

# **Application to Transfer Control of Stratos to Inmarsat**

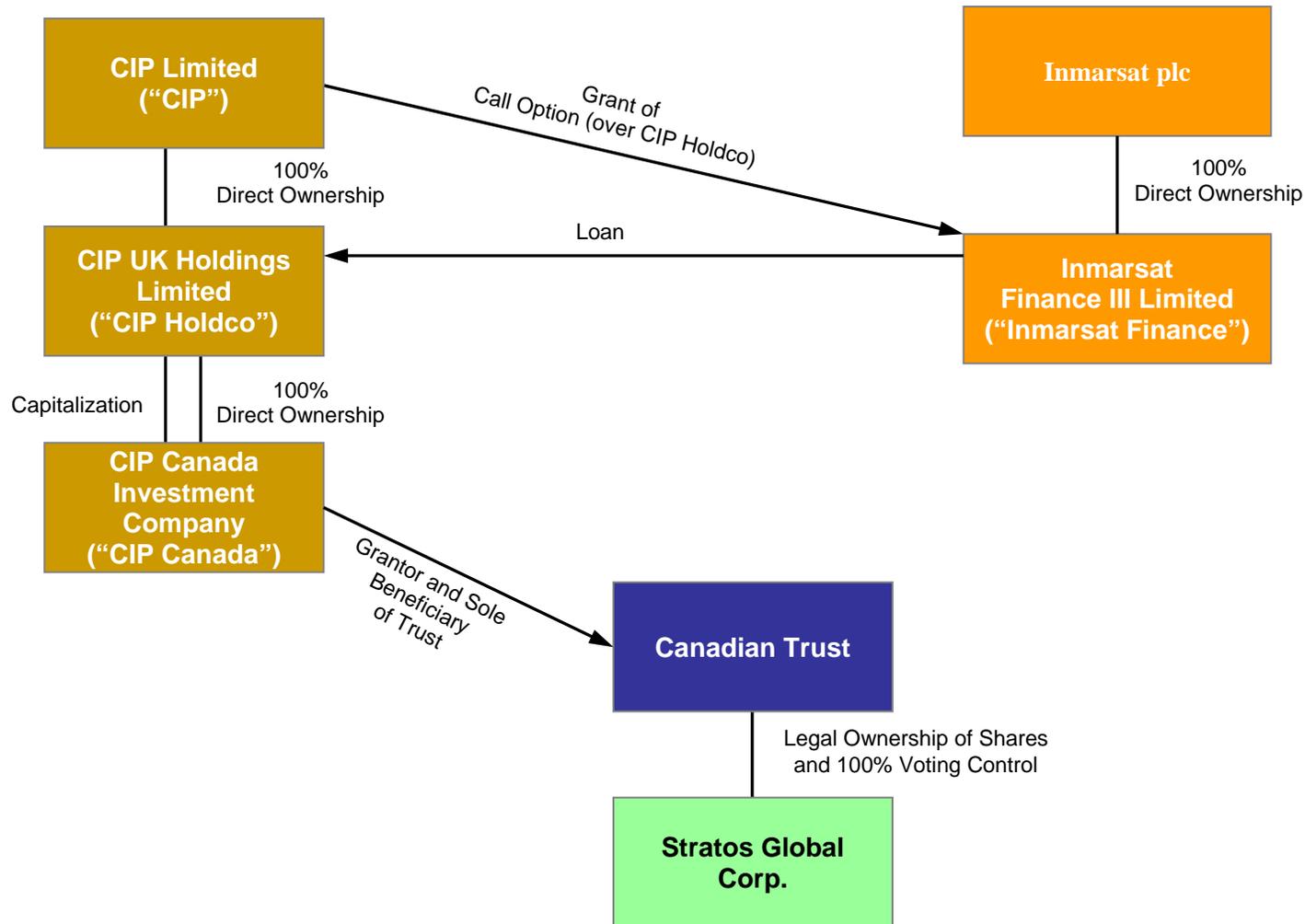
IB Docket No. 08-143, DA 08-1659

October 28, 2008

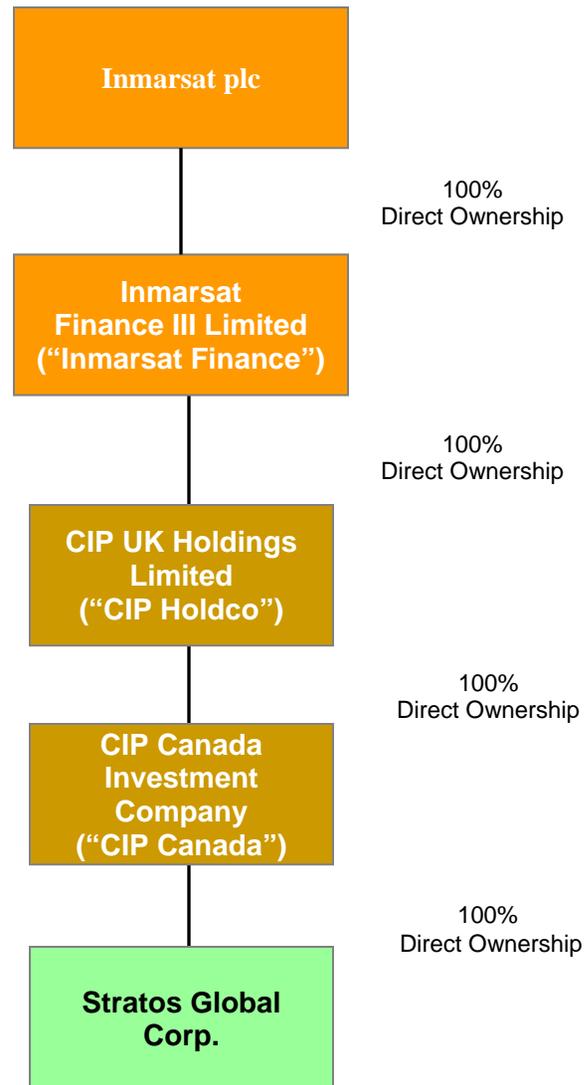
# Background

- This is the second step of a two-step transaction involving Stratos
- In approving the first step---the December 2007 acquisition by the Trust---the Commission
  - recognized the potential for Inmarsat to acquire Stratos
  - considered and dismissed the types of competitive effects arguments Vizada raises a second time here
- Only commenter on the second step is Vizada, who is
  - Stratos' chief competitor
  - a “middleman” distributor of about 40% of Inmarsat's services
  - seeking renewal with Inmarsat of its distribution contract

# Current Stratos Ownership



# Proposed Stratos Ownership

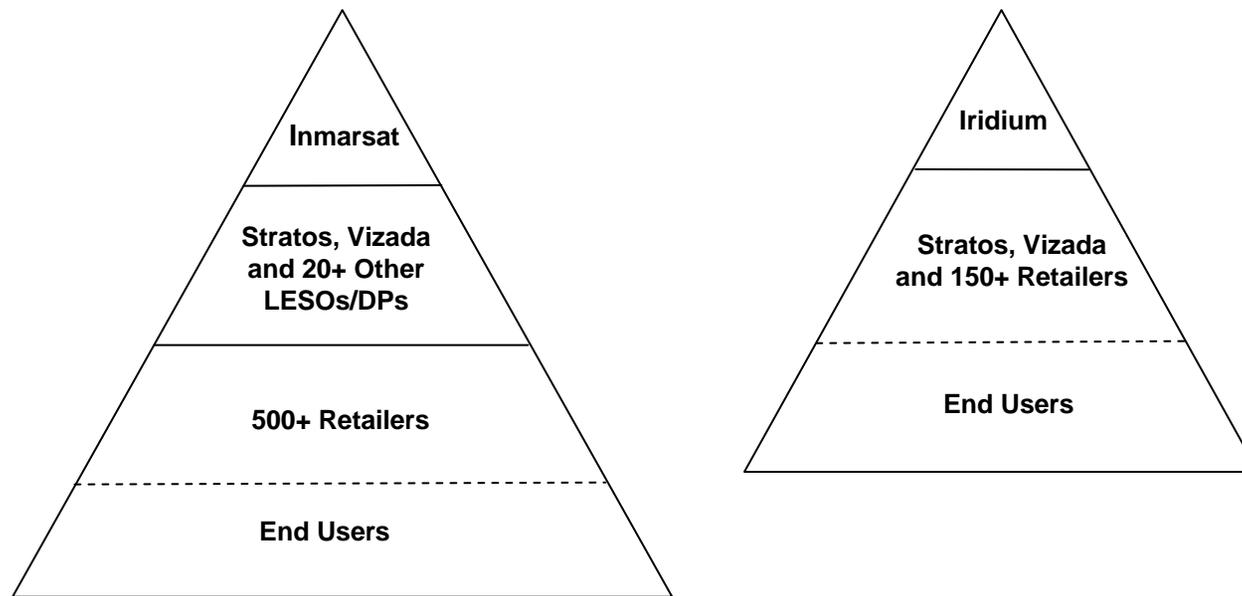


Note: Inmarsat may propose changes in the intermediate structure between Inmarsat plc and Stratos Global Corp.

# Inmarsat Distribution Today

- Inmarsat Global today is contractually prohibited from
  - owning an Inmarsat distributor
  - selling directly to end users
- Inmarsat must wholesale capacity to certain middlemen, who, in turn, sell to end users
- These restrictions are a pre-privatization legacy
- Once these contractual restrictions expire on April 14, 2009
  - Inmarsat may acquire Stratos (subject to regulatory approvals)
  - Inmarsat may distribute its services in the manner that best meets the needs of end users

# Exemplary Comparison of Current Distribution Structures



# Competitive Framework

- This is a vertical combination
  - Inmarsat only wholesales its own satellite capacity
  - Stratos only retails the capacity of satellite operators
- This transaction enables Inmarsat to compete more efficiently with other satellite operators who already
  - wholesale to third parties, and
  - retail directly to end users
- As the Commission acknowledged in approving the first step, this second step makes possible the “recognized economic efficiencies that vertical integration can offer”
  - reduced double marginalization and distribution costs
  - improved coordination between the capacity supplier and the marketing team
  - more competitive offerings to end users

# No Adverse Competitive Effects

- The vertical integration of Inmarsat and Stratos will not adversely affect
  - Other satellite operators, or
  - End users of Inmarsat services
- Other satellite operators have many other means of getting their services to market
  - Stratos is a non-facilities-based reseller of other satellite services with no bottleneck control
- Inmarsat end users will
  - Receive the same types of services they always have
  - Benefit from a more efficient Inmarsat distribution structure

# Approval of this Transaction Serves the Public Interest

- Inmarsat has every incentive to use efficient distribution means to best meet the needs of its end users
- Inmarsat will continue to compete with other MSS systems, and with FSS systems that support land mobile, maritime and aeronautical services
- Stratos will continue to sell a variety of communications services to best meet the needs of end users
- Stratos customers and Inmarsat end users support this transaction
- End users will realize the benefits of this vertical integration

# Vizada's Issues Are Not Transaction Specific

- Vizada tries to enmesh the Commission in pending contract negotiations between Inmarsat and Vizada
- However, after April 14, 2009, and regardless whether this transaction has closed
  - The current distribution agreements will have expired
  - Inmarsat may decide which distributors best meet end user needs and how to reward effective distributors
  - Inmarsat users will have more ways to purchase Inmarsat services than ever before
- As the Commission found before, Vizada's arguments are not about protecting **competition (i.e., consumers)**
  - Rather, they are simply an effort to protect Vizada's historical role as a middleman in the Inmarsat distribution structure

# Vizada's Proposed Remedies Are Unwarranted and Inefficient

- Because Vizada has not established harm to competition, its proposed conditions are unwarranted
  - Structurally separating Stratos from Inmarsat
  - Requiring that Inmarsat “recognize” Vizada’s past investments and “guarantee” Vizada the same terms and conditions provided to other Inmarsat distributors
  - Creating Commission-enforced “firewalls”
- Moreover, such conditions would negate the efficiencies made possible by the proposed vertical integration
- Vizada’s confidentiality concerns will continue to be addressed through market-driven contractual protections of proprietary information

# Conclusion

- This vertical combination is the second step of a two-step transaction
- The competitive analysis in the full Commission decision approving the first step remains applicable
- There are no identified harms to *competition*, much less harms that outweigh the more efficient Inmarsat distribution structure enabled by this transaction
- Prompt approval will facilitate a timely closing