Financial State of the Industry: The Continuing Move to Public Markets

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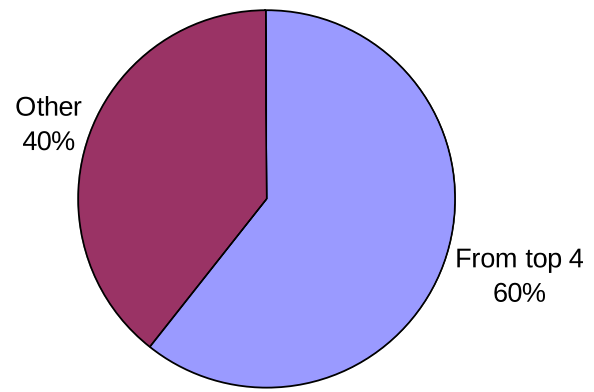
Despite Disruption & Convergence the Sky is Not Falling

- **Legacy satellite voice/data telecom business disappearing**
  - **Fiber has decimated long haul satellite market**
  - **Proliferation of last mile access solutions (fiber, cable, DSL, cellular, WiMax)**
  - **<u>Satellites left to fill ever shrinking coverage gaps</u>**
- **Yet, digital convergence and IP explosion have created new demand**
  - **Increased consumer and business demand for broadband**
  - **Created VSAT and residential growth (e.g. WildBlue and HughesNet)**
  - **<u>Satellites get smaller share but of rapidly growing market</u>**
- **And, satellites still unmatched for point to multipoint**
  - **Spot beams, compression and new spectrum are lowering cost per bit**
  - **Satellite broadcasting/datacasting efficiency holding alternatives at bay**
  - **Proliferation of content (long tail effect) creating substantial demand**
  - **Rollout of HD programming further stimulating demand**
  - **<u>Satellites will survive and thrive as digital content distributors</u>**

FSS

- **Big Issue: Impacts of Private Equity**
  - **Shareholders made money, but…**
    - **Much of value extracted already**
    - **KKR announces PanAmSat 4/04, announces sell to Intelsat 8/05 (16 mo.)**
    - **Blackstone announces New Skies 6/04, announces sell to SES 12/05 (18 mo.)**
    - **Zeus announces Intelsat 8/04, pays dividends of $504 MM (16 months)**
  - **Some consolidation achieved, but…**
    - **It was the easier consolidation**
  - **Industry more levered, but…**
    - **Debt is trading well**
- **Positive Factors**
  - **Better capacity utilization and pricing ahead**
  - **High free cash flows and low interest rates**
  - **Plenty of consolidation left to do**
  - **Increasing government usage**
  - **HD video and broadband growth**
- **Concerns**
  - **Continued build-out of fiber and wireless broadband**
  - **Leverage means higher risk profile to global recession**

FSS Operators (# of Satellites in orbit)

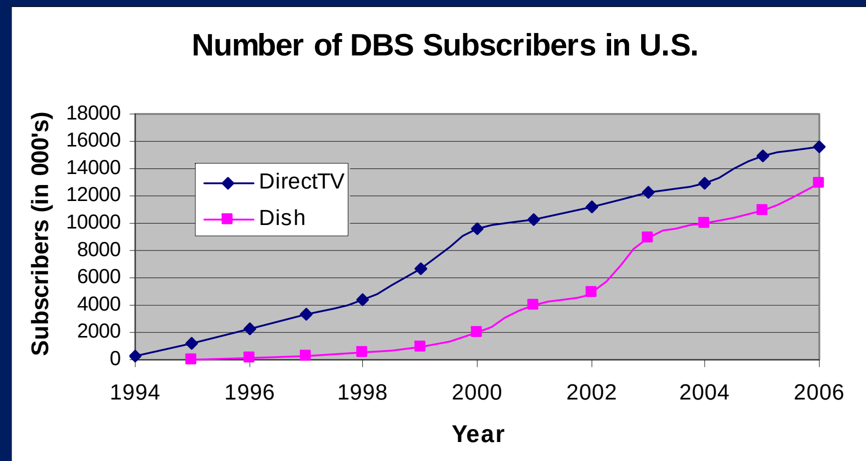


Global Transponder Supply and Demand (36 MHz Equivalents)

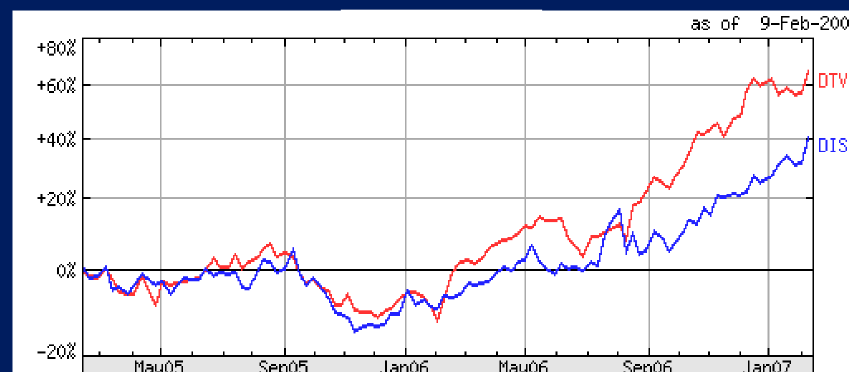
	2005	2006	2007	2008	2009	2010	CAGR
Supply (C, Ku,	7,534	7,875	8,100	7,900	7,700	7,300	-0.6%
Demand							
TV & Video	2,350	2,400	2,525	2,650	2,800	2,900	4.3%
Voice & Data	1,200	1,027	875	746	660	600	-12.9%
Broadband Acc	450	600	750	850	950	1,050	18.5%
Broadband Trui	300	350	400	450	500	550	12.9%
Total	4,300	4,377	4,550	4,696	4,910	5,100	3.5%
Utilization Rate	57%	56%	56%	59%	64%	70%	

DBS

- **Big Issue: Triple/quadruple play threats**
  - Cable modem service, VOD and VoIP are reinvigorating the well funded MSOs
  - Telecos laying fiber to home or curb
  - IPTV may re-energize rural cable and telecos
- **Positive Factors**
  - Still adding subs, ARPU remains high
  - Satellite most efficient point to multi-point
  - Spot beam technology and compression have enabled increases in channel capacity
  - Channel needs keep growing:
    - HDTV, local-to-local, niche content
  - Developing worlds wants more video
- **Concerns**
  - Rising SAC/churn holds down profitability
  - HDTV consuming lots of bandwidth
  - Video evolving away from satellite strengths
    - Time and place shifting
    - Internet streaming
    - Going mobile
    - User created content growing
    - Interactivity

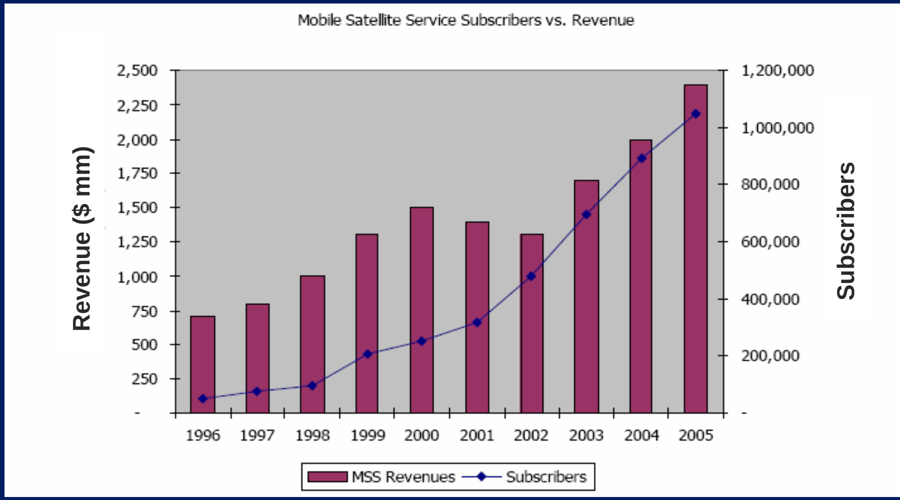


EchoStar vs. DIRECTV



MSS

- Big Issue: Hybrid networks / ATC Value
  - Each hybrid network could cost billions
  - Not enough major players for the 6 ATC firms seeking strategic partners
- Positive Factors
  - Growing enterprise and consumer demands
    - Anything, anywhere, anytime
  - Government focus on ubiquity
    - War fighting, homeland security, FEMA
  - LEOs (GlobalStar, iridium, ORBCOMM):
    - Adding subscribers at good rate
    - Lower pricing and better handsets
    - New investors benefiting from billions of prior funding
  - GEOs (Inmarsat, MSV, TerreStar, ICO, Thuraya):
    - Not just voice, broadband is important
    - Large antennas and satellite power allow for smaller CPE/handsets
    - Incremental and lower fleet costs
- Concerns
  - Potential partners have not invested
  - Paid $13.7 billion for AWS spectrum
  - Focus is terrestrial competition/ build-out
  - Hybrid networks may be tool for telecos to determine best places for new towers



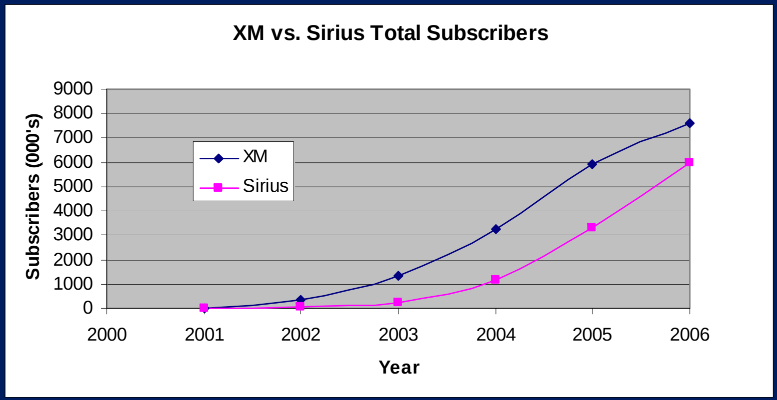
Source: Canaccord

	Globalstar	Iridium	Inmarsat	ICO North America	MSV	TerreStar
Amount of Spectrum (MHz)	27.85	5	28	20	28	20
Global Footprint	✓	✓	✓	×	×	×
Satellites in Orbit	✓	✓	✓	×	✓	×
ATC Approved	✓	×	×	×	✓	×

Source: Wachovia

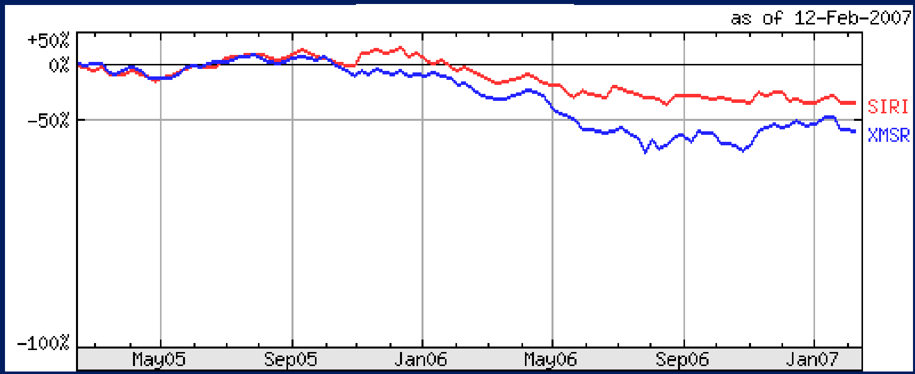
DARS

- **Big Issue: Survival**
  - **Stocks underperforming the market**
  - **SAC and churn have been climbing**
  - **Subscriber growth slowing faster than expected (e.g. XM 2006: 3 mm to 1.8 mm)**
  - **Royalty arbitration panel may add costs**
- **Positive factors**
  - **Over 13.5 million subs today**
  - **Subscribers love content, are loyal fans**
  - **Fewer high cost content buys expected**
  - **Good consumer price points**
  - **More OEM factory installs coming**
  - **Most efficient nationwide mobile audio solution**
  - **Analysts predict 26-35 million by 2010**
  - **Only two licensees**
  - **Cash flow breakeven predicted soon**
- **Concerns**
  - **iPODs, MP3, internet radio, HD Radio, wireless broadband add competition**



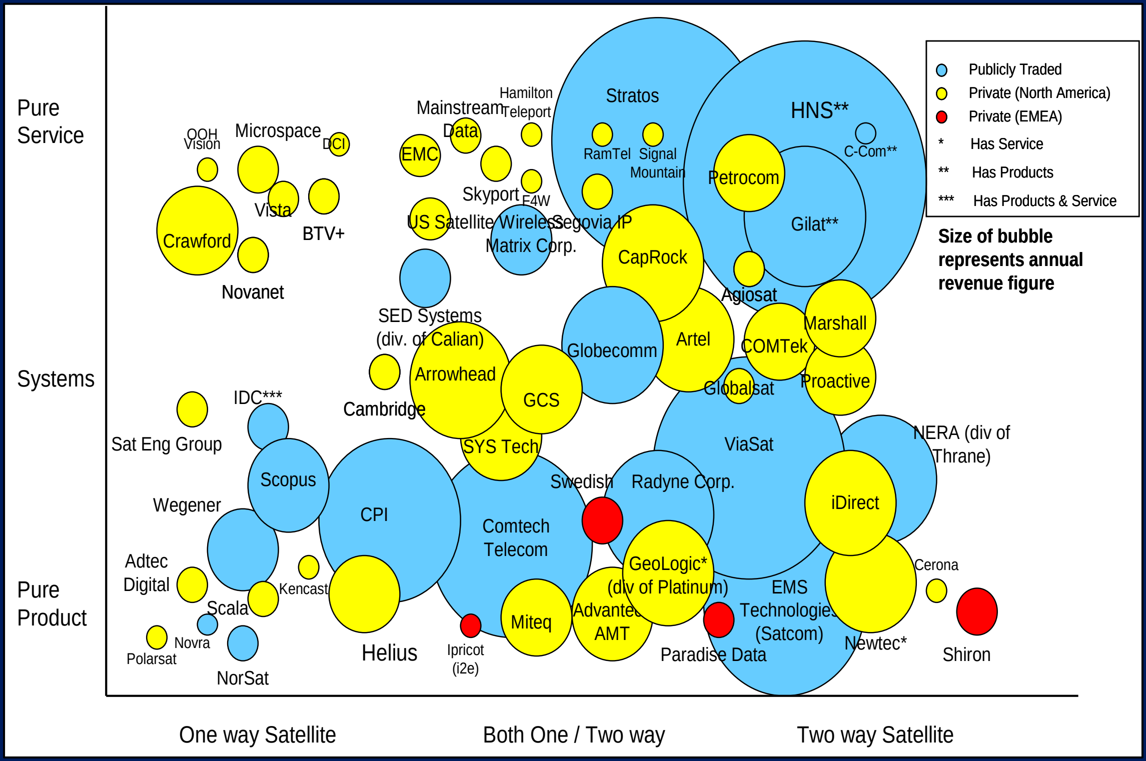
Source: Near Earth LLC Analysis

XM vs. Sirius



Satellite Ground Segment

- **Big issue: Fragmented Industry**
  - **R&D heavy, light on sales/mkt'ing**
  - **Little pricing power**
  - **Narrow product/ service offerings**
  - **No economies of scale**
  - **Negative to single digit ROE's**
- **Positive Factors**
  - **Easy gains through consolidation**
    - **Need a two stage roll-up to achieve profitability then scale**
  - **Large Military/Gov't Needs**
  - **Many high growth applications**
  - **Emerging markets promise growth**
- **Concerns**
  - **Digital/IP convergence may blur space / terrestrial niches**
    - **Who will benefit more?**
  - **Fiber and wireless build-outs shrink satellite business and consumer niches**
  - **ROI too low to attract new capital, stock-stock transactions necessary**



Investor Perception: Space is Hard

- **Numerous unique risks**
  - **Catastrophic risks: Launch or in-orbit failure**
  - **Higher business interruption / delay risks: launch delay, anomalies**
  - **Higher back-up costs: expensive in-orbit or ground spares**
- **Investor logic:**
  - **Hard enough to make money in space without adding competition in space**
  - **FSS had to start with Intelsat, MSS with Inmarsat**
  - **Today ---- 2 is a very big #**
- **Industry sectors at or near 2:**
  - **U.S. DBS: DirecTV & Echostar**
  - **U.S. DARS: XM Radio & Sirius**
  - **U.S. Remote Sensing: DigitalGlobe & GeoEye**
- **Consolidating**
  - **FSS: Intelsat & SES have 44.5% of GEOs**
- **Needs to Consolidate**
  - **MSS: Six ATC players is too many, need critical mass/spectrum**
  - **Ground equipment: significantly fragmented**
  - **Launch services: versus national interests to have capability**
  - **Satellite manufacturing: versus technology transfer issues**

Investor Perception: No Longer "Rocket Science"

- **Historically: space industry has achieved miracles**
  - **Landed on the Moon**
  - **Brought media / telecom to most difficult areas of world**

- **Today: Whiz-bang, Gee-Whiz factor is declining**
  - **Satcom improved, but still mostly GEO transponders to dishes**
  - **Launch vehicles getting safer, but still based on same rocket technology**
  - **Moon was 1969….**
  - **Shuttle first launch 1981 (in service to 2010)**
  - **GPS was the mid to late 80s**
  - **DBS was mid 90s, DARS early 00's**

- **Need a new round of innovation to excite investors**
  - **Google Earth on steroids**
  - **New satellite technologies (e.g. small sats, virtual GEOs, lasercom links)**
  - **Phased array antennas in space and on ground**
  - **In orbit recovery, refueling and repair**
  - **Reusable launch vehicles**
  - **<u>Most of all, industry needs to be relevant to high growth new media/telecom applications</u>**