

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

In the Matter of:

Petition of the International  
Telecommunications Satellite Organization  
Under Section 316 of the Act

IB Docket No. 06-137

File No. SAT-MSC-20060710-00076

DA No. 06-1460

**REPLY COMMENTS OF THE INTERNATIONAL TELECOMMUNICATIONS  
SATELLITE ORGANIZATION (ITSO)**

**Date: August 28, 2006**

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**I. SUMMARY**

The International Telecommunications Satellite Organization (ITSO) hereby files these Reply Comments in response to the *Opposition* of Intelsat North America, LLC (Intelsat) to ITSO's *Petition* under section 316 of the Act for modification of Intelsat's satellite licenses using the ITSO Parties' Common Heritage orbital locations and associated radio frequency assignments.

In sum, Intelsat's *Opposition* does not, in its 32 pages, answer the fundamental question about how the Core Principles and the ITSO's Parties' Common Heritage orbital locations would be protected in the event of an Intelsat bankruptcy proceeding. Instead, Intelsat's *Opposition* is based on a series of fragmented arguments that fundamentally misunderstand the basis for, and nature of, ITSO's requested modifications. Once these misunderstandings are corrected, it is apparent that Intelsat's concerns are irrelevant to

ITSO's *Petition*. In fact, it is ITSO's suggested modifications, not Intelsat's reliance on the *status quo*, which will provide self-enforcing, market-based conditions to ensure that the Core Principles of the ITSO Agreement are fulfilled in case of Intelsat's bankruptcy and/or in cases where the Parties' Common Heritage orbital locations are used by other satellite operators. Adoption of these modifications to Intelsat's satellite licenses also will minimize the need for the Commission's involvement in the intricacies of any Intelsat bankruptcy proceeding.

## II. ITSO'S *PETITION* IS BASED ON UNITED STATES' OBLIGATIONS AS A PARTY TO, AND NOTIFYING ADMINISTRATION UNDER, THE ITSO AGREEMENT

Intelsat's *Opposition* fundamentally misunderstands the framework of the ITSO treaty Agreement ("ITSO Agreement") and the U.S. obligations under it. Under the ITSO Agreement, the Parties to the Agreement -- that is, ITSO's 148 member nations -- agreed that, as members of ITSO, they intend that the privatized INTELSAT "honor the Core Principles set forth in Article III of this Agreement."<sup>1</sup> As set out in ITSO's *Petition*,<sup>2</sup> three separate mechanisms exist to ensure post-privatization Intelsat's compliance with the Core Principles:

- (a) the actions of the **Parties**, collectively through the Assembly of Parties, and individually through their sovereign treaty obligations;
- (b) the actions of the **Notifying Administrations** for the Parties' Common Heritage orbital locations, on behalf of all Parties; and

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<sup>1</sup> ITSO Agreement, Preamble paragraph 6. Article II(b) of the ITSO Agreement lists the Core Principles, as follows: (i) maintain global connectivity and global coverage; (ii) serve its lifeline connectivity customers; and (iii) provide non-discriminatory access to the Company's [Intelsat's] system.

<sup>2</sup> *Petition*, at 5-6.

- (c) a **Public Services Agreement** between ITSO and Intelsat incorporating the Core Principles as contractual Public Service Obligations (PSOs), with respect to which ITSO has oversight responsibilities.

ITSO's *Petition* clearly focuses on the first and second of these mechanisms regarding the actions of the Parties and the actions of the Notifying Administrations -- and these mechanisms are embodied in the ITSO Agreement. Intelsat's *Opposition*, on the other hand, attempts to direct the 316 proceeding to the third mechanism above -- the Public Services Agreement, which does not contain *any* reference to the Parties' Common Heritage orbital locations or to the Notifying Administrations, and is therefore not the focus of ITSO's *Petition*. Moreover, ITSO's bankruptcy counsel has indicated that the fulfillment of the Core Principles, as well as the protection of the Parties' Common Heritage orbital locations, may be at risk in the event of Intelsat's bankruptcy or default.<sup>3</sup>

As ITSO noted in its *Comments* filed in the PanAmSat license transfer proceeding,<sup>4</sup> the United States—including the Commission—made a concerted effort to be competitively selected by the Assembly of Parties as a Notifying Administration, no doubt responding in significant part to section 644(b) of the ORBIT Act that directs the U.S. President and the Commission to take the actions necessary to ensure that the United States remains the Notifying Administration for the Common Heritage orbital positions.

In turn, the Commission understood precisely the Assembly's selection criteria:

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<sup>3</sup> See "*Legal Opinion of Kirkpatrick & Lockhart Nicholson Graham LLP on the Risk of U.S. Bankruptcy Laws to the Continuity of Public Service Obligations*," Attachment 1 to letter from U.S. Department of State filed in FCC IB Docket No. 05-290 ("Application to Transfer Control of PanAmSat Licenses to Intelsat Holdings, Ltd."), dated March 7, 2006; stamped received and inspected March 27, 2006.

<sup>4</sup> See "*Comments of ITSO*," FCC IB Docket No. 05-290 ("Application to Transfer Control of PanAmSat Licenses to Intelsat Holdings, Ltd."), November 14, 2005 at 7-9. The candidates for Notifying Administration included: France, Norway, the United Kingdom and the United States.

INTELSAT has decided that certain ‘core principles’ of its current mission must be retained after privatization. ... *The final Assembly decision to privatize INTELSAT will depend on receiving assurances from the prospective licensing jurisdictions that the privatized entity will continue to operate in accordance with these principles.*<sup>5</sup>

The selection criteria for choosing the Notifying Administrations elaborated the requirement of the ITSO Agreement, Article XII(c), that “Any Party selected to act as the Company’s Notifying Administration shall ... authorize the use of such frequency assignment by the Company so that the Core Principles may be fulfilled.” In turn, under Article I(d), “Company” means the privatized Intelsat and “successors-in-interest.” Moreover, the Summary Minutes of ITSO’s 25<sup>th</sup> Assembly of Parties meeting in November 2000, which ratified the selection of the United States as a Notifying Administration, record the statement of the U.S. representative that:

[T]he United States is honored to be selected along with the United Kingdom as the notifying administration for the privatized Intelsat *and the trustee of common heritage of the INTELSAT Parties in terms of locations and frequency assignments. His Party fully appreciates the trust that has been placed with it and it does not take this responsibility lightly.* In accepting this important responsibility, he concluded, we look forward to working together with the ITSO, with Intelsat Ltd. and *to achieve the Assembly’s common vision of a healthy, strong Intelsat that can best fulfill its core principles.*<sup>6</sup>

There is no doubt that these remarks by the U.S. representative to the Assembly of Parties represent the contemporaneous understanding of the United States that, by accepting the role as Notifying Administration, it voluntarily had undertaken the commitment *to ITSO’s 148 member countries* to use its licensing authority to maintain Intelsat’s (and its “successors-in-interest’s”) ability to operate in accordance with the Core Principles.<sup>7</sup>

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<sup>5</sup> *Intelsat, LLC*, 15 FCC Record 15460, para. 25 (emphasis added, footnote omitted).

<sup>6</sup> AP-25-4, paragraph 415, emphasis added.

<sup>7</sup> The intent of the U.S. representative is clear, regardless of whether the U.S. Representative intended to use the word “trustee” in its strict legal sense. See *Opposition*, at 16.

The fundamental issue thus presented by ITSO's *Petition* is how ITSO's Parties can be assured that Intelsat or a "successor" could "continue to operate in accordance with" the Core Principles in case of Intelsat's bankruptcy or default.<sup>8</sup> More specifically, the remedies proposed by ITSO attempt to answer the following questions: (1) what contractual arrangement must an entity (including a bankruptcy estate) have with ITSO to be considered a "successor" in case of an Intelsat bankruptcy or default; and (2) how would such a successor (or successors) be able to ensure fulfillment of the Core Principles "on a continuing basis," in accordance with the Preamble of the ITSO Agreement.

Remarkably, in its 32-page *Opposition*, Intelsat makes no attempt to answer these questions. Rather, it claims that ITSO's proposed license modifications are an attempt to enlist the Commission in enforcement of the *existing* Public Services Agreement (PSA) between ITSO and Intelsat with respect to hypothetical disputes arising before bankruptcy or default, in lieu of resorting to the PSA's arbitration provisions.<sup>9</sup> Since ITSO's *Petition* is about whether and how the Core Principles specified in the ITSO Agreement (and the resources to implement them) will *survive* following an Intelsat bankruptcy or default, the erroneous Intelsat argument that the Commission is being asked to enforce disputes arising under the PSA *prior* to bankruptcy or default, is utterly beside the point.

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<sup>8</sup> Intelsat's existing licenses provide that "in the event any of" its Common Heritage orbital locations "are no longer assigned for use by Intelsat, LLC or its successors," such orbital locations "shall be cancelled in accordance with procedures of the International Telecommunications Union." Neither "use" nor "successors" is defined by the Commission in its licenses.

<sup>9</sup> Intelsat's misunderstanding is reflected in its pervasive misuse of references to the Public Services Agreement (PSA) throughout its *Opposition*. Indeed, Intelsat's *Opposition* mentions the PSA 56 times.

**III. ITSO'S PROPOSED LICENSE MODIFICATIONS PROVIDE A MARKET-BASED, SELF-ENFORCING MECHANISM IN CASE OF INTELSAT'S BANKRUPTCY OR DEFAULT; NO ITSO OPERATION OF SATELLITES WOULD OCCUR.**

ITSO's *Petition* does not contemplate that ITSO would become a satellite operator. Rather, the *Petition* proposes mechanisms that would secure satellite capacity to meet the minimum requirements to fulfill the Core Principles of global connectivity, global coverage and protection of lifeline customers. ITSO's *Petition* and these *Reply Comments* also are based on decisions of its member Parties in two recent Assembly of Parties meetings. Specifically, these Assembly decisions are the result of deliberations on the possible impact of the PanAmSat merger, and Intelsat's resulting debt,<sup>10</sup> on the fulfillment of the Core Principles and the role of the Notifying Administrations in ensuring fulfillment of the Core Principles. In early 2006, ITSO's 29<sup>th</sup> Assembly of Parties decided:

[T]o request the United States and the United Kingdom, in their capacity as the selected licensing jurisdictions and "Notifying Administrations" ... to communicate to the appropriate authorities the Assembly's desire that:

- (a) remedies in the nature of those advised by Kirkpatrick & Lockhart Nicholson Graham [ITSO's bankruptcy law counsel] ... are implemented to assure that the Public Services Agreement and its obligations will survive a bankruptcy proceeding post-PanAmSat acquisition, including adherence to Lifeline Connectivity Obligation (LCO) contracts currently in effect with LCO-eligible customers; and
- (b) the conditions on the licenses issued by the United States and the United Kingdom to Intelsat (to use the INTELSAT "Common Heritage" orbital positions) clarify that no entity that is not bound by

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<sup>10</sup> See also "Sweet Deals Buried Intelsat in Debt," Steven Pearlstein, *Washington Post* at D1 and D5 (August 18, 2006) (attached to these *Reply Comments* hereto as Exhibit I).

the Public Services Agreement can be considered a “successor” of Intelsat, LLC.<sup>11</sup>

The Commission’s *PanAmSat Transfer Order*<sup>12</sup> noted the Assembly’s request, but deferred consideration of any such conditions when it invited ITSO to participate in this section 316 proceeding.<sup>13</sup>

More recently, ITSO’s 30<sup>th</sup> (Extraordinary) Assembly of Parties, meeting this past July 2006, requested the Notifying Administrations for the Common Heritage orbital positions, to:

[I]dentify mechanisms to guarantee, in accordance with the Notifying Administrations’ frequency assignment domestic procedures, that the Company, as defined in Article I (d) [i.e., Intelsat’s “successors-in-interest”] of the ITSO Agreement, executes with ITSO a public services agreement that is responsive to the Parties’ interests expressed in the Core Principles.<sup>14</sup>

In its *Petition*, ITSO developed license modifications responsive to the directives from the Assembly of Parties as well as to the Commission’s invitation. At the heart of these modifications is a clarification of the existing license conditions to ensure that no satellite operator can be considered a successor to Intelsat to use the Parties’ Common Heritage orbital locations, unless it has signed a public service agreement with ITSO that ensures the successor entity’s adherence to the Core Principles. Importantly however, the proposed modification also would ensure that *any* entity that has entered a public services agreement with ITSO can be considered a successor to Intelsat. That is, ITSO’s proposed

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<sup>11</sup> AP-29-3E, paragraph 37(3). Under Article IX(d)(ix) of the ITSO Agreement, one of the powers of the Assembly of Parties is “to consider issues pertaining to the Parties’ Common Heritage.”

<sup>12</sup> *Consolidated Application for Authority to Transfer Control of PanAmSat Licensee Corp. and PanAmSat H-2 Licensee Corp.*, IB Docket No. 05-290, FCC 06-85, at note 175 (June 19, 2006).

<sup>13</sup> *Ibid.*, at paragraphs 62-66.

<sup>14</sup> AP-30-3E, paragraph 12.3(d)

modification recognizes that in a post-bankruptcy or default situation, the stakeholders in the Intelsat estate may wish to restructure Intelsat's assets and liabilities so as to best achieve the objectives of the bankruptcy or default processes. As ITSO explained in its *Petition*, this clarification of the "successor" definition "is intended to cover the wide spectrum of transactions that could be employed to maximize equity returns or provide liquidity for Intelsat shareholders and/or creditors at a time of financial difficulty. It is also intended to reflect the possible desire of Intelsat and other parties to utilize the Intelsat satellite fleet as future business conditions may warrant." (*Petition*, at 18).

In this context, Intelsat's argument that the Commission should NOT make the requested definitional modification because the Public Services Agreement (PSA) already has a "successors and assigns" clause is counterintuitive. (*Opposition*, at 27). Under Intelsat's approach, which is based entirely on the current PSA and its "successor" clause, there is no guarantee that the outcome of a bankruptcy proceeding will ensure that the Core Principles are fulfilled by successor interests. In contrast, under ITSO's proposed modification, any entity entering into a public services agreement with ITSO that incorporates the Core Principles could thus use the Parties' Common Heritage orbital locations (subject, of course, to the Commission's licensing process).

Similarly, Intelsat misunderstands and mischaracterizes ITSO's suggested modification that the Commission require Intelsat to "place a lien, letter of credit, third party guarantee or other legal instrument on certain satellites in order to provide bankruptcy protection to ensure the fulfillment of the 'Core Principles' of the ITSO treaty Agreement." **There was, and is, no intention on the part of ITSO to operate any satellites that would be financed by the proposed surety mechanism.** The surety

mechanism would be constructed so that the payment of funds from that mechanism *would be for the benefit of Intelsat or any successor entity having a public services agreement with ITSO that would provide for operation of the satellites to meet the Core Principles* following an Intelsat bankruptcy or default.

The very nature of a bankruptcy or default is the current or prospective inability of Intelsat to meet its financial obligations. Thus, in an actual bankruptcy situation, the availability of funds would be highly problematic to ensure the fulfillment of the Core Principles, including global connectivity and global coverage, particularly in case of the need for replacement satellites to ensure the continuity of the Core Principles.<sup>15</sup> By ensuring that mechanisms are in place to protect the Core Principles *prior to Intelsat's bankruptcy*, the Commission and ITSO would be able to secure that ITSO, if necessary, could enter into appropriate public services agreement(s) with an Intelsat “successor” that would protect the ongoing fulfillment of the Core Principles.

Intelsat's *Opposition* also raises concerns regarding inclusion of liens as an appropriate option for the surety mechanism. However, subsequent to ITSO's *Petition*, ITSO has come to understand that Intelsat's existing debt instruments prohibit it from imposing any liens.<sup>16</sup> In response, ITSO on several occasions has requested that Intelsat propose an alternative surety mechanism that would be acceptable to ITSO's bankruptcy counsel (*e.g.*, letter of credit, third party guarantee, or other acceptable financial instrument). Intelsat, to date, has not responded to ITSO's request for alternatives to a

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<sup>15</sup> For example, the failure of Intelsat's IS-804 satellite in January 2005 caused complete service interruption for multiple countries in the Pacific Ocean Region for weeks, and some customers are still served by temporary capacity on New Skies' satellites.

<sup>16</sup> Intelsat, Ltd. SEC Form 10-Q, at 50 (August 14, 2006).

lien on satellites, which, according to Intelsat's filings with the Securities and Exchange Commission (SEC), it currently cannot provide.

#### **IV. COMMISSION SHOULD DECLINE INTELSAT'S INVITATION TO DIVE INTO THE MAELSTROM OF AN INTELSAT BANKRUPTCY PROCEEDING**

Under Article XII(c)(i) of the ITSO Agreement, as long as the United States remains a Notifying Administration, it has a clear and continuing obligation to ensure that "under applicable domestic procedure," Intelsat and its successors-in-interest are licensed to use the Common Heritage orbital allocations "so that the Core Principles may be fulfilled." This obligation on the United States would continue following an Intelsat bankruptcy or default.

In its *Petition*, ITSO respectfully suggested that the Commission use the opportunity presented by a 316 proceeding to clearly articulate the mechanisms by which Intelsat's obligations under the Core Principles could be preserved (and thus avoiding a license cancellation) *before* the event of an Intelsat bankruptcy or default. Conversely, in its *Opposition*, Intelsat argues that the Commission should only articulate such a mechanism *after* an Intelsat bankruptcy default.

The Commission's experience in the Nextwave bankruptcy and license cancellation proceedings,<sup>17</sup> reflects the risk that once a licensee enters a bankruptcy process, events may move outside the control of any one stakeholder, including the Commission. Nonetheless, Intelsat's *Opposition* would effectively require that the Commission enter the bankruptcy maelstrom by potentially acting as referee between ITSO, Intelsat creditors, and prospective license transferees through the vehicle of a

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<sup>17</sup> See *FCC v. Nextwave Personal Communications, Inc.*, 537 U.S. 293 (2003).

bankruptcy-related license transfer proceeding in circumstances in which the transferee may have exercised its bankruptcy law right to reject the Public Services Agreement. (See *Opposition*, at 27.) If the Commission does not secure these protections of the Core Principles and the Parties' Common Heritage orbital locations, there is great risk that innumerable appeals, remands, and ancillary bankruptcy proceedings could ensue, all to the detriment of Intelsat's customers and creditors, while enmeshing the Commission in a complex and costly litigation effort.

ITSO's *Petition* seeks to avoid this confusion by defining *in advance* appropriate "regulatory conditions" for the licensing of Common Heritage orbital locations to Intelsat's successors. Thus, ITSO's approach enables the Commission to establish certainty for all Intelsat stakeholders, minimize its involvement in any Intelsat bankruptcy process, protect the Core Principles and Parties' Common Heritage orbital locations, and fulfill the role of the United States as the Notifying Administration.

Intelsat recently informed the SEC that, "In connection with the consummation of the PanAmSat Acquisition Transactions, we became a significantly more highly leveraged company than [pre-acquisition] Intelsat."<sup>18</sup> Particularly given Intelsat's recent down-graded junk bond debt ratings following its PanAmSat acquisition, including Moody's CAA2 rating for certain Intelsat obligations,<sup>19</sup> there is an even greater need to the Commission to establish *in advance* the licensing conditions for Common Heritage orbital locations "so that the Core Principles may be fulfilled"<sup>20</sup> after a potential Intelsat bankruptcy or default.

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<sup>18</sup> Intelsat, Ltd. SEC Form 10-Q, at 49 (August 14, 2006).

<sup>19</sup> See *Petition*, at 12.

<sup>20</sup> ITSO Agreement Article XII(c)(i).

## V. CONCLUSION

The arguments put forward by Intelsat's *Opposition* are based on misunderstandings and mischaracterizations of ITSO's proposed license modifications. In particular, Intelsat mischaracterizes ITSO's proposals, which clearly seek to modify Intelsat's licenses under the ITSO Agreement in order to secure satellite capacity to meet the minimum requirements to fulfill the Core Principles and to protect the Parties' Common Heritage orbital locations. Moreover, Intelsat's *Opposition* raises false and alarmist claims that ITSO would use a lien on satellites to reverse the privatization decisions and become, once again, a satellite operator. This clearly is not the case.

For the reasons set out above, and in ITSO's *Petition*, the Commission should find that ITSO's proposed modifications to Intelsat's satellite licenses using the ITSO Parties' Common Heritage orbital locations meet the requirements for adoption under section 316 and modify Intelsat's licenses accordingly. ITSO continues its commitment to work with the Commission to fully achieve the goals of protecting the Core Principles and the Parties' Common Heritage orbital locations.

Respectfully submitted,

The International Telecommunications Satellite Organization  
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EXHIBIT 1

[ The Washington Post ]

# BUSINESS

FRIDAY, AUGUST 18, 2006

**STEVEN PEARLSTEIN**

## *Sweet Deals Buried Intelsat in Debt*

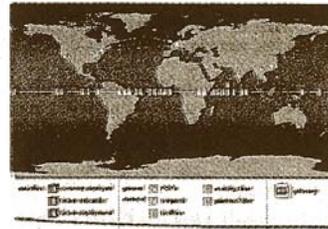
**T**ime was when Intelsat was something of a metaphor for business in Washington, a government-backed enterprise that put the city at the center of the global satellite industry. Its futuristic office building on Connecticut Avenue was meant to symbolize Intelsat's technological prowess and financial reliability.

Today, Intelsat is still something of a metaphor, but for a very different business environment. Its official headquarters is in Bermuda, its building is for sale, some operations are moving to

Atlanta and its debt is rated as junk. Intelsat's prospects are now tied up as much with financial engineering as with the other kind.

All this is the result of transactions by private equity firms that took Intelsat from a government enterprise to a private company and merged it with Comsat, PanAmSat and parts of Loral, among others. But in the process, they have also loaded Intelsat with more than \$11 billion in debt and drained much of the company's equity value.

Don't get the wrong idea. Intelsat today is a bigger, better-run outfit than it

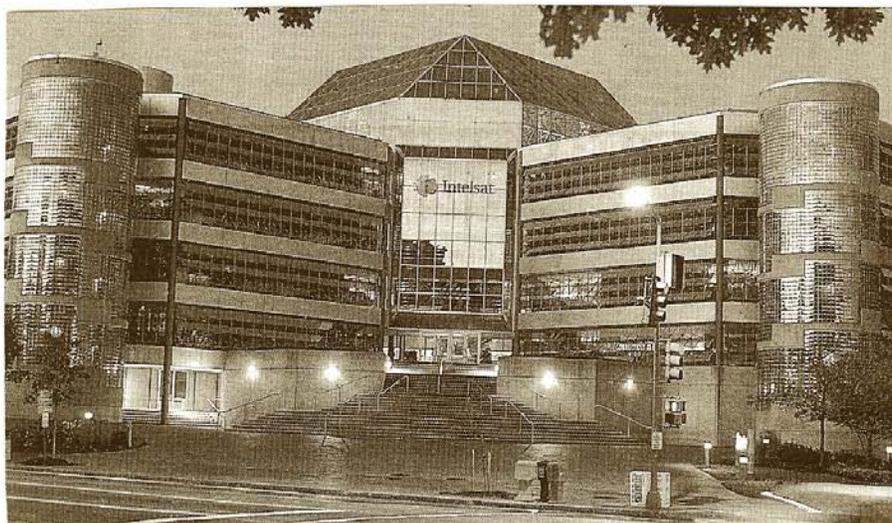


**Intelsat has 51 satellites in orbit, each of which lasts 10 to 15 years.**

has ever been, offering more services to a broader range of customers. Over the past decade, it has been transformed from a fat and happy government-owned

See PEARLSTEIN, D5, Col. 1

## *Intelsat May Be Well Run, but Its Financial Foundation Is Shaky*



**Intelsat's distinctive headquarters on Connecticut Avenue was once a metaphor for technological prowess and financial reliability.**

monopoly to one of the strongest players in a privatized global industry. Thanks to long-term contracts from television networks, phone companies and giant corporations around the world, it earns a steady stream of cash from day-to-day operations. And through strategic acquisitions, Intelsat has positioned itself to take advantage of faster-growing market segments while leading the consolidation of an industry with too much capacity.

But just as there is a limit to how much you should borrow against the equity of your house, even to fix it up, there's a similar limit in corporate finance. If Intelsat hasn't reached that limit yet, it's pretty darn close.

The story begins in 2004 when a group of private equity firms — Apollo Management, Apax Partners, Madison Dearborn Partners and Permira — purchased Intelsat for about \$3 billion, putting up \$515 million and borrowing the rest. During 2005, the group paid itself two dividends, one of about \$340 million, which the company had to borrow, and one of about \$198 million, which was financed from the company's free cash flow. The new owners also paid themselves about \$70 million in management fees. As a result, by the end of 2005, the four firms had basically recouped all the cash they had invested in the company while still owning virtually all the stock.

For years, Intelsat's management wanted to buy rival PanAmSat, which had a stronger presence in the business of transmitting television signals around the world.

PanAmSat had previously been sold to a group of private equity firms, including Kohlberg Kravis Roberts & Co., Providence Equity Partners and Washington's own Carlyle Group, for \$4.3 billion. The new management team cut costs and improved cash flow. And over the next seven months, the new owners paid themselves dividends of \$445 million, recouping much of their initial cash investment. They sold a minority share of the company to public shareholders for \$900 million.

Barely a year after the original purchase, in August 2005, the group pulled off one of the great flips in the history of private equity, agreeing to sell the company to Intelsat for \$3.2 billion. Top managers of PanAmSat walked away with tens of millions of dollars in cash and stock options, while the private equity investors took away an additional \$1.8 billion.

To finance this premium-price deal, Intelsat planned to borrow the \$3.2 billion, while assuming another \$3.2 billion in debt already on PanAmSat's books. But by the time the deal was set to close in June of this year, even Wall Street was beginning to get antsy about the heavy debt leverage in this and other private equity deals. Because of warnings from bond-rating agencies and resistance from investors, the debt offering was reduced and the new owners were forced to promise not to pay themselves any more dividends for a year. Some bank lenders went further,

insisting that no dividends be paid until the ratio of debt to operating cash flow fell below 5.5 percent.

Right now, that ratio is somewhere between 7 and 8 percent, depending on how you calculate it. Annual debt service tops \$900 million. While the company's reported net income is negative (largely due to big depreciation charges on the satellites), its cash flow from operations could reach \$1.6 billion if the company realizes all the expected cost savings from the PanAmSat merger. That would leave about \$600 million a year for taxes and to pay for replacements of Intelsat's 51 satellites, each of which now costs upward of \$200 million and has a useful life of 10 to 15 years.

There are two views on that. One, from Intelsat's solid new team of managers, is that the merger will allow the company to reduce its number of satellites, cutting capital expenditures by \$400 million over the next six years. They see a lot of growth potential in providing video signals to small telecommunications companies around the country that are building systems to compete with cable companies.

The other view is that Intelsat is cutting it too close.

Competition from fiber-optic carriers has already eaten into the satellite industry's telecom business, and the video business may not be far behind. The cost of new satellites could rise steeply, or existing satellites could fail, or the company might actually have to start paying serious income taxes. And should any of those or other unpleasant situations arise, Intelsat could find itself 10 years later without the money it needs to replace its fleet and service its customers.

In the deal world, of course, a decade is a lifetime. By then, Intelsat's owners hope to have increased cash flow and whittled down the debt enough to sell the company to public shareholders overly eager to share in the satellite bonanza. And no doubt that's a wonderful strategy for private equity managers who already got their initial stake back and are essentially gambling with house money.

What's less clear is that it is the best strategy to ensure the health and viability of a venerable Washington enterprise, one that has provided good jobs and profitable contracts for lots of other local companies.

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## CERTIFICATE OF SERVICE

I, Julie A. Reese, do hereby certify that on this 28<sup>th</sup> day of August 2006, I sent, via electronic mail, a true and correct copy of the foregoing Reply Comments of the International Telecommunications Satellite Organization to the following:

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