

TECHNOLOGY

EchoStar Pursues a Strategy Shift

Cost-Conscious CEO Ergen To Boost Satellite Spending, May Lease Extra Capacity

By ANDY PASZTOR

EchoStar Communications Corp. is pursuing a new strategy that envisions investing more than \$1.6 billion to dramatically increase its satellite fleet over the next few years, with plans to potentially lease some of the extra capacity to other companies.

The Englewood, Colo., broadcaster, which is best known for operating the Dish television service in the U.S., also disclosed in a recent regulatory filing that it has switched to Loral Space & Communications Inc. from Lockheed Martin Corp. as the mainstay of its stepped-up spacecraft-acquisition plan. An EchoStar spokeswoman declined to elaborate.

The new direction indicates that EchoStar's chairman and chief executive, Charles Ergen, renowned for controlling costs and minimizing capital outlays, has decided to ratchet up spending in the face of mounting competition. Rival cable and satellite-television services, for example, are investing in facilities to provide high-definition video programming.

At the same time, industry analysts and consultants said Mr. Ergen seems to be hedging his bet by positioning EchoStar to become a wholesale provider of orbital capacity able to compete with traditional satellite operators such as Intelsat Ltd. of Ber-

muda, and Luxembourg's SES Global SA.

So far, EchoStar has primarily built satellites to serve its more than 12 million subscribers, and it previously signed up to use additional capacity on other satellites operated by SES Global's U.S. unit. But with its new strategy calling for a total of at least another nine wholly owned or leased satellites supporting its expansion program into the next decade, EchoStar would have greater flexibility

EchoStar would have more flexibility to move outside its satellite-to-home broadcast niche.

to move outside the company's core satellite-to-home broadcast niche.

"In addition to our [satellite-television] business plan," EchoStar said last week in an SEC filing, "we are exploring business plans" for additional satellites at as many as five orbital slots. In a conference call with investors after the document was filed, company executives hinted they are considering branching into other industry segments.

Some of the new satellites are intended as replacement and supplemental capacity "to allow EchoStar to leapfrog cable-television providers" in beaming down high-definition programs to households, according to Vijay Jayant, an analyst with Lehman

Brothers Holdings Inc. But if the appetite for such content fails to take off, Mr. Jayant said, EchoStar "has looked at the cost-benefit analysis" and decided "it also can become a satellite player" in the wholesale arena.

While other analysts predict EchoStar's internal needs will absorb nearly all the extra capacity, Jimmy Schaeffler, an industry consultant with Carmel Group, said the EchoStar filing reveals "the beginning of a major shift in strategy." Mr. Ergen has decided "he can be a middleman in wholesaling incremental capacity and still do quite well."

The spending plan laid out in EchoStar's filing projects roughly \$500 million more in satellite-related obligations through the end of the decade than the total included in a year-earlier filing. With an overall price tag approaching \$3 billion into the next decade, the latest plan also relies on eventually buying five more-versatile satellites from Loral, instead of a pair of spacecraft previously listed as an order from Lockheed.

The most recent filing, which doesn't mention the Lockheed orders, says that, during the fourth quarter of 2005, "we changed satellite vendors and submitted the revised contracts" to U.S. regulators. It doesn't give any reason for the shift.

A spokesman for Lockheed of Bethesda, Md., said it still has "two open satellite contracts" with EchoStar but declined to elaborate. A spokeswoman for New York-based Loral said, "We are performing in accordance with the milestones" required in the contracts but declined to provide details.

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EchoStar Considers Joint Project With DirecTV, Entering FSS Market

PETER B. de SELDING, PARIS

EchoStar Communications Corp. Chairman Charlie Ergen said he is open to a joint venture with competitor DirecTV Group to share the costs of installing a network of ground antennas in the United States to debut a terrestrial wireless broadband service.

But Ergen also suggested that he had not yet seen any technologies that would justify the investment and would not make such a decision "just to satisfy somebody on Wall Street." In a March 15 conference call with investors on the Littleton, Colo., company's financial results and the company's annual report to the U.S. Securities and Exchange Commission (SEC), EchoStar raised questions about how many satellites the company plans to buy.

Company officials also raised the possibility that EchoStar would enter the fixed-satellite services (FSS) business in competition with companies like PanAmSat and EchoStar's occasional partner, SES Americom.

In its SEC filing, also dated March 15, EchoStar said it had six satellites on order and planned to spend some \$1.5 billion building and launching them between now and 2009.

Only one of these satellites, the EchoStar 11, which is under construction at Space Systems/Loral, had been previously disclosed. The five new spacecraft, according to EchoStar, also are under construction at Loral and will carry a mix of Ka- and Ku-band. Among the possible future uses of these satellites is a two-way broadband data service.

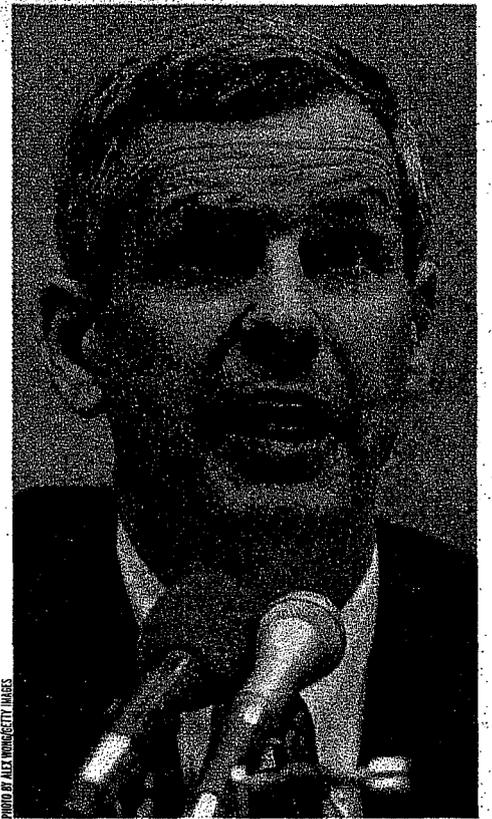
Loral officials have never spoken publicly about these spacecraft and never included them in the company's backlog. Loral spokesman John McCarthy said Loral would have no comment on the EchoStar statements.

The SEC filing also makes no mention of two all-Ka-band satellites that the company previously had said were under construction by Lockheed Martin Commercial Space Systems. In its annual report to the SEC in March 2005, EchoStar had said two A2100-class spot beam Ka-band satellites would be completed by Lockheed Martin in 2008.

EchoStar spokeswoman Kathie Gonzales did not respond to requests for clarification.

An EchoStar-DirecTV agreement to share the costs of building and deploying a network of ground antennas for wireless broadband could affect the number of spacecraft the two companies will launch.

Ergen, who is an acknowledged master of leaving investors guessing about his intentions, said the idea of a shared investment with his rival has appeal.



Charlie Ergen

"You could make a compelling case that the satellite industry is probably better served to look at advances in terrestrial wireless as an industry, in a standardized way," Ergen said. "The build-out costs would be excessive and it would make more sense to do that for 30 million subscribers [the combined EchoStar-DirecTV customer base] than for 12 million or 15 million subscribers." But Ergen added that EchoStar sees no urgency in the matter, and that "we don't necessarily see a compelling system within terrestrial broadband today that makes sense for us. If something developed where we could do something with DirecTV we certainly are keen on that idea, if it makes sense."

In the meantime, Ergen said, EchoStar is ready to order more satellites than it currently knows what to do with.

In addition to ordering its own satellites, EchoStar has agreed to lease all the capacity on

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and will become a manager at the startup launch (SpaceX). See story, page 4

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ia Satellite On the Rise

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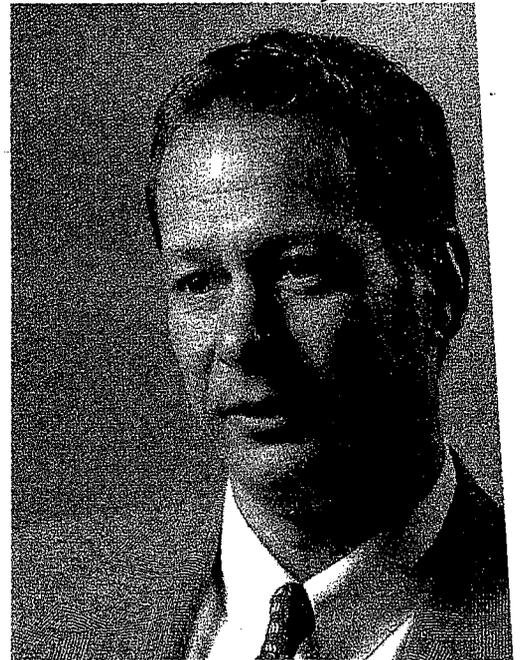
Sea Launch LLC President Jim Maser is resigning his post at the end of this month to become president and chief operating officer of launcher startup company Space Exploration Technologies, known as SpaceX.

Maser, who joined the Boeing-led Sea Launch company seven years ago and has been its president for four and one-half years, confirmed March 16 that he had tendered his resignation but declined to confirm the SpaceX position.

Maser said he had been thinking of resigning for several months, and that Sea Launch's recent successes in the marketplace and on the launch pad persuaded him that the time was right.

"I have had offers before, and some within Boeing, but I have turned them down because there were challenges here," Maser said in an interview. "I think we're there now at Sea Launch. People are asking me: Why are you leaving? Well, I'm leaving not because something's wrong, but because everything's right."

El Segundo, Calif.-based SpaceX has been struggling for more than a year to complete the maiden flight of its Falcon 1 rocket. It is a vehicle that has captured the attention of the entire industry because of its advertised low price.



Jim Maser

SpaceX's president and chief executive officer, Elon Musk, who made a fortune in the software business before turning his attention to the space-launch business.

"Jim brings a wealth of capability and experience to the SpaceX team," Musk said in a March 17 statement. "His joining is also a tremendous endorsement of SpaceX, our accomplishments to date and our vision for the future."

Sea Launch currently has a full order book and is preparing to extend its activities beyond its core busi-

ness of launching heavy satellites from a floating platform on the equator in the Pacific Ocean, where it can launch satellites weighing 6,000 kilograms into geostationary transfer orbit. Sea Launch plans to use the same Russian-Ukrainian Zenit 3SL vehicle to operate from the Russian-run Baikonur Cosmodrome in Kazakhstan, where it will be able to loft 3,000-kilogram satellites.

"I have been looking for new challenges," Maser said.

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several spacecraft owned by satellite-fleet operator SES Americom of Princeton, N.J., and another large spacecraft being built by Canadian operator Ciel Satellite Communications. In total, the company has on order 8 to 9 satellites.

David Moscovitz, EchoStar's general counsel, said "We have some outs on some of those at certain points in time," meaning EchoStar can choose to pay several million dollars in initial payments to manufacturers and then cancel the contract.

EchoStar has a history of not insuring its satellites, but of protecting its orbital investment with backup capacity. Ergen said that partly explains the new orders. In addition, he said, EchoStar wants to order spacecraft to ensure it is capable of taking advantage of new opportunities including broadband and television over the Internet.

But EchoStar also is thinking about entering the market now occupied by PanAmSat, SES Americom, Telesat and

others by leasing satellite capacity to broadcasters, transponder by transponder.

Ergen said some satellite-fleet operators have been valued more highly by Wall Street than has EchoStar, whose stock has not moved in more than four years, despite these companies' modest growth prospects and high debt.

EchoStar Vice Chairman Carl Vogel explained how EchoStar sees its options: "We have 14 satellites in the air over the United States. That's a pretty significant footprint. We own that infrastructure plus the consumer [satellite-television] business and yet our multiple is considerably less [than fixed satellite service operators]. So I think we've got some interesting options there. We think we have opportunities to gain incremental revenues off some of those satellites that we haven't quite shown a return on to date. There are some good opportunities there going forward."

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March 20, 2006

AsiaSat To Buy New Satellite Despite Slow Market

PETER B. de SELDING, PARIS

AsiaSat plans to order a new satellite within weeks for a launch in 2008 despite the continued lackluster market in South and East Asia and the likelihood that conditions will not improve anytime soon.

Peter Jackson, chief executive of Hong Kong-based Asia Satellite Telecommunications Holdings Ltd., said the company continues to face pressure on its transponder-lease prices and already has acceded to it by selling capacity aboard its new AsiaSat 4 satellite at prices that are lower than those for two other spacecraft.

"It's a new satellite in a new orbital position, so we would have done some introductory pricing anyway," Jackson said in a March 17 interview. "But perhaps in a more robust market, the prices wouldn't have come down as much."

The reduced prices on AsiaSat 4 accounted in part for the fact that the company reported a 2-percent decrease in sales in 2005 compared to 2004, but also reported that its satellite-utilization rate increased by 18 percent, to 54 percent as of Dec. 31, 2005, compared to 46 percent a year earlier.

Jackson said most of the new business in 2005 was booked on AsiaSat 4, which ended the year 47-percent filled, compared to 27 percent a year earlier. AsiaSat 2 was 40-percent filled at the end of the year, compared to 36 percent a year earlier, while AsiaSat 3's fill rate was unchanged at 73 percent, according to AsiaSat figures.

The economic recovery in the Asia-Pacific region and the continued strong economic growth in China have not yet stimulated a rebound in transponder prices, according to satellite operators active in the region.

AsiaSat has had to write off bad debt and set aside provisions for likely future nonpayment by customers. It wrote off 3 million Hong Kong dollars (\$387,000) in 2005 and has set aside 11.8 million Hong Kong dollars to guard against similar nonpayments in the future, particularly on the part of one large Chinese customer, Jackson said.

AsiaSat, which is minority-owned by SES Global of Luxembourg, reported a 12-percent drop in sales in 2005, to 880 million Hong Kong dollars.

After excluding a one-time gain for a 2004 customer penalty payment for early lease cancellation, the revenue decline was 2 percent.

EBITDA — earnings before interest, taxes, depreciation and amortization — was 672 million Hong Kong dollars, or 76 percent of revenues. Net profit was 420 million Hong Kong dollars, down 16.7 percent from a year earlier.

AsiaSat, which is traded on the Hong Kong Stock Exchange, had warned investors that 2005 would be a difficult year; and when presenting its financial results March 16, the company said 2006 is un-

likely to be much better.

Oversupply remains an issue, and Jackson said some nations continue to restrict access to their markets.

"Without immediate changes in some countries' regulatory environments or the rapid introduction of some of the pending new applications in Asia, we believe that the situation is unlikely to change significantly in the short term," Asi-

aSat Chairman Romain Bausch, who is also chairman of SES Global, said in a statement accompanying the AsiaSat financial results.

Despite the market's weakness, AsiaSat's board of directors has approved the construction of the AsiaSat 5 satellite, to carry a total of around 38 C- and Ku-band transponders, with a contract expected to be signed within weeks, Jackson said. AsiaSat 5 will replace

AsiaSat 2. Manufacturers' bids have been received and an evaluation of the best technical and financial offer is nearly finished, he added.

Jackson said there are some hopeful signs, including the fact that several regional operators are having second thoughts about replacing their aging satellites given the business prospects.

"These satellites have been

considered national assets, and people are thinking that these national assets are expensive," Jackson said. "And some of the larger operators have taken on debt, so for some of these satellite systems, we're getting to crunch time. Prices will have to come up."

One application that AsiaSat said might show promise is video programming to mobile devices. In South Korea and Japan, an S-band satellite system already has debuted such a service, with the principal early market being mobile handsets.



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March 20, 2006

Faulty Fuel Tank Sensors Delay Launch of Next Shuttle Mission

TARIO MALIK, NEW YORK

NASA will delay the launch of its next space shuttle mission until July in order to replace potentially faulty fuel sensors inside the orbiter's massive external tank, the agency's shuttle program chief said March 14.

Wayne Hale, NASA's shuttle program manager, told reporters that the shuttle Discovery and its

STS-121 return-to-flight mission now will launch no earlier than July 1, weeks later than its earlier May 10-22 flight window.

The extra time will allow for an invasive, three-week swap of four engine cut-off (ECO) sensors inside the liquid-hydrogen portion of the orbiter's 15-story fuel tank, he said.

"This is not a decision about schedule," Hale said during a

press conference at NASA's Johnson Space Center in Houston. "This is a question of safety."

Discovery's STS-121 mission, commanded by veteran astronaut Steven Lindsey, is the second shuttle flight set to fly since the 2003 Columbia disaster that killed seven astronauts. It is also the second test flight before NASA returns to its international space station construction launch schedule.

Hale said he remained optimistic that after Discovery NASA can still launch two more shuttles — STS-115 aboard Atlantis in late August and STS-116 in the fall — by the end of 2006.

Critical sensors

ECO sensors are designed to monitor shuttle fuel tank levels and shut down an orbiter's three main engines before its fuel tank

runs dry.

But recent studies found that wiring defects in the manufacturing of some sensors could lead them to falsely report a dry tank, which could force an early engine shut down before a shuttle reaches its proper orbit, Hale said, adding that one such sensor on Discovery's external tank also has been returning some errant readings.

"If a number of these sensors fail to the 'dry' state they would shut the engines down early, prematurely, which is not a good thing in spaceflight," Hale said, adding that the chances of that occurring is admittedly remote. "This is what we call a criticality one, life or death, kind of situation in that you want those sensors to work properly either way. ... We need to have a good set."

Errant ECO sensor readings scrubbed the attempted July 13 launch of NASA's first post-Columbia mission — STS-114 also aboard Discovery — though the orbiter launched 13 days later without incident. Problems with the sensors also cropped up on a separate tank during an April 2005 fueling test.

Hale said that unrelated problems have led shuttle engines to shut down early in a previous orbiter launch during NASA's STS-51F mission in 1985. A hydrogen leak impaired engine performance during 1999's STS-93 mission launch, he added. Tank engineers will replace all four liquid-hydrogen fuel ECO sensors on Discovery's External Tank-119 (ET-119), which now sits inside NASA's 52-story Vehicle Assembly Building at the Kennedy Space Center in Cape Canaveral, Fla.

The tank will be hoisted into the vertical position, where engineers will remove its foam-covered surface and pry open a manhole at its bottom to gain access to the liquid hydrogen tank, Hale said. After swapping out the old ECO sensors — which were built in 1996 — with new ones, engineers will then close out the tank and set it back in a horizontal cradle to reapply the foam insulation, he added.

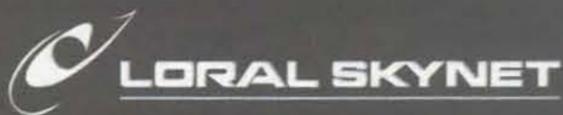
"There are certain risks that you might damage the tank," Hale said of the sensor swap operation.

Discovery's launch window, which runs from July 1 to July 19, also allows shuttle workers about six additional weeks to close out several issues that have cropped up in the last few weeks.

Engineers now will now be able to repair Discovery's damaged robotic arm, — which was dinged inside the shuttle's hangar-like Orbiter Processing Facility on March 4 while workers tried to clean up broken glass from a light bulb that fell into the orbiter's payload bay. The arm is instrumented to evaluate its performance in the upcoming flight, and would have had to be replaced with an un-instrumented arm without the extra work time, Hale said.

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LORAL SKYNET RE-ENTERS U.S. AND NORTH AMERICAN FIXED SATELLITE SERVICES MARKET

Skynet North American Capabilities Include Two Satellites and Leased Capacity Covering North America

BEDMINSTER, NJ - March 20, 2006 - Loral Skynet, a subsidiary of Loral Space & Communications (NASDAQ: LORL), today announced that as of March 18, 2006, it has resumed offering fixed satellite services (FSS) to customers in North America.

"Having the ability to once again offer our FSS services in North America is a major milestone in Skynet's growth strategy," said Patrick Brant, president of Loral Skynet. "Most of Skynet's history and consistent reputation for superior customer service has been as an FSS provider in the U.S. We intend to vigorously market our heritage services in this newly available region, in addition to providing our successful IP-focused network services."

Pursuant to the terms of Loral's agreement to sell certain of its North American assets to Intelsat in March 2004, Skynet was precluded from offering basic FSS capacity leasing services in North America for two years.

Brant continued, "Loral Skynet operates a global satellite fleet, now offering complete bandwidth services in every major geographic region. With the resumption of service in North America, Skynet's portfolio of satellite services offers customers complete global communications services, from basic capacity leases to the latest in IP-powered hybrid satellite and terrestrial network services."

Loral Skynet currently operates two satellites that provide coverage of North America. Telstar 14/Estrela do Sul offers Ku-band capacity across North America and Telstar 12 offers Ku-band capacity to as far West as Denver. Skynet also offers FSS service on transponders it leases across the North American arc, including four transponders it will operate aboard Satmex 6, a high-power C- and Ku-band satellite covering all of the Americas, which is scheduled to begin service this summer.

In addition, Loral Skynet recently announced the start of construction on Telstar 11N, a powerful new multi-region Ku-band communications satellite to be located at 37.5 degrees West longitude. When it enters service in the second quarter of 2008, Telstar 11N will provide service from 39 high-power 54 MHz Ku-band transponders spread across four different geographic beams in each of North and Central America, including the U.S., Europe, Africa and the maritime Atlantic Ocean Region. Telstar 11N will complement the coverage of Skynet's Telstar 12 satellite at 15 degrees West longitude, which provides Ku-band trans-Atlantic coverage to an array of commercial and governmental users.

A pioneer in the satellite industry, Loral Skynet delivers the superior service quality and range of satellite solutions that have made it an industry leader for more than 40 years. Through the broad coverage of the Telstar satellite fleet, in combination with its hybrid VSAT/fiber global network infrastructure, Skynet meets the needs of companies around the world for broadcast and data network services, Internet access, IP and systems integration. Headquartered in Bedminster, New Jersey, Loral Skynet is dedicated to providing secure, high-quality connectivity and communications. For more information, visit the Loral Skynet web site at www.loralskynet.com.

In addition to being the parent company of Loral Skynet, Loral Space & Communications is a world-class leader in the design and manufacture of satellites and satellite systems for commercial and government applications through its Space Systems/Loral subsidiary. For more information, visit the Loral Space & Communications web site at www.loral.com.

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, Loral Space & Communications Inc. or its representatives have made or may make forward-looking statements, orally or in writing, which may be included in, but are not limited to, various filings made from time to time with the Securities and Exchange Commission, press releases or oral statements made with the approval of an authorized executive officer of the company. Actual results could differ materially from those projected or suggested in any forward-looking statements as a result of a wide variety of factors and conditions. Many of these factors and conditions are also described in the section of the annual report on Form 10-K for the fiscal year ended December 31, 2004 of Loral Space & Communications Ltd. (the predecessor registrant to the company) ("Ltd."), entitled "Commitments and Contingencies," and the company's and Ltd.'s other filings with the Securities and Exchange Commission. The reader is specifically referred to these documents.

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