rights Agreement, (the "New Registration Rights Agreement"). The New Registration Rights Agreement provides for registration rights for the shares of Non-Voting Common Stock, in addition and substantially similar to, the registration rights provided for the shares of Voting Common Stock held by the MHR Funds. In addition, in the New Registration Rights Agreement, Loral has agreed, subject to certain exceptions set forth therein, to file on or before June 1, 2009 a shelf registration statement covering shares of Voting Common Stock and Non-Voting Common Stock held by the MHR Funds.

The time for appeal with respect to Opinion, the Implementing Order and the Attorneys' Fees Order expired on January 21, 2009 without any of the plaintiffs or defendants in the litigation having filed any appeals. The Company has, however, filed an appeal with respect to the Chancery Court's February 20, 2008 order granting certification of the class of Loral shareholders and the Attorneys' Fee Order which awarded class counsel in the litigation fees and expenses in the amount of $10.6 million which Loral paid on December 31, 2008. In addition, in January 2009, Loral paid counsel for the derivative plaintiffs in the litigation a total amount of $8.8 million for fees and expenses incurred in connection with the litigation (the "Derivative Fee Award" and, together with the Class Counsel Award, the "Fee Awards") which was accrued in other current liabilities on the consolidated balance sheet at December 31, 2008.

New York Shareholder Litigation

On or about November 3, 2006, plaintiff Maxine Babus, derivatively on behalf of Loral Space & Communications Inc., filed a shareholder derivative complaint in the Supreme Court of the State of New York, County of New York, against all the members of the Loral board of directors and against Loral as a nominal defendant. On or

about April 4, 2007, the plaintiff filed an amended shareholder class and derivative complaint against all members of the Loral board of directors, the MHR Entities and Loral as a nominal defendant. The litigation arose out of the Company's sale of $300 million of preferred stock to the MHR Funds pursuant to the Securities Purchase Agreement. The plaintiff alleged, among other things, that the sale was not fair to the Company and resulted from breach of fiduciary duties by Loral's directors. By order dated December 5, 2007, the court ordered that the *Babus* lawsuit be stayed pending final resolution of the Delaware shareholder litigation discussed above. The Company expects that, as a result of the decision in the Delaware shareholder litigation discussed above, the *Babus* case will be dismissed.

Insurance Coverage Litigation

The Company has directors and officers liability insurance coverage that provides the Company with coverage up to $40 million, but the insurers have denied coverage of the Fee Awards and, on or about December 19, 2008, commenced an action against the Company in the Supreme Court of the State of New York, County of New York, seeking a declaratory judgment declaring that (x) the applicable insurance policies do not provide coverage for the Fee Awards; (y) Loral breached the cooperation clause of the policies thereby relieving the insurers of any liability under the policies; and (z) in the alternative, to the extent that the court finds that Loral is entitled to coverage of the Fee Awards, coverage is available only for a small portion of the Derivative Fee Award. The Company believes that the Fee Awards are covered by and reimbursable under its insurance and, on February 27, 2009, the Company filed its answer and counterclaims in which it asserted its rights to coverage. There can be no assurance, however, that the Company's position regarding coverage will prevail or, if it does prevail, that the coverage limit will be adequate to cover the Fee Awards and all defense costs for its directors.

The Company has received requests for indemnification and advancement of expenses from its directors under their indemnification agreements with the Company for any losses or costs they may incur as a result of the *In re: Loral Space and Communications Inc. Consolidated Litigation* and *Babus* lawsuits. As of February 28, 2009, the insurers have advanced approximately $9.0 million in defense costs for the Company's directors who are not affiliated with MHR, and the Company has received a request for indemnification from its directors who are affiliated with MHR for defense costs in the amount, as of November 30, 2008, of approximately $18 million. The Company has referred this request for indemnification to Mr. John Stenbit, a director of Loral, who has been appointed by the Board of Directors to act as an independent special committee of the Board with respect to determination of the amount of defense costs properly allocable to the MHR directors in their capacity as Loral directors and for which they are entitled to indemnification. Since the special committee has not yet made any determinations with respect to its assignment, the Company cannot estimate how much, if any, of the $18 million claimed by the directors affiliated with MHR will be subject to indemnification and whether such amount will fall within the limits of its insurance coverage. The Company, therefore, has not accrued any liabilities for this claim at this time.

Informal SEC Inquiry

In June and July 2007, we received letters from the Staff of the Division of Enforcement of the SEC informing the Company that it is conducting an informal inquiry and requesting that the Company provide certain documents and information relating primarily to the Securities Purchase Agreement and activities before and after its execution as well as documents and information relating to the redemption of the Loral Skynet Notes (see Note 8) and documents and information regarding the directors and officers of Loral. The letter advised that the informal inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred, or as an adverse reflection upon any person or security. The Company has fully cooperated with the SEC staff during the investigation. There has been no activity with respect to the investigation since November 2007. In addition, the Company has received requests for indemnification and advancement of expenses from certain of its advisors with respect to costs they may incur as a result of compliance with SEC document requests.

Reorganization Matters

On July 15, 2003, Old Loral and certain of its subsidiaries (collectively with Old Loral, the “Debtors”) 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”). 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”).

Appeals of Confirmation Order. Confirmation of our Plan of Reorganization was opposed by the Official Committee of Equity Security Holders (the “Equity Committee”) appointed in our Chapter 11 Cases and by the self-styled Loral Stockholders Protective Committee (“LSPC”). Shortly before the hearing to consider confirmation of the Plan of Reorganization, the Equity Committee also filed a motion seeking authority to prosecute an action on behalf of the estates of Old Loral and certain of its subsidiaries seeking to unwind as fraudulent, a guarantee provided by Old Loral in 2001, of certain indebtedness of Loral Orion, Inc. (the “Motion to Prosecute”). By separate Orders dated August 1, 2005, the Bankruptcy Court confirmed the Plan of Reorganization (the “Confirmation Order”) and denied the Motion to Prosecute (the “Denial Order”). On or about August 10, 2005, the LSPC appealed (the “Confirmation Appeal”) to the United States District Court for the Southern District of New York (the “District Court”) the Confirmation Order and the Denial Order. On February 3, 2006, we filed with the District Court a motion to dismiss the Confirmation Appeal. On May 26, 2006, the District Court granted our motion to dismiss the Confirmation Appeal. The LSPC subsequently filed a motion for reconsideration of such dismissal, which the District Court denied on June 14, 2006 (the “Reconsideration Order”). On or about July 12, 2006, a person purportedly affiliated with the LSPC appealed the dismissal of the Confirmation Appeal and the Reconsideration Order to the United States Court of Appeals for the Second Circuit (the “Second Circuit Confirmation Appeal”). On February 22, 2008, the Second Circuit affirmed the District Court’s judgment dismissing the Confirmation Appeal and the Reconsideration Order, and, on May 16, 2008, the Second Circuit denied such person’s petition for a rehearing. On October 14, 2008, such person filed a petition for a writ of certiorari with the Supreme Court of the United States, which petition was denied by the Supreme Court on January 12, 2009. A petition for rehearing, filed with the Supreme Court on February 6, 2009, was denied on March 9, 2009.

Disputed Claims. In connection with our Plan of Reorganization, certain claims were filed against Old Loral and certain of its subsidiaries, the validity or amount of which we disputed. To the extent any disputed claims become allowed claims, the claimants would be entitled to distributions under the Plan of Reorganization based upon the amount of the allowed claim, payable either in cash for claims against SS/L or Loral SpaceCom Corporation or in Loral common stock for all other claims. As of December 31, 2008, except with respect to the D&O Claims discussed below and a claim discussed below related to our collection in July 2008 of a $58 million judgment against Rainbow DBS Holdings, Inc. (“Rainbow”), we have resolved all disputed claims. We have reserved approximately 71,000 of the 20 million shares of 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. The disputed claim relating to the Rainbow judgment arose from the assertion by a third party of a prepetition claim against the Company that it was entitled to receive $3 million of the proceeds of the judgment, which the third party believed was payable in full in cash with interest. The Company, however, believed the claim was payable in common stock under its Plan of Reorganization. After a hearing regarding this dispute before the Bankruptcy Court, the Bankruptcy Court ruled in favor of the Company and entered a final order to that effect on November 3, 2008. The third party has appealed the Bankruptcy Court’s decision to, and the matter is pending before, the District Court. The effect of the issuance of the common stock attributable to this claim was recorded in connection with our fresh-start accounting as of October 1, 2005.

Indemnification Claims of Directors and Officers of Old Loral. Old Loral was obligated to indemnify its directors and officers for any losses or costs they may incur as a result of the lawsuits described below in

Class Action Securities Litigations , *Class Action ERISA Litigation* and *Globalstar Related Class Action Securities Litigations* . The Plan of Reorganization provides that the direct liability of Loral post-emergence in respect of such indemnity obligation is limited to the *In re: Loral Space ERISA Litigation* and *In re: Loral Space & Communications Ltd. Securities Litigation* cases and then only in an aggregate amount of $2.5 million (the "Direct Indemnity Liability"). In addition, most directors and officers have filed proofs of claim (the "D&O Claims") in unliquidated amounts with respect to the prepetition indemnity obligations of the Debtors. The Debtors and these directors and officers have agreed that in no event will their indemnity claims against Old Loral and Loral Orion, Inc. 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 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 Loral common stock distributed under the Plan of Reorganization to other creditors. Instead of issuing such additional shares, Loral may elect to satisfy any allowed claim in cash in an amount equal to the number of shares to which plaintiffs would have been entitled multiplied by $27.75 or in a combination of additional shares and cash. We believe, although no assurance can be given, that Loral will not incur any substantial losses as a result of these claims.

Class Action Securities Litigations

Beleson. In August 2003, plaintiffs Robert Beleson and Harvey Matcovsky filed a purported class action complaint against Bernard L. Schwartz, the former Chief Executive Officer of Loral, 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 September 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. The defendant filed a motion for summary judgment in July 2008 and plaintiffs filed a cross-motion for partial summary judgment in September 2008. On February 24, 2009, the court granted defendant's motion and denied plaintiffs' cross motion. Plaintiffs have until March 26, 2009 to file a notice of appeal with respect to the court's decision. Since this case was not brought against Old Loral, but only against one of its officers, we believe, although no assurance can be given, that, to the extent that any award is ultimately granted to the plaintiffs in this action, the liability of Loral, if any, with respect thereto is limited solely to the D&O Claims as described above under " *Reorganization Matters — Indemnification Claims* ."

Christ. 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, the former Chief Financial Officer of Loral, 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

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period from July 31, 2002 through June 29, 2003, excluding the defendants and certain persons related to or affiliated with them. On September 30, 2008, the parties entered into an agreement to settle the case, pursuant to which a settlement will be funded entirely by Old Loral's directors and officers liability insurer, and Loral will not be required to make any contribution toward the settlement. By order dated February 26, 2009, the court finally approved the settlement as fair, reasonable and adequate and in the best interests of the class. Certain class members have objected to the settlement, and they have until March 30, 2009 to file a notice of appeal. In addition, certain objectors, who together had class period purchases valued at approximately $550,000, elected to opt out of the class action settlement and have indicated that they may file individual lawsuits against the defendants. Since this case was not brought against Old Loral, but only against certain of its officers, we believe, although no assurance can be given, that, should the settlement not be consummated or should any objectors who opted out of the settlement prevail in lawsuits they may bring, to the extent that any award is ultimately granted to the plaintiffs or objectors in this action, the liability of Loral, if any, with respect thereto is limited solely to the D&O Claims as described above under "*Reorganization Matters — Indemnification Claims* ."

Class Action ERISA Litigation

In re: Loral Space 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 sought, 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 class of plaintiffs on whose behalf the lawsuit was asserted consisted of all participants in or beneficiaries of the Savings Plan at any time between November 4, 1999 and the present and whose accounts included investments in Old Loral stock. Plaintiffs also filed a proof of claim against Old Loral with respect to this case and agreed that in no event would their claim against Old Loral with respect to this case exceed $22 million.

Insurance Coverage Litigation. In addition, two insurers under Old Loral's directors and officers liability insurance policies denied coverage with respect to the case titled *In re: Loral Space ERISA Litigation* , each claiming that coverage should have been 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. After each of the two potentially responsible insurers moved separately for judgment on the pleadings, seeking a court ruling absolving it of liability to provide coverage of the ERISA action, in March 2006, the court granted the motion of one of the insurers and denied the motion of the other insurer.

In April 2008, the potentially responsible defendant insurer, the plaintiffs and the Company agreed in principle, and, in August 2008, the parties entered into definitive settlement agreements, to settle both the insurance coverage litigation and the *In re: Loral Space ERISA Litigation* case. By order dated January 20, 2009, the court finally approved and confirmed the settlement as fair, reasonable and adequate. The deadline to appeal the settlement has passed without any notice of appeal having been filed, and, accordingly, the settlement is final. Pursuant to this settlement, the settlement was funded entirely by the defendant insurer, and Loral was not required to make any contribution toward the settlement. In addition, the bankruptcy claim filed by plaintiffs against Old Loral with respect to the *In re: Loral Space ERISA Litigation* case has been deemed disallowed and expunged.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Globalstar Related Class Action Securities Litigations

In re: Globalstar Securities Litigation. On September 26, 2001, the nineteen separate purported class action lawsuits filed in the United States District Court for the Southern District of New York by various holders of securities of Globalstar Telecommunications Limited ("GTL") and Globalstar, L.P. ("Globalstar") against GTL, Old Loral, Bernard L. Schwartz and other defendants were consolidated into one action titled *In re: Globalstar Securities Litigation* . In November 2001, plaintiffs in the consolidated action filed a consolidated amended class action complaint against Globalstar, GTL, Globalstar Capital Corporation, Old Loral and Bernard L. Schwartz seeking, among other things, damages in an unspecified amount and reimbursement of plaintiffs' costs and expenses. This case was settled by Mr. Schwartz in 2005 for $20 million. Mr. Schwartz then commenced a lawsuit against Globalstar's directors and officers liability insurers seeking to recover the full settlement amount plus legal fees and expenses incurred in enforcing his rights under Globalstar's directors and officers liability insurance policy. In January 2007, two of the four insurers settled with Mr. Schwartz and paid him the remaining limits under their policies and, after a jury trial, the jury returned a verdict against the other two insurers in favor of Mr. Schwartz awarding him the remaining $9.1 million balance of his claim. The insurers' motion to set aside the verdict or, in the alternative, for a new trial, was denied, and, after an appeal, in August 2008, the United States Court of Appeals for the Second Circuit affirmed the District Court's judgment. The insurers' motion for a panel rehearing and a rehearing en banc was denied by the Court of Appeals in October 2008, and Mr. Schwartz has received payment of the balance of his claim. Accordingly, Mr. Schwartz's proof of claim against Old Loral asserting a general unsecured prepetition claim for indemnification relating to this case is not likely to be allowed, and, therefore, we believe, although no assurance can be given, that Loral will not incur any material loss as a result of this settlement.

In re: Loral Space & Communications Ltd. Securities Litigation. 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.

Insurance Coverage Litigation. The primary insurer under the directors and officers liability insurance policy of Old Loral 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. In connection with the settlement of the insurance coverage litigation relating to the *In re: Loral Space ERISA Litigation* case described above, the parties also agreed to the dismissal of this insurance coverage litigation without prejudice. We believe, although no assurance can be given, that the liability of Loral, if any, with respect to the *In re: Loral Space & Communications Ltd. Securities Litigation* case or with respect to the related insurance

coverage litigation is limited solely to the Direct Indemnity Liability and the D&O Claims as described above under " *Reorganization Matters — Indemnification Claims* ."

Other and Routine Litigation

We are subject to various other legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of these legal proceedings and claims cannot be predicted with certainty, we do not believe that any of these other existing legal matters will have a material adverse effect on our consolidated financial position or our results of operations.

15. Segments

Loral is organized into two operating segments: Satellite Manufacturing and Satellite Services. Our segment reporting data includes unconsolidated affiliates that meet the reportable segment criteria of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* . The satellite services segment includes 100% of the results reported by Telesat Canada for the year ended December 31, 2008 and for the period from October 31, 2007 to December 31, 2007. Although we analyze Telesat Canada's revenue and expenses under the satellite services segment, we eliminate its results in our consolidated financial statements, where we report our 64% share of Telesat Canada's results as equity in net losses of affiliates.

Our investment in XTAR, for which we use the equity method of accounting, is included in Corporate in 2008 and 2007. XTAR was owned by Loral Skynet until closing of the Telesat Canada transaction, however, we retained our investment in XTAR, and it was not transferred to Telesat Canada in connection with the Telesat Canada transaction.

The common definition of EBITDA is "Earnings Before Interest, Taxes, Depreciation and Amortization". In evaluating financial performance, we use revenues and operating income (loss) before depreciation and amortization (including amortization of stock-based compensation) ("Adjusted EBITDA") as the measure of a segment's profit or loss. Adjusted EBITDA is equivalent to the common definition of EBITDA before: goodwill and other impairment charges; gain on foreign exchange contracts; gains or losses on litigation not related to our operations, impairment of available for sale securities; loss on extinguishment of debt; other income (expense); equity in net losses of affiliates; and minority interest.

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

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

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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:

2008 Segment Information
(in thousands)

	Satellite Manufacturing	Satellite Services [1]	Corporate [2]	Total
Revenues and Adjusted EBITDA:				
Revenues	$ 785,534	$ 685,187		$ 1,470,721
Intersegment revenues [3]	95,913	—		95,913
Operating segment revenues	$ 881,447	685,187		1,566,634
Intercompany eliminations [4]				(12,049)
Affiliate eliminations [1]				(685,187)
Revenues as reported				$ 869,398
Segment Adjusted EBITDA before eliminations [5][6]	$ 45,055	$ 436,514	$ (14,875)	$ 466,694
Intercompany eliminations [4]				(1,569)
Affiliate eliminations [1]				(427,176)
Adjusted EBITDA				37,949
Depreciation, amortization and stock-based compensation				(43,986)
Impairment of goodwill [7]				(187,940)
Operating loss				(193,977)
Interest and investment income				11,857
Interest expense				(2,268)
Gain on litigation, net				38,823
Impairment of available for sale securities				(5,823)
Other expense				(135)
Income tax provision				(45,744)
Equity loss in affiliates		$ (479,579)	$ (16,070)	(495,649)
Net loss				$ (692,916)
Other Data:				
Segment depreciation, amortization and stock-based compensation	$ 38,646	$ 220,843	$ 5,342	$ 264,831
Affiliate eliminations [1]	—	(220,843)	—	(220,843)
Depreciation, amortization and stock-based compensation as reported	$ 38,646	$ —	$ 5,342	$ 43,988
Segment capital expenditures [7]	$ 53,883	$ 255,506	$ 10,676	$ 320,065
Affiliate eliminations [1]	—	(255,506)	—	(255,506)
Capital expenditures as reported	$ 53,883	$ —	$ 10,676	$ 64,559
Segment total assets	$ 799,476	$ 4,273,162	$ 196,391	$ 5,269,029
Affiliate eliminations [1]	—	(4,273,162)	—	(4,273,162)
Total assets as reported [7]	$ 799,476	$ —	$ 196,391	$ 995,867

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2007 Segment Information
(in thousands)

	Satellite Manufacturing	Satellite Services [(1)]	Corporate [(2)]	Total
Revenues and Adjusted EBITDA:				
Revenues	$ 739,815	$ 238,858		$ 978,673
Intersegment revenues [(3)]	74,500	2,298		76,798
Operating segment revenues	$ 814,315	$ 241,156		1,055,471
Intercompany eliminations [(4)]				(55,250)
Affiliate eliminations [(1)]				(117,767)
Revenues as reported				$ 882,454
Segment Adjusted EBITDA before eliminations [(5)(6)]	$ 34,479	$ 118,385	$ (37,935)	$ 114,929
Intercompany eliminations [(4)]				(6,075)
Affiliate eliminations [(1)]				(65,283)
Adjusted EBITDA				43,571
Depreciation, amortization and stock-based compensation				(103,257)
Gain on the contribution of Loral Skynet to Telesat Canada				104,942
Operating income				45,256
Interest and investment income				39,279
Interest expense				(2,312)
Gain on foreign exchange contracts				89,364
Loss on extinguishment of debt				(16,155)
Other expense				2,354
Income tax provision				(83,457)
Equity loss in affiliates		$ (1,792)	$ (19,638)	(21,430)
Minority interest				(23,240)
Income from continuing operations				$ 29,659
Other Data:				
Segment depreciation, amortization and stock-based compensation	$ 36,282	$ 85,905	$ 22,270	$ 144,457
Affiliate eliminations [(1)]	—	(41,200)	—	(41,200)
Depreciation, amortization and stock-based compensation as reported	$ 36,282	$ 44,705	$ 22,270	$ 103,257
Segment capital expenditures [(7)]	$ 37,477	$ 88,647	$ 39	$ 126,163
Affiliate eliminations [(1)]	—	(30,400)	—	(30,400)
Capital expenditures as reported	$ 37,477	$ 58,247	$ 39	$ 95,763
Segment total assets	$ 963,388	$ 6,221,408	$ 128,190	$ 7,312,986
Affiliate eliminations [(1)]	—	(5,610,047)	—	(5,610,047)
Total assets as reported [(7)]	$ 963,388	$ 611,361	$ 128,190	$ 1,702,939

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2006 Segment Information
(in thousands)

	Satellite Manufacturing	Satellite Services	Corporate [2]	Total
Revenues and Adjusted EBITDA:				
Revenues	$ 636,632	$160,701		$ 797,333
Intersegment revenues	59,894	3,085		62,979
Operating segment revenues	$ 696,526	$163,786		860,312
Intercompany eliminations [4]				(62,979)
Revenues as reported				$ 797,333
Segment Adjusted EBITDA before eliminations [5][6]	$ 65,884	$ 67,956	$ (26,784)	$ 107,056
Intercompany eliminations [4]				(5,941)
Adjusted EBITDA				101,115
Depreciation, amortization and stock based compensation				(71,297)
Operating income from continuing operations				29,818
Interest and investment income				31,526
Interest expense				(23,449)
Loss on foreign exchange contracts				(5,750)
Other expense				(2,028)
Income tax provision				(20,880)
Equity loss in affiliates				(7,163)
Minority interest				(24,794)
Loss from continuing operations				$ (22,720)
Other Data:				
Depreciation, amortization and stock-based compensation as reported	$ 23,284	$ 45,881	$ 2,132	$ 71,297
Capital Expenditures as reported	$ 18,411	$ 63,617	$ 129	$ 82,157
Total assets as reported [7]	$ 944,630	$750,412	$ 34,869	$1,729,911

(1) Satellite Services for 2008 represents Telesat Canada. Satellite Services for 2007 include Loral Skynet for the period January 1, 2007 to October 30, 2007 and Telesat Canada for the period October 31, 2007 to December 31, 2007. Affiliate eliminations represent the elimination of amounts attributable to Telesat Canada whose results are reported in our consolidated statements of operations as equity in net losses of affiliates and in our consolidated balance sheet as investment in affiliates.

(2) Includes corporate expenses incurred in support of our operations. Corporate for 2008 and 2007 includes our equity investments in XTAR and Globalstar service providers.

(3) Intersegment revenues includes $84.0 million and $22.0 million for the years ended December 31, 2008 and 2007, respectively, of revenue from affiliates.

(4) Represents the elimination of intercompany sales and intercompany Adjusted EBITDA, primarily for satellites under construction by SS/L for Loral and its wholly owned subsidiaries and for satellite services leasing transponder capacity at SS/L.

(5) Satellite manufacturing includes (in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31,		
	2008	2007	2006
Adjusted EBITDA before specific identified charges	$44,684	$27,167	$57,139
Transponders rights provided to SS/L in the Satmex settlement agreement	—	—	18,605
Accrued warranty obligations	371	6,769	(8,182)
Provisions for inventory obsolescence	—	543	(1,678)
Satellite manufacturing segment Adjusted EBITDA before eliminations	$45,055	$34,479	$65,884

(6) Satellite Services Revenue and EBITDA include $14.9 million resulting from receipt of a customer termination payment for the year ended December 31, 2006.

(7) Amounts are presented after the elimination of intercompany profit and include goodwill of $227 million and $306 million for Satellite Manufacturing, as of December 31, 2007 and 2006, respectively. During 2008, we determined that the implied fair value of SS/L goodwill had decreased below its carrying value, and we recorded an impairment charge for the entire goodwill balance of $187.9 million to reflect this impairment. In addition, total assets as reported excludes $2.0 billion and $2.5 billion of satellite services goodwill related to Telesat Canada as of December 31, 2008 and 2007, respectively.

Revenue by Customer Location

The following table presents our revenues by country based on customer location for the years ended December 31, 2008, 2007 and 2006, (in thousands).

	For the Year Ended December 31,		
	2008	2007	2006
United States	$612,282	$702,605	$691,986
People's Republic of China (including Hong Kong)	13,236	47,591	26,607
United Kingdom	68,956	45,596	11,943
Canada	83,767	43,552	252
Luxembourg	11,398	—	—
Spain	25,506	385	5,682
The Netherlands	50,110	6,849	8,941
Other	4,143	35,876	51,922
	$869,398	$882,454	$797,333

During 2008, four of our customers accounted for approximately 20.4%, 15.0%, 14.0% and 10.9% of our consolidated revenues. During 2007, two of our customers accounted for approximately 20% and 16% of our consolidated revenues. During 2006, four of our customers accounted for approximately 17%, 15%, 11% and 11% of our consolidated revenues. With the exception of our satellites in-orbit through October 31, 2007, our long-lived assets are primarily located in the United States.

16. Related Party Transactions

Transactions with Affiliates

Telesat Canada

As described in Note 6, we own 64% of Telesat Canada and account for our investment under the equity method of accounting.

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with the Telesat Canada transaction, Loral and certain of its subsidiaries, PSP and one of its subsidiaries, Telesat Holdco and certain of its subsidiaries, including Telesat Canada, and MHR entered into a Shareholders Agreement (the "Shareholders Agreement"). The Shareholders Agreement provides for, among other things, the manner in which the affairs of Telesat Holdco and its subsidiaries will be conducted and the relationships among the parties thereto and future shareholders of Telesat Holdco. The Shareholders Agreement also contains an agreement by Loral not to engage in a competing satellite communications business and agreements by the parties to the Shareholders Agreement not to solicit employees of Telesat Holdco or any of its subsidiaries. Additionally, the Shareholders Agreement details the matters requiring the approval of the shareholders of Telesat Holdco (including veto rights for Loral over certain extraordinary actions), provides for preemptive rights for certain shareholders upon the issuance of certain capital shares of Telesat Holdco and provides for either PSP or Loral to cause Telesat Holdco to conduct an initial public offering of its equity shares if an initial public offering is not completed by the fourth anniversary of the Telesat Canada transaction. The Shareholders Agreement also restricts the ability of holders of certain shares of Telesat Holdco to transfer such shares unless certain conditions are met or approval of the transfer is granted by the directors of Telesat Holdco, provides for a right of first offer to certain Telesat Holdco shareholders if a holder of equity shares of Telesat Holdco wishes to sell any such shares to a third party, provides for, in certain circumstances, tag-along rights in favor of shareholders that are not affiliated with Loral if Loral sells equity shares and drag-along rights in favor of Loral in case Loral or its affiliate enters into an agreement to sell all of its Telesat Holdco equity securities.

Under the Shareholders Agreement, in the event that either (i) ownership or control, directly or indirectly, by Dr. Rachesky, President of MHR, of Loral's voting stock falls below certain levels or (ii) there is a change in the composition of a majority of the members of the Loral Board of Directors over a consecutive two-year period, Loral will lose its veto rights relating to certain extraordinary actions by Telesat Holdco and its subsidiaries. In addition, after either of these events, PSP will have certain rights to enable it to exit from its investment in Telesat Holdco, including a right to cause Telesat Holdco to conduct an initial public offering in which PSP's shares would be the first shares offered or, if no such offering has occurred within one year due to a lack of cooperation from Loral or Telesat Holdco, to cause the sale of Telesat Holdco and to drag along the other shareholders in such sale, subject to Loral's right to call PSP's shares at fair market value.

The Shareholders Agreement provides for a board of directors of each of Telesat Holdco and certain of its subsidiaries, including Telesat Canada, consisting of 10 directors, three nominated by Loral, three nominated by PSP and four independent directors to be selected by a nominating committee comprised of one PSP nominee, one nominee of Loral and one of the independent directors then in office. Each party to the Shareholders Agreement is obligated to vote all of its Telesat Holdco shares for the election of the directors nominated by the nominating committee. Pursuant to action by the board of directors taken on October 31, 2007, Dr. Rachesky, who is non-executive Chairman of the Board of Directors of Loral, was appointed non-executive Chairman of the Board of Directors of Telesat Holdco and certain of its subsidiaries, including Telesat Canada. In addition, Michael B. Targoff, Loral's Vice Chairman, Chief Executive Officer and President serves on the board of directors of Telesat Holdco and certain of its subsidiaries, including Telesat Canada.

As of December 31, 2008, SS/L had contracts with Telesat Canada for the construction of the Nimiq 5 and Telstar 11N satellites. SS/L also procured a launch vehicle on behalf of Telesat Canada for Telstar 11N. SS/L recorded revenues from Telesat Canada of $84.0 million and $22.0 million for the years ended December 31, 2008 and 2007, respectively. SS/L received milestone payments from Telesat Canada totaling $79.1 million for the year ended December 31, 2008. Amounts receivable by SS/L from Telesat Canada as of December 31, 2008 and 2007, were $3.2 million and $2.5 million, respectively, related to the construction of these satellites.

On October 31, 2007, Loral and Telesat Canada entered into a consulting services agreement (the "Consulting Agreement"). Pursuant to the terms of the Consulting Agreement, Loral provides to Telesat Canada certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat Canada as part of the Telesat Canada transaction as well as with respect to certain aspects of the satellite

communications business of Telesat Canada. The Consulting Agreement has a term of seven years with an automatic renewal for an additional seven year term if certain conditions are met. In exchange for Loral's services under the Consulting Agreement, Telesat Canada will pay Loral an annual fee of US $5.0 million payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. If the terms of Telesat Canada's bank or bridge facilities or certain other debt obligations prevent Telesat Canada from paying such fees in cash, Telesat Canada can issue junior subordinated promissory notes to Loral in the amount of such payment, with interest on such promissory notes payable at the rate of 7% per annum, compounded quarterly, from the date of issue of such promissory note to the date of payment thereof. Our selling, general and administrative expenses for the year ended December 31, 2008 and 2007, included income of $5.0 million and $0.8 million, respectively, related to the Consulting Agreement. We also have a long-term receivable related to the Consulting Agreement from Telesat Canada of $6.0 million as of December 31, 2008.

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

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

A Beam Sharing Agreement between us and ViaSat provides for, among other things, (i) the purchase by us of a portion of the ViaSat-1 satellite payload providing coverage into Canada (the "Loral Payload") and (ii) payment by us of 15% of the actual costs of launch and associated services, launch insurance and telemetry, tracking and control services for the ViaSat-1 satellite. The aggregate cost to us for the foregoing is estimated to be approximately $60.0 million.

An Option Agreement between us and Telesat Canada gives Telesat Canada the option to cause us to assign to Telesat Canada our rights and obligations with respect to the Loral Payload and all of our rights and obligations under the Beam Sharing Agreement upon payment by Telesat Canada to us of (i) all amounts paid by us with respect to the Loral Payload and pursuant to the Beam Sharing Agreement on or prior to the date Telesat Canada exercises its option plus (ii) an option premium of between $6.0 million and $13.0 million depending on the date of exercise. Telesat Canada's option under the Option Agreement expires on October 31, 2009 (the "Expiration Date"). In consideration for the grant of the option, Telesat Canada (i) agreed in a Cooperation Agreement with us and ViaSat (the "Cooperation Agreement") to relinquish certain rights Telesat Canada has to the 115 degree W.L. orbital position (the "Orbital Slot") so as to make those rights available to ViaSat pursuant to a license (the "ViaSat License") to be granted by Mansat Limited ("Mansat") to ViaSat and (ii) agreed to provide tracking, telemetry and control services to ViaSat for the ViaSat-1 Satellite and to pay us all of the recurring fees Telesat Canada receives for providing such services. We have agreed to reimburse ViaSat for fees due to Mansat as well as certain other regulatory fees due under the ViaSat License for the life of the ViaSat-1 Satellite. If Telesat Canada does not exercise its option on or prior to the Expiration Date, then Telesat Canada shall, at our request, transfer to us Telesat Canada's remaining rights from Mansat with respect to the Orbital Slot, and assign to us Telesat Canada's related rights and obligations under the Cooperation Agreement. SS/L has commenced construction of the ViaSat-1 satellite. For the year ended December 31, 2008 we recorded sales to ViaSat under this contract of $68.3 million. Loral's share of costs incurred by SS/L on the ViaSat-1 satellite was $10.5 million as of December 31, 2008 which is reflected as satellite capacity under construction in property, plant and equipment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with an agreement reached in 1999 and an overall settlement reached in February 2005 with ChinaSat relating to the delayed delivery of ChinaSat 8, SS/L has provided ChinaSat with usage rights to two Ku-band transponders on Telesat Canada's Telstar 10 for the life of such transponders (subject to certain restoration rights) and to one Ku-band transponder on Telesat Canada's Telstar 18 for the life of the Telstar 10 satellite plus two years, or the life of such transponder (subject to certain restoration rights), whichever is shorter. Under the agreement, SS/L makes monthly payments to Telesat Canada for the transponders allocated to ChinaSat. As of December 31, 2008 and 2007, our consolidated balance sheet included a liability of $9.8 million and $11.5 million, respectively, for the future use of these transponders. During the year ended December 31, 2008, we made payments of $2.7 million to Telesat Canada pursuant to the agreement.

Costs of satellite manufacturing for sales to related parties were $135.5 million and $22.1 million for the years ended December 31, 2008 and 2007, respectively.

XTAR

As described in Note 6, we own 56% of XTAR, a joint venture between us and Hisdesat and account for our investment in XTAR under the equity method of accounting. We constructed XTAR's satellite, which was successfully launched in February 2005. XTAR and Loral have entered into a management agreement whereby Loral provides general and specific services of a technical, financial, and administrative nature to XTAR. For the services provided by Loral, XTAR is charged a quarterly management fee equal to 3.7% of XTAR's quarterly gross revenues. Amounts due to Loral under the management agreement as of December 31, 2008 and 2007 were $1.3 million and $1.6 million, respectively. During the quarter ended March 31, 2008, Loral and XTAR agreed to defer amounts owed to Loral under this agreement and XTAR has agreed that its excess cash balance (as defined), if any, will be applied at least quarterly towards repayment of receivables owed to Loral, as well as to Hisdesat and Telesat Canada. Our selling, general and administrative expenses included income to the extent of cash received of $1.1 million under this agreement for the year ended December 31, 2008, and no amounts for the year ended December 31, 2007.

Other Equity Investments

In 2007, we recognized $9.1 million of equity losses in affiliates from our other equity investments, which was primarily attributable to a loss of $11.3 million due to an agreement to sell our Globalstar investment partnership in Brazil, offset by a $3.4 million cash distribution from one of our Globalstar investment partnerships (see Note 6).

MHR Fund Management LLC

Three of the managing principals of MHR, Mark H. Rachesky, Hal Goldstein and Sai S. Devabhaktuni, are members of Loral's board of directors. As of December 31, 2007, various funds affiliated with MHR held all issued and outstanding shares of LoralSeries-1 Preferred Stock which was issued in February 2007. Pursuant to the Delaware Chancery Court Order, on December 23, 2008, we issued to the MHR Funds 9,505,673 shares of Non-Voting Common Stock, and all shares of Preferred Stock (including all PIK dividends) previously issued to the MHR Funds pursuant to the Securities Purchase Agreement were cancelled.

Also pursuant to the Delaware Chancery Court Order, on December 23, 2008, Loral and the MHR Funds entered into the New Registration Rights Agreement which provides for registration rights for the shares of Non-Voting Common Stock, in addition and substantially similar to, the registration rights provided for the shares of Voting Common Stock held by the MHR Funds. In addition, in the New Registration Rights Agreement, Loral has agreed, subject to certain exceptions set forth therein, to file on or before June 1, 2009 a shelf registration statement covering shares of Voting Common Stock and Non-Voting Common Stock held by the MHR Funds. Various funds affiliated with MHR held, as of December 31, 2008 and 2007, approximately 39.3% and 35.4%, respectively of the outstanding Voting Common stock and as of December 31, 2008 held a combined 58.7% of Voting and Non-Voting

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Common Stock of Loral. These funds also held shares of Loral Skynet Preferred Stock which were redeemed on November 5, 2007 for $90.8 million and Loral Skynet Notes, which were redeemed on September 5, 2007 for $61.9 million. Information on dividends and interest paid to the funds affiliated with MHR, with respect to their holdings of the Loral Skynet Preferred Stock, Loral Skynet Notes and Loral Series-1 Preferred Stock for the years ended December 31, 2008, 2007 and 2006, is as follows (in thousands, except share amounts):

	December 31, 2008	December 31, 2007	December 31, 2006
Loral Series-1 Preferred Stock			
Dividends paid in the form of additional shares			
— Number of shares	80,423	47,762	—
— Amount	$ 24,248	$ 14,400	$ —
Loral Skynet Preferred Stock			
Dividends paid in cash	$ —	$ 4,513	$ 500
Dividends paid in the form of additional shares			
— Number of shares	—	44,539	27,011
— Amount	$ —	$ 8,908	$ 5,400
Loral Skynet Notes			
Interest payments paid in cash	$ —	$ 8,967	$ 5,100
Redemption premium paid in cash	$ —	$ 5,624	$ —

Funds affiliated with MHR Fund Management own preferred stock convertible currently into approximately 18.6% of the common stock of Protostar Ltd. ("Protostar") assuming the conversion of all issued and outstanding shares of preferred stock, including the shares owned by the MHR funds. These MHR funds also hold Protostar warrants exercisable upon the occurrence of certain events. Upon conversion of such preferred stock and warrants, such funds would own 7.8% of the common stock of Protostar on a fully-diluted basis assuming the exercise or conversion, as the case may be, of all currently outstanding shares of preferred stock, convertible notes, options and warrants, including the shares of preferred stock and warrants owned by such funds. MHR Fund Management has the right (which has not yet been exercised) to nominate one of nine directors to Protostar's board of directors. The information set forth in this paragraph is as of December 31, 2008 and the share percentages have been calculated based on information provided by Protostar.

These MHR funds are also participants in Protostar's $200 million credit facility, dated March 19, 2008, with an aggregate participation of $6.0 million. Protostar acquired the Chinasat 8 satellite from China Telecommunications Broadcast Satellite Corporation and China National Postal and Telecommunications Appliances Corporation under an agreement reached in 2006, and, pursuant to a contract with Protostar valued at $26.0 million, SS/L has modified the satellite to meet Protostar's needs. This satellite, renamed Protostar I, was launched on July 8, 2008 from the European Spaceport in Kourou, French Guiana.

As of December 31, 2008, funds affiliated with MHR hold $83.7 million in principal amount of Telesat Canada 11% Senior Notes and $29.75 million in principal amount of Telesat Canada 12.5% Senior Subordinated Notes.

In connection with the $300.0 million preferred stock financing in 2007, with affiliated funds of MHR, we paid MHR a placement fee of $6.8 million and paid $4.4 million in legal and financial advisory fees and out-of-pocket expenses incurred by MHR (see Note 10).

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Other Relationships

In the ordinary course of business, SS/L has entered into satellite construction contracts and Loral Skynet had entered into telemetry, tracking and control agreements and transponder lease agreements with affiliates of EchoStar Communications Corporation, a corporation that owns more than 6% of our common stock. The Loral Skynet agreements have been assigned to Telesat Canada in connection with the Telesat Canada transaction.

Mr. Targoff serves on the board of directors of Leap Wireless International, Inc., a company of which Dr. Rachesky is the non-executive Chairman of the Board and of which another Loral director is a board member.

In 2006, Loral entered into a consulting agreement with a director, Dean A. Olmstead. Pursuant to this agreement, Mr. Olmstead provided consulting services to the Company relating generally to exploration of strategic and growth opportunities for Loral and achievement of efficiencies within the Company's divisions. The Company granted to Mr. Olmstead seven-year options to purchase 120,000 shares of common stock of the Company, with a per-share exercise price equal to $27.135. Vesting of options for 100,000 of these shares was based on performance, while options for 20,000 shares were to vest over a four-year period. Mr. Olmstead earned total compensation of $0.5 million and $0.3 million for the years ended December 31, 2007 and 2006, respectively, not including stock-based compensation of $2.6 million recorded in 2007.

The consulting agreement was terminated effective as of October 31, 2007, and Mr. Olmstead was paid a termination fee of $0.3 million during the first quarter of 2008. On January 10, 2008, Mr. Olmstead resigned from the Board of Directors of the Company. All of Mr. Olmstead's 100,000 performance-based options to purchase Loral common stock at $27.135 vested upon consummation of the Telesat Canada transaction, and he exercised those options in November 2007. 10,000 of Mr. Olmstead's 20,000 time-based options to purchase shares of Loral common stock at $27.135 were fully vested as of the termination of Mr. Olmstead's consulting agreement but expired without having been exercised on January 31, 2008; the remaining 10,000 options were cancelled upon termination of his consulting agreement. In addition, Mr. Olmstead had previously been granted 1,000 shares of restricted stock as part of his compensation for services rendered as a director prior to his becoming a consultant, 500 shares of which were vested and 500 shares of which were forfeited upon his resignation as a director.

17. Selected Quarterly Financial Information (unaudited, in thousands, except per share amounts)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Year ended December 31, 2008				
Revenues	$218,537	$208,061	$ 212,519	$ 230,281
Operating income (loss),	(10,810)	4,536	(5,795)	(181,908)
Income (loss) before income taxes, equity in net income (losses) of affiliates and minority interest	(4,904)	60,755	(5,433)	(201,941)
Equity in net income (losses) of affiliates	(64,537)	2,838	(39,353)	(394,597)
Net (loss) income	(71,217)	51,950	(44,225)	(629,424)
Basic and diluted income (loss) per share(1):				
Basic income (loss) per share	(3.83)	2.27	(2.50)	(31.13)
Diluted income (loss) per share	(3.83)	2.16	(2.50)	(31.13)

LORAL SPACE & COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Year ended December 31, 2007				
Revenues	$220,532	$226,000	$ 235,640	$ 200,282
Operating income (loss),	(11,798)	(15,121)	66	72,109
Income (loss) before income taxes, equity in net losses of affiliates and minority interest	(4,011)	54,990	58,441	48,366
Minority interest	(6,986)	(6,487)	(7,078)	(2,689)
Net income (loss)	(16,823)	20,627	25,929	(74)
Basic and diluted loss per share [(1)] :				
Basic income (loss) per share	(2.16)	0.70	0.99	(0.30)
Diluted income (loss) per share	(2.16)	0.67	0.96	(0.30)

(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.

SCHEDULE II

LORAL SPACE & COMMUNICATIONS INC.
VALUATION AND QUALIFYING ACCOUNTS
For the Year Ended December 31, 2008, 2007 and 2006
(in thousands)

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts(1)	Deductions From Reserves(2)	Balance at End of Period
Year ended 2006					
Allowance for billed receivables	$ 5,462	$ (307)	$ 1	$ (3,532)	$ 1,624
Inventory allowance	$ 33,742	$ 1,678	$ —	$ (5,822)	$ 29,598
Deferred tax valuation allowance	$337,346	$ —	$ 3,905	$ (36,367)	$304,884
Year ended 2007					
Allowance for billed receivables	$ 1,624	$ (397)	$ 20	$ (1,024)	$ 223
Inventory allowance	$ 29,598	$ (543)	$ —	$ (609)	$ 28,446
Deferred tax valuation allowance	$304,884	$ 16,287	$ (34,749)	$ (45,194)	$241,228
Year ended 2008					
Allowance for billed receivables	$ 223	$ 700	$ —	$ —	$ 923
Inventory allowance	$ 28,446	$ —	$ —	$ (1,246)	$ 27,200
Deferred tax valuation allowance	$241,228	$202,510	$ 82,611	$ (38,587)	$487,762

(1) The allowance for long-term receivables is recorded as a reduction to revenues. Changes in the deferred tax valuation allowance which have been charged to other accounts have been recorded in accumulated other comprehensive income, goodwill and other deferred tax assets.

(2) Deductions from reserves reflect write-offs of uncollectible billed receivables, disposals of inventory and reversal of excess deferred tax valuation allowance recorded as a reduction to goodwill.

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Shareholders of Telesat Holdings Inc.

We have audited the consolidated balance sheets of Telesat Holdings Inc. as at December 31, 2008 and 2007 and the consolidated statements of (loss) earnings, comprehensive (loss) income, shareholders' equity and cash flow for the year ended December 31, 2008 and for the period from October 31 to December 31, 2007 (Successor Entity operations), and for the period from January 1 to October 30, 2007 and the year ended December 31, 2006 (Predecessor Entity operations). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform an audit to obtain reasonable assurance 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 Entity consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the year ended December 31, 2008 and for the period from October 31 to December 31, 2007 in accordance with Canadian generally accepted accounting principles. Further, in our opinion, the Predecessor Entity consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of the Company's operations and its cash flows for the period from January 1 to October 30, 2007 and the year ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Company's internal control over financial reporting. Accordingly, we express no such opinion. Independent Registered Chartered Accountants Licensed Public Accountants Toronto, Canada March 10, 2009

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 10, 2009

Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph when there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the changes described in Note 2 to the consolidated financial statements. Our report to the Shareholders, dated March 10, 2009, is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 10, 2009

TELESAT HOLDINGS INC.

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS
(In thousands of Canadian dollars)

		Successor Entity		Predecessor Entity	
	Notes	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Operating revenues					
Service revenues		680,791	103,509	384,428	435,123
Equipment sales revenues		30,584	7,907	40,760	41,280
Sales-type lease revenues		—	—	32,599	2,562
Operating revenues	(4)	711,375	111,416	457,787	478,965
Amortization		235,640	40,046	105,788	120,712
Operations and administration		247,550	43,276	144,307	183,388
Cost of equipment sales		24,368	6,485	34,723	33,625
Cost of sales-type lease		—	—	15,519	953
Impairment loss on long-lived assets	(11)	2,373	—	2,116	—
Impairment loss on intangible assets	(12)	483,000	—	—	—
Total operating expenses		992,931	89,807	302,453	338,678
Earnings from operations		(281,556)	21,609	155,334	140,287
Interest expense	(5)	(257,641)	(43,861)	(8,548)	(12,459)
Other expense	(6)	(448,083)	(43,969)	(7,967)	(2,155)
(Loss) earnings before income taxes		(987,280)	(66,221)	138,819	125,673
Income tax recovery (expense)	(7)	164,879	62,170	(57,077)	(21,688)
Net (loss) earnings		(822,401)	(4,051)	81,742	103,985
Dividends on preferred shares		—	—	—	(1,487)
Net (loss) earnings applicable to common shares		(822,401)	(4,051)	81,742	102,498

TELESAT HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In thousands of Canadian dollars)

	Successor Entity		Predecessor Entity	
	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Net (loss) earnings	(822,401)	(4,051)	81,742	103,985
Other comprehensive (loss) income:				
Unrealized gain (loss) on translation of financial statements of self sustaining foreign operations	(5,053)	(665)	2,542	(526)
Related tax	(2,090)	66	(827)	78
Loss on derivatives designated as cash flow hedges	—	—	(29,061)	—
Related tax	—	—	9,242	—
Gain on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period	—	—	8,190	—
Related tax	—	—	(2,605)	—
Comprehensive (loss) income	(829,544)	(4,650)	69,223	103,537

TELESAT HOLDINGS INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of Canadian dollars)

FOR THE YEAR ENDED DECEMBER 31, 2008 WITH COMPARATIVE FIGURES FOR THE PERIODS ENDED DECEMBER 31, 2007, OCTOBER 30, 2007 AND DECEMBER 31, 2006

	Notes	Common Shares	Contributed Surplus	Preferred Shares	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total (Accumulated Deficit) Retained Earnings and Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Predecessor entity								
Balance at January 1, 2006		341,116	5,152	50,000	283,865	(1,835)	282,030	678,298
Acquisition of 3652041 Canada Inc.	(3)	—	(21,200)	—	—	—	—	(21,200)
Sale of investment in TMI Telecommunications	(3)	—	200,291	—	—	—	—	200,291
Stock-based compensation		—	173	—	—	—	—	173
Net earnings		—	—	—	103,985	—	103,985	103,985
Dividends declared on preferred shares		—	—	—	(1,487)	—	(1,487)	(1,487)
Other		—	—	—	35	—	35	35
Change in cumulative translation adjustment		—	—	—	—	(448)	(448)	(448)
Redemption of preferred shares		—	—	(50,000)	—	—	—	(50,000)
Balance at December 31, 2006		341,116	184,416	—	386,398	(2,283)	384,115	909,647
Adjustment for changes in accounting policies		—	—	—	(401)	1,239	838	838
Stock compensation		—	617	—	—	—	—	617
Net earnings		—	—	—	81,742	—	81,742	81,742
Reorganization	(1)	—	(185,033)	—	(579,807)	—	(579,807)	(764,840)
Unrealized gains on translation of financial statements of self sustaining foreign operations		—	—	—	—	1,715	1,715	1,715
Gains and losses on derivatives designated as cash flow hedges		—	—	—	—	(19,819)	(19,819)	(19,819)
Gains and losses on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period		—	—	—	—	5,585	5,585	5,585
Balance at October 30, 2007 (prior to acquisition transactions)		341,116	—	—	(112,068)	(13,563)	(125,631)	215,485
Telesat Holdings Inc. Acquisition Transactions and adjustments		(341,116)	—	—	112,068	13,563	125,631	(215,485)
Successor entity								
Balance at October 31, 2007		—	—	—	—	—	—	—
Common shares issued as part of the sale transaction	(3), (16)	756,414	—	—	—	—	—	756,414
Preferred shares issued as part of the sale transaction	(3), (16)	—	—	541,764	—	—	—	541,764
Net loss		—	—	—	(4,051)	—	(4,051)	(4,051)
Unrealized losses on translation of financial statements of self sustaining foreign operations		—	—	—	—	(599)	(599)	(599)
Balance at December 31, 2007		756,414	—	541,764	(4,051)	(599)	(4,650)	1,293,528
Net loss		—	—	—	(822,401)	—	(822,401)	(822,401)
Unrealized losses on translation of financial statements of self sustaining foreign operations		—	—	—	—	(7,143)	(7,143)	(7,143)
Stock-based compensation		—	5,448	—	—	—	—	5,448
Balance at December 31, 2008		756,414	5,448	541,764	(826,452)	(7,742)	(834,194)	469,432

TELESAT HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS
(In thousands of Canadian dollars)

	Notes	December 31, 2008	December 31, 2007
ASSETS			
Current assets			
Cash and cash equivalents		98,539	42,203
Accounts receivable	(8)	61,933	53,875
Current future tax asset	(7)	2,581	2,594
Assets held for sale	(9)	—	4,037
Other current assets	(10)	49,187	57,777
Total current assets		212,240	160,486
Satellites, property and other equipment, net	(4), (11)	1,883,576	1,790,633
Other long-term assets	(10)	42,303	27,368
Intangible assets, net	(12)	582,035	1,120,338
Goodwill	(12)	2,446,603	2,446,603
Total assets		5,166,757	5,545,428
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		48,792	61,599
Other current liabilities	(13)	138,095	152,375
Debt due within one year	(14)	23,272	18,419
Total current liabilities		210,159	232,393
Debt financing	(14)	3,513,223	2,775,944
Future tax liability	(7)	266,372	439,641
Other long-term liabilities	(13)	566,136	662,487
Senior preferred shares	(15)	141,435	141,435
Total liabilities		4,697,325	4,251,900
Shareholders' equity			
Common shares (74,252,460 common shares issued and outstanding)	(16)	756,414	756,414
Preferred shares	(16)	541,764	541,764
		1,298,178	1,298,178
Accumulated deficit		(826,452)	(4,051)
Accumulated other comprehensive loss		(7,742)	(599)
		(834,194)	(4,650)
Contributed surplus	(20)	5,448	—
Total shareholders' equity		469,432	1,293,528
Total liabilities and shareholders' equity		5,166,757	5,545,428

TELESAT HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of Canadian dollars)

		Successor Entity		Predecessor Entity	
For The Period Ended	Notes	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Cash flows from operating activities					
Net (loss) earnings		(822,401)	(4,051)	81,742	103,985
Adjustments to reconcile net earnings (loss) to cash flows from operating activities:					
Gross profit on sales-type lease			—	(5,881)	(1,609)
Amortization		235,640	40,046	105,788	120,712
Future income taxes		(175,951)	(60,653)	24,292	1,205
Unrealized foreign exchange loss		695,445	43,066	—	—
Unrealized gain on derivatives		(247,931)	—	—	—
Dividends on preferred shares	(5)	9,855	1,695	—	—
Stock-based compensation expense	(20)	5,448	—	—	—
Impairment losses	(11), (12)	485,373	—	—	—
Other		(43,867)	(317)	1,874	(18,954)
Customer prepayments on future satellite services		88,587	—	17,721	12,322
Operating assets and liabilities	(17)	48,859	205,490	27,091	11,621
		279,057	225,276	252,627	229,282
Cash flows used in investing activities					
Satellite programs		(263,763)	(15,496)	(183,494)	(189,444)
Property additions		(8,862)	(14,019)	(5,830)	(15,963)
Maturity of short-term investments		—	—	2,312	48,997
Business acquisitions	(3)	—	(3,229,194)	(180)	(3,942)
Proceeds on disposals of assets		5,120	25	159	178
Insurance proceeds		4,006	—	—	—
		(263,499)	(3,258,684)	(187,033)	(160,174)
Cash flows from financing activities					
Debt financing and bank loans		186,687	2,767,716	73,000	83,862
Repayment of bank loans and debt financing		(91,560)	(44,899)	(84,090)	(15,026)
Capitalized debt issuance costs		(19,131)	(83,585)	—	—
Note repayment		—	(129,334)	—	(150,000)
Success fee payments		—	—	(24,000)	—
Common shares issued		—	311,124	—	—
Preferred shares issued (repurchased)		—	258,833	—	(50,000)
Capital lease payments		(30,954)	(1,306)	(7,713)	(4,612)
Satellite performance incentive payments		(3,524)	(4,196)	(2,022)	(6,108)
Preferred dividends paid		—	—	—	(1,936)
		41,518	3,074,353	(44,825)	(143,820)
Effect of changes in exchange rates on cash and cash equivalents		(740)	1,258	(1,676)	(132)
Increase (decrease) in cash and cash equivalents		56,336	42,203	19,093	(74,844)
Cash and cash equivalents, beginning of period		42,203	—	38,661	113,505
Cash and cash equivalents, end of period	(17)	98,539	42,203	57,754	38,661
Supplemental disclosure of cash flow information					
Interest paid		286,784	18,339	18,139	30,661
Income taxes paid		8,866	343	21,347	34,032
		295,650	18,682	39,486	64,693

TELESAT HOLDINGS INC.

NOTES TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

1. Background of the Company and Basis of Presentation

Telesat Holdings Inc. ("the Company" or "Telesat"), formerly known as Telesat Canada, is the world's fourth largest provider of fixed satellite services. Headquartered in Ottawa, Canada, with offices and facilities around the world, Telesat provides voice, data, video and Internet connectivity services using a global fleet of ten owned and operated satellites and three leased satellites, with two additional satellites under construction. Telesat offers a broad suite of satellite services to more than 400 customers worldwide, comprising some of the world's leading television broadcasters, cable programmers, DTH service providers, ISPs, telecommunications carriers, corporations and government agencies. In addition, the Company provides satellite-related consulting and technical services and manages the operations of 13 additional satellites for third parties.

On October 31, 2007 Canada's Public Sector Pension Investment Board ("PSP") and Loral Space & Communications Inc. ("Loral"), through a newly formed entity called Telesat Holdings Inc. completed the acquisition of Telesat Canada from BCE Inc. ("BCE"). Loral and PSP hold an economic interest in Telesat of 64% and 36%, respectively, and a voting interest of 33 $^{1}/_{3}$% and 66 $^{2}/_{3}$% respectively.

As part of the same transaction, substantially all of the assets of a Loral subsidiary, Loral Skynet Corporation ("Skynet"), were transferred to Telesat, along with the shares of all of the legacy Skynet subsidiaries. Skynet is a satellite communications company with substantial activities in satellite based communication services.

These consolidated financial statements reflect the financial statements of Telesat Holdings Inc. and its subsidiaries on a consolidated basis. The consolidated financial statements of Telesat Canada presented for the year ended December 31, 2006 and the period January 1, 2007 to October 30, 2007, represent the "Predecessor" entity. The consolidated financial statements of Telesat Holdings Inc. for the two months ended December 31, 2007 and the year ended December 31, 2008 represent the "Successor" entity. The consolidated financial statements of Telesat Holdings Inc. have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the results of its wholly owned subsidiaries Telesat Interco Inc., Telesat Canada, Infosat Communications Inc. ("Infosat"), Telesat Brasil Limitada ("Telesat Brazil"), The SpaceConnection, Inc. ("SpaceConnection"), Telesat Satellite Holdings Corporation and its wholly owned subsidiaries, and Telesat Asia Pacific Satellite (HK) Limited. All transactions and balances between these companies have been eliminated on consolidation. As a result of the application of purchase accounting, the financial statements of the Predecessor are not comparable with the financial statements of the Successor, because they are, in effect, those of a new entity. See note 3 "Business acquisitions".

Reorganization of Predecessor

On January 1, 2007, Telesat Canada, its parent Alouette Telecommunications Inc. ("Alouette") and the Telesat Canada subsidiary 4387678 Canada Inc. ("4387678") amalgamated. The name of the amalgamated entity was Telesat Canada and its authorized share capital was an unlimited number of common shares. The shares of Telesat Canada and 4387678 were cancelled, and the class A, B, and C shares of Alouette were converted into 100 common shares of the amalgamated entity.

The following significant non-cash adjustments were made to the 2007 comparative statement of shareholder's equity as a result of the continuity of interest accounting:

- Decrease of $185.0 million to contributed surplus
- Decrease of $579.8 million to retained earnings

Regulation

As an operator of a privately owned global satellite system, Telesat is subject to: the regulatory authority of the Canadian government and other countries which license its satellites; the regulatory authority of other countries

in which it operates; and the frequency coordination process of the International Telecommunication Union ("ITU"). Telesat's ability to provide satellite services in a particular country or region is subject also to the technical constraints of its satellites, international coordination, constraints associated with local regulatory approval and any limitation to those approvals.

The Company operates Canada's domestic fixed satellite telecommunication system and is subject to regulation by the Canadian Radio-television and Telecommunications Commission ("CRTC"). Under the current regulatory regime, Telesat has pricing flexibility subject to a price ceiling on certain Full Period Fixed Satellite Services ("FSS") offered in Canada under minimum five-year lease arrangements. Telesat's Direct Broadcast Services offered within Canada are also subject to CRTC regulation, but have been treated as separate and distinct from Telesat's FSS and facilities. The CRTC has approved the specific customer agreements relating to the sale of the capacity on the Nimiq satellites, including the rates, terms and conditions of service set out therein.

Telesat's ground network services have been forborne from regulation since 1994. The CRTC has the right of examination of the Company's accounting policies.

2. Significant Accounting Policies

These policies are consistent with those followed by the Predecessor unless otherwise stated.

Use of Estimates

When preparing financial statements according to GAAP, management makes estimates and assumptions relating to the reported amounts of revenues and expenses, assets and liabilities and the disclosure of contingent assets and liabilities. Telesat bases its estimates on a number of factors, including historical experience, current events and actions that the Company may undertake in the future, and other assumptions that we believe are reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions. We use estimates when accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of long-lived assets, capitalized interest, asset impairments, inventory reserves, legal and tax contingencies, employee compensation plans, employee benefit plans, evaluation of minimum lease terms for operating leases, income taxes and goodwill and intangible asset impairments. We also use estimates when recording the fair values of assets acquired and liabilities assumed in a business combination.

Revenue Recognition

Telesat recognizes operating revenues when earned, as services are rendered or as products are delivered to customers. There must be clear proof that an arrangement exists, the amount of revenue must be fixed or determinable and collectibility must be reasonably assured. Consulting revenues for cost plus contracts are recognized after the work has been completed and accepted by the customer. The percentage of completion method is used for fixed price consulting revenue contracts. Deferred revenues consist of remuneration received in advance of the provision of service and are recognized in income on a straight-line basis over the term of the related customer contract. When it is questionable whether or not Telesat is the principal in a transaction, the transaction is evaluated to determine whether it should be recorded on a gross or net basis.

Equipment sales revenues are recognized when the equipment is delivered to and accepted by the customer. Only equipment sales are subject to warranty or return and there is no general right of return. Historically Telesat has not incurred significant expense for warranties and consequently no provision for warranty is recorded. When a transaction involves more than one product or service, revenue is allocated to each deliverable based on its relative fair value; otherwise, revenue is recognized as services are provided over the term of the customer contract.

Lease contracts that qualify for capital lease treatment are accounted for as sales-type leases. Sales-type leases are those where substantially all of the benefits and risks of ownership are transferred to the customer. Sales

revenue recognized at the inception of the lease represents the present value of the minimum lease payments net of any executory costs, computed at the interest rate implicit in the lease. Unearned finance income, effectively the difference between the total minimum lease payments and the aggregate present value, is deferred and recognized in earnings over the lease term to produce a constant rate of return on the investment in the lease. The net investment in the lease includes the minimum lease payments receivable less the unearned finance income.

Cash and Cash Equivalents

All highly liquid investments with an original maturity of 90 days or less are classified as cash and cash equivalents.

Inventories

Inventories are valued at the lower of cost or net realizable value and consist of work in process and finished goods. Cost for substantially all network equipment inventories is determined on an average cost basis. Cost for work in process and certain one-of-a-kind finished goods is determined using the specific identification method.

Satellites, Property and Other Equipment

On October 31, 2007 the existing satellites, property and other equipment were recorded at their fair values in conjunction with the allocation of the purchase price (note 3) for the acquisition of Telesat and Skynet. Satellites, property and other equipment, which are carried at cost (equal to fair value for assets acquired on October 31, 2007) less accumulated amortization, include the contractual cost of equipment, capitalized engineering and, with respect to satellites, the cost of launch services, launch insurance and capitalized interest during construction.

The Company shares equally with a developer, the ownership, cost and debt of the Company's headquarters' land and building. The Company has leased the developer's share of the building which is accounted for as a capital lease.

Amortization is calculated using the straight line method over the respective estimated service lives of the assets for the Successor. The Predecessor used the straight line method over the respective estimated service lives of the assets based on equal life group procedures. The estimate of useful lives were reviewed every year and adjusted if necessary. Below are the estimated useful lives in years of satellites, property and other equipment as of December 31, 2008.

	Years
Satellites	6 to 15
Transponders under capital lease	6 to 14
Earth stations	5 to 30
Office buildings and other	3 to 30

The estimates of useful lives are reviewed every year and adjusted if necessary.

Liabilities related to the legal obligation of retiring property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and the amount of the current estimate of the undiscounted cash flows. The liabilities recorded to date have not been significant.

In the event of an unsuccessful launch or total in-orbit satellite failure, all unamortized costs that are not recoverable under launch or in-orbit insurance are recorded as an operating expense.

The investment in each satellite will be removed from the property accounts when the satellite has been fully amortized and is no longer in service. When other property is retired from operations at the end of its useful life, the amount of the investment and accumulated amortization are removed from the accounts. Earnings are credited with

the amount of any net salvage and charged with any net cost of removal. When an item is sold prior to the end of its useful life, the gain or loss is recognized in earnings immediately.

Impairment of Long-Lived Assets

Long-lived assets, including finite life intangible assets and satellites, property and other equipment, are assessed for impairment when events or changes in circumstances indicate that the carrying value exceeds the total undiscounted cash flows expected from the use and disposition of the assets. If impairment is indicated, the loss is determined by deducting the asset's fair value (based on discounted cash flows expected from its use and disposition) from its carrying value and is recorded as an operating expense.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect as of the balance sheet dates. Operating revenues and expenses, and interest on debt transacted in foreign currencies are reflected in the financial statements using the average exchange rates during the period. The translation gains and losses are included in other expense in the statement of earnings.

For those subsidiaries considered to be self-sustaining foreign operations, assets and liabilities are translated at the exchange rate in effect on the balance sheet date, and revenues and expenses are translated at average exchange rates during the year. The resulting unrealized gains or losses are reflected as a component of other comprehensive income ("OCI"). For those subsidiaries considered to be integrated foreign operations, non-monetary assets and liabilities are translated at their historical exchange rates and monetary assets and liabilities are translated at the exchange rate in effect on the balance sheet date, and revenues and expenses are translated at average exchange rates during the year. The resulting unrealized gains or losses are reflected as a component of net earnings.

Financial Instruments

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading ("HFT") or available-for-sale ("AFS"). For other financial instruments, transaction costs are amortized to net income in interest expense over the expected life of the instrument using the effective interest method. Currently the only transaction costs which Telesat has elected to capitalize are related to debt and these costs are amortized to net income as a component of interest expense.

Unrealized gains and losses on financial assets that are held as available-for-sale are recorded in other comprehensive income until realized, at which time they will be recorded in the consolidated statement of earnings. Available-for-sale equity securities which do not have a quoted market price will continue to be recorded at cost.

Financial assets and financial liabilities that are classified as held-for-trading and available-for-sale are measured at fair value. The unrealized gains and losses relating to the held-for-trading assets and liabilities are recorded in the consolidated statement of earnings and in other comprehensive income for the assets and liabilities which are classified as available-for-sale. Loans and receivables and other liabilities are recorded at amortized cost. Derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value on the consolidated balance sheet. Changes in the fair values of derivative instruments are recognized in the consolidated statement of earnings.

The Company has chosen to account for embedded foreign currency derivatives in a host contract as a single instrument where the contract requires payments denominated in the currency that is commonly used in contracts to procure non-financial items in the economic environment in which Telesat transacts.

Telesat uses derivative financial instruments to manage its exposure to foreign exchange rate risk associated with anticipated purchases and with debt denominated in foreign currencies, as well as to reduce its exposure to interest rate risk associated with debt. The use of derivatives is expected to generate enough cash flows and gains or incur losses to offset these risks. The Company's risk management policy does not permit the use of derivative financial instruments for speculative purposes. Currently, Telesat does not designate any of its derivative financial instruments as hedging instruments for accounting purposes. All gains and losses on these derivative financial instruments are recorded in the statement of earnings.

The Predecessor documented all relationships between derivatives and the items they hedged, and the risk management objective and strategy for using various hedges. This process included linking every derivative to a specific asset or liability on the balance sheet, or to a specific firm commitment or to an anticipated transaction. The effectiveness of the derivative in managing risk was assessed when the hedge was put in place and on an ongoing basis. Hedge accounting was stopped when a hedge was no longer effective.

In a fair value hedging relationship, changes in both fair value of the hedging instrument and the fair value of the hedged item were recognized in net income. The changes in the fair value of the hedged item were offset by changes in the fair value of the hedging instrument to the extent that the hedging relationship was effective. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging instrument was recognized in OCI while the ineffective portion was recognized in net income. Unrealized gains and losses in OCI and Accumulated Other Comprehensive Income ("AOCI") were reclassified into net income and retained earnings on the same basis that the hedged item affected net earnings.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets were recorded on the acquisition of Telesat Canada and Skynet as described in note 1. For goodwill and intangible assets with indefinite useful lives, an assessment for impairment is undertaken on an annual basis in the fourth quarter, or whenever events or changes in circumstances indicate that the carrying amount of these assets is likely to exceed their fair value. The Company considers orbital slots and trade names to be indefinite lived intangible assets. Finite-lived intangible assets consist of revenue backlog, customer relationships, favourable leases, transponder rights and patents, all of which were recorded in connection with the acquisition of Telesat Canada and Skynet. Intangible assets with finite useful lives are amortized over their estimated useful lives using the straight-line method of amortization. Below are the estimated useful lives of the finite-lived intangible:

	Years
Revenue backlog	4 to 17
Customer relationships	11 to 21
Favourable leases	3 to 4
Concession right	15
Transponder rights	6 to 14
Patents	18

The estimates of useful lives are reviewed every year and adjusted if necessary.

Employee Benefit Plans

Telesat maintains one contributory and three non-contributory defined benefit pension plans which provide benefits based on length of service and rate of pay. Telesat is responsible for adequately funding these defined benefit pension plans. Contributions are made based on various actuarial cost methods that are permitted by pension regulatory bodies and reflect assumptions about future investment returns, salary projections and future service

benefits. Telesat also provides other post-employment and retirement benefits, including health care and life insurance benefits on retirement and various disability plans, workers compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement, under certain circumstances. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. Pension costs and other retirement benefits are determined using the projected benefit method prorated on service and management's best estimate of expected investment performance, salary escalation, retirement ages of employees and expected health care costs.

Pension plan assets are valued at fair value which is also the basis used for calculating the expected rate of return on plan assets. The discount rate is based on the market interest rate of high quality long-term bonds. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of the active employees at the date of amendment. The Company deducts 10% of the benefit obligation or the fair value of plan assets, whichever is greater, from the net actuarial gain or loss and amortizes the excess over the average remaining service period of active employees. A valuation is performed at least every three years to determine the present value of the accrued pension and other retirement benefits. The 2008 and 2007 pension expense calculations are extrapolated from a valuation performed as of January 1, 2007. The accrued benefit obligation is extrapolated from an actuarial valuation as of January 1, 2007. The most recent valuation of the pension plans for funding purposes was as of January 1, 2007, and the next required valuation is as of January 1, 2010.

In addition, Telesat provides certain health care and life insurance benefits for retired employees and dependents of Skynet. These benefits are funded primarily on a pay-as-go basis, with the retiree generally paying a portion of the cost through contributions, deductibles and co-insurance provisions.

Stock-Based Compensation Plans

The Company introduced a stock incentive plan for certain key employees in 2008 and has adopted the fair-value based method for measuring the compensation cost of employee stock options using the Black-Scholes pricing model.

Both Telesat Canada and Skynet offered stock-based compensation plans to certain employees prior to being acquired by Telesat. There were no further options granted under either of these plans subsequent to October 30, 2007 as these plans were discontinued with the acquisition of Telesat Canada and Skynet by Telesat.

Income Taxes

Current income tax expense is the estimated income taxes payable for the current year after any refunds or the use of losses incurred in previous years. The Company uses the liability method to account for future income taxes. Future income taxes reflect:

- the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes
- the benefit of unutilized tax losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

The Company estimates future income taxes using the rates enacted by tax law and those substantively enacted. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period when the change is substantively enacted.

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Recent Accounting Pronouncements

On January 1, 2008 the Company adopted the new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”): Handbook sections 1400 “General Standards of Financial Statement Presentation”, 1535 “Capital Disclosures”, 3031 “Inventories”, 3862 “Financial Instruments — Disclosures”, and 3863 Financial Instruments — Presentation”. Sections 1535, 3862 and 3863 have been applied prospectively in note 18, Capital Disclosures, and note 19, Financial Instruments. Sections 1400 and 3031 were also applied prospectively, however there was no impact on these financial statements.

CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”, specifies that Management is required to make an assessment of an entity’s ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.

CICA Handbook Section 1535 “Capital Disclosures” specifies the disclosure of an entity’s objectives, policies and processes for managing capital and how it is meeting those objectives.

CICA Handbook Section 3031, “Inventories”, replaced the old Section 3030, “Inventories”. Under the new section, inventories are required to be measured at the “lower of cost and net realizable value”, which is different from the previous guidance of the “lower of cost and market”. The new section also requires, when applicable, the reversal of any write-downs previously recognized.

CICA Handbook Section 3862, “Financial Instruments — Disclosure” (Section 3862) and Section 3863, “Financial Instruments — Presentation” (Section 3863), replaced Handbook Section 3861, “Financial Instruments — Disclosure and Presentation”. The objective of the disclosure requirements of Section 3862 is to provide information about the significance of financial instruments to the Company’s financial position and performance, and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

The Company is assessing the impact of the following standards on its financial reporting.

In February 2008, the CICA issued handbook section 3064 “Goodwill and Intangible Assets”, which replaces sections 3062 and 3450. Section 3064 applies to goodwill and intangible assets subsequent to the initial recognition in a business combination and establishes standards for recognition, measurement, presentation and disclosure of intangible assets. This new standard is effective for Telesat beginning January 1, 2009.

In January 2009, the CICA issued handbook section 1582 “Business Combinations” which replaces section 1581. This standard establishes the principles and requirements of the acquisition method for business combination and related disclosures and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted.

In January 2009, the CICA issued handbook section 1601 “Consolidated Financial Statements” and section 1602 “Non-controlling Interest” which replace section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier adoption permitted.

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3. Business Acquisitions

Fifth Dimension Television Acquisition

On May 9, 2008, SpaceConnection completed the acquisition of the assets of Fifth Dimension Television, with the effective date of the agreement being April 1, 2008. The purchase price is based on a profit-sharing arrangement for a percentage of future monthly occasional use revenues collected, as well as a percentage of future margins on certain space only customer contracts, from the effective date of the acquisition until December 31, 2010, and will not exceed $0.8 million. Profit-sharing payments of $0.2 million have been expensed as at December 31, 2008.

Telesat Canada Acquisition

On October 31, 2007, PSP and Loral, through a newly formed entity, Telesat, completed the acquisition of 100% of the common shares of Telesat Canada from BCE Inc. Loral and PSP will hold an economic interest in Telesat of 64% and 36%, respectively, and a voting interest of 33 1/3% and 66 2/3% respectively. As part of the Telesat Canada acquisition, substantially all of the assets of a Loral subsidiary, Loral Skynet Corporation, were transferred to Telesat. In addition, Telesat acquired the shares of the remaining Loral Skynet subsidiaries. The aggregate fair value of the net assets transferred by Loral Skynet was $773.7 million, of which $24 million was paid using cash equivalents and the balance in common shares and non-voting participating preferred shares of Telesat. In addition, Loral Skynet transferred foreign exchange forward contracts with a value of $119.9 million, in exchange for non-voting participating preferred shares, which were settled for cash on October 31, 2007 and have been included in the balance of cash acquired. The Telesat Canada purchase price was paid in cash. The shares issued as part of the purchase transaction were valued based on the estimated fair value of the assets contributed by Loral Skynet as agreed to by the shareholders. The results of operations for Telesat Canada and Skynet have been included in these consolidated financial statements since October 31, 2007. The acquisition has been accounted for as a purchase transaction.

The asset and liability values acquired are based on a purchase price which was calculated as follows:

	Total
Cash paid (net of cash acquired)	3,229,194
Shares issued (note 16)	869,656
Transaction costs	32,692
Purchase price	4,131,542

Other adjustments include severance costs and adjustments to the pension plan as a result of the restructuring at both Telesat Canada and Skynet. The plan to restructure both Telesat Canada and Skynet was in place on October 31, 2007, for the most part was executed on November 30, 2007 and is now fully completed. Severance costs include payments to severed employees in lieu of notice and benefits, as well as incentive bonus payments that would have otherwise been received by the severed employees had they remained with the Company. Of the total severance costs included in the purchase price $5.0 million was paid prior to December 31, 2007. The adjustments to the pension plan include an increase in the benefit obligation as a result of the early retirement program which was partially offset by a curtailment gain due to the overall decrease in the number of employees.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. Telesat determined the fair value of the assets acquired and liabilities assumed based on

information available as well as certain reasonable assumptions. The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values on October 31, 2007:

Current assets	101,317
Satellites, property and other equipment	1,797,550
Other long term assets	19,219
Intangible assets	1,128,462
Assumed debt	(171,620)
Current liabilities, less current portion of debt	(285,016)
Future income tax liability	(497,419)
Other long term liabilities	(407,554)
Total net assets acquired	1,684,939
Goodwill	2,446,603
Purchase price	4,131,542

The goodwill is representative of the value attributed to the present value of the expected future cash flows of the Company. Of the $1,128.5 million of acquired intangible assets, $596.3 million was assigned to orbital slots and $17.0 million was assigned to trade names, both of which are not subject to amortization. The remaining intangible assets include revenue backlog of $274.5 million, customer relationships of $207.7 million, transponder rights of $28.5, favourable leases of $4.4 million, and patents of $0.1 million all of which will be subject to amortization. See note 12 for disclosure of amortization periods.

Goodwill of $331.3 million and intangible customer relationships and backlog of $60.4 million are being deducted for tax purposes.

Other long term liabilities assumed include severance costs of $15.5 million and adjustments to the pension plan as a result of the restructuring at both Telesat Canada and Skynet.

At December 31, 2007, the outstanding restructuring liabilities were $10.5 million to be paid by December 2009. During 2008, payments of $8.5 million were made resulting in an outstanding restructuring liability of $2.0 million included in accounts payable and accrued liabilities at December 31, 2008. No new restructuring liabilities or adjustments to existing liabilities were recorded in 2008.

Predecessor Acquisitions

In October 2006, Telesat Canada acquired 100% of 3652041 Canada Inc. from BCE, its shareholder, in return for a promissory note payable of $21.2 million. The excess of the $21.2 million cost over BCE's carrying value (a nominal amount) has been recorded as a reduction of $21.2 million in contributed surplus. Telesat Canada then proceeded to amalgamate its wholly owned subsidiary 3484203 Canada Inc. with 3652041 Canada Inc., creating a new entity: 4387678 Canada Inc. 4387678 Canada Inc. then sold its $0.7 million interest in the limited partnership units of TMI Communications and Company, Limited Partnership (TMI) to BCE and a numbered company owned by BCE in return for promissory notes with a fair market value of $201 million. The excess of the fair market value over the Telesat Canada carrying cost was booked as an increase of $200.3 million in contributed surplus.

4. Segmented Information

Following the consummation of the Telesat Canada acquisition, the Company operates in a single industry segment, in which it provides satellite-based services to its broadcast, enterprise and consulting customers around

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the world. As such, segment disclosures are no longer required and are therefore not included for any of the periods presented. See note 3, Business Acquisitions.

The Company derives revenues from the following services:

- *Broadcast* — distribution or collection of video and audio signals in the North American and International markets which include television transmit and receive services, occasional use, bundled Digital Video Compression and radio services.
- *Enterprise* — provision of satellite capacity and ground network services for voice, data, and image transmission and internet access around the world.
- *Consulting and other* — all consulting services related to space and earth segments, government studies, satellite control services and R&D.

Revenues derived from the above service lines were as follows:

	Successor Entity		Predecessor Entity	
Revenues	**Year Ended December 31, 2008**	**For the Period October 31 to December 31, 2007**	**For the Period January 1 to October 30, 2007**	**Year Ended December 31, 2006**
Broadcast	345,382	52,771	254,276	249,692
Enterprise	333,834	53,758	178,888	199,617
Consulting and other	32,159	4,887	24,623	29,656
Total operating revenues	711,375	111,416	457,787	478,965

Geographic Information

Revenue by geographic region was based on the point of origin of the revenues (destination of the billing invoice) and upon the groupings of countries reviewed by the Chief Operating Decision Maker, allocated as follows:

	Successor Entity		Predecessor Entity	
Revenues	**Year Ended December 31, 2008**	**For the Period October 31 to December 31, 2007**	**For the Period January 1 to October 30, 2007**	**Year Ended December 31, 2006**
Revenues — Canada	357,937	60,085	315,200	329,838
Revenues — United States	240,505	34,352	115,993	114,609
Revenues — Europe, Middle East & Africa	47,014	6,403	6,549	8,578
Revenues — Asia, Australia	33,768	5,940	5,550	2,639
Revenues — Latin America & Caribbean	32,151	4,636	14,495	23,301
Total operating revenues	711,375	111,416	457,787	478,965

Goodwill was not allocated to geographic regions in any of the periods.

Telesat's satellites are in geosynchronous orbit. For disclosure purposes, the Anik and Nimiq satellites have been classified as located in Canada, and the Telstar satellites have been classified as located in the United States.

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Satellites, property and other equipment by geographic region, based on the location of the asset, are allocated as follows:

	December 31, 2008	December 31, 2007
Satellites, property and other equipment — Canada	1,431,145	1,345,534
Satellites, property and other equipment — United States	441,809	434,596
Satellites, property and other equipment — all others	10,622	10,503
Total satellites, property and other equipment	1,883,576	1,790,633

Major Customers

For the year ended December 31, 2008, two customers generating Broadcast revenues in Canada represented 18.18% and 10.94% respectively of consolidated revenues. The same two customers represented 16.8% and 11.1% of consolidated revenues for the two month period ended December 31, 2007, 28.5% and 13.6% for the ten months ended October 30, 2007, predecessor entity, and 26.5% and 14.8% for the year ended December 31, 2006, predecessor entity.

5. Interest Expense

	Successor Entity		Predecessor Entity	
	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Debt service costs	286,794	47,535	18,060	24,643
Dividends on senior preferred shares	9,855	1,695	—	—
Capitalized interest	(39,008)	(5,369)	(9,512)	(12,184)
	257,641	43,861	8,548	12,459

6. Other Expense

	Successor Entity		Predecessor Entity	
	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Foreign exchange (loss)	(698,056)	(118,034)	(935)	(581)
Gain (loss) on financial instruments [(a)]	251,686	75,098	(6,653)	—
Interest income	1,888	301	3,130	4,504
Performance incentive payments and milestone interest expense	(4,057)	(499)	(4,078)	(6,018)
Other [(b)]	456	(835)	569	(60)
	(448,083)	(43,969)	(7,967)	(2,155)

(a) The loss on financial instruments at October 30, 2007, predecessor entity, includes a net loss of $10.2 million related to derivatives not designated as hedges, as well as a gain of $3.5 million related to a fair value hedge.

(b) In May 2008, Skynet Satellite Corporation, a wholly-owned subsidiary of Telesat, sold its Hawley facility. Proceeds on this sale were $4.1 million and the resulting loss on the sale of $0.1 million is included in other expense. In February 2008, Infosat sold its security division. Proceeds on this sale were $0.6 million and the resulting gain on the sale of $0.4 million is included in other expense.

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7. Income Taxes

	Successor Entity		Predecessor Entity	
Income tax expense (recovery)	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Future	(175,951)	(60,653)	24,292	1,205
Current	11,072	(1,517)	32,785	20,483
	(164,879)	(62,170)	57,077	21,688

A reconciliation of the statutory income tax rate, which is a composite of federal and provincial rates, to the effective income tax rate is as follows:

	Successor Entity		Predecessor Entity	
	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Statutory income tax rate	33.0%	35.3%	35.3%	35.4%
Permanent differences	(5.9)%	(22.1)%	(15.4)%	2.0%
Adjustment for tax rate changes	(2.5)%	109.1%	(2.4)%	(14.5)%
Impact of acquisition (see note 3)	—	—	1.8%	—
Valuation allowance	(6.8)%	(38.3)%	6.5%	—
Future taxes related to other comprehensive income	—	—	4.8%	—
Charges reflected in equity	—	—	7.6%	—
Other	(1.1)%	9.9%	2.9%	(5.7)%
Effective income tax rate	16.7%	93.9%	41.1%	17.2%

The tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes are presented below:

	December 31, 2008	December 31, 2007
Future tax assets		
Capital assets	8,904	7,912
Intangible assets	9,482	5,353
Unrealized foreign exchange loss	98,087	13,029
Investments	9,355	8,256
Loss carry forwards	112,386	12,610
Derivative assets	—	4,866
Other	5,415	3,560
Less: valuation allowance	(101,175)	(34,358)
Total future tax assets	142,454	21,228

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	December 31, 2008	December 31, 2007
Future tax liabilities		
Capital assets	(208,115)	(170,276)
Intangibles	(147,916)	(276,005)
Derivative liabilities	(47,327)	(7,398)
Other	(2,887)	(4,596)
Total future tax liabilities	(406,245)	(458,275)
Net future income tax liability	(263,791)	(437,047)
Net future income tax liability is comprised of:		
Net future income tax asset — current portion	2,581	2,594
Net future income tax liability — long-term portion	(266,372)	(439,641)
Net future income tax liability	(263,791)	(437,047)

8. Accounts and Notes Receivable

	December 31, 2008	December 31, 2007
Trade receivables — net of allowance for doubtful accounts	63,723	54,114
Less: long-term portion of trade receivables	(1,790)	(239)
	61,933	53,875

The allowance for doubtful accounts was $5.4 at December 31, 2008 and $4.3 million at December 31, 2007.

The long-term portion of trade receivables includes items that will not be collected during the subsequent year and is included in the long-term portion of other assets in note 10.

9. Assets Held for Sale

As a result of the consolidation of facilities of the two legacy operating entities, Telesat Canada and Loral Skynet, the Hawley facility was slated to be sold as part of the overall integration plan. On February 13, 2008, Skynet Satellite Corporation, a wholly — owned subsidiary of Skynet, entered into an agreement with a third party to sell the Hawley facility, along with most of the equipment located within the facility. The sale closed on May 1, 2008 with net proceeds of $4.1 million being received (see note 6).

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10. Other Assets

	December 31, 2008		December 31, 2007	
	Current Portion	Long Term Portion	Current Portion	Long Term Portion
Net investment in leases [a]	2,217	30	16,747	3,395
Income taxes recoverable	3,943	—	12,847	—
Accrued pension benefit (see note 21)	—	13,610	—	9,911
Prepaid expenses and deposits [b]	16,006	6,755	15,236	712
Deferred charges [c]	10,709	6,224	4,808	8,637
Derivative assets [d]	10,805	8,797	354	—
Inventories [e]	4,723	—	7,239	—
Other assets [f]	784	6,887	546	4,713
	49,187	42,303	57,777	27,368

(a) The net investment in leases is classified on the balance sheet in other current assets and other long-term assets, and includes the following:

Net investment in leases as at	December 31, 2008	December 31, 2007
Total minimum lease payments	2,305	21,383
Unearned finance income	(58)	(1,241)
	2,247	20,142
Current portion	(2,217)	(16,747)
Long-term portion	30	3,395

Unearned finance income is allocated to income over the term of the lease in a manner that produces a constant rate of return on the investment in the leases. The investment in the leases for the purposes of income recognition is composed of net minimum lease payments and unearned finance income. Future minimum lease payments receivable under the sales-type leases are $2.3 million in 2009.

(b) Prepaid expense and deposits includes mainly prepaid insurance for in-orbit satellites, prepaid interest on banker's acceptances and deposits related to foreign taxes.

(c) Deferred charges include deferred costs related to deferred revenue, as well as deferred financing charges related to the revolving credit facility and the Canadian term loan facility (note 14).

(d) Derivative assets, both short and long-term, comprise the following:

Derivative asset	Maturity	December 31, 2007	December 31, 2008
Foreign currency forward contracts	February 2, 2009 to December 1, 2009	10,805	354
Cross currency basis swap	October 31, 2014	8,797	—
		19,602	354

(e) Inventories are valued at lower of cost and net realizable value and consist of $3.8 million (2007 — $5.7 million) of finished goods and $0.9 million (2007 — $1.5 million) of work in process. Cost for substantially all network equipment inventories is determined on an average cost basis. Cost for work in process and certain one-of-a-kind finished goods is determined using specific identification. All of the inventories have been pledged as security pursuant to the terms of the credit facilities.

(f) Other assets, both short and long term components, at December 31, 2008 include: tax indemnifications receivable from Loral of $2.9 million (note 22), other deposits of $1.1 million, investments of $0.6 million, long term trade receivables of $1.8 million, and other assets of $1.3 million. The breakdown at December 31, 2007 includes: tax indemnifications receivable from Loral of $2.3 million, other deposits of $2.1 million, investments of $0.6 million, and long term trade receivables of $0.2 million.

Investments are recorded at cost. No impairments were recorded as no events or changes in circumstances were identified during the period that may have a significant adverse effect on the carrying value of the investments. Telesat has a portfolio interest in Hellas-Sat Consortium

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Limited. The consortium has one satellite which provides regional coverage to Greece, Cyprus and the Balkans. Telesat also holds a nominal portfolio interest in Anik-Colombia. Telesat's wholly-owned subsidiary Infosat holds a 22% interest in Pakistan's Comstar ISA Ltd., a satellite service provider which is recorded using the equity method.

11. Satellites, Property and Other Equipment

	Cost	Accumulated Amortization	Net Book Value
December 31, 2008			
Satellites	1,544,396	(177,768)	1,366,628
Earth stations	139,227	(19,012)	120,215
Transponders under capital lease	34,189	(4,943)	29,246
Office buildings and other	36,248	(8,555)	27,693
Construction in progress	339,794	—	339,794
	2,093,854	(210,278)	1,883,576
December 31, 2007			
Satellites	1,285,583	(26,324)	1,259,259
Earth stations	120,210	(4,546)	115,664
Transponders under capital lease	38,588	(893)	37,695
Office buildings and other	32,619	(1,544)	31,075
Construction in progress	346,940	—	346,940
	1,823,940	(33,307)	1,790,633

The cost of assets under capital lease, including satellite transponders, was $49.4 million at December 31, 2008 and $55.8 million at December 31, 2007. At December 31, 2008 the net book value of these assets was $29.2 million (2007 - $38.6 million). In April 2008, SpaceConnection renegotiated the terms of two of its capital leases. The result is a reduction to the cost of transponders under capital lease of $13.8 million and a reduction to capital lease liabilities of $14.6 million, and a gain of $0.5 million reflected in other expense.

Consistent with its accounting policy, the Company tests for asset impairment upon the occurrence of triggering events. During the fourth quarter of 2008, the Company determined that, based on the results of certain fuel studies, the life span of the Nimiq 3 satellite was shorter than previously expected, and a triggering event had occurred. Telesat therefore tested the Nimiq 3 satellite for impairment, and upon determining that its carrying amount was not recoverable, recorded an impairment charge of $2.4 in operating expenses. The impairment charge was measured as the excess of the net carrying amount of the satellite over its fair value, with the estimated fair value being based on the present value of the expected future cash flows of Nimiq 3. Amortization will continue to the end of the satellite's revised estimated service life.

During the second quarter of 2008 Telesat received $4.0 million of insurance proceeds on Anik F3 which reduced the cost of the satellite.

In 2007, Telesat's indirect subsidiary Telesat Serviços de Telecomunicação Limitada ("TSL") recognized an asset impairment loss of $2.1 million related to its capital assets. The impairment loss was measured as the excess of the net carrying amount of the asset groups over their fair value, which was estimated based on the expected present value of cash flows associated with each type of asset. The carrying values of earth stations and office buildings and other were reduced by $1.8 million and $0.3 million, respectively. The impairment loss was included in other expense (see note 6). The impairment resulted from the decision to lease TSL's Belo Teleport, equipment and hub and discontinue the provision of earth segment services in Brazil.

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Construction in progress amounts relate primarily to satellites under construction and the related launch service costs. The Nimiq 4 satellite was transferred out of construction in progress to the satellites category upon final acceptance in October 2008. At December 31, 2008 both Telstar 11N and Nimiq 5 are under construction.

12. Goodwill and Intangible Assets

Goodwill and intangible assets were initially established in connection with the Telesat Canada acquisition described in note 3.

	Cost	Accumulated Amortization	Net Book Value
2008			
Finite life intangible assets:			
Revenue backlog	274,487	(44,988)	229,499
Customer relationships	207,704	(14,500)	193,204
Favourable leases	4,816	(1,987)	2,829
Concession right	1,230	—	1,230
Transponder rights	28,497	(3,626)	24,871
Patents	59	(4)	55
	516,793	(65,105)	451,688
Indefinite life intangible assets:			
Orbital slots	113,347	—	113,347
Trade name	17,000	—	17,000
Total intangible assets	647,140	(65,105)	582,035
Goodwill	2,446,603	—	2,446,603
Goodwill and intangible assets	3,093,743	(65,105)	3,028,638

	Cost	Accumulated Amortization	Net Book Value
2007			
Finite life intangible assets:			
Revenue backlog	274,487	(5,316)	269,171
Customer relationships	207,704	(2,072)	205,632
Favourable leases	4,368	(218)	4,150
Transponder rights	28,497	(518)	27,979
Patents	59	—	59
	515,115	(8,124)	506,991
Indefinite life intangible assets:			
Orbital slots	596,347	—	596,347
Trade name	17,000	—	17,000
Total intangible assets	1,128,462	(8,124)	1,120,338
Goodwill	2,446,603	—	2,446,603
Goodwill and intangible assets	3,575,065	(8,124)	3,566,941

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During the fourth quarter of 2008, Telesat performed its annual valuation of goodwill and indefinite life intangible assets, which resulted in an impairment charge of $483.0 million to the orbital slots. The impairment charge was measured as the excess of the carrying amount of orbital slots over their fair value, with the estimated fair value being based on the present value of the expected future cash flows to be generated through the use of the orbital slots, and was recorded in other expense (see note 6). The increase of the discount rate due to current market conditions, the impact of a strengthened U.S. dollar on the cost of satellites, as well as the increases to insurance costs and launch services in 2008 reduced the present value of the expected future cash flows for the orbital slots.

After recording the impairment charges on the orbital slots and on its Nimiq 3 satellite (see note 11), the Company performed its annual impairment test on goodwill by comparing the estimated fair value to the adjusted carrying value of the reporting unit. The annual impairment test of goodwill did not result in any impairment. Telesat will continue to monitor, however, whether the impact of the current uncertain economic times results in a requirement to test its balance of goodwill more frequently than on an annual basis. If any such triggering events are identified, a goodwill impairment test would be performed accordingly.

Revenue backlog is amortized based on the annual rate at which the backlog is recognized in revenue. Customer relationships, favourable leases and patents are amortized on a straight-line basis over the asset's estimated useful life. The Company recorded amortization expense on intangible assets of $55.5 million for the year ended December 31, 2008 ($8.1 million for the two months ended December 31, 2007).

13. Other Liabilities

	December 31, 2008		December 31, 2007	
	Current Portion	Long Term Portion	Current Portion	Long Term Portion
Deferred revenues and deposits [(a)]	61,960	323,608	54,652	257,256
Derivative liabilities [(b)]	—	82,255	14,811	271,061
Capital lease liabilities [(c)]	15,644	24,213	29,008	44,344
Deferred satellites performance incentive payments [(d)]	11,425	60,895	7,533	35,791
Interest payable	43,517	—	40,146	—
Dividends payable on senior preferred shares (see note 15)	—	11,550	1,695	—
Pension and other post retirement liabilities (see note 21)	—	24,957	—	24,313
Other liabilities [(e)]	5,549	38,658	4,530	29,722
	138,095	566,136	152,375	662,487

(a) Deferred revenues represent the Company's liability for the provision of future services and are classified on the balance sheet in other current liabilities and other long-term liabilities. The prepaid amount is brought into income over the period of service to which the prepayment applies. The net amount outstanding at December 31, 2008 will be reflected in the statements of loss as follows: $57.5 million in 2009, $34.0 million in 2010, $32.6 million in 2011, $32.6 million in 2012 , $32.2 million in 2013 and $192.2 million thereafter.

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(b) Derivative liabilities, both short and long-term, comprise the following:

Derivative liability	Maturity	December 31, 2008	December 31, 2007
Foreign currency forward contracts	January 1, 2008 to December 1, 2009	—	17,545
Cross currency basis swap	October 31, 2014	—	261,974
Interest rate swaps	January 31, 2010 to November 28, 2011	82,255	6,353
		82,255	285,872

(c) The capital lease liabilities are classified on the balance sheet in other current liabilities and other long-term liabilities.

Capital lease liabilities	December 31, 2008	December 31, 2007
Total minimum lease payments	48,889	90,025
Amount representing interest (9)%	(9,032)	(16,673)
	39,857	73,352
Current portion	(15,644)	(29,008)
Long-term portion	24,213	44,344

Future minimum lease payments payable under all capital leases are $18.7 million in 2009, $6.0 million in 2010, $6.1 million in 2011, $6.0 million in 2012, $6.0 million in 2013 and $6.1 million thereafter.

(d) Deferred satellite performance incentive payments are payable over the lives of the Nimiq 1, Nimiq 4, Anik F1, Anik F2, Anik F3 and Anik F1R satellites. The present value of the payments is capitalized as part of the cost of the satellite, recorded as a liability, and charged against operations as part of the normal amortization of the satellite. The present value of the amounts payable on the successful operation of the transponders are $11.4 million in 2009, $5.2 million in 2010, $4.5 million in 2011, $3.8 million in 2012, $4.0 million in 2013 and $43.4 million thereafter.

(e) Other liabilities at December 31, 2008 include: tax indemnifications payable to Loral (note 22) of $8.5 million (2007 — $6.9 million) , potential income tax liabilities of $2.6 million (2007 — $1.8 million), unfavourable leases of $1.9 million (2007 — $2.2 million), unfavourable customer revenue backlog of $12.8 million (2007 — $15.2 million), income taxes payable of $0.8 million (2007 — $0.9 million), promissory note payable to Loral of $7.4 million (note 23), and other liabilities of $10.2 million (2007 — $7.3 million).

14. Debt Financing

	December 31, 2008	December 31, 2007
Senior secured credit facilities(a):		
Revolving facility	—	20,000
The Canadian term loan facility	195,000	200,000
The U.S. term loan facility	2,087,010	1,687,652
The U.S. term loan II facility	179,207	5,842
Senior bridge loan [b]	—	667,806
Senior notes [c]	818,620	—
Senior subordinated bridge loan [d]	—	209,324
Senior subordinated notes [e]	256,400	—
Other debt financing [f]	258	3,739
	3,536,495	2,794,363
Current portion	(23,272)	(18,419)
Long-term portion	3,513,223	2,775,944

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The outstanding debt balances above, with the exception of the revolving credit facility and the Canadian term loan, are shown net of related debt issuance costs. The debt issuance costs related to the revolving credit facility and Canadian term loan are included in deferred charges (see note 10) and are amortized to interest expense on a straight-line basis. All other debt issuance costs are amortized to interest expense using the effective interest method.

(a) The senior secured credit facilities are secured by substantially all of Telesat's assets. Under the terms of these facilities, Telesat is required to comply with certain covenants including financial reporting, maintenance of certain financial covenant ratios for leverage and interest coverage, a requirement to maintain minimum levels of satellite insurance, restrictions on capital expenditures, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions, and restrictions on transactions with affiliates. The financial covenant ratios include total debt to EBITDA for covenant purposes (earnings before interest, taxes, depreciation, amortization and other charges) and EBITDA for covenant purposes to interest expense. Both financial covenant ratios become tighter over the term of the credit facility. At December 31, 2008 Telesat was in compliance with all of the required covenants.

Telesat was required to hedge, at fixed rates, prior to February, 2008, 50% of its floating interest rate debt for a three year period ending October 31, 2010. The Company has complied with this obligation. These derivative instruments have not been designated as hedging instruments for accounting purposes.

Each tranche of the credit facility is subject to mandatory principal repayment requirements, which, in the initial years, are generally an annual amount representing 1% of the initial aggregate principal amount, payable quarterly. The senior secured credit facility has several tranches which are described below:

(i) A revolving Canadian dollar denominated credit facility (the "revolving facility") of up to the Canadian dollar equivalent of $153 million (US$124.9 million) is available to Telesat. This revolving facility matures on October 31, 2012 and is available to be drawn at any time. The drawn loans will bear interest at the prime rate or LIBOR or Bankers' Acceptance plus an applicable margin of 175 to 275 basis points per annum. Undrawn amounts under the facility are subject to a commitment fee. As at December 31, 2008, no funds were drawn under this facility.

(ii) The Canadian term loan facility is a $200 million loan facility denominated in Canadian dollars, bears interest at a floating rate of the Bankers' Acceptance rate plus an applicable margin of 275 basis points per annum, and has a maturity of October 31, 2012. The required repayments on the Canadian term loan facility were $5 million for the year ended December 31, 2008 and will be $10 million for the year ended December 31, 2009, $15 million for the year ended December 31, 2010, $90 million for the year ended December 31, 2011 and $80 million for the year ended December 31, 2012. The payments will be made quarterly in varying amounts. The average interest rate was 6.57 % for the year ended December 31, 2008, and 7.55% for the two months ended December 31, 2007. This facility was fully drawn at December 31, 2008 and principal repayments are being made as required.

(iii) The U.S. term loan facility is a $1,755 million loan facility denominated in US dollars ($2,149 million CAD at December 31, 2008), bears interest at LIBOR plus an applicable margin of 300 basis points per annum, and has a maturity of October 31, 2014. The average interest rate was 6.35% for the year ended December 31, 2008, and 7.92% for the two months ended December 31, 2007. This facility was fully drawn at December 31, 2008 and principal repayments are being made as required.

(iv) The U.S. term loan II facility is a $150 million delayed draw facility denominated in US dollars ($183.7 million CAD at December 31, 2008), bears interest at LIBOR plus an applicable margin of 300 basis points per annum, and has a maturity of October 31, 2014. The average interest rate was

6.17% for the year ended December 31, 2008 and 8.0% for the two months ended December 31, 2007. The U.S. term loan II facility was available to be drawn for 12 months after the closing of the Telesat Canada acquisition to fund capital expenditures. The undrawn amount of the U.S. term loan II was subject to a commitment fee. This facility was fully drawn at December 31, 2008 and principal repayments are being made as required.

(b) The Senior bridge loan was a $692.8 million unsecured loan facility denominated in US dollars ($684.6 million CAD at December 31, 2008), guaranteed by certain Telesat subsidiary entities. This facility had a maturity of October 31, 2008 and an initial interest rate per annum equal to the greater of 9% or three-month LIBOR plus the applicable margin. The applicable margin increased over time subject to an interest rate cap of 11%. The average interest rate was 9.0% for the two months ended December 31, 2007 and 9.0% for the January 1, 2008 to June 29, 2008 period.

(c) On June 30, 2008, Telesat exchanged the outstanding US$692.8 million Senior bridge loan for US$692.8 million Senior notes. The Senior notes bear interest at an annual rate of 11.0% and are due November 1, 2015. The Senior notes include covenants or terms that restrict Telesat's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel the Company's satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the Senior notes prior to May 1, 2012, in each case subject to exceptions provided in the Senior notes indenture.

(d) The Senior subordinated bridge loan was a $217.2 million unsecured loan facility denominated in US dollars ($214.6 million CAD), guaranteed by certain Telesat subsidiary entities. This facility had a maturity of October 31, 2008 and an initial interest rate per annum equal to the greater of 10.5% or three-month LIBOR plus the applicable margin. The applicable margin increased over time subject to an interest rate cap of 12.5%. The average interest rate was 10.5% for the two months ended December 31, 2007, and 10.5% for the January 1, 2008 to June 29, 2008 period.

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

(f) Other debt financing includes the financing for the Company's headquarters building. With respect to the headquarters building, the Company shares equally with the developer, the ownership, cost and debt of the building. The Company has leased the developer's share for twenty years beginning January 25, 1989 for an annual rent, excluding operating costs, of $1.7 million. Total headquarters financing of $0.2 million includes the amount owing under this capital lease of $0.1 million at December 31, 2008. The imputed interest rate for the capital lease is 10.69% per annum.

Mortgage financing for the Company's share of the facility has been arranged by the developer for a twenty-year term coincident with the lease with interest at 11% per annum and with annual payments of principal and interest of $1.9 million.

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The outstanding balance of long term debt, excluding debt issuance costs, will be repaid as follows (in millions of Canadian dollars):

2009	2010	2011	2012	2013	Thereafter	Total
33.6	38.3	113.3	103.3	23.3	3,308.2	3,620.0

15. Senior Preferred Shares

Telesat issued 141,435 Senior Preferred Shares in exchange for cash with an issue price of $1,000 per Senior Preferred Share on October 31, 2007 as part of the Telesat Canada acquisition transaction described in notes 1 and 3. The Senior Preferred Shares rank in priority, with respect to the payment of dividends and return of capital upon liquidation, dissolution or winding-up, ahead of the shares of all other classes of Telesat stock which have currently been created, as well as any other shares that may be created that by their terms rank junior to the Senior Preferred Shares. The Senior Preferred Shares are entitled to receive cumulative preferential dividends at a rate of 7% per annum on the Liquidation Value, being $1,000 per Senior Preferred Share plus all accrued and unpaid dividends. The annual dividend may be paid in cash if such payment is permitted under the terms of (i) the senior secured credit facilities and the indenture governing the senior notes, and (ii) any indebtedness incurred to refinance the senior secured credit facilities or the senior notes. If the cash payment is not permitted, the dividends will be paid in Senior Preferred Shares based on an issue price of $1,000 per Senior Preferred Share. Dividends of $11.6 million (note 13) have been accrued at December 31, 2008 (2007 — $1.7 million, see note 13) and included as interest expense.

The Senior Preferred Shares may be submitted by the holder for redemption on or after the twelfth anniversary of the date of issue, subject to compliance with law. Upon a change of control which occurs after the fifth anniversary of the issue of the Senior Preferred Shares, or on the fifth anniversary if a change of control occurs prior to the fifth anniversary of the issue, Telesat must make an offer of redemption to all holders of Senior Preferred Shares, and must redeem any Senior Preferred Shares for which the offer of redemption is accepted within 25 days of such offer. As a result, the Senior Preferred Shares have been classified as a liability on the balance sheet.

The holders of the Senior Preferred Shares are not entitled to receive notice of or to vote at any meeting of shareholders of the Company except for meetings of the holders of the Senior Preferred Shares as a class, called to amend the terms of the Senior Preferred Shares, or otherwise as required by law.

16. Capital Stock

The authorized capital of the Company is comprised of: (i) an unlimited number of common shares, (ii) an unlimited number of voting participating preferred shares, (iii) an unlimited number of non-voting participating preferred shares, (iv) an unlimited number of redeemable common shares, (v) an unlimited number of redeemable non-voting participating preferred shares, (vi) 1,000 director voting preferred shares, and (vii) 325,000 senior preferred shares. None of the Redeemable Common Shares or Redeemable Non-Voting Participating Preferred Shares have been issued as at December 31, 2008.

Common Shares

The holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one vote in respect of each common share held on all matters at all such meetings, except in respect of a class vote applicable only to the shares of any other class, in respect of which the common shareholders shall have no right to vote. The holders of the Common Shares are entitled to receive dividends as may be declared by the Board of Directors of the Company, and are entitled to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in order of priority. The Common Shares are

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convertible at the holders' option, at any time, into Voting Participating Preferred Shares or Non-Voting Participating Preferred Shares, on a one-for-one basis.

The following table provides the details of the issued and outstanding Common Shares as at December 31, 2008. All amounts are in thousands of Canadian dollars, except the number of shares:

	Common Shares	
	Number	Value ($)
Opening balance, October 31, 2007	1	—
Issued for cash (notes 1 and 3)	35,172,218	311,124
Issued in exchange for contributed assets (notes 1 and 3)	39,080,241	445,290
Ending balances, December 31, 2008 and 2007	74,252,460	756,414

Voting Participating Preferred Shares

The rights, privileges and conditions of the Voting Participating Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Voting Participating Preferred Shares are not entitled to vote at meetings of the shareholders of the Company on resolutions electing directors.
- For all other meetings of the shareholders of the Company, the holders of Voting Participating Preferred Shares are entitled to a variable number of votes per Voting Participating Preferred Share based on the number of Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares and Redeemable Non-Voting Participating Preferred Shares outstanding on the record date of the given meeting of the shareholders of the Company.
- The Voting Participating Preferred Shares are convertible, at any time, at the holders' option into Common Shares or Non-Voting Participating Preferred Shares on a one-for-one basis as long as the result of such conversion does not cause the Company to cease to be a "qualified corporation" within the meaning of the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act (Canada).

Non-Voting Participating Preferred Shares

The rights, privileges and conditions of the Non-Voting Participating Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Non-Voting Participating Preferred Shares are not entitled to vote on any matter at meetings of the shareholders of the Company, except in respect of a class vote applicable only to the Non-Voting Participating Preferred Shares.
- The Non-Voting Participating Preferred Shares are convertible, at any time, at the holders' option into Common Shares or Voting Participating Preferred Shares on a one-for-one basis as long as the result of such conversion does not cause the Company to cease to be a "qualified corporation" within the meaning of the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act (Canada).

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Director Voting Preferred Shares

The rights, privileges and conditions of the Director Voting Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Director Voting Preferred Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company at which directors of the Company are to be elected. The holders of the Director Voting Preferred Shares are not entitled to attend meetings of the shareholders of the Company and have no right to vote on any matter other than the election of directors of the Company.
- The holders of Director Voting Preferred Shares are entitled to receive annual non-cumulative dividends of $10 per share if declared by the Board of Directors of the Company, in priority to the payment of dividends on the Common Shares, Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares, Redeemable Common Shares, and Redeemable Non-Voting Participating Preferred Shares, but after payment of any accrued dividends on the Senior Preferred Shares.
- In the event of liquidation, wind-up or dissolution, the holders of Director Voting Preferred Shares are entitled to receive $10 per share in priority to the payment of dividends on the Common Shares, Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares, Redeemable Common Shares, and Redeemable Non-Voting Participating Preferred Shares, but after payment of any accrued dividends on the Senior Preferred Shares.
- The Director Voting Preferred Shares are redeemable at the option of the Company, at any time, at a redemption price of $10 per share.

The following table provides the details of the issued and outstanding preferred shares as at December 31, 2008 and 2007. See note 3 for a description of the various transactions. All amounts are in thousands of Canadian dollars, except share amounts:

	Voting Participating		Non-Voting Participating		Director Voting		Total	
	Number	Value ($)	Number	Value ($)	Number	Value ($)	Number	Value ($)
Opening balance, October 31, 2007	—	—	—	—	—	—	—	—
Issued for cash	7,034,444	117,388	—	—	1,000	10	7,035,444	117,398
Issued in exchange for contributed assets	—	—	25,794,025	304,449	—	—	25,794,025	304,449
Issued in exchange for the novation of forward contracts from Loral Skynet	—	—	10,159,799	119,917	—	—	10,159,799	119,917
Ending balance, December 31, 2008 and 2007	7,034,444	117,388	35,953,824	424,366	1,000	10	42,989,268	541,764

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17. Cash Flow Information

	December 31, 2008	December 31, 2007
Cash and cash equivalents is comprised of:		
Cash	26,584	32,737
Short term investments, original maturity 90 days or less	71,955	9,466
	98,539	42,203
Changes in operating assets and liabilities are comprised of:		
Receivables	(3,303)	(4,718)
Other assets	(34,885)	132,768
Accounts payable and accrued liabilities	(12,947)	72,380
Income taxes payable	960	(749)
Other liabilities	99,034	5,809
	48,859	205,490

	December 31, 2008	December 31, 2007
Non-cash investing and financing activities are comprised of:		
Purchase of satellites, property and other equipment	3,595	4,767
Purchase of concession right	1,230	—
Shares issued in exchange for assets contributed (note 3)	—	869,656

18. Capital Disclosures

Telesat Holdings Inc. is a privately held company. The Company's financial strategy is designed to maintain compliance with its financial covenants under its senior secured credit facility, and to provide adequate returns to its shareholders and other stakeholders. Telesat meets these objectives through its monitoring of its financial covenants and operating results on a quarterly basis.

The Company defines its capital as follows:

	December 31, 2008	December 31, 2007
Shareholders' equity, excluding accumulated other comprehensive loss	477,174	1,294,127
Debt financing	3,536,495	2,794,363
Cash and cash equivalents	98,539	42,203

Telesat manages its capital by measuring the financial covenant ratios contained in its senior secured credit agreement (the "credit agreement"), dated October 31, 2007 and which terminates in October 2014. As of December 31, 2008, the Company was subject to three financial covenant compliance tests: a maximum Consolidated Total Debt to Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") for covenant purposes ratio test, a minimum Consolidated EBITDA for covenant purposes to Consolidated Interest Expense ratio test and a maximum Permitted Capital Expenditure Amount test. Compliance with financial covenants is measured on a quarterly basis, except for the maximum Permitted Capital Expenditure Amount which is only measured at the end of every fiscal year.

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As of December 31, 2008, Telesat's Consolidated Total Debt to Consolidated EBITDA for covenant purposes ratio, for credit agreement compliance purposes, was 7.29:1, which was less than the maximum test ratio of 9.50:1. The Consolidated EBITDA for covenant purposes to Consolidated Interest Expense ratio, for credit agreement compliance purposes, was 1.74:1, which was greater than the minimum test ratio of 1.20:1. These test ratios were constant for the 2008 financial year. The Capital Expenditure Amount, for credit agreement compliance purposes, was $263.6 million, which was less than the maximum US $325.0 million permitted under the credit agreement. The maximum Permitted Capital Expenditure Amount varies in each fiscal year with the possibility to carry forward or carry back unused amounts based on conditions specified in the credit agreement.

For the quarter ending March 31, 2009, the Consolidated Total Debt to Consolidated EBITDA for covenant purposes ratio test becomes 9.25:1, and the ratio test generally becomes more restrictive over the life of the credit agreement, such that for the period beginning October 1, 2013, the ratio test is a maximum of 5.50:1. For the quarter ending June 30, 2009, the minimum Consolidated EBITDA for covenant purposes to Consolidated Interest Expense ratio is 1.25:1, and the ratio test generally becomes more restrictive over the life of the credit agreement, such that for the quarter ending September 30, 2014, the minimum test ratio is 1.95:1.

As part of the on-going monitoring of Telesat's compliance with its financial covenants, interest rate risk due to variable interest rate debt is managed through the use of interest rate swaps (note 19), and foreign exchange risk exposure arising from principal and interest payments on Telesat's debt is partially managed through a cross currency basis swap (note 19). In addition, operating expenses are tracked against budget on a monthly basis, and this analysis is reviewed by senior management.

19. Financial Instruments

Fair Value

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. Where possible, fair values are based on the quoted market values in an active market. In the absence of an active market, we determine fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs.

Estimates of fair values are affected significantly by the assumptions for the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expense that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The carrying amounts for cash and cash equivalents, short term investments, trade receivables, promissory notes receivable, other current liabilities, accounts payable and accrued liabilities, and debt due within one year approximate fair market value due to the short maturity of these instruments. Derivative instruments are based on third party quotes reflecting observable market inputs for interest and currency rates. At December 31, 2008 the fair value of the debt financing is equal to the market value derived from transactions and quotations from third parties excluding financing charges considering market interest rates. At December 31, 2007 the fair value of the debt financing was equal to its carrying value, excluding financing charges, due to the short period of time elapsed since the assumption of the debt.

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The carrying amounts and fair values of financial instruments were as follows as at:

December 31, 2008

	Carrying value				
	HFT	AFS	Loans & Receivables	Total	Fair value
Financial assets					
Cash and cash equivalents	98,539	—	—	98,539	98,539
Accounts and notes receivable	—	—	61,933	61,933	61,933
Derivative financial instruments	19,602	—	—	19,602	19,602
Other assets	14,936	637	2,202	17,775	17,775
	133,077	637	64,135	197,849	197,849

December 31, 2008

	Carrying value			
	HFT	Other	Total	Fair value
Financial liabilities				
Accounts payable and accrued liabilities	—	48,764	48,764	48,764
Debt	—	3,536,237	3,536,237	2,371,014
Derivative financial instruments	82,255	—	82,255	82,255
Other liabilities	—	288,236	288,236	191,837
	82,255	3,873,237	3,955,492	2,693,870

December 31, 2007

	Carrying value				
	HFT	AFS	Loans & Receivables	Total	Fair value
Financial assets					
Cash and cash equivalents	42,203	—	—	42,203	42,203
Accounts and notes receivable	—	—	55,299	55,299	55,299
Derivative financial instruments	354	—	—	354	354
Other assets	7,203	—	—	7,203	7,203
	49,760	—	55,299	105,059	105,059

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December 31, 2007

	Carrying value			
	HFT	Other	Total	Fair value
Financial liabilities				
Accounts payable and accrued liabilities	—	81,221	81,221	81,221
Debt	—	2,792,575	2,792,575	2,865,116
Derivative financial instruments	285,872	—	285,872	285,872
Other liabilities	—	228,654	228,654	230,258
	285,872	3,102,450	3,388,322	3,462,467

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of December 31, 2008.

Measurement of Risks

Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, short term investments, derivative assets, other assets and accounts receivable. At December 31, 2008 the maximum exposure to credit risk is equal to the carrying value of the financial assets, $197.8 million (2007 — $105.1 million) as listed above. Cash and cash equivalents and short term investments are invested with high quality investment grade financial institutions and are governed by the Company's corporate investment policy, which aims to reduce credit risk by restricting investments to high-grade US dollar and Canadian dollar denominated investments.

Telesat may be exposed to credit risk if counterparties to its derivative instruments are unable to meet their obligations. It is expected that these counterparties will be able to meet their obligations as they are institutions with strong credit ratings. Telesat regularly monitors the credit risk and credit exposure.

Telesat has a number of diverse customers, which limits the concentration of credit risk with respect to accounts receivable. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Telesat's standard payment terms are 30 days. Interest at a rate of 1.5% per month, compounded monthly, is typically charged on balances remaining unpaid at the end of the standard payment terms. Telesat's historical experience with customer defaults has been minimal. As a result, Telesat considers the credit quality of its North American customers to be high; however due to the additional complexities of collecting from its International customers the Company considers the credit quality of its International customers to be lower than the North American customers. At December 31, 2008, North American and International customers made up 64% and 36% of the outstanding trade receivable balance, respectively. Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts at December 31, 2008 was $5.4 million (2007 - $4.3 million). A reconciliation of the allowance for doubtful accounts is as follows:

Allowance for Doubtful Accounts	2008	2007
Balance at January 1 and October 31, respectively	4.3	4.2
Provision for receivables impairment	1.6	0.2
Receivables written off during the period as uncollectible	(0.5)	(0.1)
Balance at December 31	5.4	4.3

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Foreign Exchange Risk

The Company's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The most significant impact of variations in the exchange rate is on the US dollar denominated debt financing. At December 31, 2008, approximately $3,341 million of the $ 3,536 million total debt financing (note 14) is the Canadian dollar equivalent of the US dollar denominated portion of the debt.

Telesat uses forward contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites. At December 31, 2008, the Company had $61.0 million (2007 — $196.9 million) of outstanding foreign exchange contracts which require the Company to pay Canadian dollars to receive US $58.7 million (2007 — US $198.9 million) for future capital expenditures. At December 31, 2008, the fair value of these derivative contract liabilities was an unrealized gain of $10.8 million (December 31, 2007 — unrealized loss of $17.5 million). This non-cash gain will remain unrealized until the contracts are settled. These forward contracts are due between February 2, 2009 and December 1, 2009.

The Company has also entered into a cross currency basis swap to hedge the foreign currency risk on a portion of its US dollar denominated debt. Telesat uses natural hedges to manage the foreign exchange risk on operating cash flows. At December 31, 2008, the Company had a cross currency basis swap of $1,212 million (2007 — $1,224 million) which requires the Company to pay Canadian dollars to receive US $1,043.5 million (2007 — US $1,054 million). At December 31, 2008, the fair value of this derivative contract was an unrealized gain of $8.8 million (2007 — unrealized loss of $262 million). This non-cash gain will remain unrealized until the contract is settled. This contract is due on October 31, 2014.

The Company's main currency exposures as at December 31, 2008 lie in its US dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing.

A five percent weakening of the Canadian dollar against the US dollar at December 31, 2008 would have increased the net loss and decreased other comprehensive loss for the year by $189.4 million and $0.3 million, respectively. A five percent strengthening of the Canadian dollar against the US dollar at December 31, 2008 would have decreased the net loss and increased other comprehensive loss for the year by $189.4 million and $0.3 million, respectively. This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents and its long term debt which is primarily variable rate financing. Changes in the interest rates could impact the amount of interest Telesat is required to pay. Telesat uses interest rate swaps to hedge the interest rate risk related to variable rate debt financing. At December 31, 2008, the fair value of these derivative contract liabilities was an unrealized loss of $82.3 million (2007 — unrealized loss of $6.4 million). This non-cash loss will remain unrealized until the contracts are settled. These contracts are due between January 31, 2010 and November 28, 2011.

If the interest rates on the unhedged variable rate debt change by 0.25% this would result in a change in the net loss of approximately $4.0 million for the year ended December 31, 2008.

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Liquidity Risk

The Company maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements. The following are the contractual maturities of financial liabilities as at December 31, 2008:

In Millions of Canadian Dollars	Carrying Amount	Contractual Cash Flows	2009	2010	2011	2012	2013	After 2012
Accounts payable and accrued liabilities	48.8	48.8	48.8	—	—	—	—	—
Customer and other deposits	10.7	10.7	8.6	2.1	—	—	—	—
Other liabilities	136.6	136.6	59.6	21.3	4.5	3.8	4.0	43.4
Derivative financial instruments	82.3	82.3	—	18.5	63.8	—	—	—
Long term debt	3,536.2	3,620.0	33.6	38.3	113.3	103.3	23.3	3,308.2
	3,814.6	3,898.4	150.6	80.2	181.6	107.1	27.3	3,351.6

20. Stock-Based Compensation Plans

Employee Savings Plans (ESPs)

The ESP enabled Telesat employees to acquire BCE common shares through payroll deductions of up to 10% of their annual base earnings and target bonus plus employer contributions of up to 2%. Compensation expense in the predecessor entity for ESPs was $0.6 million in 2007 and $0.6 million in 2006. The ESP was discontinued on October 31, 2007.

BCE Stock Options

Prior to the acquisition of Telesat Canada, as described in note 1 and 3, options were granted to key employees of Telesat Canada to purchase BCE common shares at a subscription price usually equal to the market value of the shares on the last trading day before the grant came into effect. For options granted before January 1, 2004, the right to exercise the options generally vested or accrued by 25% a year for four years of continuous employment from the date of the grant, except where a special vesting period applied. Options became exercisable when they vested and could be exercised for a period of up to 10 years from the date of grant. For options granted after January 1, 2004, the right to exercise options vested after two to three years of continuous employment from the date of grant, if specific performance targets were met. Options became exercisable when they vested and could be exercised for a period of up to six years from the date of grant. Subject to achieving specific performance targets, 50% of the options would vest after two years and 100% after three years.

During 2007, under the predecessor entity, stock options were granted and an expense of $0.6 million (2006 — $0.2 million) was charged to contributed surplus. The stock option program was discontinued on October 31, 2007. All outstanding options vested on October 30, 2007. There are no outstanding options at December 31, 2008 under the BCE stock option programs. All previously outstanding options expired on April 30, 2008.

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The following table is a summary of the status of the Predecessor's portion of the BCE stock option programs

	December 31, 2008		December 31, 2007	
	Number of Shares	Weighted-Average Exercise Price ($)	Number of Shares	Weighted-Average Exercise Price ($)
Outstanding, beginning of period	406,908	34	411,047	34
Granted	—	—	—	—
Exercised	(264,853)	30	—	—
Expired/forfeited	(142,055)	41	(4,139)	30
Outstanding, end of period	—	—	406,908	34
Exercisable, end of period	—	—	406,908	34

December 31, 2007

	Options outstanding			Options Exercisable	
Range of Exercise Price	Number	Weighted-Average Remaining Life	Weighted-Average Exercise Price ($)	Number	Weighted-Average Exercise Price ($)
Below $20	375	0.33	15.15	375	15.15
$20 to $29	101,972	0.33	29.42	101,972	29.42
$30 to $39	162,506	0.33	30.79	162,506	30.79
$40 and over	142,055	1.22	40.95	142,055	40.95
	406,908	0.64	33.98	406,908	33.98

The assumptions the Predecessor used to determine the stock-based compensation expense under the Black-Scholes option pricing model were as follows:

	October 30, 2007	December 31, 2006
Compensation cost	617	170
Number of stock options granted	159,506	101,972
Weighted-average fair value per option granted($)	3.4	2.3
Assumptions:		
Dividend yield	4.5%	4.4%
Expected volatility	20%	17%
Risk-free interest rate	4.0%	4.0%
Expected life (years)	3.5	3.5

Restricted Share Units (RSUs)

RSUs were granted to Telesat executives in 2006 and 2007. The value of an RSU was always equal to the value of one BCE common share. Dividends in the form of additional RSUs were credited to the participant's account on each dividend payment date and were equivalent in value to the dividend paid on BCE common shares. Each executive was granted a specific number of RSUs for a given performance period, based on his or her position

and level of contribution. At the end of each given performance period, RSUs would vest if performance objectives were met or would be forfeited.

Vested RSUs were to be paid in BCE common shares purchased on the open market, in cash or through a combination of both, at the holder's choice, as long as individual share ownership requirements were met. The RSU plan was discontinued on October 31, 2007.

The table below is a summary of the status of RSUs:

	Number of RSUs	
	October 30, 2007	December 31, 2006
Outstanding, beginning of period	136,523	76,237
Granted	—	136,523
Dividends credited	5,460	883
Payments	(141,983)	(77,120)
Expired/forfeited	—	—
Outstanding, end of period	—	136,523

For the ten months ended October 30, 2007, the predecessor entity recorded a compensation expense for RSUs of $5.3 million (year ended December 31, 2006 — $0.2 million).

Special Compensation Payments (SCPs)

Before 2000, when options were granted to employees, related rights to SCPs were also often granted. SCPs were cash payments representing the amount that the market value of the shares on the date of exercise exceeded the exercise price of these options.

The number of SCPs for BCE common shares outstanding at October 30, 2007 was 375 (year ended December 31, 2006 — 20,750). All of the outstanding SCPs cover the same number of shares as the options to which they relate. It was Telesat's responsibility to make the payments under the SCPs. The predecessor entity's annual compensation expense for the SCP was an expense of $0.2 million for the ten months ended October 30, 2007 (year ended December 31, 2006 — recovery of $0.1 million).

Deferred Share Units (DSUs)

DSUs were granted to executives when they chose to receive their bonuses in the form of DSU units instead of cash. The value of a DSU was always equal to the value of one BCE common share. Dividends in the form of additional DSUs were credited to the participant's account on each dividend payment date and were equivalent in value to the dividend paid on BCE common shares. DSUs were paid in cash when the holder chose to exercise their units. There are no outstanding DSUs at December 31, 2008. All of the outstanding DSUs expired on April 30, 2008.

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The table below is a summary of the status of the DSUs:

	December 31, 2008	December 31, 2007	October 30, 2007	December 31, 2006
Outstanding, beginning of period	6,772	6,772	6,512	4,399
Granted	—	—	—	1,846
Dividends credited	65	—	260	267
Exercised	(6,837)	—	—	—
Outstanding, end of period	—	6,772	6,772	6,512

For the ten months ended October 30, 2007, the predecessor entity recorded a compensation expense for DSUs of $0.1 million (year ended December 31, 2006 — $0.1 million).

Telesat Holdings Stock Options

On September 19, 2008, Telesat adopted a stock incentive plan for certain key employees of the Company and its subsidiaries. The plan provides for the grant of up to 8,824,646 options to purchase non-voting participating preferred shares of Telesat Holdings Inc., convertible into common shares.

Two different types of stock options can be granted under the plan: time-vesting options and performance-vesting options. The time-vesting options generally become vested and exercisable over a five year period by 20% increments on each October 31st starting in 2008. The vesting amount is prorated for optionees whose employment with the Company or its subsidiaries started after October 31, 2007. The performance-vesting options become vested and exercisable over a five year period starting March 31, 2009, provided that the Company has achieved or exceeded an annual or cumulative target consolidated EBITDA established and communicated on the grant date by the Board of Directors. The exercise periods of the share options expire ten years from the grant date. The exercise price of each share underlying the options will be the higher of a fixed price, established by the Board of Directors on the grant date, and the fair market value of a non-voting participating preferred share on the grant date.

	Options Outstanding		Options Exercisable
At December 31, 2008	Number	Weighted-Average Remaining Life	Number
Exercise price $11.07	7,740,476	9 years	1,538,623

The assumptions used to determine the stock-based compensation expense under the Black-Scholes option pricing model were as follows:

	December 31, 2008
Compensation cost (credited to contributed surplus)	5,448
Number of stock options granted	7,740,476
Weighted-average fair value per option granted($)	8.52
Assumptions:	
Dividend yield	—%
Expected volatility	31.5%
Risk-free interest rate	3.78%
Expected life (years)	10

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21. Employee Benefit Plans

Telesat Canada

The Company's funding policy is to make contributions to its pension funds based on various actuarial cost methods as permitted by pension regulatory bodies. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equity securities, fixed income instruments and short-term investments.

Skynet Satellite Corporation

The Company provides certain health care and life insurance benefits for retired employees of the legacy Skynet companies and their dependents. Participants are eligible for these benefits generally when they retire from active service and meet the eligibility requirements for the 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 changes in the benefit obligations and in the fair value of assets and the funded status of the defined benefit plans were as follows:

	December 31, 2008			
	Telesat Canada		Skynet	
Pension and other benefits	Pension	Other	Other	Total
Change in benefit obligations				
Benefit obligation, January 1, 2008	163,546	16,224	8,089	187,859
Current service cost	3,926	433	—	4,359
Interest cost	9,271	862	883	11,016
Actuarial (gains) losses	(40,426)	(4,396)	(129)	(44,951)
Benefit payments	(10,884)	(596)	(155)	(11,635)
Employee contributions	1,321	—	37	1,358
Benefit obligation, December 31, 2008	126,754	12,527	8,725	148,006

	December 31, 2008			
	Telesat Canada		Skynet	
Pension and other benefits	Pension	Other	Other	Total
Change in fair value of plan assets				
Fair value of plan assets, January 1, 2008	173,457	—	—	173,457
Return on plan assets	(29,811)	—	—	(29,811)
Benefit payments	(10,884)	(596)	(155)	(11,635)
Employee contributions	1,321	—	37	1,358
Employer contributions	4,210	596	118	4,924
Fair value of plan assets, December 31, 2008	138,293	—	—	138,293
Funded status				
Plan surplus (deficit)	11,539	(12,527)	(8,725)	(9,713)
Unamortized net actuarial (gain) loss	2,071	(3,705)	—	(1,634)
Accrued benefit asset (liability)	13,610	(16,232)	(8,725)	(11,347)

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	December 31, 2007			
	Telesat Canada		Skynet	
Pension and other benefits	Pension	Other	Other	Total
Change in benefit obligations				
Benefit obligation, October 31, 2007	159,392	16,631	8,079	184,102
Current service cost	774	79	—	853
Interest cost	1,513	146	—	1,659
Benefit payments	(722)	(70)	(24)	(816)
Plan amendment (early retirement program)	5,703	—	5	5,708
Employee contributions	145	—	87	232
Restructuring	(3,259)	(562)	(58)	(3,879)
Benefit obligation, December 31, 2007	163,546	16,224	8,089	187,859

	December 31, 2007			
	Telesat Canada		Skynet	
Pension and other benefits	Pension	Other	Other	Total
Change in fair value of plan assets				
Fair value of plan assets, October 31, 2007	176,595	—	—	176,595
Return on plan assets	(2,596)	—	—	(2,596)
Benefit payments	(722)	(70)	(24)	(816)
Employee contributions	145	—	5	150
Employer contributions	35	70	19	124
Fair value of plan assets, December 31, 2007	173,457	—	—	173,457
Funded (deficiency) status	9,911	(16,224)	(8,089)	(14,402)

The fair value of the Telesat Canada plan assets consists of the following asset categories:

	December 31, 2008	December 31, 2007
Equity securities	59%	60%
Fixed income instruments	39%	38%
Short-term investments	2%	2%
Total	100%	100%

Plan assets are valued as at the measurement date of December 31 each year.

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The significant weighted-average assumptions adopted in measuring Telesat Canada's pension and other benefit obligations and Skynet's other benefit obligations were as follows:

	December 31, 2008			December 31, 2007		
	Telesat Canada		Skynet	Telesat Canada		Skynet
	Pension	Other	Other	Pension	Other	Other
Accrued benefit obligation						
Discount rate	7.5%	7.5%	6.5%	5.5%	5.5%	6.5%
Rate of compensation increase	3.5%	3.5%	4.3%	3.5%	3.5%	4.3%
Benefit costs for the periods ended Discount rate	5.5%	5.5%	6.5%	5.5%	5.5%	6.5%
Expected long-term rate of return on plan assets	7.5%	—	—	7.5%	—	—
Rate of compensation increase	3.5%	3.5%	4.3%	3.5%	3.5%	4.3%

For the Telesat Canada plans, for measurement purposes,) a 10.5% (drugs) / 4.5% (other) annual rate of increase in the per capita cost of covered health care benefits (the health care cost trend) was assumed for 2008. The drug rate is assumed to gradually decrease to 4.5% by 2014 and remain at that level thereafter. For the Skynet plan, actuarial assumptions to determine the benefit obligation for other benefits as of December 31, 2008, used a health care cost trend rate of 10% decreasing gradually to 5% by 2018. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

The net benefit expense included the following components:

	Successor Entity							
	Year Ended December 31, 2008				For the Period October 31 to December 31, 2007			
	Telesat Canada		Skynet		Telesat Canada		Skynet	
	Pension	Other	Other	Total	Pension	Other	Other	Total
Current service cost	3,926	433	—	4,359	774	79	—	853
Interest cost	9,271	862	883	11,016	1,513	146	—	1,659
Expected return on plan assets	(12,686)	—	—	(12,686)	(2,206)	—	—	(2,206)
Net benefit expense	511	1,295	883	2,689	81	225	—	306

	Predecessor Entity					
	For the Period January 1 to October 30, 2007			Year Ended December 31, 2006		
	Pension	Other	Total	Pension	Other	Total
Current service cost	3,612	396	4,008	4,315	465	4,780
Interest cost	7,149	681	7,830	8,212	767	8,979
Expected return on plan assets	(10,610)	—	(10,610)	(11,271)	—	(11,271)
Amortization of past service cost	—	—	—	900	—	900
Amortization of net actuarial loss	34	—	34	1,780	—	1,780
Amortization of transitional (asset) obligation	(1,288)	515	(773)	(1,273)	618	(655)
Additional expense	169	—	169	—	—	—
Net benefit expense (income)	(934)	1,592	658	2,663	1,850	4,513

TELESAT HOLDINGS INC.

NOTES TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Sensitivity of assumptions

The impact of a hypothetical 1% change in the health care cost trend rate on the other post-retirement benefit obligation and the aggregate of service and interest cost would have been as follows:

	Benefit Obligation	Aggregate of service and interest cost
As reported	21,252	2,178
Impact of increase of 1% point	1,817	198
Impact of decrease of 1% point	(1,587)	(166)

The above sensitivities are hypothetical and should be used with caution. Changes in amounts based on a 1% point variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. The sensitivities have been calculated independently of changes in other key variables. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

22. Commitments and Contingent Liabilities

Off balance sheet commitments include operating leases, commitments for future capital expenditures and other future purchases.

	2009	2010	2011	2012	2013	Thereafter	Total
Off balance sheet commitments	$218,313	$36,513	$20,949	$15,002	$12,672	$40,584	$344,033

Certain of the Company's satellite transponders, offices, warehouses, earth stations, vehicles, and office equipment are leased under various terms. Minimum annual commitments under operating leases determined as at December 31, 2008 are $29.2 million in 2009, $23.7 million in 2010, $20.0 million in 2011, $14.0 million in 2012, $11.6 million in 2013 and 23.6 million thereafter. The aggregate lease expense for the year ended December 31, 2008, the two months ended December 31, 2007, the predecessor periods of ten months ended October 30, 2007 and the year ended December 31, 2006 was $21.0 million, $4.5 million, $11.2 million and $18.0 million respectively. The expiry terms range from January 2009 to July 2016.

Telesat has non-satellite purchase commitments of CAD $4.1 million, or US $3.4 million , with various suppliers at December 31, 2008 (2007 — CAD $4.4 million, or US $4.5 million). The total outstanding commitments at December 31, 2008 are in US dollars.

Telesat has entered into contracts for the construction of Nimiq 5 (targeted for launch in 2009) and Telstar 11-N (targeted for launch in 2009). The outstanding commitments at December 31, 2008 on these contracts are CAD $200.1 million or US $163.4 million (2007 — CAD $261.2 million or US $264.3 million). The total outstanding commitments at December 31, 2008 are in US dollars.

Telesat has agreements with various customers for prepaid revenues on several satellites which take effect on final acceptance of the spacecraft. Telesat is responsible for operating and controlling these satellites. Deposits of $341.3 million (2007 — $273.3 million), refundable under certain circumstances, are reflected in other liabilities, both current and long-term.

In the normal course of business, Telesat has executed agreements that provide for indemnification and guarantees to counterparties in various transactions. These indemnification undertakings and guarantees may require Telesat to compensate the counterparties for costs and losses incurred as a result of certain events including, without limitation, loss or damage to property, change in the interpretation of laws and regulations (including tax

legislation), claims that may arise while providing services, or as a result of litigation that may be suffered by the counterparties.

Certain indemnification undertakings can extend for an unlimited period and may not provide for any limit on the maximum potential amount, although certain agreements do contain specified maximum potential exposure representing a cumulative amount of approximately $20.7 million (2007 — $14.9 million). The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount Telesat could be required to pay counterparties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, Telesat has not made any significant payments under such indemnifications.

Telesat and Loral have entered into an indemnification agreement whereby Loral will indemnify Telesat for any tax liabilities for taxation years prior to 2007. Likewise, Telesat will indemnify Loral for the settlement of any tax receivables for taxation years prior to 2007.

In August 2001, Boeing, the manufacturer of the Anik F1 satellite, advised Telesat of a gradual decrease in available power on-board the satellite. Telesat filed an insurance claim with its insurers on December 19, 2002, and in March 2004 reached a final settlement agreement. The settlement calls for an initial payment in 2004 of US $136.2 million and an additional payment of US $49.1 million in 2007 if the power level on Anik F1 degrades as predicted by the manufacturer. In the event that the power level on Anik F1 is better than predicted, the amount of the payment(s) will be adjusted by applying a formula which is included in the settlement documentation and could result in either a pro-rated payment to Telesat of the additional US $49.1 million or a pro-rated repayment of up to a maximum of US $36.1 million to be made by Telesat to the insurers. The initial payment has been received. During December 2005, a number of insurers elected to pay a discounted amount of the proceeds due in 2007. A discounted value of US$26.2 million was received from a number of insurance underwriters in December 2005 with US $20.0 million to be paid by a few insurers in 2007. Telesat submitted its final claim in the fourth quarter of 2007. In January 2008, certain insurance underwriters indicated disagreement with Telesat's determination of the available power such that the final payment, in the insurers' view, would be approximately US$2.4 million. In July 2008, Telesat received a final settlement of US $2.0 million from certain insurers. Claims with other insurers, for a value of US $18.0 million, remain unresolved. In the event Telesat is unable to resolve this disagreement, it fully intends to pursue arbitration. At December 31, 2008, Telesat has not recorded any receivable related to this claim.

TELESAT HOLDINGS INC.

NOTES TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

23. Related Party Transactions

Related parties include PSP and Loral, the common shareholders, together with their subsidiaries and affiliates.

The following transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions as at and for the period ended December 31, 2008 and 2007 were between Telesat and Loral, and subsidiaries and affiliates of Loral. The related party transactions as at and for the predecessor periods ended October 30, 2007 and December 31, 2006 were between Telesat and BCE, together with BCE subsidiaries and affiliates.

	Successor Entity		Predecessor Entity	
	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Service revenues	3,560	440	139,706	139,335
Operations and administration expenses	6,295	825	5,340	7,340
Capital expenditures — satellites	83,203	12,318	—	—

The balances with related parties are as follows:

	December 31, 2008	December 31, 2007
Receivables at end of period	3,200	3,389
Payables at end of period	13,770	9,682
Note and interest payable at end of period	7,380	—

In January 2008, Telesat entered into an option agreement with Loral whereby Telesat has the option to cause Loral to assign their rights and obligations with respect to a portion of the ViaSat-1 satellite payload providing coverage into Canada to Telesat. The option expires on October 31, 2009. This transaction is not in the normal course of operations and has been accounted for at carrying value. Telesat has assigned no value to the option as the carrying value of the orbital slot license is nominal. At December 31, 2008, Telesat had not exercised the option.

24. Comparative Figures

Certain of the prior years' figures have been reclassified to conform with the current year's presentation, the most significant of which was to reclass transponder rights of $28.5 million from transponders under capital lease within Satellites, property and other equipment, net to finite life intangible assets within Intangible assets, net. This is not a material change to the financial statements since it is a reclassification of long term depreciable assets with no change to the estimated useful life.

TELESAT HOLDINGS INC.

NOTES TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

25. Reconciliation of Canadian GAAP to United States GAAP

Telesat has prepared these consolidated financial statements according to Canadian GAAP. The following tables are a reconciliation of differences relating to the statement of (loss) earnings and total shareholder's equity reported according to Canadian GAAP and United States GAAP ("U.S. GAAP").

Reconciliation of Net (Loss) Earnings

	Successor Entity		Predecessor Entity	
	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Canadian GAAP — Net (loss) earnings	(822,401)	(4,051)	81,742	103,985
Gains (losses) on embedded derivatives [(a)]	20,118	774	(5,051)	(998)
Losses on derivatives designated as cash flow hedges under Canadian GAAP [(a)]	—	—	(10,361)	—
Sales type lease — operating lease for U.S. GAAP [(b)]	18,808	2,748	(23,617)	—
Capital lease — operating lease for U.S. GAAP [(b)]	(7,584)	(78)	9,436	—
Lease amendments [(c)]	(1,233)	—	—	—
Dividends on senior preferred shares [(d)]	9,855	1,695	—	—
Tax effect of above adjustments [(e)]	(8,761)	275	9,606	1,568
Uncertainty in income taxes [(f)]	(6,875)	(2,648)	3,234	—
U.S. GAAP — Net (loss) earnings	(798,073)	(1,285)	64,989	104,555
Dividends on preferred shares	—	—	—	(1,487)
Other comprehensive (loss) earnings items:				
Change in currency translation adjustment	(7,143)	(599)	1,715	(448)
Loss on derivatives designated as cash flow hedges [(a)]	—	—	(7,168)	—
Net actuarial plans cost [(g)]				
Net actuarial losses	(1,169)	—	(314)	—
Net transitional assets	—	—	(525)	—
U.S. GAAP — Comprehensive (loss) earnings	(806,385)	(1,884)	58,697	102,620

TELESAT HOLDINGS INC.

NOTES TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Accumulated Other Comprehensive Loss

	Successor Entity		Predecessor Entity	
	Year Ended December 31, 2008	For the Period October 31 to December 31, 2007	For the Period January 1 to October 30, 2007	Year Ended December 31, 2006
Cumulative translation adjustment, net of tax	(7,742)	(599)	(568)	(2,283)
Loss on derivatives designated as cash flow hedges [(a)]	—	—	(7,168)	—
Net benefit plans cost [(g)]				
Net actuarial losses	(1,169)	—	(7,448)	(7,080)
Net transitional assets	—	—	3,980	4,471
Accumulated other comprehensive loss	(8,911)	(599)	(11,204)	(4,892)

Reconciliation of Total Shareholders' Equity

	December 31, 2008	December 31, 2007
Canadian GAAP	469,432	1,293,528
Adjustments		
Gains on embedded derivatives [(a)]	20,892	774
Net actuarial losses [(g)]	(1,169)	—
Sales type lease — operating lease for U.S. GAAP [(b)]	21,556	2,748
Capital lease — operating lease for U.S. GAAP [(b)]	(7,662)	(78)
Lease amendment [(c)]	(1,233)	—
Tax effect of above adjustments [(e)]	(8,486)	275
Uncertainty in income taxes [(f)]	(9,523)	(2,648)
U.S. GAAP	483,807	1,294,599

Description of United States GAAP adjustments:

(a) Derivatives and embedded derivatives

Embedded derivatives
The accounting for derivative instruments and hedging activities under Canadian GAAP is now substantially harmonized with U.S. GAAP, with the exception of the accounting for certain embedded derivatives. Under U.S. GAAP an embedded foreign currency derivative in a host contract that is not a financial instrument must be separated and recorded on the balance sheet unless the currency in which payments are to be paid or received is: i) either the functional currency of either party to the contract or ii) the currency that the price of the related good or service is routinely denominated in commercial transactions around the world (typically referring to a traded commodity). The same applies to an embedded foreign currency derivative in a host contract under Canadian GAAP except that the entity has the option, as a matter of accounting policy, to account for the embedded foreign currency derivative in a host contract as a single instrument providing certain criteria are met. One of these criteria is that the payments to be paid or received are in a currency that is commonly used in contracts to purchase or sell such non-financial items in the economic environment in which the transaction takes place. This option under Canadian GAAP results in

embedded derivatives that must be recorded separately under U.S. GAAP to not have to be separately recorded and disclosed under Canadian GAAP. The additional option loosens the more stringent U.S. GAAP requirement that the currency be one in which such commercial transactions are denominated around the world to be one that is commonly used in the economic environment in which the transaction takes place.

In accordance with U.S. GAAP, all derivative instruments embedded in contracts are recorded on the balance sheet at fair value. The Company denominates many of its long-term international purchase contracts in U.S. dollars resulting in embedded derivatives. This exposure to the U.S. dollar is partially offset by revenue contracts that are also denominated in U.S. dollars. For Canadian GAAP, the Company has elected to account for such contracts as single instruments (as explained above), resulting in a U.S. GAAP reconciling item. At December 31, 2008, the estimated fair value of assets resulting from embedded derivatives is $55.4 million (December 31, 2007 — $35.3 million).

The impact on the statement of earnings of changes in the fair value of these embedded derivatives, for the year ended December 31, 2008, the two and twelve month periods ended December 31, 2007, the ten month period ended October 30, 2007 and the year ended December 31, 2006 is reflected as a gain of $20.1, a gain of $0.8 million, a loss of $5.1 million and a loss of $1.0 million, respectively, in the U.S. GAAP reconciliation note.

Derivatives
In 2007, the Company hedged a portion of its exposure to foreign exchange. Since the adoption of the Canadian GAAP standards for hedging activities on January 1, 2007, the Company elected to designate the forward contracts as hedging instruments for both Canadian and U.S. GAAP purposes. Accordingly, the changes in fair value of derivatives designated as cash flow hedges were recognized in other comprehensive income. Changes in fair value of derivatives that were not designated as cash flow hedges prior to adoption of the Canadian GAAP standards are recognized in net income. Hedge accounting was discontinued effective October 31, 2007.

Prior to the adoption of the Canadian standards, significant differences existed between Canadian GAAP and U.S. GAAP with respect to the recognition of derivatives and accounting for certain hedging relationships. Under U.S. GAAP all derivatives are required to be recorded on the balance sheet and under Canadian GAAP certain derivatives were not recorded until settled.

(b) Sales-type and capital leases

Under U.S. GAAP, if the beginning of a lease term falls within the last 25% of a leased asset's total estimated economic life; then it can only be classified as a capital lease if the lease transfers ownership at the end of the lease term or there is a bargain purchase option. This exception does not exist under Canadian GAAP, therefore certain leases are reported as a capital lease and sales-type lease respectively under Canadian GAAP, and as operating leases for U.S. GAAP.

(c) Lease amendments

Under Canadian GAAP, when amendments to the provisions of a capital lease agreement result in a change in lease classification from a capital lease to an operating lease, the gain or loss that results from removing the capital lease from the balance sheet is immediately recognized in the statement of earnings. Under U.S. GAAP, if removing the capital lease from the balance sheet results in a loss it is recognized over the remaining term of the lease. Therefore, an adjustment has been made to defer the gain that has been recognized under Canadian GAAP.

(d) Senior preferred shares

In accordance with U.S. GAAP, the senior preferred shares are classified outside of permanent equity as they are redeemable at the option of the holder. These senior preferred shares are classified as liabilities under Canadian GAAP. This results in a U.S. GAAP reconciling item to reflect the different classification.

(e) Income taxes

The income tax adjustment reflects the impact the US GAAP adjustments described above have on income taxes. The impact on the statement of operations of the income tax adjustment for the year ended December 31, 2008, the two month period ended December 31, 2007, the ten month period ended October 30, 2007 and the year ended December 31, 2006 is an expense of $8.8 million, a recovery of $0.3 million, a recovery of $9.6 million, and a recovery of $1.6 million, respectively. Included in these figures is the effect of tax rate changes applied to the accumulated gains and losses on embedded derivatives and to certain lease transactions classified as operating leases as discussed above. The impact on the statement of operations of the tax rate changes for year ended December 31, 2008, the two month period ended December 31, 2007, the ten month period ended October 30, 2007 and the year ended December 31, 2006 is an expense of $0.6 million, a recovery of $1.3 million, a recovery of $0.2 million and a recovery of $1.3 million, respectively.

The tax difference for enacted rates represents the difference between the substantively enacted income tax rate and the enacted income tax rate. Under U.S. GAAP, the enacted income tax rate must be applied whereas under Canadian GAAP, the substantively enacted income tax rate is used.

(f) Uncertainty in income taxes

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, effective for fiscal years beginning after December 15, 2006. FIN 48 provides specific guidance on the recognition, de-recognition and measurement of income tax positions in financial statements, including the accrual of related interest and penalties recorded in interest expense. An income tax position is recognized when it is more likely than not that it will be sustained upon examination based on its technical merits, and is measured as the largest amount that is greater than 50% likely of being realized upon ultimate settlement. Under Canadian GAAP, significant differences may arise as Telesat recognizes and measures income tax positions, based on the best estimate of the amount that is more likely than not of being realized.

(g) Net benefit plans cost

Effective December 31, 2006, the Company adopted the recognition requirements of Statement of Financial Accounting Standards (SFAS) No. 158, Employers’ Accounting for Defined Benefit Pension and Other Post Retirement Plans, on a prospective basis.

This standard requires that the Company recognize the funded status of benefit plans on the balance sheet as well as recognize as a component of other comprehensive income, net of tax, the actuarial losses and transitional asset and obligation. Amounts recognized in accumulated other comprehensive income are adjusted as they are subsequently recognized as components of net periodic benefit cost.

At December 31, 2008, the balance sheet was adjusted such that actuarial losses and the transitional asset and obligation that have not yet been included in net benefit plans cost at December 31, 2008 were recognized as components of accumulated other comprehensive loss, net of tax. The adjustment at December 31, 2008 resulted in an increase of $1.2 million in accumulated other comprehensive loss, net of tax of $0.4 million (December 31, 2007 — nil).

TELESAT HOLDINGS INC.

NOTES TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Transaction costs on long-term debt

Under Canadian GAAP, transaction costs of $83.6 million ($72.5 million at December 31, 2007) related to the issuance of long-term debt are netted against the long-term debt. Under U.S. GAAP these costs are recognized as deferred charges. This results in a U.S. GAAP reconciling item to reflect the different classification on the balance sheet.

Statement of cash flows

There are no material differences in the consolidated statement of cash flows under U.S. GAAP.

Recent Accounting Pronouncements

In November 2007, the Securities Exchange Commission issued SAB 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* . It requires that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. In addition, internally developed intangible assets should not be recorded as part of the fair value of any written loan commitment that is accounted for at fair value through earnings. SAB 109 became effective for the Company on January 1, 2008 and did not have a material impact on the financial results.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141(R), *Business Combinations* , which broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS 141(R) expands on required disclosures to improve the statement users’ abilities to evaluate the nature and financial effects of business combinations. It requires the acquirer to recognize as an adjustment to income tax expense changes in the valuation allowance for acquired deferred assets. SFAS 141(R) is effective for the Company on January 1, 2009. The Company is currently assessing the impact of this standard on its financial reporting.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* , which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets* . It is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP FAS 142-3 is effective for the Company on January 1, 2009. It is not anticipated to have a material impact on Telesat’s financial reporting.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurement* , which provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. SFAS 157 became effective as of January 1, 2008 except for the provisions relating to non-financial assets and liabilities measured at fair value on a nonrecurring basis, for which the effective date has been deferred until January 1, 2009. The Company is currently assessing the impact of this standard on its financial reporting.

In October 2008, the FASB issued FSP FAS 157-3, *Determining Fair Value of a Financial Asset When the Market for that Asset is not Active* . This FSP clarifies the application of SFAS 157 in a market that is not active and provides key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 was effective upon issuance and did not have a material impact on these financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Liabilities* . SFAS 159 provides an entity the option to report selected financial assets and liabilities at fair value and establishes

TELESAT HOLDINGS INC.

NOTES TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

new disclosure requirements when the fair value option is applied. The Company has opted not to adopt this standard.

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

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* , which requires specific disclosures regarding the location and amounts of derivative instruments in the financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect financial position, financial performance and cash flows. SFAS 161 is effective for the Company on January 1, 2009. The Company is currently assessing the impact of this standard on its financial reporting.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* . SFAS 162 identifies a consistent framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. SFAS 162 will become effective 60 days following the SEC's approval of the Public Company accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The Company is currently assessing the impact of this standard on its financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of
XTAR, L.L.C.
New York, New York

We have audited the accompanying consolidated balance sheets of XTAR, L.L.C. and subsidiary (the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of operations, members’ equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company has substantial transactions with related parties, including an agreement which allows the Company to indefinitely defer payments of certain related party amounts to the extent that such payments would cause the Company’s cash balance to be less than a specified amount.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
March 16, 2009

XTAR, L.L.C.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(In thousands)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,547	$ 1,810
Accounts receivable — net	4,963	6,624
Other current assets	597	465
Total current assets	9,107	8,899
PROPERTY, PLANT AND EQUIPMENT — NET	105,922	115,538
OTHER ASSETS — NET	408	461
TOTAL	$115,437	$124,898
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 162	$ 177
Accrued liabilities	8,584	2,191
Payable to related parties	39,854	27,286
Total current liabilities	48,600	29,654
Term loan-related party	14,744	13,632
Other long term liabilities	16,042	21,154
Total liabilities	79,386	64,440
Members' Equity:		
Loral Skynet Corporation	17,905	33,919
Hisdesat	18,146	26,539
Total members' equity	36,051	60,458
TOTAL	$115,437	$124,898

See notes to consolidated financial statements.

XTAR, L.L.C.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
(In thousands)

	2008	2007	2006
REVENUES:			
Revenues from satellite services	$ 13,226	$ 12,999	$ 8,416
Related party revenues from satellite services	7,179	6,340	6,918
Total revenues	20,405	19,339	15,334
COST OF SATELLITE SERVICES	39,963	29,689	20,735
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,193	4,072	3,232
OPERATING LOSS	(23,751)	(14,422)	(8,633)
INTEREST AND INVESTMENT INCOME	125	182	150
INTEREST EXPENSE	4,495	3,308	3,496
OTHER INCOME (EXPENSE) — Net	157	(313)	(134)
LOSS BEFORE TAXES	(27,964)	(17,861)	(12,113)
INCOME TAX PROVISION	633	560	516
NET LOSS	$(28,597)	$(18,421)	$(12,629)

See notes to consolidated financial statements.

XTAR, L.L.C.

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
(In thousands)

	Loral Skynet International LLC	Loral Skynet Corporation	Hisdesat Servicios Estrategicos, S.A.	Total
BALANCE — January 1, 2006	$ 51,307	$ —	$ 40,201	$ 91,508
Net loss	(7,072)		(5,557)	(12,629)
BALANCE — December 31, 2006	44,235	—	34,644	78,879
Net loss — January 1, 2007 to October 31, 2007	(7,577)		(5,954)	(13,531)
(Sale) purchase of membership interests	(36,658)	36,658		—
Net loss — November 1, 2007 to December 31, 2007		(2,739)	(2,151)	(4,890)
BALANCE — December 31, 2007	—	33,919	26,539	60,458
Interest payable converted to equity			4,190	4,190
Net loss		(16,014)	(12,583)	(28,597)
BALANCE — December 31, 2008	$	$ 17,905	$ 18,146	$ 36,051

See notes to consolidated financial statements.

XTAR, L.L.C.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
(In thousands)

	2008	2007	2006
OPERATING ACTIVITIES:			
Net loss	$(28,597)	$(18,421)	$(12,629)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	9,651	9,747	9,693
Non cash interest expense	3,893	2,464	1,950
Other — accretion to launch consideration payable to Arianespace	630	695	1,525
Adjustment to revenue straight lining assessment	18	(25)	
Changes in operating assets and liabilities:			
Accounts receivable and other current assets	1,529	(3,779)	(1,646)
Accounts payable and other accrued liabilities	(78)	(2,826)	625
Deferred revenue			(2,191)
Long term liabilities	2,258	1,511	605
Payable to related parties	13,977	12,695	8,432
Net cash provided by operating activities	3,281	2,061	6,364
INVESTING ACTIVITIES — Capital expenditures		(2)	
FINANCING ACTIVITIES:			
Arianespace Incentive Cap (Note 10) repayments	(1,544)		
Notes payable repayments		(3,340)	(8,960)
Net cash used in financing activities	(1,544)	(3,340)	(8,960)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,737	(1,281)	(2,596)
CASH AND CASH EQUIVALENTS — Beginning of year	1,810	3,091	5,687
CASH AND CASH EQUIVALENTS — End of year	$ 3,547	$ 1,810	$ 3,091

See notes to consolidated financial statements.

XTAR, L.L.C.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008 AND 2007, AND FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006 (Dollar amounts in thousands, unless otherwise noted)

1. Organization and Principal Business

XTAR, L.L.C. ("XTAR" or the "Company"), is a joint venture between Loral Skynet Corporation ("Loral Skynet"), a wholly owned subsidiary of Loral Space & Communications Inc. ("Loral") 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. Loral Skynet owns 56% of XTAR and Hisdesat owns 44%. XTAR was formed to provide satellite-based X-band communications services to United States, Spanish and allied governments. XTAR operates in accordance with an operating agreement dated July 12, 2001, as amended, which requires approval from both Loral and Hisdesat for significant operating decisions.

Prior to October 31, 2007, Loral Skynet held this interest through Loral Skynet International, LLC ("Loral Skynet International"), a 100% owned subsidiary. On October 31, 2007, immediately prior to the contribution by Loral Skynet of its fixed satellite services business (including shares of Loral Skynet International) to Telesat Canada in connection with Loral's acquisition of 64% economic interest in Telesat Canada (the "Telesat Canada Transaction"), Loral Skynet International distributed its entire interest in the Company to Loral Skynet. Prior to Loral Skynet acquiring the 56% interest in November 2005, Loral's other subsidiaries namely, Space Systems/ Loral, Inc. (SS/L) and Loral Space and Communications Holdings Corporation together held a 56% interest in XTAR. XTAR successfully launched its XTAR-EUR satellite, which was constructed by SS/L, on February 12, 2005, and it commenced service in March 2005. XTAR also leases X-band transponders (marketed as XTAR-LANT) on the Spainsat satellite, which was constructed by SS/L for Hisdesat. Spainsat was successfully launched on March 11, 2006, and commenced service in April 2006. The XTAR-EUR and XTAR-LANT satellites provide high-power X-band communication services over a large portion of the earth, including North America west to Colorado Springs, Colorado; South America, Europe, and the Middle East; Asia east to Singapore; and the Atlantic and Indian Oceans.

The Company has substantial transactions with Loral Skynet, Hisdesat, Telesat Canada and their affiliates, including transponder leases, service agreements, and a term loan. During 2008, the Company and these related parties reached an agreement under which the Company can indefinitely defer certain amounts due to these related parties, to the extent that such payments would cause the Company's cash balance to be less than a specified amount. These matters are discussed in more detail in notes 8 and 9 to the consolidated financial statements.

2. Basis of Presentation

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and in U.S. dollars. The consolidated financial statements include the accounts of XTAR and its wholly owned subsidiary. All intercompany transactions and balances have been eliminated.

3. Summary of Significant Accounting Policies

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.

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.

Property, Plant and Equipment — Property, plant and equipment are stated at historical cost. Depreciation is provided on the straight-line method for the satellite and related equipment over the estimated useful lives of

XTAR, L.L.C.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollar amounts in thousands, unless otherwise noted)

the related assets. Leasehold improvements on the Spainsat transponders leased from Hisdesat are being amortized over the life of the lease, which equates to the estimated useful life of the underlying satellite asset. Below are the estimated useful lives of our property, plant and equipment:

	Years
Satellite-in-orbit	15
Earthstations	7-15
Equipment, furniture and fixtures	3
Leasehold improvement on Spainsat Transponders	15

Valuation of Satellite, Long-Lived Assets — The carrying value of the Company's satellite and other long-lived assets is reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). The Company periodically evaluates potential impairment loss relating to their satellite 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 satellite 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 the 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 the Company received insurance proceeds, the proceeds would be recognized in their statement of operations.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, customer receivables, accounts payable, certain other accrued liabilities, the Hisdesat Term Loan (Note 9), and the Arianespace Incentive Cap (Note 10). The carrying amounts of the financial investments are reasonable estimates of their fair values.

Revenue Recognition — The Company provides satellite capacity under lease agreements that generally provide for the use of satellite transponders for periods generally ranging from three months to three years. 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 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 and/or free rent periods are recognized on a straight-line basis over the life of the lease.

Income Taxes — XTAR is a Delaware limited liability company treated as a partnership for U.S. tax purposes. As such, no U.S. income tax provision (benefit) is included in the accompanying financial statements because U.S. income taxes are the responsibility of its members. XTAR is subject to foreign income taxes on certain income from sources outside the United States.

XTAR, L.L.C.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollar amounts in thousands, unless otherwise noted)

Taxes Collected from Customers and Remitted to Governmental Authorities — In accordance with EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* , the Company has included $605, $527, and $522, in gross revenue for taxes collected from customers to be remitted to government authorities for fiscal years 2008, 2007, and 2006, respectively.

Additional Cash Flow Information — Supplemental information to the consolidated statements of cash flows for the years ended December 31, 2008, 2007, and 2006, is as follows:

	2008	2007	2006
Supplemental information:			
Capital expenditure incurred and unpaid — related parties	$ —	$ —	$ 2
Interest payable converted to equity	$4,190	$ —	$ —
Interest paid	$ —	$2,546	$ —
Foreign taxes paid — net of refunds	$ 533	$ 524	$522

Foreign Currency — XTAR uses the U.S. dollar as its functional currency. Foreign currency denominated monetary assets and liabilities are remeasured into U.S. dollars at the period end rate and the expenses are translated at the average exchange rate in effect during each period. Nonmonetary assets, liabilities and equity are maintained at historical cost. Gains or losses are recognized in other income (expense) on the consolidated statements of operations.

Comprehensive Income — Comprehensive income (loss) is comprised of two components: net loss and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains and losses that under U.S. GAAP are recorded as an element of members' equity, but are excluded from net loss. Comprehensive loss for the years ended December 31, 2008, 2007, and 2006, was the same as net loss.

Prospective Method of Valuing/Accreting Arianespace Incentive Obligation — The Company adopted the "prospective method", as described in EITF Issue No. 99-20, of accreting the Arianespace incentive cap liability (see Note 10). Under this accounting policy the Company accounts for differences in actual versus expected cash flows or revisions of future cash flow projections in light of current information prospectively — that is, as an adjustment to the effective yield to be recognized in interest expense over the remaining life of the contracts, rather than as an adjustment to the carrying amount.

4. New Accounting Pronouncements

FIN 48 — In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* , the Company has elected to defer the application of FIN 48 until January 1, 2009. The Company evaluates uncertain tax positions based on the probable outcome of potential audit issues estimating the additional taxes that may be due in the future.

SFAS 157 — In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), to define fair value, establish a framework for measuring fair value in accordance with United States GAAP and

expand disclosures about fair value measurements. SFAS 157 requires quantitative disclosures using a tabular format in all periods and qualitative disclosures about the valuation techniques used to measure fair value in all annual periods. The Company adopted SFAS 157 on January 1, 2008. The adoption of SFAS 157 did not have a significant impact on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2") which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 is effective for the Company on January 1, 2009. The Company is currently evaluating the impact of the adoption of FSP 157-2 will have on the Company's consolidated financial position and results of operations.

SFAS 159 — In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). Under SFAS 159, a company may elect to use fair value to measure certain financial assets and financial liabilities, on an instrument-by-instrument basis. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. The Company adopted SFAS 159 on January 1, 2008, and did not elect the fair value option for any of its qualifying financial instruments.

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

5. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2008 and 2007, are as follows:

	2008	2007
Satellite in-orbit	$130,436	$130,436
Earth stations	9,177	9,177
Equipment, furniture and fixtures	387	387
Leasehold improvement on transponders	2,100	2,100
	142,100	142,100
Accumulated depreciation and amortization	(36,178)	(26,562)
Property, plant and equipment — net	$105,922	$115,538

Depreciation and amortization expense for property, plant and equipment was $9,616, $9,712, and $9,659, for the years ended December 31, 2008, 2007, and 2006, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollar amounts in thousands, unless otherwise noted)

The transponder capacity on our satellite in-orbit is available for lease to customers. Future minimum lease receipts due from customers under long-term operating leases for transponder capacity as of December 31, 2008, are as follows:

December 31	
2009	$8,303
2010	1,216
2011	1,199

6. Other Assets

Other assets as of December 31, 2008 and 2007, are as follows:

	2008	2007
Intangible assets:		
Regulatory and orbital slot	$ 518	$518
Accumulated amortization	(130)	(95)
Intangible assets — net	388	423
Other assets	20	38
Total other assets	$ 408	$461

In connection with the execution of the Company's LLC Operating Agreement, Hisdesat agreed to freely license XTAR the right to the XTAR-EUR orbital slot provided that XTAR would reimburse the related orbital slot filing and regulatory fees. The Company paid $518 of such filing and regulatory fees and has recorded the amounts as an intangible asset on the consolidated balance sheet amortized over a 15 year useful life.

Total amortization expense was $35 for each of the years ended December 31, 2008, 2007, and 2006. Annual pre-tax amortization for intangible assets for the five years ending December 31, 2013, and thereafter is estimated to be as follows:

Years Ending December 31	
2009	$ 35
2010	35
2011	35
2012	35
2013	35
Thereafter	213
Total	$388

7. Income Taxes

The provision for income taxes consists of a current foreign tax provision in the amount of $633, $560, and $516, for the years ended December 31, 2008, 2007, and 2006, respectively.

XTAR is a Delaware limited liability company treated as a partnership for U.S. tax purposes. As such, no U.S. income tax provision (benefit) is required since U.S. income taxes are the responsibility of its members. Generally, taxable income or loss, deductions and credits are passed through to its members in proportion to their percentage interest.

XTAR is subject to foreign income taxes on certain income from sources outside the United States, including sales to customers in certain countries, such as Spain, where a withholding tax is imposed against gross sales in lieu of a tax on net income, and branch income earned in certain foreign countries. During 2008, 2007, and 2006, we paid $533, $524, and $522, respectively, of Spanish income tax.

8. Related Party Transactions

In addition to the transaction described in Note 9, XTAR has additional transactions with its shareholders and their subsidiaries and affiliates. The following describes such related party transactions.

Lease of Capacity to Hisdesat on XTAR-EUR — XTAR leases X-Band space segment capacity to Hisdesat on its XTAR-EUR satellite to enable Hisdesat to provide services to the Spanish government, as well as re-leasing XTAR capacity to other European governments. Revenue recognized under these lease agreements during the years ended December 31, 2008, 2007, and 2006, was $7,179, $6,340, and $6,918, respectively. Hisdesat owed XTAR $1,578 and $1,171 as of December 31, 2008 and 2007, respectively.

XTAR has agreed to provide back-up service to Hisdesat in the event of a partial or total failure of the Spainsat satellite. Accordingly, the 238 MHz of transponder capacity on XTAR-EUR that would be utilized to provide such back-up service can be leased by XTAR only on a preemptible basis. Hisdesat is not required to make any payments to XTAR until such capacity is actually utilized, at which time, if the full 238 MHz is utilized, Hisdesat would pay to XTAR $1,300 per month for such capacity.

The components of the payable to related parties as of December 31, 2008 and 2007 are as follows:

	2008	2007
Lease obligation To Hisdesat	$32,308	$17,348
Operations Services Agreements With Hisdesat	2,093	3,454
Hisdesat Management Agreement With XTAR	1,153	1,175
Loral Skynet/Telesat Canada/Space Systems Loral Services Agreement	2,972	3,646
Loral SpaceCom Corporation Management Agreement With XTAR	1,296	1,632
Other	32	31
Total	$39,854	$27,286

Lease Obligation to Hisdesat — XTAR signed an agreement with Hisdesat in February 2002 to procure satellite transponder capacity on the Spainsat (XTAR-LANT) satellite for commercial resale to XTAR customers. The agreement provides a minimum lease obligation, initially of 25% ramping up to 90% of the eight transponders made available by Hisdesat through the end of life of the Spainsat satellite. Spainsat was successfully launched on March 11, 2006, and commenced service in April 2006. XTAR's lease obligation to Hisdesat for the XTAR-LANT transponders was initially $7,744 per year, ultimately growing to $27,486 per year. The lease expense is recorded on a straight-line basis for the increasing lease payments. The deferred lease liability which is recorded as other long-term liabilities was $4,373 and $2,116, as of December 31, 2008 and 2007, respectively. Under this lease agreement, Hisdesat may also be entitled under certain circumstances to a share of the revenues generated on the XTAR-LANT transponders. Cost of satellite services recognized under the lease obligations for the years ended December 31, 2008, 2007, and 2006 were $25,309, $14,665, and $5,201, respectively. Total amounts due to Hisdesat under the lease obligation, including interest on past due invoices, as of December 31, 2008 and 2007, are $32,308 and $17,348, respectively. As of December 31, 2008, XTAR has no customer requirements for this Spainsat capacity. While XTAR has made certain limited payments to Hisdesat in respect of this lease obligation, XTAR will not, absent a substantial increase in its take-up rate, have the ability to service this obligation. XTAR and Hisdesat have entered into an arrangement to indefinitely defer payments on the Spainsat lease subject to distribution of excess

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollar amounts in thousands, unless otherwise noted)

cash over $3,000. The following table presents the future minimum payments, excluding interest, due under this lease agreement:

Years Ending December 31	
2009	$ 23,420
2010	23,794
2011	24,175
2012	24,562
2013	24,955
Thereafter	195,114
Total	$316,020

Operations Services Agreements With Hisdesat — XTAR signed an agreement with Hisdesat in January 2005 whereby Hisdesat provides ground control system operation and maintenance services through the end of life of XTAR-EUR satellite. XTAR is to pay Hisdesat Euros 41 per month ($54 and $60 on the basis of exchange rates as of December 31, 2008 and 2007, respectively). Cost of satellite services recognized under this agreement for the years ended December 31, 2008, 2007, and 2006, were $844, $786, and $696, respectively. XTAR and Hisdesat have also entered into an agreement whereby Hisdesat provides XTAR tax and legal representation in Spain. Expenses related to these services are included in selling, general and administrative expenses and for the years ended December 31, 2008, 2007, and 2006, amounted to $116, $109, and $99, respectively. Amounts due to Hisdesat under these agreements as of December 31, 2008 and 2007, were at $2,093 and $3,454, respectively.

Hisdesat Management Agreement With XTAR — XTAR and Hisdesat have entered into a management agreement whereby Hisdesat provides general and specific services of technical, financial, commercial and administrative nature to XTAR in Europe and Latin America. For the services rendered by Hisdesat, XTAR is to pay a quarterly management fee equal to 2.9% of XTAR's quarterly gross revenues. Expenses recognized under the agreement included in selling, general and administrative expense for the years ended December 31, 2008, 2007, and 2006, were $592, $561, and $445, respectively. Amounts due to Hisdesat under the management agreement as of December 31, 2008 and 2007, were $1,153 and $1,175, respectively.

Loral Skynet Corporation/Telesat Canada Service/Space Systems Loral Agreements and Arrangements With XTAR — XTAR signed agreements with Loral Skynet in January 2004 whereby Loral Skynet agreed to provide telemetry, tracking and control (TT&C) services, access management services through the end of life of XTAR-EUR satellite as well as a satellite construction oversight service, which is no longer active. XTAR is to pay Loral Skynet $46 per month for TT&C and $28 per month for access management. In October 2007 in connection with the Telesat Canada Transaction, Loral Skynet assigned these agreements, as well as the outstanding payables owed by XTAR to Loral Skynet, to Telesat Canada. Cost of satellite services recognized under these agreements for the years ended December 31, 2008, 2007, and 2006, are $888, $883, and $933, respectively.

XTAR and Loral Skynet have also entered into agreements whereby Loral Skynet provided to XTAR certain general and administrative services. In October 2007, Loral Skynet assigned these agreements, as well as the outstanding payables owed by XTAR to Loral Skynet, to Telesat Canada. Selling, general and administrative expenses recognized under these agreements for the years ended December 31, 2008, 2007, and 2006, were $185, $408, and $424, respectively. The Global Administration contract with Loral Skynet expired June 30, 2008 and effective July 1, 2008 Space System Loral took over that function which resulted in fees of $45 for the remainder of 2008.

Loral provides US employee benefits administration and certain XTAR employees participate in the Loral pension plan. Loral charges XTAR for this cost which amounted to $0, $58, and $55 for the years ended December 31, 2008, 2007, and 2006, respectively.

XTAR, L.L.C.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollar amounts in thousands, unless otherwise noted)

Amounts due under these agreements as of December 31, 2008 and 2007, were $2,972 and $3,646, respectively.

Loral Space & Communications Inc. Management Agreement With XTAR — XTAR and Loral Space & Communications Inc. have entered into a management agreement whereby Loral Space & Communications, Inc. provides general and specific services of a technical, financial, commercial and administrative nature to XTAR. For the services rendered by Loral Space & Communications Inc., XTAR is to pay a quarterly management fee equal to 3.7% of XTAR's quarterly gross revenues. Selling, general and administrative expenses recognized under these agreements for the years ended December 31, 2008, 2007, and 2006, were $755, $716, and $567, respectively. Amounts due to Loral Space & Communications Inc. under the management agreement as of December 31, 2008 and 2007, were at $1,296 and $1,632, respectively.

Deferment Arrangement With Hisdesat, Loral and Telesat Canada — As of December 31, 2008 and 2007, XTAR owes Hisdesat and Loral, including its subsidiaries, $39,854 and $27,286, respectively. Loral and Hisdesat have agreed to defer the outstanding balances, except any interest due on the Spainsat lease, indefinitely, to the extent that such payments would cause the Company's cash balance to be less than $3 million. Any cash balance over $3 million shall be applied in the following manner: 50% of such excess cash balance shall be applied to pay outstanding balances due on the Spainsat lease, with the remaining 50% to be applied to pay outstanding balances owed to each of Hisdesat and Loral, including its subsidiaries. The Company and Hisdesat executed an agreement on March 13, 2008, whereby interest on past dues relating to Spainsat lease, plus any and all future interest amounts on Spainsat lease, will be capitalized into equity by issuing a class of nonvoting equity interests in the Company (the "Class A Equity"), which class will enjoy priority rights over Loral's and Hisdesat's existing equity interests in the Company in respect of all dividends and distributions until such time as the Class A Equity has been repaid in full. For the year ended December 31, 2008, $4,190 of lease interest has been converted into non-voting equity interest in XTAR.

9. Term Loan

Hisdesat Term Loan — In January 2005, Hisdesat provided XTAR with a convertible 8% loan in the amount of $10,787 due September 2011, for which Hisdesat received enhanced governance rights in XTAR. If Hisdesat were to convert the loan into XTAR equity, Loral Skynet's equity interest in XTAR would be reduced to 51% and Hisdesat's equity interest would increase to 49%. The principal amount and interest accrued on the term loan as of December 31, 2008 and 2007, are as follows:

	2008	2007
Principal amount	$10,787	$10,787
Interest accrued	3,957	2,845
Total	$14,744	$13,632

10. Other Long Term Liabilities

XTAR entered into a Launch Services Agreement with Arianespace providing for the launch of its XTAR-EUR satellite on Arianespace's Ariane 5 ECA launch vehicle. Arianespace provided a one-year, $15,800, 10% interest paid-in-kind loan for a portion of the launch price in addition to a revenue-based fee (incentive portion) to be paid over time for the remainder of the launch price. The Company granted and pledged to Arianespace a security interest in the XTAR-EUR satellite to ensure payment of the liabilities. The incentive portion of the launch service price is based on 3.5% of annual operating revenues during the 15 year in-orbit operations of the satellite subject to a maximum threshold, as defined in the Launch Services Agreement (the "Incentive Cap"). The Incentive Cap is set at $20,000 through December 2007 and shall be increased by $208 each month beginning January 2008 to a maximum of $50,000 on December 1, 2019. The Company has the option to prepay some or all of this incentive portion and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollar amounts in thousands, unless otherwise noted)

once the incentive payments actually paid to Arianespace equal the Incentive Cap at any point in time, we will have no further payment obligation to Arianespace. At the end of XTAR-EUR's useful life, the Company will have no further obligation to Arianespace on the incentive portion, even if the aggregate amount of the incentive fee payments shall not have reached the $50,000 Incentive Cap. The carrying value of the incentive payable to Arianespace is arrived at by accreting interest on the previous years' outstanding balance at a rate that equates the 3.5% fee payable on the projected revenue through the end of the life of the XTAR-EUR satellite.

All yearly incentive payments earned prior to 2007 were payable together with the yearly incentive payment of fiscal year 2007 before February 29, 2008. XTAR made the first incentive payment of $1,544 on February 29, 2008.

The current and long term liabilities as of December 31, 2008 and 2007, are as follows:

	2008	2007
Long term liabilities:		
Straight lining of Spainsat lease	$ 4,373	$ 2,116
Arianespace Incentive Cap	19,669	20,582
Less current portion of Arianespace Incentive Cap	(8,000)	(1,544)
Total long term liabilities	$16,042	$21,154

Xtar and Arianespace entered into an Incentive Prepayment Agreement on January 27, 2009, whereby both parties agree to reduce the liability to $8,000. The liability will be paid off in three installments with the final installment due June 30, 2009. The Company has already made a $4,000 payment in January 2009. The carrying value of the total liability as of December 31, 2008 of $19,669 has not been adjusted to reflect this subsequent agreement, but the $8,000 due in 2009 has been classified as a current liability at December 31, 2008.

11. Revenue Information

Revenue by Customer Location — Our revenues by country based on customer location for the years ended December 31, 2008, 2007, and 2006, are as follows:

	2008	2007	2006
United States	$13,226	$12,999	$ 8,416
Spain	7,179	6,340	6,918
	$20,405	$19,339	$15,334

12. Subsequent Event

In February 2009, Loral made an equity contribution of $4,480 to XTAR.

* * * * * *

Exhibit 10.16

Execution Copy

EMPLOYMENT AGREEMENT

AGREEMENT , dated as of the 28th day of March, 2006 (the " *Effective Date* "), and amended and restated as of the 17th day of December, 2008, 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 14(m) hereof.

WHEREAS , the Company had initially entered into an employment agreement with the Executive, effective March 28, 2006 (the " *2006 Agreement* "); and

WHEREAS , certain amendments to the 2006 Agreement are required under Internal Revenue Code (" *Code* ") § 409A and permitted under Section 13(n) of the 2006 Agreement; and

WHEREAS , the Company and the Executive wish to make those changes required by Code § 409A and to preserve, to the maximum lawful extent, all the economic benefits to the Executive intended by the 2006 Agreement; and

WHEREAS , this Agreement shall supersede the 2006 Agreement.

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 the Executive's continued 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 benefits shall be paid to the Executive in accordance with the written terms of the applicable plan, policy or program. 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 benefits shall be paid to the Executive in accordance with the written terms of such other benefit plans, programs, practices and policies. 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. Such perquisites and fringe benefits shall be paid to the Executive in accordance with the written terms of the applicable arrangement.

(e) Reimbursement of Expenses . Subject to the terms set forth in Section 11 below, including, but not limited to, Section 11(e), 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; provided , however , that upon the occurrence of the Executive's incapacity due to physical or mental disability that, based on the facts and circumstances, would indicate that a separation from service has occurred within the meaning of Treasury Regulation Section 1.409A-1(h), the Executive's employment shall be terminated immediately on account of disability pursuant to this Section 6(b) without any further action on the part of the Executive or 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 clause (ii), (iii), (iv), or (v) 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 Holdings Corporation or Space Systems/Loral, Inc. (each, a "Subsidiary") shall not, by itself, constitute Good Reason;

(iii) a 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; or

(vii) 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. Death and Employment 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 payable in accordance with the Company's general payroll policies, (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 in accordance with the Company's reimbursement policies as provided above, (iii) all other payments and benefits to which the Executive may be entitled under the terms (including time, form and manner of payment) 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* ").

(b) Death . In the event of 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 paid in the time, form and manner set forth in Section 7(a), plus (ii) any Base Salary through the end of the calendar month in which the Executive's death occurred, payable in accordance with the Company's general payroll policies, plus (iii) any accrued and unpaid Annual Bonus for the immediately preceding year payable at the time the Company pays its executives such bonus in accordance with its general payroll policies but in no event later than March 15 th of the year following the year to which such bonus relates, and (iv) 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, payable at the times the Company pays its executives such bonus in accordance with its general payroll policies but in no event later than March 15 th of the year following the year to which such bonus relates (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 upon the same terms and conditions applicable generally to active employees and their families; provided , however , that the Company portion of the monthly insurance premiums provided pursuant to the immediately preceding sentence shall be taxable income to the Executive in the year in which such coverage is provided.

(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 (except that for purposes of this Section 7(c), the term "death" in Section 7(b)(iv) above shall be replaced with the term "termination"), paid in accordance with the time, form and manner of payment set forth in Section 7(b), 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) (*"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. Notwithstanding anything herein to the contrary, the Company portion of the monthly insurance premiums provided pursuant to the immediately preceding sentence shall be taxable income to the Executive in the year in which such coverage is provided. In all instances, subject to the terms set forth in Section 7(f) and Section 11 below, including, but not limited to, Section 11(d), the Severance Payments shall be paid to the Executive in the form of a single lump sum payment sixty (60) days after the Executive's termination. 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 182 nd 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 under this Agreement, 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 (except that for purposes of this Section 7(d), the term "death" in Section 7(b)(iv) above shall be replaced with the term "disability"), paid in accordance with the time, form and manner of payment set forth in Section 7(b). 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.

(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 within sixty (60) days of termination.

(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 to the Annual Bonus earned in accordance with the terms of the MIB Program for the last fiscal year of the Term, payable in accordance with the Company's general payroll policies, but in no event later than March 15 th of the year following the year to which such bonus relates, 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) and Section 11 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 Payment. If the Reduced Payment 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.

(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's actual U.S. federal income tax rate in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the Executive's actual 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, shall be used. 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) Subject to Section 11 below, including, but not limited to, Section 11(d)(1), 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. Notwithstanding any other provision of this Agreement, all Gross-Up Payments under this Section 8 shall be made to the Executive no later than by the end of the Executive's taxable year following the Executive's taxable year in which the Executive remits the applicable taxes. 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; provided that (i) any set off against amounts subject to Code Section 409A shall be limited to debts incurred in the ordinary course of the service relationship between the Executive and the Company, (ii) the entire amount of such set off against amounts subject to Code Section 409A in any of the Executive's taxable years does not exceed $5000, and (iii) the set off is made at the same time and in the same amount as the debt otherwise would have been due and collected from 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. Section 409A of the Code .

(a) Section 409A . It is intended that the provisions of this Agreement comply with Code Section 409A or be exempt therefrom, and this Agreement shall be administered, and all provisions of this Agreement shall be construed, in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A.

(b) Installments . If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment.

(c) Separation From Service . Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Code § 409A) upon a

termination of employment shall be delayed until such time as Employee has also undergone a "separation from service" as defined in Treas. Reg. § 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of the Executive's termination of employment hereunder) shall be paid (or commence to be paid) to the Executive on the schedule set forth hereunder with respect to such nonqualified deferred compensation as if the Executive had undergone such termination of employment (under the same circumstances) on the date of his ultimate "separation from service"; provided, however, that the Executive shall be deemed to have suffered a "separation from service" as of a given date for purposes of Treas. Reg. § 1.409A-1(h) to the extent that it is reasonably anticipated that the Executive's level of *bona fide* services to the Company, as an employee, independent contractor, or otherwise, will permanently decrease to less than 50% of the average level of services performed by the Executive for the Company in the 36-month period immediately preceding such date.

(d) Specified Employee . If the Executive is deemed on the date of termination of his employment to be a "specified employee", within the meaning of that term under Section 409A(a)(2)(B) of the Code and using the identification methodology selected by the Company from time to time, or if none, the default methodology, then:

(i) With regard to any payment, the providing of any benefit or any distribution of equity that constitutes "deferred compensation" subject to Code Section 409A, payable upon separation from service, such payment, benefit or distribution shall not be made or provided prior to the earlier of (i) the expiration of the six-month period measured from the date of the Executive's Separation from Service or (ii) the date of the Executive's death; and

(ii) On the first day of the seventh month following the date of the Executive's Separation from Service or, if earlier, on the date of his death, (x) all payments delayed pursuant to this Section 11 shall be paid or reimbursed to the Executive in a lump sum without interest, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal dates specified from them herein and (y) all distributions of equity delayed pursuant to this Section 11(d) shall be made to the Executive.

(e) Reimbursement . With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, (ii) the amount of expenses eligible for reimbursement, of in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated without regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect and (iii) such payments shall be made on or before the last day of the Executive's taxable year following the taxable year in which the expense occurred.

(f) Payment Period . Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., “payment shall be made within forty (40) days following the date of termination), the actual date of payment within the specified period shall be within the sole discretion of the Company.

(g) Compliance . 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, the Company shall, after consulting with the Executive, reform such provision to comply with Code Section 409A, but only if, after consultation, such provision can be reformed to so comply; provided that the Company agrees to maintain, to the maximum extent practicable, the original intent and economic benefit to the 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. Any payment or reimbursement for taxes made pursuant to this Section 11(g) (and any gross up thereon) shall be paid to the Executive promptly after such obligation is incurred, but in no event later than the end of the calendar year following the calendar year in which the tax is paid by the Executive.

(h) Other Company Plans, Agreements and Programs . If any provision of any Company plan, agreement or program in which the Executive participates would cause the Executive to incur any additional tax or interest under Code Section 409A, upon the Executive’s request, the Company shall reform such provision to comply with Code Section 409A, but only, if after such request, such provision can be reformed to so comply, in a manner that shall maintain, to the maximum extent practicable, the economic benefit to the Company and the Executive of the applicable provision without violating the provisions of Code Section 409A, provided that nothing herein, and no action taken or not taken by the Company at the request of or in consultation with the Executive, is intended to guarantee compliance with Code Section 409A.

Section 12. 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 13. 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	to the address on file with the Company.

or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 13. All notices to any person shall be deemed given when actually received by the person.

Section 14. 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 (collectively, " *Legal Fees* "). The Company shall pay all Legal Fees to the Executive no later than by the end of the calendar year following the calendar year the legal services are provided to the Executive.

(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. The Company shall reimburse the Executive for such fees and expenses in the form of a single lump sum payment thirty (30) days from the date of the arbitrator's final determination but in any event no later than March 15 th following the year in which the arbitrator makes his final determination.

(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 Holdings 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.

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: Senior Vice President, General Counsel and Secretary

/s/ Michael B. Targoff
Michael B. Targoff

LORAL HOLDINGS CORPORATION (solely for purposes of Section 14(m) hereof)

By: /s/ Avi Katz
Name: Avi Katz
Title: Senior Vice President and Secretary

SPACE SYSTEMS/LORAL, INC. (solely for purposes of Section 14(m) hereof)

By: /s/ Avi Katz
Name: Avi Katz
Title: Senior Vice President and Secretary

Schedule I

Outside Business Relationships

1. Chairman of the Board of Directors and member of the Audit Committee of Communication Power Industries.

2. Member of the Board of Directors, Chairman of the Audit Committee of Leap Wireless International, Inc., and member of the Compensation Committee and Nominating and Corporate Governance 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 10.20

LORAL SPACE & COMMUNICATIONS INC.
2005 STOCK INCENTIVE PLAN
(Amended and Restated as of November 7, 2008)

1. **Purpose.**

The purpose of the Plan is to assist the Company in attracting, retaining, motivating and rewarding Eligible Persons, and to promote the creation of long-term value for stockholders by closely aligning the interests of Participants with those of stockholders. The Plan authorizes the award of stock-based incentives to Participants to encourage such persons to expend their maximum efforts in the creation of stockholder value. The Plan is also intended to qualify certain compensation awarded under the Plan for tax deductibility under Section 162(m) of the Code to the extent deemed appropriate by the Committee which administers the Plan.

2. **Definitions.**

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) " Affiliate " means, any other entity that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Company.

(b) " Award " means any award of an Option, SAR, Restricted Stock, Restricted Stock Unit, Stock granted as a bonus or in lieu of another award, or Other Stock-Based Award.

(c) " Board " means the Board of Directors of the Company.

(d) " Cause " with respect to any Participant (A) shall have the meaning set forth in the current effective employment or consulting agreement between the Company or an Affiliate, as applicable, and the Participant or (B) in the event that there is no such employment or consulting agreement or if there is no such definition in any such employment or consulting agreement, shall mean, (i) the Participant 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 Participant 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 Participant's employment with the Company; (iii) the Participant shall have breached any material provision of any noncompetition, nonsolicitation or confidentiality agreement with the Company or any Affiliate; (iv) the Participant shall have committed any fraud, embezzlement, misappropriation of funds, or breach of fiduciary duty against the Company or any Affiliate, in each case of a material nature; (v) the Participant 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; or (vi) the Participant willfully breaches in any material respect any material provision of the Company's Code of Conduct and, to the extent any such breach is curable, the Participant has failed to cure

such breach within ten (10) days after written notice of the alleged breach is provided to the Participant.

(e) " Change in Control " shall be deemed to have occurred if: (i) any person (as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof, including any "group" as defined in Section 13(d)(3) thereof (a "Person"), but excluding the Company, any Affiliate, any employee benefit plan sponsored or maintained by the Company or any Affiliate (including any trustee of such plan acting as trustee), and any Person who owns 20% or more of the total number of votes that may be cast for the election of directors of the Company (the "Voting Shares") as of the Effective Date, becomes the beneficial owner of 35% of the "Voting Shares"; (ii) the Company undergoes any merger, consolidation, reorganization, recapitalization or other similar business transaction, sale of all or substantially all of the Company's assets or combination of the foregoing transactions (a "Transaction"), other than a Transaction involving only the Company and one or more Affiliates, and immediately following such Transaction the shareholders of the Company immediately prior to the Transaction do not continue to own at least a majority of the voting power in the resulting entity; (iii) the persons who are the original members of the Board pursuant to the Plan of Reorganization (the "Incumbent Directors") shall cease (for any reason other than death) to constitute at least a majority of members of the Board or the board of directors of any successor to the Company, provided that any director who was not a director as of the Effective Date shall be deemed to be an Incumbent Director if such director was elected to the Board by, or on the recommendation of or with the approval of, at least a majority of the directors who then qualified as Incumbent Directors, either actually or by prior operation of this definition; or (iv) the shareholders of the Company approve a plan of liquidation or dissolution of the Company, or any such plan is actually implemented.

(f) " Code " means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(g) " Committee " means a committee of two or more directors designated by the Board to administer the Plan; provided, however, that directors appointed as members of the Committee shall not be employees of the Company or any subsidiary. In appointing members of the Committee, the Board will consider whether a member is or will be a Qualified Member, but such members are not required to be Qualified Members at the time of appointment or during their term of service on the Committee, and no action of the Committee shall be void or invalid due to the participation of a member who is not a Qualified Member. If no Committee has been appointed, or if the Committee has been disbanded, or if the Board makes a determination to assume any or all powers of the Committee, any reference herein shall be deemed to be a reference to the Board; provided, however that if the Board acts as the Committee, each member of the Board who is not a an independent member of the Board under the NASDAQ independence requirements shall recuse himself or herself from any such Board action, unless such action is for the purpose of granting awards hereunder to members of the Board who are independent members of the Board not employed by the Company and the Board determines to act as the full Board.

(h) " Company " means Loral Space & Communications Inc., a Delaware corporation.

(i) “ Disability ” means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(j) “ Dividend Equivalents ” shall have the meaning set forth in Section 9 hereof.

(k) “ Effective Date ” shall have the meaning set forth in Section 21 hereof.

(l) “ Eligible Person ” means each employee of the Company or of any Affiliate, including each such person who may also be a director of the Company, each non-employee director of the Company or an Affiliate, each other person who provides substantial services to the Company and/or its Affiliates and who is designated as eligible by the Committee, and any person who has been offered employment by the Company or an Affiliate, provided that such prospective employee may not receive any payment or exercise any right relating to an Award until such person has commenced employment with the Company or an Affiliate. An employee on an approved leave of absence may be considered as still in the employ of the Company or an Affiliate for purposes of eligibility for participation in the Plan.

(m) “ Employer ” means either the Company or an Affiliate that the Participant (determined without regard to any transfer of an Award) is employed by or provides services to, as applicable.

(n) “ Exchange Act ” means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(o) “ Expiration Date ” means the date upon which the term of an Option, as determined under 6(b) hereof, or SAR, as determined under Section 7(a)(ii) hereof expires.

(p) “ Fair Market Value ” means on any date (A) if the Stock is listed on a national securities exchange, the closing sale price reported as having occurred on the primary exchange with which the Stock is listed and traded on such date, or, if there is no such sale on that date, then on the last preceding date on which such a sale was reported, (B) if the Stock is not listed on any national securities exchange but is traded in the over-the-counter market bulletin board or pink sheets on a last sale basis, the closing sale price reported on such date, or, if there is no such sale on that date then on the last preceding date on which such a sale was reported; provided, however, that for purposes of the Initial Option Grant, the Fair Market Value shall be the weighted average of the aggregate sale prices of the Stock reported for the ten trading days immediately preceding the grant date; and further provided, however, that if such definition of Fair Market Value for Options granted in connection with the Plan of Reorganization does not comply with the definition of fair market value for purposes of Section 409A of the Code or if such definition would give rise to variable accounting treatment of such Options, then Fair Market Value for such Options shall have the meaning attributable thereto in clauses (A) or (B) above, as applicable, or such other meaning which complies with Section 409A and does not give rise to variable accounting treatment. If the Stock is not listed on an exchange or traded in the over-the-counter market, or representative quotes are not otherwise available, the Fair Market Value shall mean the amount determined by the Board in good faith to be the fair market value per share of Stock, on a fully diluted basis.

(q) " Good Reason " with respect to any Participant (A) shall have the meaning set forth in the current effective employment or consulting agreement between the Company or an Affiliate, as applicable, and the Participant or (B) in the event that there is no such employment or consulting agreement or if there is no such definition in any such employment or consulting agreement, shall mean, (i) the assignment to the Participant of any duties inconsistent in any substantial respect with the Participant's position, authority or responsibilities to or with the Company or an Affiliate, as applicable, or any duties which are illegal or unethical or any diminution of any of the Participant's significant duties; (ii) any reduction in base salary, or to the extent guaranteed by a contract with the Company or an Affiliate, as applicable, the Participant's target annual bonus or any of the benefits provided for in any such contract to the extent such reduction is not permitted under the terms of any such contract; (iii) the relocation by the Company of the Participant'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 Participant's home than the Participant's primary place of employment as of the Effective Date; (iv) any material breach of any employment or consulting agreement with the Participant by the Company, or an Affiliate, as appropriate; or (v) the failure of the Company to obtain the assumption in writing of its obligation to perform any employment or consulting agreement with the Participant by any successor to all or substantially all of the assets of the Company.

(r) " Initial Option Grant " shall mean the automatic award of options under the Plan as set forth in Section 6(h).

(s) " Mature Shares " means (A) shares of Stock for which the Participant has good title, free and clear of all liens and encumbrances, and which the Participant either (i) has held for at least six months or (ii) has purchased on the open market or (B) such shares as determined by the Committee.

(t) " New Skynet " shall have the meaning ascribed thereto in the Plan of Reorganization.

(u) " New Skynet Sale Event " means a sale of all or substantially all of the common stock or assets of New Skynet .

(v) " New SS/L " shall have the meaning ascribed thereto in the Plan of Reorganization.

(w) " New SS/L Sale Event " means a sale of all or substantially all of the common stock or assets of New SS/L.

(x) " Option " means a conditional right, granted to a Participant under Section 6 hereof, to purchase Stock at a specified price during specified time periods.

(y) " Option Agreement " means a written agreement between the Company and a Participant evidencing the terms and conditions of an individual Option grant.

(z) " Other Stock-Based Awards " means Awards granted to a Participant under Section 11 hereof.

(aa) " Participant " means an Eligible Person who has been granted an Award under the Plan which remains outstanding, or if applicable, such other person or entity who holds an outstanding Award.

(bb) " Plan " means this Loral Space & Communications Inc. 2005 Stock Incentive Plan.

(cc) " Plan of Reorganization " means the [Fourth] Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code of Loral Space & Communications Ltd. et al.

(dd) " Proprietary Information " with respect to any Participant means all 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 to the Company, or any of its Affiliates, and may be proprietary and are owned or used by the Company, or any of its Affiliates, including any and all of such enumerated items coming within the scope of the business of the Company, or any of its Affiliates, as to which the Participant may have access, whether conceived or developed by others or by the Participant, alone or with others, during the Participant's period of service with the Company, and whether or not conceived or developed during regular working hours. However, Proprietary Information shall not include any records, data or information which are in the public domain during the Participant's service with the Company or after the Participant's service with the Company has terminated, *provided* the same are not in the public domain as a consequence of disclosure by the Participant.

(ee) " Qualified Member " means a member of the Committee who is a "Non-Employee Director" within the meaning of Rule 16b-3 and an "outside director" within the meaning of Regulation 1.162-27(c) under Code Section 162(m).

(ff) " Restricted Stock " means Stock granted to a Participant under Section 8 hereof, that is subject to certain restrictions and to a risk of forfeiture.

(gg) " Restricted Stock Agreement " means a written agreement between the Company and a Participant evidencing the terms and conditions of an individual Restricted Stock grant.

(hh) " Restricted Stock Unit " means a notional unit representing the right to receive one share of Stock on the Settlement Date.

(ii) " Restricted Stock Unit Agreement " means a written agreement between the Company and a Participant evidencing the terms and conditions of an individual Restricted Stock Unit grant.

(jj) " Rule 16b-3 " means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(kk) " Section 409A " shall mean Section 409A of the Code and the rules, regulations, Treasury Notices and other formal guidance promulgated by the IRS or the U.S. Treasury thereunder.

(ll) " Securities Act " means the Securities Act of 1933, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(mm) " Senior Management Employee " means an employee of the Company designated by the Chief Executive Officer of the Company as a Senior Management Employee.

(nn) " Settlement Date " shall have the meaning set forth in Section 9 hereof.

(oo) " Stock " means the Company's Common Stock, $.01 par value, and such other securities as may be substituted for Stock pursuant to Section 12 hereof.

(pp) " Stock Appreciation Right " or " SAR " means a conditional right granted to a Participant under Section 7 hereof.

3. **Administration.**

(a) Authority of the Committee . Except as otherwise provided below, the Plan shall be administered by the Committee. The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to (i) select Eligible Persons to become Participants; (ii) grant Awards; (iii) determine the type, number, and other terms and conditions of, and all other matters relating to, Awards; (iv) prescribe Award agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan; (v) construe and interpret the Plan and Award agreements and correct defects, supply omissions, or reconcile inconsistencies therein; and (vi) make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. The foregoing notwithstanding, the Board shall perform the functions of the Committee for purposes of granting Awards under the Plan to non-employee directors. In any case in which the Board is performing a function of the Committee under the Plan, each reference to the Committee herein shall be deemed to refer to the Board, except where the context otherwise requires. Any action of the Committee shall be final, conclusive and binding on all persons, including, without limitation, the Company, its Affiliates, Eligible Persons, Participants and beneficiaries of Participants.

(b) Manner of Exercise of Committee Authority . At any time that a member of the Committee is not a Qualified Member, (i) any action of the Committee relating to an Award intended by the Committee to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code and regulations thereunder may be taken by a subcommittee, designated by the Committee or the Board, composed solely of two or more Qualified Members; and (ii) any action relating to an Award granted or to be granted to a Participant who is then subject to Section 16 of the Exchange Act in respect of the Company

may be taken either by such a subcommittee or by the Committee but with each such member who is not a Qualified Member abstaining or recusing himself or herself from such action, provided that, upon such abstention or recusal, the Committee remains composed of two or more Qualified Members. Such action, authorized by such a subcommittee or by the Committee upon the abstention or recusal of such non-Qualified Member(s), shall be the action of the Committee for purposes of the Plan. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee.

(c) Delegation . The Committee may delegate to officers or employees of the Company or any Affiliate, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including but not limited to administrative functions, as the Committee may determine appropriate. The Committee may appoint agents to assist it in administering the Plan. Notwithstanding the foregoing or any other provision of the Plan to the contrary, any Award granted under the Plan to any person or entity who is not an employee of the Company or any of its Affiliates shall be expressly approved by the Committee.

4. **Shares Available Under the Plan.**

(a) Number of Shares Available for Delivery . Subject to adjustment as provided in Section 12 hereof, the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall be 2,972,452. Shares of Stock delivered under the Plan shall consist of authorized and unissued shares or previously issued shares of Stock reacquired by the Company on the open market or by private purchase.

(b) Share Counting Rules . The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award. To the extent that an Award expires or is canceled, forfeited, settled in cash or otherwise terminated or concluded without a delivery to the Participant of the full number of shares to which the Award related, the undelivered shares will again be available for Awards. Shares withheld in payment of the exercise price or taxes relating to an Award and shares equal to the number surrendered in payment of any exercise price or taxes relating to an Award shall be deemed to constitute shares not delivered to the Participant and shall be deemed to again be available for Awards under the Plan; provided, however, that, where shares are withheld or surrendered more than ten years after the date of the most recent shareholder approval of the Plan or any other transaction occurs that would result in shares becoming available under this Section 4(b), such shares shall not become available if and to the extent that it would constitute a material revision of the Plan subject to shareholder approval under then applicable rules of the principle stock exchange or automated quotation system on which the shares are then listed or designated for trading.

5. **Eligibility; Limitations on Awards.**

(a) Grants to Eligible Persons . Awards may be granted under the Plan only to Eligible Persons.

(b) 162(m) Limitation . Subject to Section 12 relating to adjustments, no Employee shall be eligible to be granted Options or Stock Appreciation Rights covering more than 1,000,000 shares of Stock during any calendar year.

6. **Options.**

(a) General . Except as provided in the Initial Option Grant, Options granted hereunder shall be in such form and shall contain such terms and conditions as the Committee shall deem appropriate. The provisions of separate Options shall be set forth in an Option Agreement, which agreements need not be identical.

(b) Term . Except as provided in the Initial Option Grant, the term of each Option shall be set by the Committee at the time of grant; provided, however, that no Option granted hereunder shall be exercisable after the expiration of ten (10) years from the date it was granted.

(c) Exercise Price . Except as provided in the Initial Option Grant, the exercise price per share of Stock for each Option shall be set by the Committee at the time of grant but shall not be less than the par value of a share of Stock.

(d) Payment for Stock . Payment for shares of Stock acquired pursuant to Options granted hereunder 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 exercise 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. Anything herein to the contrary notwithstanding, the Company shall not directly or indirectly extend or maintain credit, or arrange for the extension of credit, in the form of a personal loan to or for any director or executive officer of the Company through the Plan in violation of Section 402 of the Sarbanes-Oxley Act of 2002 (“ Section 402 of SOX ”), and to the extent that any form of payment would, in the opinion of the Company’s counsel, result in a violation of Section 402 of SOX, such form of payment shall not be available.

(e) Vesting . Except as provided in the Initial Option Grant, Options shall vest and become exercisable in such manner and on such date or dates set forth in the Option Agreement, as may be determined by the Committee; provided, however, that notwithstanding any vesting dates contained herein or otherwise set by the Committee, the Committee may in its sole discretion accelerate the vesting of any Option, which acceleration shall not affect the terms and conditions of any such Option other than with respect to vesting. Unless otherwise specifically determined by the Committee and except for Options that are specifically subject to

automatic accelerated vesting upon termination of employment, the vesting of an Option shall occur only while the Participant is employed or rendering services to the Company or an Affiliate and all vesting shall cease upon a Participant's termination of employment or services for any reason. If an Option is exercisable in installments, such installments or portions thereof which become exercisable shall remain exercisable until the Option expires either on the Expiration Date or earlier following a termination of employment as set forth in the Option Agreement. Unless otherwise determined by the Committee, Options shall vest only as to full shares of Stock, rounded down to the nearest full share, except that the last tranche to vest with respect to any Option Award shall encompass the full number of shares subject to the Option Award.

(f) Transferability of Options . An Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. Notwithstanding the foregoing, Options shall be transferable to the extent provided in the Option Agreement or as otherwise determined by the Committee.

(g) Termination of Employment or Service . Except as provided in the Initial Option Grant or as may otherwise be provided by the Committee in the Option Agreement other than with respect to the Initial Option Grant:

(i) If prior to the Expiration Date, a Participant's employment or service, as applicable, with the Employer terminates for any reason other than (A) by the Employer for Cause, or (B) by reason of the Participant's death or Disability, (1) all vesting with respect to the Options shall cease, (2) any unvested Options shall expire as of the date of such termination, and (3) any vested Options shall remain exercisable until the earlier of the Expiration Date or the date that is three (3) months after the date of such termination.

(ii) If prior to the Expiration Date, a Participant's employment or service, as applicable, with the Employer terminates by reason of such Participant's death or Disability, (A) all vesting with respect to the Options shall cease, (B) any unvested Options shall expire as of the date of such termination, and (C) any vested Options shall expire on the earlier of the Expiration Date or the date that is twelve (12) months after the date of such termination due to death or Disability of the Holder. In the event of a Participant's death, the Options shall remain exercisable by the person or persons to whom a Participant's rights under the Options pass by will or the applicable laws of descent and distribution until its expiration, but only to the extent the Options were vested by such Participant at the time of such termination due to death.

(iii) If prior to the Expiration Date, a Participant's employment or service, as applicable, with the Employer is terminated by the Employer for Cause, all Options (whether or not vested) shall immediately expire as of the date of such termination.

(h) Initial Option Grant . On the date that is thirty days following the Effective Date, the individuals listed on the schedule approved by the Board of Directors of Loral Space & Communications Ltd. to be granted Options pursuant to the Plan upon the Company's emergence

from bankruptcy (the "Approved List") shall automatically be granted Options with respect to the number of shares listed across from each individuals name on the Approved List. The Options granted to those individuals identified as Senior Management on the Approved List shall have such terms and conditions as set forth in the Option Agreement for Senior Management, attached as Exhibit A hereto. The Options granted to those individuals identified as Non-Senior Management on the Approved List shall have such terms and conditions as set forth in the Option Agreement for Non-Senior Management, attached as Exhibit B hereto.

7. **STOCK APPRECIATION RIGHTS.**

(a) General . The Committee is authorized to grant SARs to Participants on the following terms and conditions:

(i) *Right to Payment.* A SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise, or if necessary to conform to the requirements of 409A, on each vesting date thereof, the value of the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR as determined by the Committee.

(ii) *Term* . The term of each SAR shall be set by the Committee at the time of grant; provided, however, that no SAR granted hereunder shall be exercisable after the expiration of ten (10) years from the date it was granted.

(iii) *Grant Price* . The grant price per share of Stock for each SAR shall be set by the Committee at the time of grant.

(iv) *Other Terms.* The Committee shall determine at the date of grant or thereafter: (A) the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements); (B) the method of exercise; (C) the method of settlement; (D) whether cash or Stock will be payable to the Participant upon exercise of the SAR; (E) the method by or forms in which Stock will be delivered or deemed to be delivered to Participants; (F) whether or not a SAR shall be alone, in tandem or in combination with any other Award; and (G) and any other terms and conditions of any SAR.

(b) Termination of Employment or Service . Except as may otherwise be provided by the Committee in the applicable Award agreement:

(i) If prior to the Expiration Date, a Participant's employment or service, as applicable, with the Employer terminates for any reason other than (A) by the Employer for Cause, or (B) by reason of the Participant's death or Disability, (1) all vesting with respect to the SARs shall cease, (2) any unvested SARs shall expire as of the date of such termination, and (3) any vested SAR shall remain exercisable until the earlier of the Expiration Date or the date that is ninety (90) days after the date of such termination.

(ii) If prior to the Expiration Date, a Participant's employment or service, as applicable, with the Employer terminates by reason of such Participant's death or Disability, (A) all vesting with respect to the SARs shall cease, (B) any unvested SARs shall expire as of the date of such termination, and (C) any vested SARs shall expire on the earlier of the Expiration Date or the date that is twelve (12) months after the date of such termination due to death or Disability of the Holder. In the event of a Participant's death, the SARs shall remain exercisable by the person or persons to whom a Participant's rights under the SARs pass by will or the applicable laws of descent and distribution until its expiration, but only to the extent the SARs were vested by such Participant at the time of such termination due to death.

(iii) If prior to the Expiration Date, a Participant's employment or service, as applicable, with the Employer is terminated by the Employer for Cause, all SARs (whether or not vested) shall immediately expire as of the date of such termination, and such Participant shall have no further rights with respect thereto.

8. **RESTRICTED STOCK.**

(a) General . Restricted Stock granted hereunder shall be in such form and shall contain such terms and conditions as the Committee shall deem appropriate. The terms and conditions of each Restricted Stock grant shall be evidenced by a Restricted Stock Agreement, which agreements need not be identical. Subject to the restrictions set forth in Section 8(b), except as otherwise set forth in the applicable Restricted Stock Agreement, the Participant shall generally have the rights and privileges of a stockholder as to such Restricted Stock, including the right to vote such Restricted Stock. The Committee shall determine whether or not dividends shall accrue on shares of Restricted Stock. At the discretion of the Committee, cash dividends and stock dividends, if any, with respect to the Restricted Stock may be either currently paid to the Participant or withheld by the Company for the Participant's account. A Participant's Restricted Stock Agreement may provide that cash dividends or stock dividends so withheld shall be subject to forfeiture to the same degree as the shares of Restricted Stock to which they relate. Except as otherwise determined by the Committee, no interest will accrue or be paid on the amount of any cash dividends withheld.

(b) Restrictions on Transfer . In addition to any other restrictions set forth in a Participant's Restricted Stock Agreement, until such time that the Restricted Stock has vested pursuant to the terms of the Restricted Stock Agreement, which vesting the Committee may in its sole discretion accelerate at any time, the Participant shall not be permitted to sell, transfer, pledge, or otherwise encumber the Restricted Stock. Notwithstanding anything contained herein to the contrary, the Committee shall have the authority to remove any or all of the restrictions on the Restricted Stock whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the date of the Restricted Stock Award, such action is appropriate.

(c) Certificates . Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such

Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock. Notwithstanding the foregoing, the Committee may determine, in its sole discretion, that the Restricted Stock shall be held in book entry form rather than delivered to the Participant pending the release of the applicable restrictions.

(d) Termination of Employment or Service . Except as may otherwise be provided by the Committee in the Restricted Stock Agreement, if, prior to the time that the Restricted Stock has vested, a Participant's employment or service, as applicable, terminates for any reason, (i) all vesting with respect to the Restricted Stock shall cease, and (ii) at any time following such termination, and upon written notice to the Participant, the Company shall have the right to repurchase from the Participant any unvested shares of Restricted Stock at a purchase price equal to the original purchase price paid for the Restricted Stock, or if the original purchase price is $0, such unvested shares of Restricted Stock shall be forfeited by the Participant for no consideration.

9. **RESTRICTED STOCK UNITS**

(a) General . Restricted Stock Units granted hereunder shall be in such form and shall contain such terms and conditions as the Committee shall deem appropriate. The terms and conditions of each Restricted Stock Unit grant shall be evidenced by a Restricted Stock Unit Agreement. No shares of Stock shall be issued at the time a Restricted Stock Unit grant is made, and the Company will not be required to set aside a fund for the payment of any such Award; provided, however, that for purposes of Section 4(a) hereof, a share of Stock shall be deemed awarded at the time of grant. The Committee shall determine whether or not dividends shall accrue on Restricted Stock Units. If the Committee so determines, recipients of Restricted Stock Units shall be entitled to an amount equal to the cash dividends paid by the Company upon one share of Stock for each Restricted Stock Unit then credited to such recipient's account (" Dividend Equivalents "). The Committee shall, in its sole discretion, determine whether to credit to the account of, or to currently pay to, such Participant the Dividend Equivalents. A Participant's Restricted Stock Unit Agreement may provide that Dividends Equivalents shall be subject to forfeiture to the same degree as the shares of Restricted Stock Units to which they relate. Except as otherwise determined by the Committee, no interest will accrue or be paid on Dividend Equivalents credited to a recipient's account.

(b) Conditions of Grant . Restricted Stock Units awarded to any Eligible Person shall be subject to (i) forfeiture until the expiration of the restricted period, to the extent provided in the Restricted Stock Unit Agreement, and to the extent such Awards are forfeited, all rights of the recipient to such Awards shall terminate without further obligation on the part of the Company, and (ii) such other terms and conditions as may be set forth in the applicable Award agreement. Notwithstanding anything contained herein to the contrary, the Committee shall have the authority to remove any or all of the restrictions on the Restricted Stock Units whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the date of the Restricted Stock Unit Award, such action is appropriate.

(c) Settlement of Restricted Stock Units . Upon a date or dates on or following the expiration of the restricted period as shall be determined by the Committee and set

forth in a Participant's Restricted Stock Unit Agreement (the " Settlement Date(s) "), unless earlier forfeited, the Company shall settle the Restricted Stock Unit by delivering (i) a number of shares of Stock equal to the number of Restricted Stock Units then vested and not otherwise forfeited, and (ii) if applicable, a number of shares of Stock having a value equal to any unpaid Dividend Equivalents accrued with respect to the Restricted Stock Units. The Company may, in the Committee's sole discretion, settle a Restricted Stock Unit Award in (A) cash, (B) in the delivery of shares of Stock or other property, (C) partially in cash and partially in the delivery of shares of Stock and/or other property, or (D) partially in the delivery of shares of Stock and partially in the delivery of other property. A settlement in cash or other property shall be based on the value of the shares of Stock otherwise to be delivered on the Settlement Date.

(d) Creditor's Rights . A holder of Restricted Stock Units shall have no rights other than those of a general creditor of the Company. Restricted Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Restricted Stock Unit Agreement.

(e) Termination of Employment or Service . Except as may otherwise be provided in by the Committee in the Restricted Stock Unit Agreement, if, prior to the time that the Restricted Stock Unit has vested, a Participant's employment or service, as applicable, terminates for any reason, all Restricted Stock Units that have not vested on or prior the date of such termination shall be forfeited, and vested Restricted Stock Units shall be settled as soon as practicable following the date of such termination; provided, however, if such Participant's employment or service, as applicable, was terminated by the Employer for Cause, all Restricted Stock Units, whether or not then vested, shall be forfeited, and such Participant shall have no further rights with respect thereto.

10. **Bonus Stock and Awards in Lieu of Obligations.**

The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of obligations of the Company or a subsidiary of the Company under the Plan or under other plans or compensatory arrangements, subject to such terms and conditions as shall be determined by the Committee.

11. **Other Stock-Based Awards.**

The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, as deemed by the Committee to be consistent with the purposes of the Plan.

12. **Adjustment for Recapitalization, Merger, etc.**

(a) Capitalization Adjustments . In the event of any change in the outstanding Stock or in the capital structure of the Company by reason of stock dividends or extraordinary dividends payable in cash or any other form of consideration, stock splits, reverse stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges, or other relevant changes in capitalization or any change in applicable laws or any change in circumstances which results in or would result in any substantial dilution or enlargement of the

rights granted to, or available for, Participants in the Plan, the Committee shall make such substitution or adjustment, if any, as is equitable and proportional (as determined by the Committee in good faith), as to (i) the number and/or kind of Stock or other securities issued or reserved for issuance (including the maximum number and/or kind of Stock or other securities with respect to which one person may be granted Options or SARs in any given year) pursuant to the Plan or any outstanding Award, and/or (ii) the exercise price of any Option or SAR. Absent manifest error, any adjustment shall be conclusively determined by the Committee; provided, in each case, the fair value of the Award immediately following any such adjustment shall be equal to the fair value of the Award immediately prior to such adjustment.

(b) Fractional Shares . Any such adjustment may provide for the elimination of any fractional share which might otherwise become subject to an Award.

13. **CHANGE IN CONTROL**

(a) Change in Control of the Company . In the event of a Change in Control all outstanding Awards shall become immediately vested and exercisable, the restrictions thereon shall lapse and all such Awards shall become immediately payable or subject to settlement. In the event of a Change in Control, it will not be a violation of Section 19 hereunder for the Committee to 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. Furthermore, it will not be a violation of Section 19 hereunder for the Committee to cancel, without any such payment, any or all outstanding Awards having no value at the time of such Change in Control.

(b) New Skynet or New SS/L Sale Event/Subsidiary Employees . In the event of a New Skynet Sale Event, all outstanding Awards held by employees or service providers of New Skynet shall become immediately vested and exercisable, the restrictions thereon shall lapse and all such Awards shall become immediately payable or subject to settlement. In the event of a New SS/L Sale Event, all outstanding Awards held by employees or service providers of New SS/L shall become immediately vested and exercisable, the restrictions thereon shall lapse and all such Awards shall become immediately payable or subject to settlement. Moreover, notwithstanding any limits on the exercisability of any Option following a Participant's termination of employment with New Skynet or New SS/L, as applicable, as set forth in any Option Agreement, Options held by employees or service providers of New Skynet or New SS/L, as applicable, shall remain exercisable for the shorter of (i) one year following the New Skynet Sale Event or New SS/L Sale Event, as applicable or (ii) the remaining term of the Option as set forth in the Option Agreement.

(c) New Skynet or New SS/L Sale Event/Corporate Headquarters Employees . In the event of a New Skynet Sale Event or a New SS/L Sale Event, (i) 50% of all outstanding unvested Awards held by employees of the Company assigned to the Company's corporate headquarters shall become immediately vested and exercisable, the restrictions thereon shall lapse and all such Awards shall become immediately payable or subject to settlement if the New Skynet Sale Event or a New SS/L Sale Event occurs on or prior to the first anniversary of the Effective Date, or (ii) one-third of all outstanding unvested Awards held by employees of the Company assigned to the Company's corporate headquarters shall become immediately vested

and exercisable, the restrictions thereon shall lapse and all such Awards shall become immediately payable or subject to settlement if the New Skynet Sale Event or a New SS/L Sale Event occurs after the first anniversary but on or prior to the second anniversary of the Effective Date.

(d) Change in Control under Section 409A . Notwithstanding anything herein to the contrary, to the extent that any Award hereunder, either in whole or in part, is deemed to provide for the deferral of compensation within the meaning of Section 409A, there shall be no distribution of any such deferred compensation on account of a Change in Control, a New Skynet Sale Event or a New SS/L Sale Event unless such event also constitutes a "Change in Control Event" within the meaning of Section 409A or such distribution is otherwise allowable under Section 409A.

14. **Use of Proceeds.**

The proceeds received from the sale of Stock pursuant to the Plan shall be used for general corporate purposes.

15. **Rights and Privileges as a Stockholder.**

Except as otherwise specifically provided in the Plan, no person shall be entitled to the rights and privileges of stock ownership in respect of shares of Stock which are subject to Awards hereunder until such shares have been issued to that person.

16. **Employment or Service Rights.**

No individual shall have any claim or right to be granted an Award under the Plan or, having been selected for the grant of an Award, to be selected for a grant of any other Award. Neither the Plan nor any action taken hereunder shall be construed as giving any individual any right to be retained in the employ or service of the Company or an Affiliate.

17. **Compliance With Laws.**

The obligation of the Company to make payment of Awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by governmental agencies as may be required. Notwithstanding any terms or conditions of any Award to the contrary, the Company shall be under no obligation to offer to sell or to sell and shall be prohibited from offering to sell or selling any shares of Stock pursuant to an Award unless such shares have been properly registered for sale pursuant to the Securities Act with the Securities and Exchange Commission or unless the Company has received an opinion of counsel, satisfactory to the Company, that such shares may be offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for sale or resale under the Securities Act any of the shares of Stock to be offered or sold under the Plan or any shares of Stock issued upon exercise or settlement of Awards. If the shares of Stock offered for sale or sold under the Plan are offered or sold pursuant to an exemption from registration under the Securities Act, the Company may restrict the transfer of such shares and may legend

the Stock certificates representing such shares in such manner as it deems advisable to ensure the availability of any such exemption.

18. **Withholding Obligations.**

As a condition to the exercise or vesting, as applicable, of any Award, the Committee may require that a Participant satisfy, through deduction or withholding from any payment of any kind otherwise due to the Participant, or through such other arrangements as are satisfactory to the Committee, the minimum amount of all Federal, state and local income and other taxes of any kind required to be withheld in connection with such vesting or exercise. The Committee, in its discretion, may permit shares of Stock to be used to satisfy tax withholding requirements and such shares shall be valued at their Fair Market Value as of the settlement date of the Award.

19. **Amendment of the Plan or Awards.**

(a) Amendment of Plan . The Board at any time, and from time to time, may amend the Plan; provided, however, that without further stockholder approval the Board shall not make any amendment to the Plan which would increase the maximum number of shares of Stock which may be issued pursuant to Awards under the Plan, except as contemplated by Section 12 hereof, or, which would otherwise violate the shareholder approval requirements of the national securities exchange on which the Stock is listed or Nasdaq, as applicable.

(b) No Impairment of Rights . Rights under any Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless the Participant consents in writing.

(c) Amendment of Stock Awards . The Committee, at any time, and from time to time, may amend the terms of any one or more Awards; provided, however, that the rights under any Award shall not be impaired by any such amendment unless the Participant consents in writing.

20. **Termination or Suspension of the Plan.**

The Plan shall terminate on the day before the tenth (10 th) anniversary of the date the Plan is adopted by the Board and no Awards may be granted under the Plan after it is terminated; provided, however, that the Plan shall continue to be administered with respect to outstanding Awards until all such Awards have been fully exercised or otherwise expire by their terms.

21. **Effective Date of the Plan.**

The Plan shall become effective as of the effective date of the Plan of Reorganization.

22. **Miscellaneous.**

(a) Awards to Participants Outside of the United States . The Committee may modify the terms of any Award under the Plan made to or held by a Participant who is then resident or primarily employed outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that such Award shall conform to laws,

regulations and customs of the country in which the Participant is then resident or primarily employed, or so that the value and other benefits of the Award to the Participant, as affected by foreign tax laws and other restrictions applicable as a result of the Participant's residence or employment abroad, shall be comparable to the value of such Award to a Participant who is resident or primarily employed in the United States. An Award may be modified under this Section 22(a) in a manner that is inconsistent with the express terms of the Plan, so long as such modifications will not contravene any applicable law or regulation or result in actual liability under Section 16(b) of the Exchange Act for the Participant whose Award is modified.

(b) No Liability of Committee Members . No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or willful bad faith; provided , however , that approval of the Board shall be required for the payment of any amount in settlement of a claim against any such person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or By-Laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(c) Payments Following Accidents or Illness . If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for his affairs because of illness or accident, or is a minor, or has died, then any payment due to such person or his estate (unless a prior claim therefor has been made by a duly appointed legal representative) may, if the Committee so directs the Company, be paid to his spouse, child, relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Company therefor.

(d) Designation and Change of Beneficiary . Each Participant may file with the Company a written designation of one or more persons as the beneficiary who shall be entitled to receive the rights or amounts payable with respect to an Award due under the Plan upon his death. A Participant may, from time to time, revoke or change his beneficiary designation without the consent of any prior beneficiary by filing a new designation with the Committee. The last such designation received by the Company shall be controlling; provided , however , that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no beneficiary designation is filed by the Participant, the beneficiary shall be deemed to be his or her spouse or, if the Participant is unmarried at the time of death, his or her estate. Any beneficiary of the Participant receiving an Award hereunder shall remain subject to the terms of the Plan and the applicable Award agreement.

(e) Governing Law . The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware without reference to the principles of conflicts of laws thereof.

(f) Funding . No provision of the Plan shall require the Company, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Participants shall have no rights under the Plan other than as unsecured general creditors of the Company, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees under general law.

(g) Reliance on Reports . Each member of the Committee and each member of the Board shall be fully justified in relying, acting or failing to act, and shall not be liable for having so relied, acted or failed to act in good faith, upon any report made by the independent public accountant of the Company and its Affiliates and upon any other information furnished in connection with the Plan by any person or persons other than himself.

(h) Titles and Headings . The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings shall control.

(i) Section 409A Compliance . Awards issued hereunder are generally intended to be exempt from Section 409A. To the extent that any payments or benefits provided hereunder are considered nonqualified deferred compensation subject to Section 409A, the Company intends for the provisions of this Plan and the Award agreements issued hereunder providing for such payments and benefits to comply with Section 409A as to form and operation. To the extent that there are any ambiguities in this Plan document or any Award agreement issued hereunder, they shall be interpreted and administered consistent with such intent. Notwithstanding the immediately prior sentence, (i) if any term or provision of this Plan or any Award agreement issued hereunder relating to any payments or benefits considered to be nonqualified deferred compensation is found to be noncompliant with Section 409A or to cause such nonqualified deferred compensation to be noncompliant with Section 409A or (ii) any term or provision of this Plan or any Award agreement issued hereunder relating to Awards that are intended to be exempt from Section 409A is found to cause the Award to be subject to and not to be exempt from Section 409A, in each case, in any jurisdiction, such provision shall be struck as void *ab initio* , and a compliant or exempt term or provision, as applicable, shall be deemed substituted for such noncompliant or nonexempt term or provision, as applicable, that preserves, to the maximum lawful extent, the intent of the Company, and any court or arbitrator so holding shall have authority and shall be instructed to substitute such compliant or exempt term or provision; provided , however , that if any such noncompliance or nonexemption, as applicable, is due to a deficiency of one or more terms or provisions, such appropriate terms or provisions shall be deemed to be added to cure such noncompliance or nonexemption, as applicable, that preserves, to the maximum lawful extent, the intent of the Company, and any such court or arbitrator shall have authority and shall be instructed to supplement the Plan and/or Award

agreement with such compliant or exempt terms or provisions, as applicable. The Company reserves the right to amend this Plan and Awards granted hereunder to cause the Plan and/or such Awards to comply with or be exempt from Section 409A. Notwithstanding anything herein to the contrary, the Company does not hereby guarantee or represent that this Plan and the Awards issued hereunder will be either exempt from or compliant with Section 409A, or that the Plan or Awards will not subject the recipients of such Awards to the taxes, penalties and interest imposed under Section 409A for failure to comply therewith, and none of the Company, any Affiliate, the Committee nor any employee, officer, or director of the Company or any Affiliate shall be liable to any Award recipient or any other person or entity for any taxes, penalties or interest thereon imposed on or incurred by any Award recipient or any other person due to the Plan's or any Award's failure to comply with Section 409A as to either form or operation. Notwithstanding anything herein to the contrary, in the event that any one or more payments hereunder, which are considered to be nonqualified deferred compensation subject to Section 409A, are to be made to an individual on account of the individual's separation from service with Loral or an Affiliate, and at the time of such payment such individual is a "specified employee" as defined in Treasury Regulation § 1.409A-1(i), such payment(s) shall be delayed for such period of time as may be necessary as required pursuant to Treasury Regulation § 1.409A-1(c)(3)(v), and on the earliest date on which such payment(s) may be made following such delay without violating the requirements Treasury Regulation § 1.409A-1(c)(3)(v), all such delayed payments shall be paid to the individual in a lump sum on such date.

Exhibit 10.21

Execution Copy
Senior Management

AMENDED AND RESTATED
NON-QUALIFIED
STOCK OPTION AGREEMENT

UNDER

LORAL SPACE & COMMUNICATIONS INC.
2005 STOCK INCENTIVE PLAN

THIS AGREEMENT is made as of the 21st day of December 2005 (the " Grant Date ") by and between Loral Space & Communications Inc., a Delaware corporation (the " Company "), and ____________ (the " Optionee "), and is amended and restated as of the 10th day of November 2008.

WHEREAS, the Optionee is employed by or 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; and

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 ").

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, the Company hereby grants to the Optionee, during the period commencing on the Grant Date and ending on the date that is seven 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 $28.441 per share (the "Option Price"), an aggregate of ______ shares of Stock (the " Share Number "). The Options are not intended to be "incentive stock options", as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the " Code ").

2. **Deferred Compensation Account** . As of the Grant Date, the Company shall establish a deferred compensation bookkeeping account for the Optionee (the " Deferred Compensation Account ") and shall credit to the Deferred Compensation Account a dollar amount equal to (A) the difference between the Option Price and $19.00 (the " Target Exercise Price "), multiplied by (B) the Share Number. The Deferred Compensation Account shall become vested in the same proportion as the Options vest and become exercisable, including any accelerated vesting upon (A) a termination of the Optionee's employment or service by the Company or an Affiliate without Cause, (B) a termination of the Optionee's employment or

service with the Company and all Affiliates by the Optionee for Good Reason, (C) a Change in Control (as defined in the Plan), (D) a New Skynet Sale Event (as defined in the Plan), but only to the extent that the Optionee is an employee or service provider of New Skynet, or (E) a New SS/L Sale Event (as defined in the Plan), but only to the extent that the Optionee is an employee or service provider of New SS/L.

(a) The vested portion of the Deferred Compensation Account shall be distributed to the Optionee upon the earliest to occur of (i) the Optionee's "separation from service" (as such term is defined in Treasury Regulation §1.409A-1(h)) with the Company; provided , however , that the Optionee shall be deemed to have suffered a "separation from service" as of a given date for purposes of Treas. Reg. § 1.409A-1(h) to the extent that it is reasonably anticipated that the Optionee's level of bona fide services to the Company, as an employee, independent contractor, or otherwise, will permanently decrease to less than 50% of the average level of services performed by the Optionee for the Company in the 36-month period immediately preceding such date, (ii) a Change in Control, (iii) a New Skynet Sale Event, but only to the extent that the Optionee is an employee or service provider of New Skynet, (iv) a New SS/L Sale Event, but only to the extent that the Optionee is an employee or service provider of New SS/L, and (v) the date which is the seventh anniversary of the Grant Date; provided , however , that in the event the Optionee is determined to be a "specified employee" (as such term is defined in Treasury Regulation §1.409A-1 (i)), as of the date of the Optionee's separation from service with the Company, the distribution of the vested portion of the Deferred Compensation Account scheduled to be made upon such separation from service shall be delayed for six months and instead shall be made upon the six-month anniversary of such separation from service; and further provided , however , that there shall be no distribution upon a Change in Control, a New Skynet Sale Event or a New SS/L Sale Event unless such event also constitutes a "change in control event" with respect to the Optionee under Treasury Regulation §1.409A-3(i)(5), or such distribution is otherwise an allowable distribution under Section 409A of the Code.

(b) Amounts in the Deferred Compensation Account shall be subject to forfeiture upon termination of the Optionee's employment with the Company to the same extent as the Option is subject to forfeiture pursuant to Section 4 herein.

(c) Except as provided below, the value of the Deferred Compensation Account shall not be credited with interest or be subject to any rate of return. Upon any exercise of all or a portion of the Options, the corresponding portion of the Deferred Compensation Account shall automatically be converted into an interest-bearing account from the date of such exercise through the date of distribution. For example, if 50% of the Options are exercised, 50% of the Deferred Compensation Account shall be converted into an interest-bearing account. Once converted, the amounts credited to this interest-bearing Deferred Compensation Account shall receive a rate of return equal to the highest rate of return then available to the Company in an interest-bearing account. To the extent possible, the Company will seek to avoid or, if not avoidable, to minimize any administrative expense incurred in maintaining the interest-bearing Deferred Compensation Account. However, the balance in the interest-bearing Deferred Compensation Account attributable to the rate of return on the interest-bearing Deferred Compensation Account shall be reduced, but not below the principal amount, by any administrative expense incurred by the Company in maintaining the interest-bearing Deferred Compensation Account.

(d) While all or a portion of the Options remain unexercised and outstanding, the corresponding portion of the Deferred Compensation Account shall be linked to the value of the Stock as follows. To the extent the value of the Stock declines to a level between the Option Price and the Target Exercise Price (the " Spread Value Zone "), the corresponding portion of the Deferred Compensation Account shall also decline in the same percentage as the Stock declines as measured against the Target Exercise Price and the value of the corresponding portion of the Deferred Compensation Account shall track the percentage increase or decrease in the value of the Stock while its value remains in the Spread Value Zone such that if the value of the Stock declines to the Target Exercise Price or below, the value of the corresponding portion of the Deferred Compensation Account shall decline to zero and if the value of the Stock rebounds to the Option Price, the corresponding portion of the Deferred Compensation Account shall regain its proportional full value. To the extent the Stock rises above the Option Price the corresponding portion of the Deferred Compensation Account shall not rise above its proportional full value.

(e) The amounts credited to the Deferred Compensation Account will be subject to all applicable legally required tax withholding as determined by the Company, unless such determination is unreasonable.

(f) It is intended that the provisions of this Section 2 and the distribution of the Deferred Compensation Account hereunder to the Optionee shall comply with the requirements of Section 409A of the Code. To the extent that the Optionee has reason to believe that the Deferred Compensation Account will subject the Optionee to a tax under Section 409A of the Code, the Optionee may request that this Agreement be amended in a manner that is compliant with Section 409A in order to avoid or reduce such tax. To the extent the Optionee requests any such amendment, the Company agrees to enter into good faith negotiations with the Optionee to accommodate such request to the extent possible so as to avoid or reduce any such tax.

(g) In no event shall this Agreement and any amendment thereof result in the Company incurring any cost or expense to a greater extent than the Company would have incurred had the Option been granted with an Option Price equal to the Target Exercise Price.

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) one-fourth of the Options shall vest and become exercisable on the one-year anniversary of the Effective Date;

(ii) an additional one-fourth of the Options shall vest and become exercisable on the two-year anniversary of the Effective Date;

(iii) an additional one-fourth of the Options shall vest and become exercisable on the three-year anniversary of the Effective Date; and

(iv) the remainder of the Options shall vest and become exercisable on the four-year anniversary of the Effective Date (each such anniversary date shall hereafter be referred to as a "Vesting Date" and the period between the date hereof and the first Vesting Date and the subsequent periods between Vesting Dates shall hereafter be referred to as "Vesting Periods").

(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 seven-year anniversary of the Effective 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 and the full value of the Deferred Compensation Account (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 and the unvested portion of the Deferred Compensation Account shall expire and all vested Options shall remain exercisable for the shorter 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" during the time that the Optionee's employment with the Company is subject to an employment agreement between the Optionee and the Company and such employment agreement so provides, all unvested Options and the unvested portion of the Deferred Compensation Account shall vest immediately. If the Optionee's employment 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" during the time that the Optionee's employment with the Company is no longer subject to an employment agreement between the Optionee and the Company and such employment is on an "at-will" basis, the unvested Options that are scheduled to vest on the next Vesting Date immediately following such termination date and the corresponding portion of the Deferred Compensation Account shall vest on a pro rata basis where the number of Options subject to pro rata vesting is equal to the number of Options subject to vesting on such Vesting Date multiplied by a fraction, the numerator of which shall be equal to the number of days the Optionee was employed during the applicable Vesting Period and the denominator of which shall be equal to 365 (the "Pro Rata Fraction"), and the portion of the Deferred Compensation Account subject to pro rata vesting is that portion subject to vesting on such Vesting Date multiplied by the Pro Rata Fraction and all other unvested Options and the unvested portion of the Deferred Compensation Account remaining at the time of such termination after application of such pro rata vesting shall expire. In the event that the Optionee's employment 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" (regardless of whether the Optionee's employment is then subject to an employment agreement), all vested Options (including those that vest upon such termination) shall remain exercisable 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, (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, or (z) the period that is three months following the date of termination, if the termination occurs on or following 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 all unvested Options and the unvested portion of the Deferred Compensation Account shall immediately expire and all vested Options will remain exercisable for the shorter of (i) the Post Termination Exercise Period or (ii) the Option Period.

(e) For purposes of clarification, neither a New FSS Sale Event nor a New SS/L Sale Event, shall in and of itself, be considered a termination of the Optionee's employment with the Company and all Affiliates without Cause or an event constituting "Good Reason."

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. The Deferred Compensation Account is intended to comply with the provisions of Section 409A of the Code, and the Options are intended to be exempt from Section 409A of the Code. To the extent that there are any ambiguities in this document, they shall be interpreted and administered consistent with such intent. Notwithstanding the immediately prior sentence, (i) if any term or provision of this Agreement relating to the Deferred Compensation Account is found to be noncompliant with Section 409A of the Code or to cause the Deferred Compensation Account to be noncompliant with Section 409A of the Code or (ii) any term or provision of this Agreement relating to the Options is found to cause the Options to be subject to and not to be exempt from Section 409A of the Code, in each case, in any jurisdiction, such provision shall be struck as void *ab initio* , and a compliant or exempt term or provision, as applicable, shall be deemed substituted for such noncompliant or nonexempt provision, as applicable, that preserves, to the maximum lawful extent, the intent of the Agreement, and any court or arbitrator so holding shall have authority

and shall be instructed to substitute such compliant or exempt provision; provided , however , that if any such noncompliance or nonexemption, as applicable, is due to a deficiency of one or more terms or provisions, such appropriate terms or provisions shall be deemed to be added to cure such noncompliance or nonexemption, as applicable, that preserves, to the maximum lawful extent, the intent of the Agreement, and any such court or arbitrator shall have authority and shall be instructed to supplement the Agreement with such compliant or exempt terms or provisions, as applicable.

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. 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. 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: ______________________________
Name: Michael B. Targoff
Title: CEO and President

Accepted:

____
Optionee

____
Address

____

____
Social Security Number

Exhibit 10.27

[DIRECTOR 2008 GRANT]

RESTRICTED STOCK AGREEMENT
UNDER THE
LORAL SPACE & COMMUNICATIONS INC.
2005 STOCK INCENTIVE PLAN

THIS AGREEMENT, made as of the 20th day of May, 2008 by and between LORAL SPACE & COMMUNICATIONS INC. (the "Company") and __________________ (the "Grantee").

W I T N E S S E T H :

WHEREAS, the Grantee is now a member of the Board of Directors (the "Board") of the Company (as hereinafter defined) and the Company desires to have him remain in such capacity and to afford him the opportunity to acquire, or enlarge, his stock ownership in the Company so that he may have a direct proprietary interest in the Company's success.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto hereby agree as follows:

1. Grant of Restricted Stock . Subject to the restrictions, terms and conditions set forth herein and in the Company's 2005 Stock Incentive Plan (the "Plan"), the Company hereby grants to the Grantee ____________ shares of the Company's common stock, par value per share $0.01 (the "Restricted Stock"). Capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Plan.

2. Restrictions and Vesting .

(a) Except as provided in this Agreement, shares of Restricted Stock are not transferable and are subject to a substantial risk of forfeiture until vested as set forth in Section 2(b). The Grantee's interest in the Restricted Stock shall become transferable and nonforfeitable as of the vesting dates provided in Section 2(b) (each, a "Vesting Date"), provided the Grantee is a member of the Board on the Vesting Date and has been a member throughout the period beginning on the date of this Agreement and ending on the applicable Vesting Date. If the Grantee's membership on the Board is terminated for any reason, any unvested shares of Restricted Stock shall be forfeited by the Grantee without consideration.

(b) The Restricted Stock shall vest, become transferable and no longer be subject to a substantial risk of forfeiture pursuant to the following schedule: (i) fifty percent (50%) of the shares of Restricted Stock (rounded down to the nearest whole share) shall vest and the transfer restrictions thereon shall lapse on the first anniversary of the date of this Agreement; and (ii) the remaining number of unvested shares of Restricted Stock shall vest and the transfer restrictions thereon shall lapse on the second anniversary of the date of this Agreement.

3. Issuance of Restricted Stock . Restricted Stock may be issued, at the Company's option, as follows: (i) certificates evidencing the Restricted Stock may be issued by the Company (and, if so, shall be registered in the Grantee's name on the stock transfer books of the

Company promptly after the date hereof, but shall remain in the physical custody of the Company or its designee at all times prior to the vesting of such Restricted Stock pursuant to Section 2(b)) or (ii) may be registered in book entry form on the stock transfer books of the Company without issuance of physical certificates. As a condition to the grant of the Restricted Stock hereby, the Grantee shall deliver to the Company the stock powers (attached hereto as **Exhibit A**), duly endorsed in blank, relating to the unvested Restricted Stock (the "Stock Powers") within ten (10) business days following date of receipt of this Agreement by the Grantee. Failure to deliver the Stock Powers shall cause the Restricted Stock to be forfeited back to the Company.

4. Rights as a Stockholder . The Grantee shall be the record owner of the shares of Restricted Stock until or unless such Restricted Stock is forfeited pursuant to Section 2 hereof, and as record owner shall generally be entitled to all rights of a Stockholder with respect to the Restricted Stock; provided, however, that the Company will retain custody of all dividends and distributions, if any ("Retained Distributions"), made or declared on the Restricted Stock (and such Retained Distributions shall be subject to forfeiture and the same restrictions, terms and vesting and other conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in a separate account. As soon as practicable following each Vesting Date, certificates for the Restricted Stock which vested on such Vesting Date, and any applicable Retained Distributions, shall be delivered to the Grantee or to the Grantee's legal guardian or representative and the stock power relating thereto shall be cancelled.

5. Legend on Certificates . The certificates representing the vested Restricted Stock delivered to the Grantee as contemplated by Section 4 above shall be subject to such stop transfer orders and other restrictions as the Company may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such shares are listed, and any applicable federal or state laws, and the Company may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions as the Company deems appropriate.

6. No Right to Continued Board Membership . This Agreement does not confer upon the Grantee any right to continuance of membership on the Board, nor shall it interfere in any way with the right of the Company to terminate his or her Board membership at any time.

7. Transferability . The Restricted Stock may not, at any time prior to becoming vested pursuant to Section 2(b), be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Grantee and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable.

8. 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 Grantee to the Company shall be mailed or delivered to the Company at its New York office and all notices or communications by the Company to the Grantee may be given to the Grantee personally or may be mailed to the Grantee's home address as reflected on the books of the Company.

9. Arbitration. All disputes between the parties arising out of, or in connection with the validity, interpretation, construction, meaning or execution of the Plan or of this Agreement or any settlement thereof, shall be finally settled by arbitration to be held in New York City and conducted in accordance with the Rules of the American Arbitration Association. Judgment upon the award rendered may be entered in any court having jurisdiction or application may be made to such court for judicial acceptance of the award and an order of enforcement, as the case may be.

10. Governing Law. The validity, interpretation and performance of this Agreement shall be controlled by and construed under the laws of Delaware, without giving effect to the principles of conflicts of law.

11. Special Tax Election.

(a) Under Section 83 of the Code, the excess of the Fair Market Value of the Restricted Stock on the date any forfeiture restrictions applicable to such shares lapse over the purchase price paid for those shares will be reportable as ordinary income on the lapse date. For this purpose, the term “forfeiture restrictions” includes vesting provisions applicable to the Restricted Stock as provided in Section 2 hereof. The Grantee may elect under Section 83(b) of the Code to be taxed at the time the Restricted Stock is acquired, rather than when and as such Restricted Stock ceases to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within thirty (30) days after the date of this Agreement.

(b) **A BRIEF EXPLANATION OF THE ELECTION AND THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT B HERETO. THE GRANTEE UNDERSTANDS THAT FAILURE TO MAKE THIS FILING WITHIN THE APPLICABLE THIRTY (30) DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.**

(c) **THE GRANTEE ACKNOWLEDGES THAT IT IS THE GRANTEE’S SOLE RESPONSIBILITY, AND NOT THE COMPANY’S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF THE GRANTEE REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF.**

* * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

LORAL SPACE & COMMUNICATIONS INC.

By: ______________________________
Name: Michael B. Targoff
Title: Vice Chairman, Chief Executive Officer and President

____
Grantee

Address of Grantee:

____

____

Social Security No.: __________— __________— __________

EXHIBIT A

[NOTE: THERE SHOULD BE ONE STOCK POWER SIGNED FOR EACH VESTING TRANCHE]

STOCK POWER

FOR VALUE RECEIVED ____________ hereby sell(s), assign(s) and transfer(s) unto Loral Space & Communications Inc. (the "Company"), ____________ (___) shares of the Common Stock of the Company standing in his or her name on the books of the Company represented by Certificate No. ____________ herewith and do(es) hereby irrevocably constitute and appoint ____________ attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Dated: ___________

Signature ________________________________

Instruction: Please do not fill in any blanks other than the signature line. Please sign exactly as you would like your name to appear on the issued stock certificate.

EXHIBIT B

EXPLANATION OF A
SECTION 83(b) TAX ELECTION

In general, Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), provides that a Grantee of shares subject to any forfeiture restrictions will recognize income equal to the excess of the Fair Market Value of the shares on the date any forfeiture restrictions applicable to such shares lapse over the amount paid for such shares. For this purpose, the term "forfeiture restrictions" includes the restrictions placed upon the Restricted Stock pursuant to Section 2 of the Restricted Stock Agreement to which this explanation is attached as Exhibit B.

The Grantee, however, may elect under Section 83(b) of the Code to be taxed at the time the Restricted Stock is acquired, rather than on each date the Restricted Stock ceases to be subject to forfeiture restrictions. The election must be filed with the Internal Revenue Service within thirty (30) days after the date of grant and a copy must be filed with the Company. A second copy must be attached to the Grantee's tax return for the taxable year in which the election occurred. A form for making this election is attached as part of this exhibit. **FAILURE TO MAKE THIS FILING WITHIN THE APPLICABLE THIRTY (30) DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME BY THE GRANTEE AS THE FORFEITURE RESTRICTIONS LAPSE.**

THE DISCUSSION ABOVE IS INTENDED ONLY AS A SUMMARY AND DOES NOT PURPORT TO BE A COMPLETE DISCUSSION OF ALL POTENTIAL TAX EFFECTS RELEVANT TO GRANTEES UNDER THE PLAN. SUCH DISCUSSION IS BASED UPON CURRENT LAW AND INTERPRETATIONAL AUTHORITIES WHICH ARE SUBJECT TO CHANGE AT ANY TIME. IT IS STRONGLY URGED THAT GRANTEES CONSULT WITH THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF RECEIPT OF MAKING A SECTION 83(b) TAX ELECTION WITH RESPECT TO THEIR PERSONAL TAX CIRCUMSTANCES.

ELECTION TO INCLUDE VALUE OF RESTRICTED PROPERTY IN GROSS INCOME IN YEAR OF TRANSFER UNDER CODE § 83(b)

The undersigned hereby elects pursuant to § 83(b) of the Internal Revenue Code with respect to the property described below and supplies the following information in accordance with the regulations promulgated thereunder:

1. *The name, address and taxpayer identification number of the undersigned are* :

Name: ______________________________
Address: ______________________________
____
____
SS#: ______________________________

2. *Description of property with respect to which the election is being made* :

The undersigned has received ___ shares of Common Stock of Loral Space & Communications Inc. (the "Company").

3. *The date on which property was transferred is* ______________ , ___.

4. *The taxable year to which this election relates is calendar year* ___________.

5. *The nature of the restriction(s) to which the property is subject is* :

The property is subject to subject to vesting requirements based upon the taxpayer's employment with the Company.

6. *Fair market value* :

The aggregate fair market value at time of transfer (determined without regard to any restrictions other than restrictions which by their terms will never lapse) of the property with respect to which this election is being made is $ ___________.

7. *Amount paid for property* :

The amount paid by taxpayer for the property is $ ___________.

8. *Furnishing statement to employer* :

A copy of this statement has been furnished to the Company, the employer of the undersigned.

Dated: ______________________

____
Taxpayer's Signature

Exhibit 21.1

LORAL SPACE & COMMUNICATIONS INC.

SIGNIFICANT SUBSIDIARIES

The active subsidiaries owned directly or indirectly by Loral Space & Communications Inc. as of March 1, 2009 all 100% owned (except as noted below) consist of the following:

Loral Space & Communications Holdings Corporation	Delaware
Loral Skynet Corporation	Delaware
Loral Satmex LLC	Delaware
Space Systems/Loral, Inc.	Delaware
International Space Technology, Inc. [1]	Delaware
Cosmotech [1]	Russian Federation
SS/L Isle of Man Limited	Isle of Man
Loral General Partner, Inc.	Delaware
LGP (Bermuda) Ltd.	Bermuda
Loral Holdings LLC	Delaware
Mexico Satellite, LLC [2]	Delaware
Loral Global Services N.V.	Netherlands Antilles
Loral Global Services B.V.	Netherlands
Loral Holdings Corporation	Delaware
4440480 Canada Inc.	Canada
4440498 Canada Inc.	Canada

NOTES

[1] Only 51.0% owned directly or indirectly

[2] Only 77.78% owned directly or indirectly

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-132795 and 333-143274 on Form S-8 and Registration Statement No. 333-138652 on Form S-3 of our reports dated March 16, 2009, relating to the consolidated financial statements and financial statement schedule of Loral Space & Communications Inc. and subsidiaries (the "Company") (which report expresses an unqualified opinion and contains explanatory paragraphs relating to the Company's adoption of new accounting standards) and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Loral Space & Communications Inc. for the year ended December 31, 2008.

/s/ DELOITTE & TOUCHE LLP

New York, NY
March 16, 2009

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in Registration Statement No. 333-132795 and 333-143274 on Form S-8 and Registration Statement No. 333-138652 on Form S-3 of our report date March 10, 2009, relating to the consolidated financial statements of Telesat Holdings Inc. (which report expresses an unqualified opinion and includes a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference relating to changes in accounting principles) appearing in this Annual Report on Form 10-K of Loral Space & Communications Inc. for the year ended December 31, 2008.

/s/ DELOITTE & TOUCHE LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 16, 2009

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-132795 and 333-143274 on Form S-8 and Registration Statement No. 333-138652 on Form S-3 of Loral Space & Communications Inc. of our report dated March 16, 2009, relating to the consolidated financial statements of XTAR L.L.C. and subsidiary appearing in this Annual Report on Form 10-K of Loral Space & Communications Inc. for the year ended December 31, 2008.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
March 16, 2009

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 16, 2009

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, Harvey B. Rein, 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/ HARVEY B. REIN

Harvey B. Rein
Senior Vice President and Chief Financial Officer

March 16, 2009

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, 2008 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 16, 2009

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, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Harvey B. Rein, 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/ HARVEY B. REIN

Harvey B. Rein
Senior Vice President and Chief Financial Officer

March 16, 2009