ISCe 2008: San Diego, CA June 13, 2008

Approximately 700 satellite industry executives, military officers and government officials attended ISCe this year. The conference was focused on satellite and hybrid network solutions for the government and military sectors. This year, ISCe also teamed with the 26th Annual AIAA International Communications Satellite Systems Conference (ICSSC-2008) and the 2nd Annual Navy SATCOM Users Workshop for a comprehensive program of technical, marketing and user-themed panels. Before summarizing my key three take-ways from the conference below, I would like to first acknowledge three individuals and one company that were honored with awards, all of which in my mind were extremely well deserved. Congratulations to all:

Many golden crumbs have fallen on many laps.

Lifetime Achievement Award
David Hershberg, CEO of Globecomm Systems
Innovation Award
Gary Hatch, ATCi founder and CEO
Aerospace Communications Award
Mark Dankberg, ViaSat CEO & Chairman
AIAA Leadership Award
Boeing Satellite Systems International

The Public – Private "Partnership" May Change

The last several years have been ideal in many respects for both government users and industry suppliers. Many golden crumbs have fallen on many laps. Satellite operators had plenty of excess capacity to sell and government users needed to use that capacity badly (some 80% of current MilSatCom needs are filled commercially). Government also wanted to purchase capacity on a short-term often sub-transponder block basis; both of which meant nice profit margins for industry and great flexibility for the government. To use the real estate analogy, it was as if landlords having leased out most of their floors to global media and telecom firms under 3 – 15 year leases were then able to offer the remaining scattered blocks of offices to a very high credit quality tenant on a higher month by month rate basis and for year after year. Of course, this new tenant was a bit of a pain with tons of special requirements. Interestingly, from the government's perspective, these special requirements shouldn't be that special at all, but things commercial customers should also appreciate (and help pay for). With growing threats of cyber attacks, jamming, interference, even ASATs, they may have a point.

…it was as if landlords having leased out most of their floors to global media and telecom firms under 3 – 15 year leases were then able to offer the remaining scattered blocks of offices to a very high credit quality tenant on a higher month by month rate basis

The situation today is that private (and public) equity owners have insisted on more rational fleet planning and deployment with much greater discipline in terms of space segment capacity additions. There is thus an anticipated closing in the commercial supply-demand gap that has provided the benefits above. Much of the new commercial capacity is already targeted toward fulfilling demand for commercial video applications, including HDTV, consumer and enterprise broadband connectivity and cellular backhaul. So, in the continued absence of any serious forward purchase commitments by the government or even detailed planning with the satellite operators, will the "partnership" of the recent past last much longer? We doubt it. DISA certainly has no plans to operate any differently. Was it really even a partnership or just a marriage of convenience? Commercial firms are supposed to take educated and calculated investment risks related to potential future market demand, but not substantially unknown and even random risks. Build and they will come just does not fly anymore. For some reason the U.S. government can commit long-term to fiber capacity, but not to satellite capacity even though they have substantial access to excess fiber capacity (only 10% of GIG capacity being used today and 75% of that for morale purposes). Given changing circumstances, some new model needs to be developed for this partnership to continue to fully benefit investors, government users and tax payers. If nothing else, a greater amount of shared planning.

The overwhelming consensus seems to be that the government's requirements for bandwidth will continue to grow at a pace that will significantly outstrip any likely self-owned capacity it will put into service.

Government Bandwidth Needs Expected to Always Require Commercial Sources

The overwhelming consensus seems to be that the government's requirements for bandwidth will continue to grow at a pace that will significantly outstrip any likely self-owned capacity it will put into service. Given the growing importance of network centric warfare, UAVs and COTM, it is hard to doubt or even debate the point, but timing does matter. There are some pretty large chunks of government owned space segment capacity coming online (e.g. WGS, MUOS, and T-SAT) and a questionable near term demand scenario with the potential drawdown in Iraq and change of Administrations. The consensus, however, is as Colonel Shearer encouraged, we should focus on the inevitable increase in traffic not any near term shift in the percentage mix of commercial versus government supply. True, but again for commercial planning and investment purposes the percentages and timing and degree of certainty do matter. A project that is expected to generate $1 billion

of revenues split evenly over ten years is quite different from one that starts with very little revenue in year one and ends with a lot in year ten, which is different from one whose timing of revenues are volatile and unpredictable and whose total could be half as large or twice as big.

Proliferation of Systems Confusing to the End User

Ideally, the soldier just wants to pull out a Blackberry or iPhone type device and get any voice, data, photo or video he or she needs right then, on a secure basis and no matter where and no matter what else is happening

There was much discussion of the desire for standards, but no real likelihood that any would be supported given the government's past history backing standards. Even on the frequency side, there are systems being fielded for C, Ku, Ka, L and S-bands not counting the typical military only bands like X-band. Having multiple communications systems, solutions and frequency bands (military and commercial) does at least provide redundancy at some level even if it does create network confusion at the end user. The soldier after all just wants connectivity and applications and doesn't care about the network. Ideally, the soldier just wants to pull out a Blackberry or iPhone type device and get any voice, data, photo or video he or she needs right then, on a secure basis and no matter where and no matter what else is happening. Instead, there is a growing catalog of systems that are much larger and harder for the soldier to use than a handheld. We even heard that there is a meaningful amount of doubt among commanders and soldiers if these advanced military communications systems will even be there when they need them and if they should spend more time training as if they will not be. How do we fix this? One idea expressed by Paradigm Secure Communications, a unit of EADS Astrium, was to adopt the MOD strategy of using end-to-end commercial providers. Instead of providing DOD with occasional space segment capacity or a one solution SatCom network, the commercial provider would take charge of everything from owning the satellite, to designing the user terminals to the operation of the network. This all sounds wonderful, but I would think in the absence of long term traffic guarantees, it would at least require some exclusivity or first use provisions over other commercial sources and perhaps even some level of usage guarantees versus comparable government owned capacity. Is this possible? If so, perhaps it is a market opportunity commercial companies could finance.

By Hoyt Davidson
Near Earth LLC

IMPORTANT DISCLOSURES AND INFORMATION ABOUT THE USE OF THIS DOCUMENT:

Near Earth, LLC ("Near Earth") has published this report solely for informational purposes. The report is aimed at institutional investors and investment professionals, and satellite, media and telecom industry professionals. This report is not to be construed as a recommendation or solicitation to buy or sell securities. The report was written without regard for the investment objectives, financial situation, or particular needs of any specific recipient, and it should not be regarded by recipients as a substitute for the exercise of their own judgment. The content contained herein is based on information obtained from sources believed to be reliable, but is not guaranteed as being accurate, nor is it a complete statement or summary of any of the markets or developments mentioned.

The authors of this report are employees of Near Earth, LLC, which is a member of FINRA. The opinions expressed in this report accurately reflect the personal views of the authors but do not necessarily reflect the opinions of New Earth itself or its other officers, directors, or employees.

The portions of this report produced by non-Near Earth employees are provided simply as an accommodation to readers. Near Earth is under no obligation to confirm the accuracy of statements written by others and reproduced within this report.

Near Earth and/or its directors, officers and employees may have, or have had, interests in the securities or other investment opportunities related to the companies or industries discussed herein. Employees and/or directors of Near Earth may serve or have served as officers or directors of companies mentioned in the report. Near Earth does, and seeks to do, business with companies mentioned in this report. As a result, Near Earth may have conflicts of interest that could affect the objectivity of this report.

This report is subject to change without notice and Near Earth assumes no responsibility to update or keep current the information contained herein.

Near Earth accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report.