



The Director's Report

From: Richard DalBello

December 9, 2002

The Satellite Industry Association Director's Report, prepared in conjunction with CompassRose International, is a weekly executive update covering current satellite industry issues.

Your comments are appreciated. Please contact David Cavossa at (703) 739 – 8358.

Member News

Last week Lehman Brothers raised its rating of **PanAmSat** to "equal weight" from "underweight" and lifted its price target to \$22.47 a share from \$17. The key reason for the change is that William Kidd, Lehman Brothers' top satellite analyst, expects EchoStar Communications Corp. to complete "in a timely fashion" its previously announced plan to buy PanAmSat for \$22.47 a share. "We previously evaluated PanAmSat's upside potential over a 12-month horizon, and came to a negative conclusion" based on various valuation factors, said Kidd. Since then, it has become apparent that EchoStar must indicate if it plans to complete its previously announced deal to buy PanAmSat, Kidd explained. If that agreement is honored, EchoStar would be in a position to determine the role that PanAmSat would play in the consolidation of the fixed satellite services sector, he added.

The General Accounting Office is investigating the Defense Department's use of commercial satellites, after competitors complained that Washington-based **Intelsat** has an unfair advantage in a growing market. The GAO investigation coincides with the Pentagon's increasing dependence on commercial satellite providers to provide extra bandwidth, industry experts say. Although the amount of money that the Defense Department spends on commercial satellites is unknown, the Defense Information Systems Agency's budget for commercial capacity has increased from \$57 million in fiscal 2000 to an estimated \$170 million in 2003. The agency estimates that nearly 60 percent of its commercial satellite business goes to Intelsat.

SES-Americom and Space Communications Corporation of Japan announced the signing of a multiple-year satellite transponder service agreement for AMERICOM's planned satellite AMC-13. Being built by Alcatel, the all C-band satellite is planned for operation in early 2004. The satellite will deliver superior trans-Pacific services from its orbital position at 172 degrees East, as well as connections to the Americas, Asia and Australia/New Zealand.

The Nimiq 2 telecommunications satellite, designed and built by **Lockheed Martin** for Telesat Canada was shipped last week from production facilities in Sunnyvale, Calif. to Baikonur, Kazakhstan, where it will be readied for a late December launch aboard a Proton M/Breeze M booster provided by International Launch Services. Nimiq 2, a high power Ku-band satellite, will provide direct broadcast services across Canada from its final orbital location at 91 degrees West longitude. The spacecraft features 32 active 24 MHz Ku-band transponders with 120 watt power amplifiers, and also has a Ka-band payload.

An Atlas IIA rocket placed a NASA satellite into orbit last week, continuing a winning streak of 63 successful Atlas launches for **Lockheed Martin** and **International Launch Services**. The Atlas IIA rocket lifted off from Cape Canaveral and successfully released the Tracking and Data Relay System Satellite-J (TDRS-J) into a transfer orbit. **Boeing** built the modified 601 satellite. The TDRS fleet is unique in its ability to follow the motion of fast moving satellites, providing nearly continuous communication with controllers and researchers on Earth.



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According to an **Intelsat** spokesperson the company let go about 13% of its work force over the weekend. "The layoffs take effect immediately and include 138 people," said spokesperson Susan Gordon. Before the layoffs, the company had about 1,030 employees. Gordon said most of the reduction took place in "legacy functions" put in place when the company was an intergovernmental agency. According to Gordon, the move represents a "retooling and streamlining as the company continues to evolve" into a public company, "as well as some weakness in the telecom industry."

In a related story Intelsat announced the acquisition by **Intelsat Global Service Corporation** and its affiliates of the World Systems business unit of **Lockheed Martin**. The acquired assets include existing service

contracts with World Systems' customers for Intelsat capacity, earth stations in Clarksburg, Maryland and Paumalu, Hawaii used for satellite fleet management, and the teleport facilities and related assets of COMSAT Digital Teleport, Inc. in Clarksburg, Maryland.

Intelsat also announced that it is now able to provide high-speed, high-quality Internet connections via satellite in Europe, with the launch of the Intelsat Broadband Service at the CWM Expo in Berlin, Germany. Intelsat Broadband Service provides direct Internet access via satellite that is up to 10 times faster than dial-up, and supports e-mail, web browsing, e-commerce and e-learning. The service utilizes the Intelsat 901 satellite located at 342°E, the company's teleport in Fuchsstadt, Germany and Gilat's SkyStar 360E platform.

Other News

The world's largest communications satellite, to date, was lost last week, failing to reach orbit after its launch on a Russian rocket. The Astra-1K was launched aboard a Proton rocket from Russia's launch site at Baikonur, in the Central Asian nation of Kazakhstan. It reached its preliminary orbit, but there was no secondary impulse to accelerate and reach the higher orbit, agency spokesperson Konstantin Kreidenko said on Russia's NTV television. At nearly six tons, the French-made Astra-1K is the largest communications satellite ever built. It was intended to replace three Astra satellites now in orbit, broadcasting radio and television programming and providing mobile telephone and Internet connections

According to *Telecommunications Reports*, **EchoStar Communications Corp.** and **Hughes Electronics Corp.** have proposed allowing **Cablevision Systems Corp.** to resell their entire line of direct broadcast satellite (DBS) services. In a revised merger plan filed last week at the FCC, the companies propose steps that they say will create and nurture a

new DBS entrant, thereby alleviating concerns that their proposed merger would reduce the number of DBS competitors from two to one. Previously, the companies had offered to sell some DBS assets to R/L DBS Co. LLC, a subsidiary of Cablevision. But some at the FCC had questioned whether Cablevision would be able to quickly transform those assets into a viable DBS competitor. Under the new proposal, EchoStar/Hughes and Cablevision would resell each other's services. In addition, EchoStar and Hughes say they would offer some of their subscribers the option of switching to the Cablevision service and "would ensure open access to retail distribution" for the new DBS competitor. FCC staff and Commissioners today were reviewing the Nov. 27 filings by EchoStar and Hughes, and FCC sources said they did not know how soon the Commission might act.

Avis Rent-A-Car announced that it will offer **XM Satellite Radio** to its rental customers nationwide beginning in the first quarter of 2003. Service will be offered at an



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introductory cost of \$2.99 per day. Avis is adding up to 50,000 select General Motors' vehicles with factory-installed XM radios to its fleet. Avis customers may request the XM-

equipped vehicles in advance or when they arrive at Avis locations throughout the country.

FCC News

- According to *Telecommunications Reports*, the CTIA has again called on the FCC to reallocate unused mobile satellite service (MSS) spectrum in the 2 gigahertz band for terrestrial services. In a letter today to the FCC, the trade group warned that "a morass of legal proceedings" would be launched if the Commission allowed MSS licensees to incorporate ancillary terrestrial components (ATCs) into their networks. CTIA filed a petition in May 2001 seeking reallocation of at least a portion of the 70 megahertz of MSS spectrum, questioning the financial viability of those licensees.

- The FCC has decided to alter the band plan for a portion of the 18 gigahertz band in favor of fixed satellite service (FSS) operators. FSS will now hold the sole primary spectrum allocation in the 18.3-18.58 GHz band, with the Commission removing the co-primary designation for terrestrial fixed service (FS) operations. The Commission also is permitting the blanket licensing of GSO (geostationary)/FSS facilities in the 18.3-18.58 GHz and 29.25-29.5 GHz bands.

- Jonathan S. Adelstein was sworn in as an FCC Commissioner for a term expiring June 30, 2003. Commissioner Adelstein named Lisa M. Zaina senior legal advisor and wireline competition advisor. Named as interim legal advisors were: Eric Einhorn for wireline competition issues, Barry Ohlson for spectrum and international matters, and Sarah Whitesell for media issues.

Upcoming SIA Meetings and Events

December 10-12 – Satellite 2002 Europe, @ Conference Center Le Palais des Congrès de Paris, Amphitheatre Havane 2, place de la Porte Maillot, Paris

December 12, 6:00 – 8:30pm – FCBA Chairman's Dinner @ Hilton Washington & Towers, International Ballroom, 1919 Connecticut Ave. NW, Washington, DC

December 19, 12:00pm – 3:00pm – SIA Annual Board of Director's Meeting @ TBD

December 19, 3:00 – 4:30pm – SIA Regulatory Working Group Meeting @ ICO/Ellipso Offices, 1133 21st St. NW, 8th Floor, Washington, DC

January 22, 2003 – "Satellite CEO" Panel at Pacific Telecommunications Council (PTC) 2003 Conference, moderated by Richard DalBello @ Honolulu, HI

February 25, 2003 - SIA/SBCA 2003 Satellite Leadership Dinner at the Folger Shakespeare Library, in Washington, D.C.