LORAL SPACE & COMMUNICATIONS INC.
Form 10-K
March 15, 2007

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

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

o **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 o No þ

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 o No þ

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

Indicate by check mark 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 þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

At March 1, 2007, 20,063,325 common shares of the registrant were outstanding.

As of June 30, 2006, the aggregate market value of the common stock, the only voting stock of the registrant currently issued and outstanding, held by non-affiliates of the registrant, was approximately $362,535,000

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

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PART I

Item 1. *Business*

THE COMPANY

Overview

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

We adopted fresh start accounting as of October 1, 2005, in accordance with Statement of Position No. 90-7, *Financial Reporting of Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7). Accordingly, our financial information disclosed under the heading Successor Registrant for the periods ended and as of December 31, 2005 and 2006, respectively, is presented on a basis different from, and is therefore not comparable to, our financial information disclosed under the heading Predecessor Registrant for the period ended and as of October 1, 2005 (the date we adopted fresh-start accounting) or for prior periods.

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

Loral is organized into two operating segments:

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

Satellite Services: Our subsidiary, Loral Skynet Corporation (Loral Skynet), operates a global fixed satellite services business. Loral Skynet leases transponder capacity to commercial and governmental customers for video distribution and broadcasting, high-speed data distribution, Internet access and communications, as well as provides managed network services to customers using a hybrid satellite and ground-based system. Loral Skynet has four in-orbit satellites and has one satellite under construction at SS/L. It also provides professional services to other satellite operators such as fleet operating services.

Recent Developments

Telesat Canada Acquisition

On December 16, 2006, a joint venture company (Acquireco) formed by Loral and its Canadian partner, the Public Sector Pension Investment Board (PSP), entered into a definitive agreement with BCE Inc. to acquire 100% of the stock of Telesat Canada and certain other assets from BCE Inc. for CAD 3.25 billion (approximately $2.79 billion based on an exchange rate of $1.00/ CAD 1.1652), which purchase price is not subject to adjustment for Telesat

Canada s performance during the pre-closing period. Under the terms of this purchase agreement, the economic value of Telesat Canada s business is, subject to certain exceptions, being operated for Acquireco s benefit beginning from December 16, 2006. Telesat Canada is the leading satellite services provider in Canada and earns its revenues principally through the provision of broadcast and business network services over seven in-orbit satellites. This transaction is subject to various closing conditions, including approvals of the relevant Canadian and U.S. government authorities, and is expected to close in mid-2007. Loral and PSP have agreed to guarantee 64% and 36%, respectively, of Acquireco s obligations under the Telesat share purchase agreement, up to CAD 200 million.

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At the time of, or following the Telesat acquisition, substantially all of Loral Skynet s assets and related liabilities will be transferred to a subsidiary of Acquireco at an agreed upon enterprise valuation, subject to downward adjustment under certain circumstances (the Skynet Transaction). This subsidiary will be combined with Telesat Canada and the resulting new entity (New Telesat) will be a Canadian company that will be headquartered in Ottawa. Following the completion of the Skynet Transaction, New Telesat will be the world s fourth largest operator of telecommunications satellites, with a combined fleet of eleven in-orbit satellites and four additional satellites to be placed in service over the next four years. New Telesat will feature a management team to be drawn from both Telesat Canada and Loral Skynet.

This combined Telesat-Loral Skynet company will offer its customers expanded satellite and terrestrial coverage and continue to offer superior customer service. Loral Skynet s satellite fleet provides an array of video and data services primarily outside of North America, and will complement Telesat Canada s North American fleet, which hosts video and data distribution services across North America, as well as serving as the platform for Canada s two premier direct-to-home video services.

We and PSP have arranged for the parent company of Acquireco (Holdings) to obtain $3.1 billion of committed debt financing from a group of financial institutions, of which up to approximately $2.8 billion is available to fund the purchase price of the Telesat acquisition. PSP has agreed to contribute approximately CAD 595.8 million in cash to Holdings, of which $150 million (or CAD 174.8 million based on an exchange rate of $1.00/CAD 1.1652) will be for the purchase of a Holdings fixed rate senior non-convertible mandatorily redeemable preferred stock. In addition to Loral s agreement to transfer the Loral Skynet assets to New Telesat, Loral will have net cash funding requirements in connection with the transaction, which, had the Telesat acquisition and the Skynet Transaction occurred on December 31, 2006, would have amounted to approximately $207 million. Loral Skynet s existing 12% preferred stock and 14% senior notes will be redeemed in connection with the Skynet Transaction. To the extent necessary, there will be an appropriate cash true-up at closing between us, PSP and New Telesat to reflect the amount of our relative contributions, after giving effect to, among other things, the exchange rate then in effect, gains and/or losses on hedging transactions, the spending on Telstar 11N, and in the event of a material adverse change to Loral Skynet s business during the interim period, the resulting diminution in the agreed upon value of Loral Skynet.

Upon the closings of the Telesat acquisition and the Skynet Transaction, which closings we currently expect to occur simultaneously, we would hold equity interests in Holdings, the ultimate parent company of New Telesat, effectively representing 64% of the economic interests and 331/3% of the voting power of New Telesat. PSP would in turn acquire the preferred stock described above, and equity interests effectively representing 36% of the economic interest, and together with two other Canadian investors, 662/3% of the voting power, of New Telesat.

For further discussions on Telesat Canada and the related transactions, and Loral s obligations in respect thereof, including in the case where the Telesat acquisition and the Skynet Transaction do not close simultaneously, see Segment Overview Telesat Canada , Management s Discussion and Analysis of Financial Condition and Results of Operations The Telesat Canada Transaction and Risk Factors Financial and Telesat Transaction Risk Factors.

Preferred Stock Financing

On February 27, 2007, Loral completed a $300 million preferred stock financing pursuant to the securities purchase agreement (Securities Purchase Agreement) entered into with MHR Fund Management LLC (MHR) on October 17, 2006. Loral sold 136,526 shares of its 7.5% Series A-1 perpetual preferred stock (the Series A-1 Preferred Stock) and 858,486 shares of its 7.5% Series B-1 perpetual preferred stock (the Series B-1 Preferred Stock and together with the Series A-1 Preferred Stock, the Loral Series-1 Preferred Stock) at a purchase price of $301.504 per share to various funds affiliated with MHR. Each share of the Series A-1 Preferred Stock is convertible, at the option of the holder, into ten shares of Loral common stock at an initial conversion price of $30.1504 per share. Following shareholder approval of the creation of a new class of Class B-1 non-voting common stock, each share of the Series B-1 Preferred Stock will be convertible, at the option of the holder, into ten shares of this Class B-1 non-voting common stock at an initial conversion price of $30.1504 per share. Under certain circumstances, the Series B-1 Preferred Stock and the Class B-1 non-voting common stock may also be converted

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by the holder into Loral common stock, in the case of the Series B-1 Preferred Stock at the same conversion price, and in the case of the Class B-1 non-voting common stock, on a share for share basis. The initial conversion price reflects a premium of 12% to the closing price of Loral s common stock on the day before the Securities Purchase Agreement was entered into. Pursuant to the terms of this financing, MHR has the right to nominate one additional member to the Loral board. Loral plans to use the proceeds from this financing, together with its existing resources, to pursue both internal and external growth opportunities in the satellite communications industry and strategic transactions or alliances, including completion of the Telesat acquisition. See Notes 15 and 23 to the consolidated financial statements.

Reorganization

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

The Debtors emerged from Chapter 11 on November 21, 2005 pursuant to the terms of their fourth amended joint plan of reorganization, as modified (the Plan of Reorganization). The Plan of Reorganization had previously been confirmed by order (the Confirmation Order) of the Bankruptcy Court entered on August 1, 2005. Pursuant to the Plan of Reorganization, among other things, the business and operations of Old Loral were transferred to New Loral, and Loral Skynet and SS/L emerged intact as separate subsidiaries of reorganized Loral (see Notes 2 and 3 to the consolidated financial statements).

Certain appeals (the Appeals) filed by Old Loral shareholders acting on behalf of the self-styled Loral Stockholders Protective Committee (LSPC) seeking, among other things, to revoke the Confirmation Order and to rescind the approval of the Federal Communications Commission (FCC) of the transfer of our FCC licenses from Old Loral to New Loral remain outstanding. We believe that these Appeals are completely without merit and will not have any effect on the completed reorganization (see Note 19 to the consolidated financial statements).

Segment Overview

Satellite Manufacturing Operations

For more than 40 years, SS/L has been designing, manufacturing and integrating satellites and space systems for a wide variety of commercial and government customers. Our products include high-powered satellites designed for applications such as direct-to-home television, weather monitoring, digital audio radio service, mobile telephony and spot-beam satellites for data networking applications. SS/L customers include such satellite service providers and government organizations as APT Satellite, AsiaSat, DIRECTV, EchoStar, Hisdesat, ICO Satellite Management, Intelsat, Japan s Ministry of Transport and Civil Aviation Bureau, Loral Skynet, the National Oceanic & Atmospheric Administration (NOAA) of the U.S. Department of Commerce, Optus (SingTel), PanAmSat, Shin Satellite, Sirius Satellite Radio, Telesat Canada, TerreStar Networks, XTAR and XM Satellite Radio. Since its inception, SS/L has delivered more than 220 satellites, which together have achieved more than 1,300 years of cumulative on-orbit service; many of these satellites significantly exceeded design life expectations. SS/L s broad product line meets the vast majority of customer requirements for satellites with up to 25 kilowatts of power. The capacity offered on these satellites ranges from one to as many as 150 transponders. According to Futron, global satellite manufacturing revenue was $7.8 billion in 2005 of which $2.3 billion was for commercial satellites.

SS/L has a history of technical innovation that includes the first three-axis spin stabilized satellite, which has since become an industry standard for large communications satellites. In addition, SS/L has pioneered research in

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electric propulsion systems, lithium-ion power systems and the use of advanced composites on commercial satellites, which permit significant increases in the size and power of a satellite s payload and extend the satellite s on-orbit lifetime. SS/L is an industry leader in developing new service-enhancing technologies such as super power systems for direct-to-user applications and ground-based beam forming, a technology that uses both satellite and terrestrial assets to provide mobile users with increased coverage and capacity capabilities.

Market and Competition

SS/L competes in the highly competitive commercial satellite manufacturing industry principally on the basis of superior customer value, technical excellence, reliability and pricing with such manufacturers as Boeing, Lockheed Martin, Alcatel Alenia Space, EADS Astrium, Orbital Sciences and Mitsubishi Electric Corp. SS/L s continued success depends on its ability to provide highly reliable satellites on a cost-effective and timely basis. The number of satellite manufacturing contracts awarded varies annually and is difficult to predict. After a period of nearly two years without being awarded a new satellite construction contract, SS/L received orders for the construction or completion of 16 satellites between October 2004 and December 2006.

Satellite Manufacturing Performance

	Successor Registrant		Predecessor Registrant	
	For the Year Ended December 31, 2006	For the Period October 2, 2005 to December 31, 2005	For the Period January 1, 2005 to October 1, 2005	For the Year Ended December 31, 2004
	(in millions)			
Total segment revenues	$ 697	$ 162	$ 330	$ 437
Eliminations	(60)	(1)	(11)	(137)
Revenues from satellite manufacturing as reported	$ 637	$ 161	$ 319	$ 300
Segment Adjusted EBITDA before eliminations(1)	$ 66	$ 12	$ 15	$ (14)

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

Total SS/L assets were $945 million and $872 million as of December 31, 2006 and 2005, respectively. Backlog at December 31, 2006 was $1.1 billion. This includes $118 million of backlog for the construction of Nimiq 5 for Telesat Canada and intercompany backlog of $116 million, primarily for the construction of Telstar 11N for Loral Skynet. Backlog at December 31, 2005 was $815 million, including intercompany backlog of $0.3 million.

Satellite Services Operations

Through Loral Skynet, which owns and operates our Satellite Services business, we are a global satellite operator, providing our customers with a wide range of video and data transmission services. Our four globally-positioned satellites operate in geosynchronous earth orbit approximately 22,000 miles above the equator. In this orbit, satellites remain in a fixed position relative to points on the earth s surface. They provide reliable, high-bandwidth services anywhere in their coverage areas and serve as the backbone for many forms of telecommunications. Our satellites operate in the C-band and Ku-band frequencies, and our affiliate XTAR operates in X-band. According to Euroconsult, the global FSS industry generated revenues of approximately $7.6 billion in 2005.

Transponder Leasing

We lease C- and Ku-band transponder capacity on our international satellite fleet to a variety of customers, including television broadcasters, cable programmers, direct-to-home (DTH) service providers, Internet service providers (ISPs), telecommunications carriers, corporations and government agencies. These customers include

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some of the world s largest video and data service providers, including HBO, Disney, Cable & Wireless, Singapore Telecom (SingTel), MCI, Global Crossing, BT North America, Globecomm Systems, UPC and China Central Television (CCTV).

Network Services

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

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

Professional Services

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

Market and Competition

Loral Skynet operates in a highly competitive market with larger, well-established satellite service companies including Intelsat, SES Global and Eutelsat, as well as regional operators such as APT Satellite Company Limited (APT), AsiaSat, Satelites Mexicanos, S.A. de C.V., Star-One, ShinSat, Optus and MEASAT. Following the completion of the Skynet Transaction and the acquisition of Telesat Canada, New Telesat will be the fourth largest satellite service operator in the world with a strong North American presence. In our network services business, we compete with companies such as Hughes Network Systems, Gilat and Globecomm. While we also compete with fiber optic cable and other terrestrial delivery systems, primarily for point-to-point applications, Loral Skynet has been able to combine the inherent advantages of each technology to provide its customers with complete end-to-end services. Since FSS satellites remain in a fixed point above the earth and can provide service to broad geographic regions, they are considerably more efficient than terrestrial systems for certain applications, such as broadcast or point-to-multipoint transmission of video and broadband data. A satellite offers instant infrastructure. It can cover large geographic areas, sometimes entire hemispheres, and can not only deliver services to populated areas, but also can better serve areas with inadequate terrestrial infrastructures, low-density populations or difficult geographic terrain.

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

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capacity, coupled with weak demand, or where regulatory obstacles are such that we find ourselves at a competitive disadvantage as compared to local operators.

Satellite Fleet & Ground Resources

Loral Skynet s satellite fleet currently consists of four satellites in orbit, as well as leased capacity on other satellite operators spacecraft. In addition, we lease fiber capacity around the world for use in developing hybrid terrestrial/satellite data networks for our network services customers.

Our ground facilities are located around the world, providing both control services to our satellite fleet, as well as to the satellites of other operators as part of our professional services offerings. We own two primary control centers located in Hawley, Pa. and Mt. Jackson, Va. and lease a teleport in Kapolei, Hawaii. In addition, we lease three other technical facilities that provide our customers with a host of teleport and hub services.

The following chart provides details on Loral Skynet s in-orbit satellites and satellites under construction[1].

Satellite	Location	36 MHz Equivalent Available Transponders[2] C-band	Ku-band	Geographic Coverage	Actual or Planned In Service Date	Planned End of Life[2]	Satellite Model
Telstar 10/Apstar IIR[3]	76.5º E.L.	26.8	14.5	Asia and portions of Europe, portions of Africa and Australia	12/1997	9/2012	SS/L 1300
Telstar 12	15º W.L.	0	51	Eastern U.S., SE Canada, Europe, Russia, Middle East, North Africa, portions of South and Central America	12/1999	9/2016	SS/L 1300
Telstar 14/Estrela do Sul-1[4]	63º W.L.	0	26.6	Brazil and portions of Latin America, North America, Atlantic Ocean	4/2004	7/2010	SS/L 1300
Telstar 18[5]	138º E.L.	15.2	5.6	India, South East Asia, China, Australia and Hawaii	8/2004	11/2018	SS/L 1300
Telstar 11N[6]	37.5º W.L	0	58.5	North and Central America, Europe, Africa and the	Late 2008 Estimate	2026 Estimate	SS/L 1300

maritime
Atlantic Ocean
region

(1) In addition, we lease a total of 17.4 36 MHz equivalent transponders from other satellite operators in regions where we currently do not have our own assets.

(2) Our satellite fleet has experienced anomalies and malfunctions as further described in Note 19 to the consolidated financial statements. The number of available transponders and expected end of life shown in this table reflects our estimate of the effect of such anomalies on each affected satellite s capacity and useful life.

(3) Loral Skynet has a fully-paid-up leasehold interest in this satellite through the end of the satellite s life from APT.

(4) Estrela do Sul-1 was launched in January 2004 and did not fully deploy one of its solar arrays, which resulted in a substantial loss of the satellite s available transponder capacity and reduced its expected life to 2010. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

(5) Telstar 18 went into commercial service in August 2004. This satellite carries additional transponders, not shown on the table, that APT acquired in 2004 in return for funding a portion of the satellite s cost. This transponder sale was accounted for as a sales-type lease, because substantially all of the benefits and risks incident to the ownership of the leased property were transferred to the lessee. Loral will re-acquire four additional transponders from APT in 2008 for $18.1 million and two additional transponders for $9.1 million in 2009.

(6) This satellite is under construction at SS/L and is a replacement satellite to Loral Skynet s Telstar 11, which is currently operating in inclined orbit and generating minimal revenues.

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Satellite Services Performance

	Successor Registrant		Predecessor Registrant	
	For the Year Ended December 31, 2006	For the Period October 2, 2005 to December 31, 2005	For the Period January 1, 2005 to October 1, 2005	For the Year Ended December 31, 2004
	(in millions)			
Satellite services revenues	$ 164	$ 37	$ 115	$ 141
Satellite services sales-type lease arrangement[(1)]				87
Total segment revenues	164	37	115	228
Eliminations	(3)	(1)	(4)	(5)
Revenues from satellite services as reported	$ 161	$ 36	$ 111	$ 223
Segment Adjusted EBITDA before eliminations[(2)]	$ 68	$ 12	$ 40	$ 23

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

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

Total satellite services assets were $750 million and $741 million as of December 31, 2006 and 2005, respectively. As of December 31, 2006 and 2005, backlog was $355 million and $453 million, respectively, including intercompany backlog, representing business arrangements between SS/L and Loral Skynet, of $10 million and $20 million, respectively.

Telesat Canada

Telesat Canada, the leading satellite services provider in Canada, currently has a fleet of seven in-orbit satellites occupying prime orbital slots comprised of five owned-and-operated satellites and two leased-and-operated satellites. In addition, Telesat Canada has three additional satellites under construction that are currently expected to be placed in service in 2007 to 2010. Telesat Canada earns the majority of its revenues by providing video and data services using its satellite transponder capacity. It also earns revenue by providing end-to-end communication network services in Canada and the United States, as well as providing consulting services in the field of satellite communications. Its largest customer grouping in terms of revenue is DTH service providers in both Canada (Bell Express Vu and Star Choice) and the United States (EchoStar). Other significant customers include WildBlue Communications, Canadian Broadcasting Corporation, Lockheed Martin, Bell Canada, NorthwesTel, Government of Canada and XM Satellite

Radio as well as a number of Fortune 500 companies.

Telesat Canada owns and operates an extensive ground infrastructure across Canada and the United States, including a primary satellite control center in Ottawa, Ontario, its main earth station and back-up facility in Allan Park, Ontario, six teleports in Canada, one teleport in the United States, one teleport in Brazil, and a tracking, telemetry and command facility in Perth, Australia.

Upon closing of the Telesat acquisition and the Skynet Transaction, Loral and PSP will hold a 64% and 36% economic interest, respectively, in Holdings, the ultimate parent company of New Telesat. Consistent with Canadian law, Loral s total voting power will be 331/3%, with PSP and other Canadian investors having 662/3% of the voting power of Holdings.

Telesat Canada provides satellite capacity to customers under long-term contracts, often entered into before the satellite is launched, and extending through the satellite s life. Payment terms vary, but generally include payments due as services are rendered, as well as amounts payable prior to launch as customer prepayments. These customer prepayments are recorded as revenues over the term of the contract, as services are provided. In the event of a launch or in-orbit failure, the remaining unamortized portion of these customer prepayments are typically refundable to the customer. Absent a satellite malfunction, these contracts typically provide that if the customer terminates the contract, it must pay Telesat Canada the net present value of all the contracted service payments that would have been due over the remaining life of the satellite.

The following chart provides details on Telesat Canada s in-orbit satellites and satellites under construction. Upon completion of the Skynet Transaction, New Telesat s fleet will be comprised of these satellites, together with the Loral Skynet satellites described in the table above:

	36 MHz Equivalent Available Transponders(1)				Actual or Planned		
Location	**C-band**	**Ku-band**	**Ka-band**	**Geographic Coverage**	**In Service Date**	**Planned End of Life(1)**	
91º W.L.	0	21.3	0	Canada, Continental United States	6/1999	2024	LM
82º W.L.	0	13.3	2 @500MHz(unavailable due to power constraints)	Canada, Continental United States	2/2003	2023	LM
107.3º W.L.	12	12		Canada, Continental United States, South America	2/2001	2012	
111.1ºW.L.	24	24	31 @56/112MHz 6 @500 MHz 1@56/112 MHz	Canada, Continental United States	8/2004	2028	
107.3º W.L.	24	24	2 L-band transponders; @20MHz	North America	10/2005	2024	Ast
82º W.L.	0	10.7		Canada	7/1995	2010	
91º W.L.	0	10.7		Canada	9/1994	2007	
118.7º W.L.	24	24	2@75MHz	Canada, Continental United States	Early 2007 (est.)	2025 (est.)	Ast
82º W.L.	0	21.3	8@54MHz	Canada	Mid 2008 (est.)	2026 (est.)	Ast
72.7º W.L.	0	21.3	0	Canada	Early 2010 (est.)	2027 (est.)	S

(1) Certain of the satellites in Telesat Canada s fleet have experienced anomalies affecting the available power on the spacecraft and intermittent anomalies with certain amplifiers in the Ka-band and Ku-band payloads. The number of available transponders and expected end of life shown in the table reflects an estimate of the effect of such anomalies on a satellite s current capacity and useful life. See notes below for additional information on the effects of these anomalies.

In addition, Nimiq 3 has suffered the failure of its prime satellite computer processor and is now operating on the backup processor. A number of Boeing s BSS 601 series of satellites have suffered in orbit failures of both their satellite computer processors, resulting in a total loss of the satellite. Boeing has identified the root cause of the failure and believes that the probability of this type of failure decreases with time in orbit. If the satellite suffers a failure of the backup processor, it could have a material adverse effect on Telesat Canada s business.

In certain instances insurance proceeds have been received for these anomalies. In one instance, insurance proceeds have been received and a balance of up to $20 million is expected to be received in 2007 if the power level on the satellite degrades as expected. In the event that the power level on such satellite is better than predicted, the amount of this payment will be adjusted by applying a formula that could result in either a pro-rated payment to Telesat Canada or a pro-rated repayment of up to a maximum of $14.1 million by Telesat Canada to the insurers.

(2) The lifetime transponder capacity on Nimiq 1 was contracted for by Bell ExpressVu. The Ka-band payload on the satellite is a small demonstration payload and is currently not available due to power limitations.

(3) The lifetime transponder capacity on Nimiq 2 was contracted for by Bell ExpressVu. The capacity of Nimiq 2 is expected to decrease to 11.3 (36 MHz equivalent) transponders by 2016. The Ka-band payload on the satellite is a small demonstration payload.

(4) Anik F1 initially covered both North America and South America from the 107.3º W.L. orbital slot. Telesat Canada now uses Anik F1 to provide coverage only of South America. The power available for the South American payload is expected to decrease to 5 C-band transponders by end of life. Telesat Canada s current plan is to retain Anik F1 to provide service to customers in South America for an additional four to five years.

(5) Telesat Canada has sold 13.5 of the 24 Ku-band channels (36 MHz equivalent) on Anik F2 with Cancom (Star Choice) for the life of the satellite. In addition, Telesat Canada has licensed the Ka-band capacity covering the United States (30 of 45 spot beams) exclusively to WildBlue in exchange for service payments, which have been fully prepaid by Wildblue and a minority ownership interest in WildBlue, which ownership interest was transferred from Telesat Canada to BCE Inc.

In 1999, Telesat Canada was awarded a $60 million contract from the Canadian Space Agency to build and integrate signal processing technology on the Ka-band payload in partnership with key Canadian space segment equipment manufacturers. As part of that agreement,

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Telesat Canada agreed to provide specific engineering services and to provide a portion of the Ka-band capacity to the Government of Canada for multi-media services for a 10-year period that will expire in 2014.

(6) Anik F1-R, with a 15-year contract service life, was constructed to provide service to Telesat Canada s North American customers previously being serviced on the Anik F1 satellite. Telesat Canada has entered into a 10-year services agreement with Cancom (Star Choice) for 21 of the 24 Ku-band transponders (36 MHz equivalent) on Anik F1-R.

Anik F1-R also includes a North American Wide Area Augmentation System, or WAAS, payload for which Telesat Canada has a 10-year utilization contract with Lockheed Martin Corporation. The WAAS payload enhances North American Air Traffic Control systems, and represents a continued expansion of Telesat Canada s North American customer base.

(7) Telesat Canada entered into a lease agreement with DIRECTV, under which that operator s in-orbit DBS satellite (DIRECTV 3) was moved to one of the Nimiq orbital positions for use by Telesat Canada s customer, Bell ExpressVu. The satellite was subsequently named Nimiq 3. Telesat Canada continues to lease and operate the satellite from the 82.0º WL position. The lease with DIRECTV for the Nimiq 3 satellite extends until the end of life of the satellite, except that DIRECTV has a right to terminate the lease early if there is a significant failure of one or more of its satellites. All of the Nimiq 3 transponders have been leased to Bell ExpressVu.

(8) Telesat Canada entered into a lease agreement with DIRECTV, under which that operator s in-orbit DBS satellite (DIRECTV 2) would be moved to one of the Nimiq orbital positions for use by its customer, Bell ExpressVu. Telesat Canada continues to lease and operate the satellite from the 91.0º WL position. The lease with DIRECTV for the Nimiq 4i satellite extends until the end of life of the satellite. All of the Nimiq 4i transponders have been leased to Bell ExpressVu. Like Nimiq 3, Nimiq 4i is in the BSS 601 series of satellite. Unlike Nimiq 3, however, both of Nimiq 4i s satellite computer processors are operational. Nimiq 4i is currently being operated in inclined orbit. Telesat Canada plans to replace Nimiq 4i in the second quarter of 2007 with another leased satellite from DirecTV provided regulatory approvals are obtained to operate such replacement satellite at the 91.0º W.L. position.

(9) Construction of Anik F3 is complete, but due to delays resulting from the investigation by the launch provider, International Launch Services, or ILS, of the failure of a Proton rocket launch early in 2006, Anik F3 has been placed in storage. ILS has now resolved the issue and resumed launches, and Telesat Canada expects Anik F3 to be launched during the first half of 2007. Telesat Canada has contracted all 24 Ku-band transponders (36 MHz equivalent) to EchoStar, covering the life of Anik F3.

(10) Telesat Canada entered into contractual arrangements with EADS Astrium for the construction of Nimiq 4, currently scheduled to be available for service in mid-2008. Telesat Canada has contracted the entire payload of the lifetime capacity of Nimiq 4 to Bell ExpressVu.

(11) Telesat Canada entered into contractual arrangements with SS/L for the construction of Nimiq 5, currently scheduled to be available for service in 2010. Telesat Canada has contracted the entire payload of the lifetime capacity of Nimiq 5 to Bell ExpressVu.

Investment in Affiliates

XTAR

We own 56% of XTAR, L.L.C. (XTAR), a joint venture between us and Hisdesat Servicios Estrategicos, S.A. (Hisdesat) of Madrid. We account for our investment in XTAR under the equity method since we do not control certain of its significant operating decisions. Our interest in XTAR is currently held by Loral Skynet, however, this interest will be retained by Loral and not transferred to New Telesat as part of the Skynet Transaction.

XTAR owns and operates an X-band satellite, XTAR-EUR located at 29º E.L., which entered service in March 2005. The satellite is designed to provide X-band communications services exclusively to United States, Spanish and allied government users throughout the satellite s coverage area, including Europe, the Middle East and Asia. The government of Spain granted XTAR rights to an X-band license, normally reserved for government and military use, to develop a commercial business model for supplying X-band capacity in support of military, diplomatic and security communications requirements. XTAR also leases up to eight 72 MHz X-band transponders on the Spainsat satellite located at 30º W.L. owned by Hisdesat, which entered commercial service in April 2006. These transponders, designated as XTAR-LANT, allow XTAR to provide its customers in the U.S. and abroad with additional X-band services and greater flexibility. XTAR currently has contracts to provide X-band services to the U.S. Department of State, the Spanish Ministry of Defense and the Danish armed forces, but the take-up rate in its service has been slower than anticipated. For more information on XTAR see Note 9 to the Loral consolidated financial statements and the XTAR financial statements.

Globalstar

On November 1, 2006, Globalstar, Inc. (Globalstar), a low-earth-orbit mobile satellite telephone operator, completed an initial public offering, at which time we owned 1,609,896 shares of Globalstar. We have agreed not to sell 70% of our Globalstar holdings for at least 180 days following the completion of its offering. As of December 31, 2006, we owned 1,168,934 shares of Globalstar.

We also hold various indirect ownership interests in three foreign companies that currently serve as exclusive service providers for Globalstar satellite telephone service in Brazil, Mexico and Russia. We account for these ownership interests using the equity method of accounting. Because we have no future funding requirements relating to these investments and these investments have previously been written off, there is no requirement for us to provide for our allocated share of these companies net losses. We are, however, considering whether to make an additional investment of up to $15 million in one of these companies. We also owned an indirect 25% ownership interest in a U.S. based distributor that has the exclusive right to sell Globalstar services to certain agencies within the U.S. Government. In connection with the settlement of a litigation matter involving this business, on October 17, 2006, we agreed to transfer this interest to Globalstar for $500,000. We had previously written-off our interest in such investment.

Satmex

In November 2006, Satelites Mexicanos, S.A. de C.V. (Satmex) successfully reorganized. While our investment in the company, which we had written off in 2003, was reduced from 49% to approximately 1.3% in connection with this reorganization, our end-of-satellite life rights to four transponders on Satmex 6, and three transponders on Satmex 5 were affirmed in these proceedings. For more information on Satmex, see Note 9 to the consolidated financial statements.

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REGULATION

Telecommunications Regulation

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

U.S. Regulation

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

Authorization to Launch and Operate Satellites

Pursuant to satellite licensing rules issued in 2003, the FCC grants satellite authorizations on a first-come, first-served basis to satellite operators that meet its legal and technical qualification requirements. The FCC often receives multiple applications to operate a satellite at a given orbital slot. There can be no assurance that applications will be granted. Most satellite authorizations include specific construction and launch milestones; failure to meet them may result in license revocation. Under licensing rules, we must post a bond for up to $3 million when we are granted a satellite authorization. Some or the entire amount of the bond may be forfeited if we fail to meet any of the milestones for satellite construction, launch and commencement of operation. In accordance with the current licensing rules, the FCC will issue new satellite licenses for an initial 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 a 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.

We have final FCC authorization for two existing satellites which operate in the Ku-band: Telstar 11 at 37.55º W.L. and Telstar 12 at 15º W.L. In addition, we have final FCC authorization for Telstar 11N which will operate in the Ku-band at 37.55º W.L and replace Telstar 11. Certain of our authorizations may be subject to pending petitions for reconsideration or review submitted to the FCC by third parties. The final FCC authorizations for certain of the satellites that are not yet in orbit also do not cover certain possible design changes and require adherence with FCC milestones stated within the authorizations. There can be no assurance that any design changes or milestone extensions which may be sought will be granted by the FCC. The failure to obtain a requested milestone extension could result in the loss of the related FCC authorization. If we are unable to obtain FCC approval to implement requested technical modifications for any particular authorization, we will be obligated to operate the related satellite in accordance with the original authorization.

Coordination Requirements

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

Regulation by Non-U.S National Telecommunications Authorities

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

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

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

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

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

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

The ITU Frequency Coordination Process

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

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

Export Regulation

Commercial communication satellites and certain related items, technical data and services, are subject to United States export controls. These laws and regulations affect the export of products and services to foreign launch providers, subcontractors, insurers, customers, potential customers, and business partners, as well as to foreign Loral employees, foreign regulatory bodies, foreign national telecommunications authorities and to foreign persons generally. Commercial communications satellites and certain related items, technical data and services are on the United States Munitions List and are subject to the Arms Export Control Act and the International Traffic in Arms Regulations. Export jurisdiction over these products and services resides in the U.S. Department of State. Other Loral exports are subject to the jurisdiction of the U.S. Department of Commerce, pursuant to the Export Administration Act and the Export Administration Regulations. In addition, if a satellite project involves countries that are subject to U.S. trade sanctions or is intended to provide services to such countries, licenses or other approvals from the U.S. Treasury Department s Office of Foreign Assets Control (OFAC) may be required.

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, after completion of the Telesat acquisition, U.S. Government licenses or approvals generally will have to be obtained for the transfer of technical data and defense services between Loral and New Telesat, and between New Telesat 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. See Item 1A Risk Factors below.

PATENTS AND PROPRIETARY RIGHTS

SS/L relies, in part, on patents, trade secrets and know-how to develop and maintain its competitive position. It holds 196 patents in the United States and has applications for seven 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 2007 and 2022.

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

There can be no assurance that any of our pending patent applications will be issued. Moreover, there can be no assurance that infringement of existing third party patents has not occurred or will not occur. Additionally, because the U.S. patent application process is confidential, there can be no assurance that third parties, including competitors, do not have patents pending that could result in issued patents which we would infringe. In 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.

RESEARCH AND DEVELOPMENT

Our research and development expenditures involve the design, experimentation and the development of space and satellite products. Research and development costs are expensed as incurred.

Research and development costs were $20 million for 2006, $7 million and $5 million for the periods January 1, 2005 to October 1, 2005 and from October 2, 2005 to December 31, 2005, respectively, and $9 million for 2004, and are included in selling, general and administrative expenses.

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FOREIGN OPERATIONS

Sales to foreign customers, primarily in Asia, Europe and Mexico, represented 13%, 14%, 18% and 42% of our consolidated revenues for the year ended December 31, 2006, for the period from October 2, 2005 to December 31, 2005, for the period from January 1, 2005 to October 1, 2005 and for the year ended December 31, 2004, respectively. As of December 31, 2006 and 2005, substantially all of our long-lived assets were located in the United States with the exception of our in-orbit satellites. See Item 1A Risk Factors below for a discussion of the risks related to operating internationally. See Note 20 to the consolidated financial statements for detail on our domestic and foreign sales.

EMPLOYEES

As of December 31, 2006, we had approximately 2,100 full-time employees, approximately 1% of whom are subject to collective bargaining agreements and approximately 200 contract employees. We consider our employee relations to be good.

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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 Transaction Risk Factors

There can be no assurance that the pending Telesat acquisition will be completed, and the failure to complete the transaction would adversely affect us.

The completion of our and PSP s pending acquisition of Telesat Canada depends on the satisfaction or waiver of a number of conditions, including but not limited to, the receipt of certain regulatory approvals. There can be no assurance that the receipt of such required regulatory approvals and satisfaction of other required conditions will be obtained on a timely basis or obtained without modifications to our agreements with PSP. If we are unable to satisfy or obtain waiver of the closing conditions for the Telesat acquisition by December 16, 2007, our securities purchase agreement with BCE Inc. could be terminated, and we may, under certain circumstances, be liable for our proportionate share of the CAD 65 million termination fee, or CAD 41.6 million. Moreover, if the Telesat acquisition is not completed, our business and financial results could be adversely affected due to, among other things, the focus of our management s time and effort on completing the Telesat acquisition rather than pursuing other business opportunities, and the incurrence of significant costs related to the transaction.

Failure to effect the Skynet Transaction on the terms contemplated would have an adverse effect on us.

The contribution of Loral Skynet assets into New Telesat, like the Telesat acquisition, is also dependent on the satisfaction or waiver of certain closing conditions, including but not limited to, approval from the Federal Communications Commission and the redemption of Loral Skynet s 14% senior secured notes and 12% preferred stock. If we are unable to effect the Skynet Transaction within one year from the closing of the Telesat acquisition, we will be required, under the terms of our agreement with our partner, PSP, to contribute the Telstar 11N satellite (or if not yet then completed, our rights to the Telstar 11N construction contract) and $175 million in cash to New Telesat. If we default in our obligation to make these contributions, in addition to remedies that may be available to PSP as a result of such default, Loral will lose certain rights under its shareholders agreement with PSP, subject to Loral s right to cure such default within a six month cure period if Loral then owns at least 80% of the shares of Holdings which it committed to purchase. These rights include Loral s right to cause the removal of the New Telesat CEO, its right of first offer in the event other New Telesat shareholders wish to sell their shares, and, if Loral owns less than 45% of the economic interest in New Telesat at the time of, or as a result of, such default, its rights to approve certain actions by New Telesat. In addition, in the event of a Loral default, PSP will have the right to call Loral s shares in Holdings and the right to cause the sale of Holdings and to drag along the other shareholders in such sale, subject to Loral s right to call PSP s shares at fair market value. A failure or delay in effecting the Skynet Transaction would also result in increased borrowing costs at New Telesat and prevent us from implementing operating efficiencies across New Telesat and Loral Skynet, which in turn would adversely affect our financial results. Moreover, until we have effected the Skynet Transaction, our economic interest in New Telesat would only be approximately 38%, assuming an exchange rate of $1.00/CAD 1.1652. Our economic interest would be increased to 64% only upon either the closing of the Skynet Transaction or alternatively, the closing of our contribution of additional cash and the Telstar 11N satellite as described.

Our joint venture acquisition vehicle will be required to close the Telesat acquisition without any purchase price adjustment even if Telesat Canada were to experience a satellite loss.

Under the terms of the purchase agreement entered into with BCE Inc., the joint venture formed by us and our Canadian partner will be obligated to pay BCE Inc. the CAD 3.25 billion purchase price in full and close the acquisition notwithstanding any satellite loss by Telesat Canada prior to closing, so long as the loss does not involve two or more of the following satellites: Nimiq 1, Anik F1R, Anik F2 and Anik F3. The receipt of insurance proceeds, if any, from such failure would not fully compensate New Telesat for the loss of revenues that would result from such a loss.

Changes in the Canadian and U.S. dollar exchange rate can adversely affect us.

While the purchase price of the Telesat acquisition is denominated in Canadian dollars, most of the financing commitments obtained for the acquisition will be funded with U.S. dollars at closing. Accordingly, to the extent that the Canadian dollar were to rise relative to the U.S. dollar prior to closing, we and PSP, our Canadian partner, will be required to fund additional monies to cover that difference. While we and PSP have entered into hedging transactions that reduce some of this risk, approximately $283 million of the U.S. dollar denominated debt commitment remains unhedged as of the date of this report. In the event that the Telesat acquisition failed to close, we could be liable for up to $117.5 million, depending on currency rate fluctuations, to unwind our hedging transactions. Our agreement with PSP provides that the valuation of our Skynet contribution is denominated in U.S. dollars, and thus, a rise in the value of the Canadian dollar during the period prior to the Skynet contribution would likewise require us to fund additional amounts to maintain the 64/36 percent economic split between us and our Canadian partner in the joint venture. To date, we have not hedged any portion of the risk related to the Skynet contribution valuation.

There can be no assurance that we will be able to fully implement the cost savings we have planned.

In arriving at the purchase price that we agreed to pay for Telesat Canada, we assumed that we would be able to implement a significant reduction in costs by combining the operations of Telesat Canada and Loral Skynet. There can be no assurance that this integration will be successful. Moreover, while both we and Telesat Canada have implemented employee retention programs to promote a successful transition and integration plan, a loss of key employees or a reduction in their focus on the business would hurt us.

Our equity investment in New Telesat may be at risk because New Telesat will be highly leveraged.

At closing, New Telesat will have approximately $2.8 billion of debt, approximately $1.9 billion of which will be secured by substantially all of the assets of New Telesat. In addition, New Telesat will have access to approximately $300 million of additional credit lines for borrowings thereafter. This represents a significant amount of indebtedness for a company the size of New Telesat. In the event that New Telesat is not able to service this debt, there would be a significant adverse effect on the value of our equity investment in New Telesat.

We emerged from Chapter 11 in 2005 and have a history of losses.

We sought protection under Chapter 11 of the Bankruptcy Code in July 2003. While we had $293 million of available cash and short-term investments and $12 million of restricted cash as of December 31, 2006, our operations and planned capital expenditures will consume a large portion of that cash. Nevertheless, we believe that our cash and short-term investments, as well as net cash provided by operating activities and the proceeds from the sale of our convertible perpetual preferred stock, will be adequate to meet our expected cash requirements for activities in the normal course of business, planned capital expenditures and the Telesat acquisition, through at least the next 12 months. We also have had a history of losses and expect such losses to continue in the near term. We incurred net losses of approximately $23 million, $15 million, $59 million (not including the gain on discharge of pre-petition obligations and fresh-start adjustments of $1.101 billion and the related interest expense of $13 million and a tax benefit of $15 million), and $177 million for the year ended December 31, 2006, for the period from October 2, 2005 to December 31, 2005, for the period from January 1, 2005 to October 1, 2005 and the year ended December 31, 2004, 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. Although we have successfully consummated our Plan of Reorganization and emerged from bankruptcy on November 21, 2005, there is no assurance that negative publicity surrounding our Chapter 11 reorganization will not adversely affect our results of operations, our ability to obtain financing, or our business in the future.

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

Loral Space & Communications Inc. is a holding company the assets of which consist principally of the equity interests we own in our subsidiaries, joint ventures and affiliates. We have no independent operations or operating assets. The ability of our subsidiaries to make payments or distributions to us, whether as dividends or as payments under applicable management and shared services agreements, will depend on their operating results, including their ability to satisfy their own cash flow requirements and obligations. Moreover, covenants contained in the indenture relating to Loral Skynet s 14% senior notes currently impose, and upon closing of the Telesat acquisition, the covenants contained in the loan agreements and other debt instruments of New Telesat, which will have substantial indebtedness, will impose limitations on such entity s ability to upstream funds to us. Loral Skynet assets will likewise become subject to these limitations upon their contribution to New Telesat. Pending this contribution, our agreement with PSP also imposes limitations on Loral Skynet s ability to make dividend or other payments to us or our subsidiaries. We have also agreed with PSP that while we will be receiving a management fee from New Telesat following the closing of the Telesat acquisition, that fee will be limited to $5 million a year. This amount represents a substantial reduction from the approximately $10 million in management fees and reimbursement of corporate overhead allocation costs that Loral Skynet paid to us in 2006. Moreover, New Telesat s loan documents will permit this management fee from New Telesat to be paid to us only in the form of notes, and such fee will become payable in cash only at such time that New Telesat meets certain financial performance criteria as set forth in the loan documents. Moreover, we will not control New Telesat s board of directors and will not have the ability to cause New Telesat to pay dividends to us, even if the applicable loan covenants permit them.

The indenture governing Loral Skynet s 14% senior secured notes contains restrictions on our operations and the notes will be required to be redeemed to effect the Skynet Transaction, which proposed redemption has been objected to by certain noteholders.

The limitations contained in the indenture relating to the $126 million of senior secured notes issued by Loral Skynet upon its emergence from bankruptcy impose restrictions on our operations and limit our ability to enter into financial transactions that we may wish to pursue. These restrictions will affect, and in many respects limit, among other things, Loral Skynet s and its subsidiaries ability to pay dividends, make investments, sell assets, make loans, repurchase equity interests or engage in mergers or other like transactions. Prior to November 22, 2009, we may redeem the notes at a redemption price of 110% plus accrued and unpaid interest, unless we receive an objection notice from holders of two-thirds of the principal amount of the notes. After this period, the notes are redeemable at our option at a redemption price of 110%, declining over time to 100% in 2014, plus accrued and unpaid interest. The redemption of these notes is a condition to the consummation of our contribution of Loral Skynet s assets into New Telesat, and pursuant to the terms of our convertible preferred stock financing, MHR has agreed that it and its affiliated funds, which hold approximately 44.6% of the Loral Skynet notes, will not object to an optional redemption of the Loral Skynet notes effected in connection with such transaction. A self-described committee of noteholders, however, has stated its objection to the proposed redemption of these notes and asserted that funds affiliated with MHR should be excluded for purposes of determining whether an objection to redemption has been received from two-thirds of the outstanding principal amount of the notes. We believe that this position is inaccurate as a matter of law and contrary to the express provisions of the indenture, but any litigation resulting from this assertion could delay our redemption of the Loral Skynet notes, which may in turn have the effect of delaying the Skynet Transaction.

The Loral Skynet notes are collateralized by substantially all of Loral Skynet s assets.

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

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

Although the indenture governing the Loral Skynet notes contains restrictions on the incurrence of indebtedness by Loral Skynet and its subsidiaries, there are currently no restrictions on the ability of SS/L to incur additional indebtedness, and while the terms of the February 2007 Loral preferred stock financing effectively prohibit borrowing at the Loral parent company level in the near future, such limitations can be waived by MHR. As a result, we may be able to incur significant additional debt in the future. If new debt is added, such indebtedness would impose restrictive covenants, which may include requirements to maintain certain financial ratios. If we incur significant additional indebtedness, we would be more vulnerable to, among other things, adverse changes in general economic, industry and competitive conditions.

XTAR has not generated sufficient revenues to meet all of its contractual obligations; we may be required to make additional capital contributions to the venture.

XTAR s take-up rate in its service has been slower than anticipated and it has been required to defer payments owed to us and Hisdesat, including payments due under an agreement with Hisdesat to lease certain transponders on the Spainsat satellite. These lease obligations are $13.2 million in 2007, growing to $23 million per year in 2008 with increases thereafter to a maximum of $28 million per year through the end of the useful life of the satellite. XTAR is currently not making these payments to Hisdesat. As of December 31, 2006, XTAR s lease payables to Hisdesat were $4.6 million. XTAR s ability to fund this amount, as well as its ongoing and future lease obligations to Hisdesat, is dependent on it generating a significant increase in customer orders. Hisdesat has to date not made any demand on XTAR for payment of the outstanding lease amounts or to insist that XTAR make future lease payments on a current basis; in fact, it has agreed to defer receivables due from XTAR until March 31, 2008. If that situation were to change, however, then unless XTAR is able to reach a satisfactory arrangement with Hisdesat to restructure the terms of the Spainsat lease, we will be faced with the decision of either making additional cash contributions to XTAR to enable it to meet its obligations or allowing XTAR to default under the lease agreement, which may result in a loss of our investment in XTAR.

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

To ensure no disruption in Loral Skynet s business and to prevent loss of customers, we will be required to commence construction of a replacement satellite approximately two to three years prior to the end of life of the satellite then in orbit. For example, we will be required to commence construction of a replacement to our Estrela do Sul satellite in 2008 to ensure a continuation of our business on this satellite should we decide to replace it. We have also commenced construction of our Telstar 11N satellite and will incur substantial expenditures in connection with such effort. We have incurred $59 million in construction related costs for Telstar 11N as of December 31, 2006. Typically, it costs in excess of $200 million to construct, launch and insure a satellite. We have in the past funded this cost from a combination of operating cash flow and financing proceeds. There is no assurance that we will be able to obtain financing to fund such expenditures on favorable terms, if at all.

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

Our statement of operations may be positively or negatively affected by the amount of expense we record for our pension and other postretirement benefit plans. Generally accepted accounting principles (GAAP) in the United States of America require that we calculate expense for the plans using actuarial valuations. These valuations reflect assumptions that we make relating to financial market and other economic conditions. Changes in key economic indicators can result in changes in the assumptions we use. The most significant year-end assumptions used to estimate pension or other postretirement expense for the following year are the discount rate, the expected long-term rate of return on plan assets and expected future medical inflation. In addition, we are required to make an annual measurement of plan assets and liabilities 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. In 2006, we contributed $27.5 million to our pension plan. In accordance with IRS regulations, we are not required to make any contributions to the pension plan in 2007, however, we expect to resume making contributions thereafter. The amounts of our contributions in the future will depend, among other things, on the key economic factors underlying these assumptions.

II. Operational Risk Factors

Risk Factors Associated With Satellite Manufacturing

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

SS/L competes with several large, well-capitalized companies such as Boeing, Lockheed Martin and Orbital Sciences in the United States, Alcatel 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. We may also face competition in the future from emerging low-cost competitors in India, Russia and China. The number of annual satellite manufacturing awards varies and is difficult to predict. In addition, U.S. satellite manufacturers must contend with export control regulations that put them at a disadvantage when competing for foreign customers. Moreover, as a result of the Telesat acquisition and the Skynet Transaction, SS/L may experience difficulty in obtaining orders from certain customers engaged in the satellite services business who compete with the combined Telesat/Skynet business. 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 assumptions 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 in the event of a slowdown or downturn in its business.

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

SS/L s major contracts are firm fixed-price contracts under which work performed and products shipped are paid for at a fixed price without adjustment for actual costs incurred. While cost savings under these fixed-price contracts result in gains to SS/L, cost increases result in reduction of margins or losses, borne solely by SS/L. Under such contracts, SS/L may receive progress payments, or it may receive partial payments upon the 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 will generally be liable to its customer for cost overruns, schedule delays and other non-performance by SS/L s suppliers, which may be largely outside of its control.

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

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

Moreover, 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. In some cases, these arrangements are provided to customers that are start-up companies or companies in the early stages of building their businesses. As of December 31, 2006, SS/L had recorded vendor financing and orbital receivables of $148 million (of which $87 million was from start-up or early stage companies). Of this $87 million, SS/L had received payments of $65 million as of March 2007. Although we expect to be paid, there can be no assurance that these companies or their businesses will be successful and, accordingly, that they will be able to fulfill their payment obligations under their contracts with SS/L.

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

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

Most of SS/L s satellite manufacturing contracts provide that some of the total price is contingently payable as incentive payments earned over the life of the satellite, subject to satellite performance. SS/L generally does not insure for these incentive payments (also known as orbitals) 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, 2006, SS/L had orbital receivables of $83 million, which will be received over 18 years. Since these orbital receivables could be affected by future satellite performance, there can be no assurance that SS/L will be able to collect all or a portion of these receivables.

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

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

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

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

In November 2004, Intelsat Americas 7 (formerly Telstar 7) experienced an anomaly which caused it to completely cease operations for several days before it was partially recovered. Four other satellites manufactured by

SS/L for other customers have designs similar to Intelsat Americas 7 and, therefore, could be susceptible to similar anomalies in the future. A partial or complete loss of these satellites could result in an incurrence of warranty payments by SS/L aggregating up to $17 million.

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

SS/L is required by the U.S. State Department to obtain licenses and enter into technical assistance agreements to export satellites and related equipment, and to disclose technical data to foreign persons. In addition, if a satellite project involves countries that are subject to U.S. trade sanctions or is intended to provide services to such countries, 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 interrupt the completion of a satellite contract by SS/L and could lead to a customer s cancellation of a contract, monetary penalties and/or the loss of incentive payments.

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

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

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.

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

SS/L has recently won a number of satellite construction awards and its backlog has expanded significantly. In order to complete construction of all the satellites in backlog and to accommodate future growth, SS/L will need to and is in the process of hiring additional staff and will require an expansion of its existing facilities. There can be no assurance that SS/L will be able to hire its desired number of employees with the requisite skills and training or to acquire suitable facility space and, accordingly, may not be able to perform its contracts as efficiently as planned or grow its business beyond existing levels. The incremental costs of such expansions or upgrades could be up to $150 million over the next three years.

Risk Factors Associated With Satellite Services

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

We depend on third parties in the United States and abroad to launch our satellites. Delays in launching satellites are not uncommon and result from construction delays, the unavailability of appropriate launch vehicles and other factors. For example, the launch of the XTAR-EUR satellite was significantly delayed while we waited for Arianespace to complete work on its ECA launch vehicle. The launch of our Telstar 11N satellite may be delayed as a result of the recent Sea Launch mission failure. In addition, we expect that the contraction of world-wide launch availability that we have been experiencing will likely continue in the near term, resulting in increased launch costs and limiting the number of satellite launches per year.

Satellite launches are risky, and some launch attempts have ended in complete or partial failure. On January 10, 2004, for example, our Telstar 14/Estrela do Sul-1 communications satellite was launched by Boeing Sea Launch, but only partially deployed its North solar array. Although the satellite was insured and we collected insurance proceeds of $205 million, the failed solar array deployment has resulted in a substantial loss of the satellite s available transponder capacity, as well as, reducing the expected life to 2010. This reduced capacity and life has affected the roll out of our Brazilian business and restrained operating revenues.

We ordinarily insure against launch failures but at considerable cost. The cost and the availability of insurance vary depending on market conditions and the launch vehicle used. Replacing a lost satellite typically requires at least two years from execution of a manufacturing contract to launch. Moreover, we may be required, in order to maintain our priority status with respect to our orbital slots, to launch replacement satellites by specified dates. Failure to do so may result in a material adverse effect on us.

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

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

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

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

In addition, three satellites operated by Loral Skynet or its affiliates that were manufactured by SS/L have experienced minor losses of power from their solar arrays. Although we believe the satellites will fulfill their designed mission lives, there can be no assurance that one or more of the satellites will not experience an additional power loss that could lead to a lessening of transponder capacity and performance degradation. During the third quarter of 2006, due to power loss caused by solar array failures, Loral Skynet removed from service through the end of life certain unutilized transponders on one of its satellites and will remove additional transponders from service on this satellite in order to maintain sufficient power to operate the remaining transponders for its specified life. A partial or complete loss of a satellite would result in the loss of revenues and profit for Loral Skynet and us. For further details see Note 19 to the consolidated financial statements. Moreover, under the terms of our agreement with PSP, a loss of 50% or more of the existing transponder capacity on Telstar 12 or a loss of 50% or more of the aggregate existing transponder capacity on Telstar 10, 14 and 18 would constitute a material adverse change to Loral Skynet s business, and will result in a requirement on our part to contribute additional monies to New Telesat to preserve our 64% economic interest in the company.

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

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

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

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

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

The cost of obtaining insurance has increased significantly, primarily due to post-September 2001 insurance industry developments. This has increased our cost of doing business.

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

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

Similarly, our network services business faces competition not only from other satellite-based providers, but also from providers of land-based data communications services, such as cable, DSL (digital subscriber line), wireless local loop and traditional telephone service providers. We will face further price pressure in this business from these companies as they continue to compete for our services.

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

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

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

Our business is regulated, causing uncertainty and additional costs.

Multiple authorities regulate our business, including the FCC, the International Telecommunication Union (ITU), the European Union, Brazil, China and Isle of Man. Regulatory authorities can modify, withdraw or impose charges or conditions upon, or deny or delay action on applications for, the licenses we need which may adversely affect our business or increase our costs.

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

Failure to successfully coordinate our satellites frequencies or to resolve other required regulatory approvals could have an adverse effect on our financial condition, as well as on the value of our business.

Risk Associated With Conducting Business Internationally

We face risks in conducting business internationally.

For the year ended December 31, 2006, approximately 13% of our revenue was generated from customers outside of the United States. We could be harmed financially and operationally by changes in foreign regulations and telecommunications standards, tariffs or taxes and other trade barriers that may be imposed on our services or by political and economic instability in the countries in which we conduct business. Almost all of our contracts with foreign customers require payment in U.S. dollars, and customers in developing countries could have difficulty obtaining U.S. dollars to pay us due to currency exchange controls and other factors. Exchange rate fluctuations may adversely affect the ability of our customers to pay us in U.S. dollars. If we need to pursue legal remedies against our foreign business partners or customers, we may have to sue them abroad where it could be difficult for us to enforce our rights.

III. Other Risks

We share control of our affiliates with third parties.

We share control of our affiliates with third parties and as a result we do not have control over management of these entities. For example, Hisdesat enjoys substantial approval rights in regard to XTAR, our X-band joint venture. In addition, upon consummation of the Telesat acquisition and the Skynet Transaction, while we will own 64% of the economics of the participating shares of New Telesat s parent company, we will own only 331/3% of the voting power. Loral nominees will comprise only three of the ten directors on the New Telesat board, with three directors to be appointed by PSP and the remainder being independent directors. The rights of these third parties and fiduciary duties under applicable law could result in others acting or omitting to act in ways that are not in our best interest. While these entities are or have been customers of SS/L, due to this shared control 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, and several of our key officers have employment contracts expiring in November 2007. We do not maintain key man life insurance. The departure of any of our key executives could have an adverse effect on our business.

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

As of December 31, 2006, MHR Fund Management LLC, through its affiliated funds, beneficially owns approximately 35.9% of our common stock and is the largest single holder of our common stock. After giving effect to the $300 million preferred stock financing with MHR, and assuming conversion or exchange of the Loral preferred stock into voting and non-voting common stock, as applicable, MHR will beneficially own approximately 57% of our voting and non-voting common stock in the aggregate, based on the number of shares outstanding as of March 1, 2007 (approximately 53% on a fully diluted basis assuming shareholder approval of amendments to our stock incentive plan to increase the number of shares available for grant thereunder). The Loral Series B-1 preferred stock and Class B non-voting common stock held by MHR may not be converted into Loral voting common stock giving MHR the right to vote more than 39.999% of Loral s voting power unless either MHR acquires majority control of Loral by other means, without regard to the Loral Series A-1 preferred stock initially issued to it, or the common stock issued upon conversion thereof, or a third party acquires, other than pursuant to certain prohibited transfers from MHR, a majority of the common stock that would be outstanding on a fully diluted basis. MHR also owns 38.3% of Loral Skynet s preferred stock and 44.6% of Loral Skynet s senior secured notes. Moreover, representatives of MHR currently occupy three of the nine seats on our board of directors and following appointment of its additional Board nominee under the terms of the Loral preferred stock financing, MHR representatives or nominees will occupy four of our nine Board seats. In addition, two of our other directors were selected by the creditors committee in our Chapter 11 Cases, in which MHR served as the chairman. Conflicts of interests may arise in the future between us and MHR. For example, MHR and its affiliated funds are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. Under our agreement with PSP, in the event that MHR s ownership of our voting stock falls below certain levels or there is a change in the composition of a majority of the members of Loral board of directors over a consecutive two-year period, we will lose our right to cause the removal of New Telesat s CEO and our rights to approve certain actions by New Telesat. In addition, after any of these events, PSP will have certain rights to enable it to exit from its investment in New Telesat, including a right to cause New Telesat 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 New Telesat, to cause the sale of Holdings 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 Securities and Exchange Commission (SEC), have required changes to some of our corporate governance practices. These changes include developing financial and disclosure processes that satisfy Section 404 of the Sarbanes-Oxley Act. We expect that these rules and regulations will continue to make some activities more difficult, time-consuming and costly. We also expect that these rules and regulations could make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee and to attract and retain qualified executive officers. If we are unable to comply with the Sarbanes-Oxley Act and related rules and regulations, our business could be materially adversely affected.

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

As of December 31, 2006, we had net operating loss carryforwards, or NOLs, of approximately $1.0 billion that are available to offset future taxable income (see Notes 3 and 14 to the 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 million, subject to increase or decrease based on certain factors. If New 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 beyond certain thresholds by shareholders owning five percent or more of our total equity value, ie., the total market value of our equity interests (whether common or preferred), as determined on any applicable testing date. We would, however, be adversely affected by an additional ownership change only if at the time of such change, our total equity value multiplied by the federal applicable long-term tax exempt rate was less than $32 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. Since that time, trading activity in our stock has generally been light. Moreover, over 50% of our common stock is effectively held by MHR and several other shareholders. If any of our significant shareholders should sell some or all of their holdings, it will likely have an adverse effect on our share price. 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 securities they hold in Loral and Loral Skynet, including our common stock 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, 2006, 20 million shares of our common stock were outstanding. On that date, there were 1,310,452 stock options outstanding, 353,863 of which were vested and exercisable and 956,589 of which will become vested and exercisable over the next three years. In addition, subject to stockholder approval at an annual or special meeting of our stockholders, we have adopted amendments to our 2005 Stock Incentive Plan to increase by 1,165,000 the number of shares available for grant thereunder. These amendments cover the following grants, which are all subject to stockholder approval of the plan amendments: (v) the grant in March 2006 of options to purchase 825,000 shares to our Chief Executive Officer, Michael B. Targoff, in connection with his entering into an employment agreement with us (the Targoff March 2006 Option Grant), (w) the grant in June 2006 of options to purchase 20,000 shares to our Chief Financial Officer, Richard J. Townsend, in connection with his entering into an amendment to his employment agreement, (x) the grant in June 2006 of options to purchase 120,000 shares to our director, Dean A. Olmstead, in connection with his entering into a consulting agreement, (y) grants of approximately 175,000 shares of restricted stock to employees of SS/L to be issued upon stockholder approval of the plan amendments and (z) approximately 25,000 shares available for future grant. Moreover, we intend to further amend our stock option plan in the future to provide for additional increases in the number of shares available for grant thereunder, including, among others, an increase to cover an option grant which we have agreed, provided he has earned his target bonus for 2006 and 2007, to grant to Mr. Targoff in 2008 with a Black-Scholes value equal to one-half of the value of the Targoff March 2006 Option Grant, an increase to cover the component of annual fees to our directors that consists of restricted stock awards (2,000 shares annually for each director and 5,000 shares annually for the non-executive chairman) and an increase to cover a target annual option grant to Mr. Townsend having a Black-Scholes value equal to his base salary then in effect multiplied by 1.4.

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

Based on the initial conversion price of $30.1504 per share and assuming stockholder approval of the creation of the Class B non-voting common stock, the Series A-1 Loral convertible preferred stock and the Series B-1 Loral convertible preferred stock are convertible by its holders into 1,365,262 shares of common stock and 8,584,858 shares of Class B-1 non-voting common stock, respectively. In addition to seeking stockholder approval for the creation of Class B non-voting common stock, we also intend to seek approval at our upcoming stockholders meeting in May 2007, to increase our number of authorized shares of common stock from 40,000,000 shares to 60,000,000 shares.

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.

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IV. Litigation and Disputes

We are involved in a number of ongoing lawsuits.

We are involved in a number of lawsuits, details of which can be found in Note 19 to the consolidated financial statements. In addition, we are involved in a number of disputes which might result in litigation. For further details see Note 19 to the consolidated financial statements. If any of these lawsuits or disputes are decided against us it could have a material adverse affect on our financial condition and our results of operations.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Corporate

We lease approximately 26,000 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 29 acres in Palo Alto, California. In addition, SS/L leases approximately 463,000 square feet of space on 23 acres from various third parties primarily in Palo Alto, Menlo Park and Mountain View, California.

Satellite Services

Loral Skynet owns two telemetry, tracking and control stations covering approximately 58,000 square feet on 218 acres in Hawley, Pennsylvania and Mt. Jackson, Virginia. Loral Skynet leases space for two telemetry, tracking and control stations covering approximately 7,000 square feet in Kapolei, Hawaii and in Rio de Janeiro, Brazil. Loral Skynet also leases approximately 54,000 square feet of office space in Bedminster, New Jersey and Rockville, Maryland and 29,000 square feet in various locations around the world. In addition, in March 2006, we sold some of our excess facilities.

Management believes that the facilities for satellite manufacturing and satellite services are sufficient for their current operations but is initiating satellite manufacturing facility expansion efforts to accommodate future growth.

Item 3. *Legal Proceedings*

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

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

None.

PART II

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

(a) Market Price and Dividend Information

New Loral Common Stock

New Loral has authorized 40 million shares of common stock, $0.01 par value per share, 20 million of which are outstanding as of December 31, 2006. Subject to the preferences and other rights of the Loral Series-1 Preferred Stock, holders of shares of New Loral common stock, and if and when authorized and issued, shares of the Class B non-voting 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. If and when issued, pursuant to the terms of the Loral Series-1 Preferred Stock, shares of the Series A-2 and Series B-2 preferred stock will have the right to participate in all dividends paid on New Loral common stock on an as converted basis. Subject to the rights, powers and preferences of the Loral Series-1 Preferred Stock, and, if and when issued pursuant to the terms of the Series B-1 Preferred Stock, the Series B-2 preferred stock, upon a liquidation, dissolution or winding up of New Loral, the assets of New Loral available to stockholders will be distributed equally per share to the holders of New Loral common stock, and if and when issued, the Series A-2 preferred stock and Class B non-voting common stock. Except as otherwise provided in the Restated Certificate of Incorporation or bylaws of New Loral, each holder of New Loral common stock is entitled to one vote in respect of each share of New Loral common stock held of record on all matters submitted to a vote of stockholders. The holders of New Loral common stock do not have any cumulative voting rights. New Loral common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to New Loral common stock. All outstanding shares of New Loral common stock are fully paid and non-assessable.

Effective with the emergence from bankruptcy on November 21, 2005 and the consummation of the Plan of Reorganization, Old Loral common stock was cancelled and New Loral issued 20 million shares of common stock to its distribution agent. To date, approximately 19.9 million shares have been distributed to Old Loral creditors. New Loral common stock began trading on a when-issued basis on July 27, 2005 on the Over-the-Counter (OTC) Bulletin Board Service under the ticker symbol LRALV. Upon the initial distribution to creditors made on December 8, 2005, the stock began trading on the NASDAQ National Market under the ticker symbol LORL. The table below sets forth the high and low sales prices of New Loral common stock as reported on the OTC Bulletin Board Service and NASDAQ National Market from July 27, 2005 through December 31, 2006.

	High	Low
Year ended December 31, 2006		
Quarter ended December 31, 2006	$ 41.13	$ 26.05
Quarter ended September 30, 2006	29.40	24.50
Quarter ended June 30, 2006	29.39	26.37
Quarter ended March 31, 2006	28.75	24.44
Year ended December 31, 2005		
October 1, 2005 through December 31, 2005	$ 29.40	$ 21.75
July 27, 2005 through September 30, 2005	$ 28.70	$ 26.50

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Comparison of Cumulative Total Returns

The following Performance Graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing und the Securities Act of 1933 or Securities Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filings.

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 issue date of our common stock, to December 31, 2006. 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.

Old Loral Common Stock

As a result of the commencement of our Chapter 11 Cases, on July 15, 2003, the NYSE suspended trading of Old Loral s common stock and removed the securities from listing and registration on September 2, 2003. On July 16, 2003, Old Loral s common stock began to be quoted under the ticker symbol LRLSQ on the OTC Bulletin Board Service and the Pink Sheets Service (Pink Sheets). The following table presents the reported high and low closing prices of Old Loral s common stock as reported on the OTC Bulletin Board Service for 2005:

	High	Low
Year ended December 31, 2005		
October 1, 2005 through November 21, 2005	$ 0.43	$ 0.04
Quarter ended September 30, 2005	0.30	0.04
Quarter ended June 30, 2005	0.53	0.16
Quarter ended March 31, 2005	0.23	0.11

(b) Approximate Number of Holders of Common Stock

At March 1, 2007, there were 188 holders of record of the New Loral common stock.

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(c) Dividends

Old Loral never paid dividends on its common stock. In August 2002, Old Loral s Board of Directors approved a plan to suspend indefinitely the payment of dividends on Old Loral s Series C and Series D preferred stock. Old Loral did not pay any dividends or make any distributions during the pendency of the Chapter 11 Cases and effective with the emergence from bankruptcy on November 21, 2005 and the consummation of the Plan of Reorganization, all of Old Loral s preferred stock was cancelled.

New Loral s ability to pay dividends or distributions on its common stock will depend upon its earnings, financial condition and capital needs and other factors deemed pertinent by the Board of Directors. The terms of the Loral Series-1 Preferred Stock restrict the Company s ability to pay dividends on its common stock. To date, New Loral has not paid any dividends on its common stock. On February 27, 2007, New Loral issued 136,526 and 858,486 shares, respectively, of its Series A-1 and Series B-1 Preferred Stock. The Series A-1 and Series B-1 Preferred Stock have an aggregate liquidation preference equal to the greater of (i) $300,000,098 plus accrued and unpaid dividends plus during the first sixty-six months following the issuance date, a make-whole amount and (ii) the amount that would be payable to the holders of such preferred stock if such holders had converted all outstanding shares of such preferred stock into common stock immediately prior to the company s liquidation, dissolution or winding up. The Series A-1 and Series B-1 Preferred Stock pay dividends at the rate of 7.5% per annum, payable quarterly in additional shares of Series A-1 and Series B-1 Preferred Stock through April 2011. Thereafter, dividends may be paid in cash at New Loral s option if it is then able to satisfy certain financial requirements.

On the Effective Date, Loral Skynet issued one million shares of Series A 12% Non-Convertible Preferred Stock, $0.01 par value per share (the Loral Skynet Preferred Stock), of which 993,986 shares have been distributed to the creditors to date. The Loral Skynet Preferred Stock had an aggregate initial liquidation preference of $200 million and dividends (if not paid or accrued as permitted under certain circumstances) will be payable in kind (in additional shares of Loral Skynet Preferred Stock) if the amount of any dividend payment would exceed certain thresholds. On July 14, 2006, Loral Skynet paid a dividend on its Loral Skynet Preferred Stock of $15.53 million, which covered the period from November 21, 2005 through July 13, 2006. The dividend consisted of $1.27 million in cash and $14.26 million in Loral Skynet Preferred Stock. After payment of the dividend, $214.26 million of Loral Skynet Preferred Stock was issued and outstanding. It is expected that the Loral Skynet Preferred Stock will be redeemed as part of the Skynet Transaction.

(d) Sales of Unregistered Securities by Registrant

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

(e) Securities Authorized for Issuance under Equity Compensation Plans

See Note 15 to the consolidated financial statements for information regarding the Company s stock options. Compensation information required by Item 10 will be presented in the Company s 2006 definitive proxy statement which is incorporated herein by reference.

Item 6. *Selected Financial Data*

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

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

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On August 1, 2005, the Bankruptcy Court entered its Confirmation Order confirming the Plan of Reorganization. On September 30, 2005, the FCC approved the transfer of FCC licenses from Old Loral to New Loral, which represented the satisfaction of the last material condition precedent to emergence from bankruptcy. We emerged from bankruptcy on November 21, 2005 and pursuant to SOP 90-7 we adopted fresh-start accounting as of October 1, 2005. We engaged an independent appraisal firm to assist in determining the fair values of our assets and liabilities. Upon emergence, our reorganization enterprise value as determined by the Bankruptcy Court was approximately $970 million, which after reduction for the fair value of Loral Skynet s 14% Senior Notes and the Loral Skynet Preferred Stock (See Notes 3 and 15 to the consolidated financial statements), 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 (see Note 4 to the consolidated financial statements). Our consolidated financial statements as of October 1, 2005 and for dates subsequent will not be comparable in certain material respects to the historical consolidated financial statements for prior periods included elsewhere in this Annual Report on Form 10-K.

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

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

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

	Successor Registrant		Predecessor Registrant			
	Year Ended December 31, 2006	For the Period October 2, 2005 to December 31, 2005	For the Period January 1, 2005 to October 1, 2005	Year Ended December 31, 2004	2003	2002
Statement of operations data:						
Revenues	$ 797,333	$ 197,165	$ 429,183	$ 522,127	$ 392,043	$ 900,527
Operating income (loss) from continuing operations	29,818	(4,945)	(67,095)	(214,345)	(388,873)	(208,368)
Gain on discharge of pre-petition obligations and fresh-start adjustments			1,101,453(1)			
	30,117	(5,395)	1,022,651	(207,852)	(368,355)	(237,540)

Income (loss) from continuing operations before income taxes, equity (losses) income in affiliates and minority interest						
Income tax (provision) benefit	(20,880)	(1,752)	10,901	(13,284)[2]	6,330	(322,422)[2]
Income (loss) from continuing operations before equity (losses) income in affiliates and minority interest	9,237	(7,147)	1,033,552	(221,136)	(362,025)	(559,962)
Equity (losses) income in affiliates[3]	(7,163)	(5,447)	(2,796)	46,654	(51,153)	(76,280)
Minority interest	(24,794)	(2,667)	126	135	20	(226)
(Loss) income from continuing operations	(22,720)	(15,261)	1,030,882	(174,347)	(413,158)	(636,468)
(Loss) income from discontinued operations, net of taxes				(2,348)	18,803	57,566
Gain on sale of discontinued operations, net of taxes			13,967			
(Loss) income before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest	(22,720)	(15,261)	1,044,849	(176,695)	(394,355)	(578,902)

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	Successor Registrant		Predecessor Registrant			
	Year Ended December 31, 2006	For the Period October 2, 2005 to December 31, 2005	For the Period January 1, 2005 to October 1, 2005	Year Ended December 31, 2004	2003	2002
Cumulative effect of change in accounting principle, net of taxes					(1,970)	(890,309)(4)
Extraordinary gain on acquisition of minority interest					13,615	
Net (loss) income	(22,720)	(15,261)	1,044,849	(176,695)	(382,710)	(1,469,211)
Preferred dividends					(6,719)	(89,186)
Net (loss) income applicable to common stockholders	(22,720)	(15,261)	1,044,849	(176,695)	(389,429)	(1,558,397)
Basic and diluted (loss) earnings per share:						
Continuing operations	$ (1.14)	$ (0.76)	$ 23.37	$ (3.96)	$ (9.58)	$ (19.47)
Discontinued operations			0.32	(0.05)	0.43	1.55
Before cumulative effect of change in accounting principle and extraordinary gain on acquisition of minority interest	(1.14)	(0.76)	23.69	(4.01)	(9.15)	(17.92)
Cumulative effect of change in accounting principle					(0.05)	(23.89)
Extraordinary gain on acquisition of minority interest					0.31	
(Loss) earnings per share	$ (1.14)	$ (0.76)	$ 23.69	$ (4.01)	$ (8.89)	$ (41.81)
Deficiency of earnings to cover fixed charges	$ 13,377	$ 8,062	$ 65,570	$ 208,809	$ 389,218	$ 337,019
Cash flow data:						
Provided by (used in) operating activities(5)	88,002	(38,531)	(143,827)	66,129	232,653	192,670
(Used in) provided by investing activities(6)	(175,978)	(5,089)	194,707	906,887	(157,484)	(138,824)
Provided by (used in) equity transactions					3,852	(32,737)

(Used in) provided by financing transactions	(1,278)	120,763		(966,887)	(3,313)	(115,122)

	Successor Registrant December 31,		Predecessor Registrant December 31,		
	2006	2005	2004(7)	2003(7)	2002(2)(4)
Balance sheet data:					
Cash and cash equivalents	$ 186,542	$ 275,796	$ 147,773	$ 141,644	$ 65,936
Short-term investments	106,588				
Total assets	1,729,911	1,678,977	1,218,733	2,463,813	2,692,802
Debt, including current portion	128,084	128,191			2,236,497
Non-current liabilities and minority interest	535,271	603,374	84,677	72,932	354,475