

COMPARISON OF INTELSAT AND COMSAT RATES

	<u>Monthly Intelsat Rate (\$)</u>	<u>Monthly Comsat Rate (\$)</u>	<u>Comsat Mark-Up (%)</u>
Voice Grade Circuit <sup>1</sup>	390	610	56.41
Data Circuit (IBS) <sup>2</sup>	195	275	41.03
Video Channel <sup>3</sup>	15,000	21,055	40.37

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<sup>1</sup> 4 kHz circuit, month-to-month lease, using Standard A or Standard C earth station.

<sup>2</sup> 64 Kbps circuit, R1/2 FEC, five-year lease.

<sup>3</sup> 18 MHz channel, hemi beam, seven-year lease.

THE WHITE HOUSE

Office of the Press Secretary

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For Immediate Release

February 12, 1991

STATEMENT BY THE PRESS SECRETARY

The President has approved U.S. Commercial Space Policy Guidelines aimed at expanding private sector investment in space by the market-driven Commercial Space Sector. These guidelines are the result of a nine month interagency review of the commercial space sector conducted by the Vice President and the National Space Council.

The U.S. Commercial Space Policy Guidelines recognize that a robust commercial space sector has the potential to generate new technologies, markets, jobs, and other important economic benefits to the nation. The guidelines contain new provisions and definitions of key concepts to provide for more effective implementation of the National Space Policy by U.S. agencies.

# # #

## U.S. COMMERCIAL SPACE POLICY GUIDELINES

A fundamental objective guiding United States space activities has been space leadership, which requires preeminence in key areas of space activity. In an increasingly competitive international environment, the U.S. Government encourages the commercial use and exploitation of space technologies and systems for national economic benefit. These efforts to encourage commercial activities must be consistent with national security and foreign policy interests, international and domestic legal obligations, including U.S. commitments to stem missile proliferation, and agency mission requirements.

United States space activities are conducted by three separate and distinct sectors: two U.S. Government sectors -- the civil and national security -- and a non-governmental commercial space sector. The commercial space sector includes a broad cross-section of potential providers and users, including both established and new market participants. There also has been a recent emergence of State government initiatives related to encouraging commercial space activities. The commercial space sector is comprised of at least five market areas, each encompassing both earth and space-based activities, with varying degrees of market maturity or potential:

Satellite communications - the private development, manufacture, and operation of communications satellites and marketing of satellite telecommunications services, including position location and navigation;

Launch and Vehicle Services - the private development, manufacture, and operation of launch and reentry vehicles, and the marketing of space transportation services;

Remote Sensing - the private development, manufacture, and operation of remote sensing satellites and the processing and marketing of remote sensing data;

Materials Processing - the experimentation with, and production of, organic and inorganic materials and products utilizing the space environment; and

Commercial Infrastructure - the private development and provision of space-related support facilities, capabilities and services.

In addition, other market-driven commercial space sector opportunities are emerging.

The U.S. Government encourages private investment in, and broader responsibility for, space-related activities that can result in products and services that meet the needs of government and other customers in a competitive market. As a matter of policy, the U.S. Government pursues its commercial space objectives without the use of direct federal subsidies. A robust commercial space sector has the potential to generate new technologies, products, markets, jobs, and other economic benefits for the nation, as well as indirect benefits for national security.

Commercial space sector activities are characterized by the provision of products and services such that:

- private capital is at risk;
- there are existing, or potential, non-governmental customers for the activity;
- the commercial market ultimately determines the viability of the activity; and
- primary responsibility and management initiative for the activity resides with the private sector.

#### Implementing Guidelines

The following implementing guidelines shall serve to provide the U.S. private sector with a level of stability and predictability in its dealings with agencies of the U.S. Government. The agencies will work separately but cooperatively, as appropriate, to develop specific measures to implement this strategy. U.S. Government agencies shall, consistent with national security and foreign policy interests, international and domestic legal obligations and agency mission requirements, encourage the growth of the U.S. commercial space sector in accordance with the following guidelines:

- o U.S. Government agencies shall utilize commercially available space products and services to the fullest extent feasible. This policy of encouraging U.S. Government agencies to purchase, and the private sector to sell, commercial space products and services has potentially large economic benefits.
- A space product or service is "commercially available" if it is currently offered commercially, or if it could be supplied commercially in response to a government procurement request.

- "Feasible" means that products and services meet mission requirements in a cost-effective manner.
- "Cost-effective" generally means that the commercial product or service costs no more than governmental development or directed procurement where such government costs include applicable government labor and overhead costs, as well as contractor charges and operations costs.
- However, the acquisition of commercial space products and services shall generally be considered cost-effective if they are procured competitively using performance-based contracting techniques. Such contracting techniques give contractors the freedom and financial incentive to achieve economies-of-scale by combining their government and commercial work as well as increased productivity through innovation.
- U.S. Government agencies shall actively consider, at the earliest appropriate time, the feasibility of their using commercially available products and services in agency programs and activities.
- U.S. Government agencies shall continue to take appropriate measures to protect from disclosure any proprietary data which is shared with the U.S. Government in the acquisition of commercial space products and services.
- o U.S. Government agencies shall promote the transfer of U.S. Government-developed technology to the private sector.
  - U.S. Government-developed unclassified space technology will be transferred to the U.S. commercial space sector in as timely a manner as possible and in ways that protect its commercial value.
  - U.S. Government agencies may undertake cooperative research and development activities with the private sector, as well as State and local governments, consistent with policies and funding, in order to fulfill mission requirements in a manner which encourages the creation of commercial opportunities.
  - With respect to technologies generated in the performance of government contracts, U.S. Government agencies shall obtain only those rights necessary to meet government needs and mission requirements, as directed by Executive Order 12591.

- o U.S. Government agencies may make unused capacity of space assets, services and infrastructure available for commercial space sector use.
  - Private sector use of U.S. Government agency space assets, services, and infrastructure shall be made available on a reimburseable basis consistent with OMB Circular A-25 or appropriate legislation.
  
- o U.S. Government agencies may make available to the private sector those assets which have been determined to be excess to the requirements of the U.S. Government in accordance with U.S. law and applicable international treaty obligations. Due regard shall be given to the economic impact such transfer may have on the commercial space sector, promoting competition, and the long term public interest.
  
- o The U.S. Government shall avoid regulating domestic space activities in a manner that precludes or deters commercial space sector activities, except to the extent necessary to meet international and domestic legal obligations, including those of the Missile Technology Control Regime. Accordingly, agencies shall identify, and propose for revision or elimination, applicable portions of U.S. laws and regulations that unnecessarily impede commercial space sector activities.
  
- o U.S. Government agencies shall work with the commercial space sector to promote the establishment of technical standards for commercial space products and services.
  
- o U.S. Government agencies shall enter into appropriate cooperative agreements to encourage and advance private sector basic research, development, and operations. Agencies may reduce initial private sector risk by agreeing to future use of privately supplied space products and services where appropriate.
  - "Anchor tenancy" is an example of such an arrangement whereby U.S. Government agencies can provide initial support to a venture by contracting for enough of the future product or service to make the venture viable in the short term. Long-term viability and growth must come primarily from the sale of the product or service to customers outside the U.S. Government.
  
  - There must be demonstrable U.S. Government mission or program requirements for the proposed commercial space good or service. In assessing the U.S. Government's mission or program requirements for these purposes, the procuring agency may consider consolidating all

anticipated U.S. Government needs for the particular product or service, to the maximum extent feasible.

- U.S. Government agencies entering into such arrangements may take action, consistent with current policies and funding availability, to provide compensation to commercial space providers for future termination of missions for which the products or services were required.
- o The United States will work toward establishment of an international trading environment that encourages market-oriented competition by working with its trading partners to:
  - Establish clear principles for international space markets that provide an atmosphere favorable to stimulating greater private investment and market development;
  - Eliminate direct government subsidies and other unfair practices that undermine normal market competition among commercial firms;
  - Eliminate unfair competition by governments for business in space markets consistent with domestic policies that preclude or deter U.S. Government competition with commercial space sector activities.

The U.S. Commercial Space Policy Guidelines are consistent with the National Space Policy and the U.S. Commercial Space Launch Policy which remain fully applicable to activities of the governmental space sectors and the commercial space sector.

#### Reporting Requirements

U.S. Government agencies affected by these guidelines are directed to report by October 1, 1991, to the National Space Council on their activities related to the implementation of these policy guidelines.

2ND REPORT of Level 1 printed in FULL format.

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DONALDSON, LUFKIN & JENRETTE, INC.

December 4, 1990

COMPANY NAME: COMMUNICATIONS SATELLITE ( COMSAT)  
TICKER: CQ INCORPORATION: District of Columbia

TITLE: Communications Satellite - Company Report

REPORT-NO: 1045162

TYPE: Company Report

NUMBER OF PAGES: 12 page(s)

ANALYST: Gross, J.D., et al

ABSTRACT:

In October 1990, Comsat signed a memorandum of understanding with SkyPix, a Direct Broadcast Satellite startup, to invest substantial amounts of capital into a DBS venture. Contends that Comsat continues to have an interest in making an investment in this particular technology. In 3Q:90, Comsat reported fully diluted earnings of \$0.65 per share, down 32.3% from the \$0.96 per share reported in the same quarter a year ago. Depreciation and amortization on a consolidated basis was up 38.1% to \$27.1 million compared with the third quarter of 1989. The increase came from a full quarter of depreciation associated with the Intelsat 6 launch in 1990. Products and services cited include direct broadcast satellite services.

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[\*1]

COMMUNICATIONS SATELLITE (CQ) (#)

Earnings Projections, Rating Lowered

FACTBOOK Bracket: (3)

Rating: neutral

Relative Return Projection: -5% to +5%

Price	Earnings Per Share		P/E Ratios		Dividend	
12/03/90 52-Week Range	12/89	12/90E	12/91E	12/90E	12/91E	Rate Yield



## Copr. TFN Investext 1990, \*1

21 5/8	39-20	\$3.01	\$2.80	\$2.80	7.7	7.7	\$1.32	6.4%
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DJIA:	2564.36	Shares outstanding (mil.):	18.8
SPII:	323.97	Market capitalization (mil.):	\$390.1

## VIEWPOINT

This report updates our company analysis of October 9, 1990, in which we discussed the prospects for each of Comsat's major lines of business. We also lowered our earnings projections and price targets due to the effects of lower prices on the company's core satellite business in the second half of 1990 and in 1991. We concluded by noting that while several interesting pending or potential developments particularly related to its non-traditional businesses could make

Comsat an attractive long-term investment, it was too early to recommend the stock. In the weeks following that publication, Comsat reported third quarter earnings and held an analyst meeting in New York from which we learned of further developments, both in its core and non-core businesses, that changed our views and expectations. As a result, we have lowered our earnings projections (again) for 1991 and our investment rating from moderately attractive to neutral. In summary, we learned that interest expense and depreciation in Comsat's core international satellite business would be much higher than we expected due to the launch of a new series of satellites. We also learned of continued problems at Comsat Video, and management indicated that a restructuring would be necessary to resolve current problems.

In addition, Comsat has expressed interest in entering the Direct Broadcast Satellite (DBS) market. This past October, Comsat signed a memorandum of understanding with SkyPix, a DBS startup, to invest substantial amounts of capital into a DBS venture. Although the understanding was terminated in the weeks following, we believe that Comsat continues to have an interest in making an investment in this particular technology. We believe that because of Comsat's historically poor track record in such ventures, Comsat's entry into the DBS market, while the industry is still in its infancy, would add more risk to the stock.

Based on our revised 1991 earnings projection and Comsat's traditional valuation of eight times earnings, our price target is \$22.50, essentially the current stock price; therefore, the stock appears to be fully valued, hence our neutral rating. We will continue to monitor Comsat's progress in this key area and any additional changes, upward or downward, as appropriate. In this report we discuss Comsat's third quarter earnings results, earnings prospects for fourth quarter of 1990 and 1991 and the reported SkyPix venture in more detail. Investors interested in Comsat may also want to review our previous research on Comsat: "New Direction for Video Business?", October 9, 1990; "Too Much of a Good Thing", July 27, 1989; "Video Unit Value Benchmarked by Spectradyne Sale", April 6, 1989; "The Price of Long-Term Growth", July 28, 1988; "Video Business Highlights Valuation", May 4, 1988; "Visibility and Value Will Improve in 1988", March 1, 1988; "buy Recommendation Update", October 22, 1987; and "Buy

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on Significant Earnings Improvement and Undervalued Assets", September 2, 1987.

[\*2]

## Third Quarter Review

Comsat reported third quarter fully diluted earnings of \$0.65 per share, down 32.3% from the \$0.96 per share reported in the same quarter a year ago. Our estimate was \$0.75. The earnings disappointment resulted primarily from a much higher than expected interest expense.

Consolidated revenues for the third quarter were up slightly over last year, to \$112.4 million. Consolidated operating expenses were up 7.1% and operating income was down 17.8% from a year ago. Interest expense rose significantly to \$3.8 million from \$0.7 million in the year-ago quarter. The reason for the increase in interest expense was that Comsat, which has been capitalizing interest since 1987, had an accumulation of property in service and a reduction of property under construction and therefore was unable to capitalize additional interest. We expect interest expense to rise from its current levels through year-end 1991. Depreciation and amortization on a consolidated basis was up 38.1% to \$27.1 million compared with the third quarter of 1989. The increase came primarily from a full quarter of depreciation associated with the Intelsat 6 launch in 1990.

International service revenues for the quarter were up slightly, to \$74.1 million from \$72.7 million a year ago. Promotional tariffs (i.e., price reductions) depressed results in International by \$9 million and will have a similar effect on fourth quarter earnings. The underlying demand at the "wholesale level" for voice traffic was up 20% for the quarter. Comsat is a "wholesale carrier", providing raw circuits to other carriers such as AT&T, MCI and US Sprint, its principal customers. Earlier in the year, circuit growth was closer to 10% due to technological efficiencies (conversion to digital) and the fact that Comsat's customers still had spare capacity from when they purchased large amounts of circuits last year under Comsat's last round of promotional tariffs. Furthermore, satellite circuit demand showed a significant improvement, up 20% on an annualized basis, primarily for three reasons: (1) some of Comsat's customers worked off their supply, (2) increasing tensions in the Middle East have resulted in a need for more satellite feeds, especially video, and (3) several undersea cables, for which Comsat provides back-up service, have recently needed repair. Excluding unusual events or circumstances such as sporadic political crises or undersea cable breaks, demand at the wholesale level is probably not sustainable at 20% per year with retail growing at 20% because the wholesale buyer (AT&T, MCI, Sprint) can take advantage of efficiencies brought about by technology such as the conversion of analog to digital and multiplexing. Expenses from the International segment were up 8.8%, leading to an 8.1% decline in operating income to \$27.2 million.

[\*3]

Video entertainment produced revenues of \$14.6 million for the quarter, up 14.9% from \$12.7 million a year ago. While promotions in this sector were successful, the company is still unable to control

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expenses to produce positive bottom-line results. Third quarter operating loss was \$6.5 million, significantly higher than the operating loss of \$3.7 million in the third quarter of 1989.

Third quarter revenues from the systems segment were down 5.6% from the same quarter a year ago. Operating income for the third quarter of 1990 was down 40% to \$1.5 million compared with operating income of \$2.5 million in the same quarter a year ago. Earnings in this sector were down for the quarter on a comparable basis because the third quarter of 1989 included the sale of a cellular license that significantly contributed to earnings.

## Fourth Quarter and 1991 Outlook

We expect Comsat to earn \$0.33 per share in the fourth quarter of 1990, less than the \$0.38 earned a year ago. Price reductions for international satellite circuits will continue to suppress international revenues. In Comsat Video we expect a seasonally weak fourth quarter, which will represent a downturn. We also expect only a slight improvement in the systems business over the fourth quarter of 1989. Furthermore, increased interest expense coupled with higher depreciation associated with the satellite launches will continue to negatively affect earnings in the fourth quarter.

We expect some form of restructuring to occur in Comsat's video business as it continues to be plagued by high costs and flat revenues. While the company seems optimistic about remaining in the video business, it has indicated that video must become part of a larger entity or be scaled down. Management has suggested, as a last resort, the possibility of getting out of the video business altogether. In our last report (October 9, 1990) we discussed the possibility of a merger between Comsat Video and Spectradyne.

We expect Comsat to continue to report flat to down earnings through year-end 1991. Interest and depreciation expense should remain high owing to the six planned satellite launches. As a result, we have lowered our 1990 EPS estimate from \$2.85 to \$2.80 (fully diluted) and our 1991 EPS estimate from \$3.05 to \$2.80 (fully diluted). Earnings per primary share are estimated at \$3.04 for 1990 and \$2.84 for 1991.

Note that the spread between primary and fully diluted earnings per share has narrowed because fully diluted earnings are based on an "adjusted" net income (net income less its uncapitalized portion of interest expense net of tax applicable to the 7-3/4% convertible debentures). The uncapitalized portion of interest expense of these debentures has grown significantly in recent quarters and is expected to remain high.

Hopefully, in 1992 things will get better, because of improvements in either the core satellite business or in the non-telephone area (video to hotel rooms). In the meantime, we expect lackluster performance.

[\*4]  
Direct Broadcast Satellite: A Risky Venture Revisited?

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In our last report, we discussed Comsat's increased interest in Direct Broadcast Satellite, or DBS. Direct Broadcast Satellite is about to be introduced to the American market. The development of this direct broadcast via satellite technology has been taking place over the past decade. DBS companies are planning to compete with the cable television industry and the home video market by offering viewers a wide selection of programming on a pay-per-view basis.

In the mid-1980s, Comsat took an approximately \$120 million charge related to a discontinued DBS venture. The main reason cited for the failure of the DBS investment was a lack of capital as the project cost far more than Comsat had originally anticipated. It was also determined that given the existence (and acceptance) of cable television, there was a lack of consumer demand for direct broadcast satellite technology.

For more than a year, Comsat has been expressing interest in reentering the DBS business. In October, Comsat signed a memo of understanding with SkyPix, a privately capitalized DBS company, to invest between \$100-150 million into a DBS venture. In the weeks following this announcement, Comsat took a closer look at the investment and decided to terminate the understanding. Although Comsat did not reach an agreement with SkyPix, the company is still expressing interest in entering the DBS market in the near future.

DBS systems would require that viewers invest approximately \$700 into a small satellite receiving dish (known as VSAT or Very Small Aperture Terminal), pay a monthly service fee and be charged on a per-view basis. For households with cable television and video cassette recorders, DBS may be an expensive, unnecessary technology.

DBS is not a proven technology and we feel that a large investment in DBS by Comsat adds an element of risk to the stock. We are somewhat skeptical of Comsat's potential involvement in the DBS market and believe that Comsat is not in a position to take such a risk before problems with video and its other core businesses are resolved.

For more information on DBS technology, see the following reports by Dennis Leibowitz: DLJ Media & Entertainment, March/April 1989, January/February 1990 and May/June 1990.

Note: Prices are as of the close, December 3, 1990.

AT&T (T): 30 1/8  
MCI Communications (MCIC) (\*): 19 1/4  
United Telecommunications (UT): 22 7/8

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MERRILL LYNCH CAPITAL MARKETS

January 21, 1991

COMPANY NAME: COMMUNICATIONS SATELLITE ( COMSAT)  
TICKER: CQ INCORPORATION: District of Columbia

TITLE: Communications Satellite - Company Report

REPORT-NO: 1100130

TYPE: Company Report

NUMBER OF PAGES: 2 page(s)

ANALYST: Danese, D., et al

ABSTRACT:

Communications Satellite announced that it will record a \$90-100 million pretax charge in the December 1990 quarter to restructure COMSAT Video Enterprise, which offers cable television programming and pay-per-view services to the lodging industry. The division has been unprofitable for the past three years. Management indicated that COMSAT's projected capital expenditures for 1991 have increased from \$180 million to \$240 million due to increased INTELSAT and INMARSAT satellite launches.

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[\*1]  
Communications Satellite

Restructuring Charge in December Quarter

Price (CQ - NYSE):	\$23 7/8
52-Week:	\$38-20

BV/Shr (06/90):	\$29.53
ROE 1990E Avg:	9.7%
Shrs Out (Mil):	21.1
Mkt Cap (Mil):	\$503.9
Inst Ownship - Spectrum:	68%
LT Liabil % of Cap:	33.5%
Est 5 Yr Growth Rate:	5.0%
Options:	PBW

EPS (Dec)	P/E	Cash Flow/Sh	P/CF
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1991E:	\$2.65-2.75	8.8	\$9.20(*)	2.6
1990E:	\$2.78	8.6	\$8.80(*)	2.7
1989 :	\$3.00	8.0	\$7.70(*)	3.1

Ind Div  
Rate Yield  
\$1.32 5.5%

## Investment Opinion

Suitability: Good Quality (B)  
Interm Term: Neutral (3)  
Long Term: Neutral (3)  
Income: Same/Higher (7)

(\* ) Free cash flow is negative.

## INVESTMENT HIGHLIGHTS:

COMSAT announced Friday that it will record a \$90-100 million pretax charge (\$3.60 to \$4.00 per share) in the December 1990 quarter to restructure COMSAT Video Enterprise (CVE). CVE, which offers cable television programming and pay-per-view services to the lodging industry, has been unprofitable for the past three years. We would note the following:

1. Prior to this charge, CVE had identifiable assets of approximately \$140 million. The majority of the charge will be used to cover the cost of removing equipment from hotels where COMSAT has not made a profit. Additionally, the company will eliminate approximately one third of 200 employees at CVE, primarily in the sales and marketing departments.

2. Excluding nonrecurring charges, we estimate that COMSAT Video Enterprises would have recorded a \$16 million operating loss in 1991. After the restructuring, management indicated that CVE is likely to continue to record an operating loss in 1991, which we have estimated at \$5 million.

3. Separately, management indicated that COMSAT's projected capital expenditures for 1991 have increased from \$180 million to \$240 million due to increased INTELSAT and INMARSAT satellite launches. Because the \$60 million increase in capital spending must be financed with short-term debt, we have increased our projected 1991 interest expense by \$5 million. In 1991, other expenses are also projected to increase by \$5- to-6 million because COMSAT's investment in the Denver Nuggets will continue to record operating losses, and COMSAT Systems may enter into overseas investments which will be recorded in the other expense line.

4. We think that the restructuring of CVE will result in an \$11 million reduction in the operating loss of CVE in 1991. However, we now believe that most of these savings will be offset by increased interest

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and other expenses. Our 1991 EPS estimate remains \$2.65-2.75.

[\*2]

## COMPANY DESCRIPTION:

COMSAT conducts its operations through three business segments: International, COMSAT Systems, and Video Enterprises.

**International:** Established by Congress, COMSAT represents the U.S. interest in the International Telecommunications Satellite Organization (INTELSAT), a consortium of 118 governments. INTELSAT owns and operates 13 satellites. COMSAT'S core business, conducted through its International segment, is leasing analog and digital half-circuits under long-term contracts to U.S. long distance carriers and broadcasters. COMSAT'S revenues are a function of the number of circuits it leases.

With a 23.9% share, COMSAT owns the largest single share of INTELSAT. In essence, each INTELSAT member leases satellite access from INTELSAT at a wholesale rate and resells that satellite access to international communication carriers and broadcasters. The earnings that COMSAT derives by reselling access to INTELSAT satellites are subject to Federal Communications Commission (FCC) regulations.

COMSAT also provides telex message, electronic mail and direct-dial telephone services to passenger liners, shipping, fishing, and oil and mining interests in the Atlantic and Pacific Ocean regions. These services are provided via the satellites of the International Maritime Satellite Organization (INMARSAT). The organization of INMARSAT is similar to that of INTELSAT. The earnings that COMSAT derives by reselling access to INMARSAT satellites are subject to FCC regulations.

**COMSAT Systems Division:** COMSAT Systems is an integrator of international satellite-based communications systems. Customers include NBC, the Voice of America Satellite Interconnect Systems, Geostar Corporation, the U.S. Airforce, and the Ivory Coast. COMSAT Systems division also provides technical assistance to INTELSAT, INMARSAT, and MCI/Satellite Business Systems.

**COMSAT Video Enterprises:** COMSAT Video operates a satellite network distributing entertainment and providing videoconferencing services to the lodging industry in the U.S. Customers include Best Western Hotels, Comfort Inns, and Days Inns.

## Convertible Securities

Issue	Due	Issue Size	Recent Price	Curr. Yield	Conv. Ratio	Premium
7.75	10/15/98	110.0	90.0	8.61%	20.460	84%

(CQ)

790 - 8196

## COMSAT LOBBYISTS

- o Stuart Eizenstat and Simon Lazarus (both formerly of the Carter White House), Powell, Goldstein, Frazer & Murphy;
- o Lloyd Meeds (former Congressman), Bruce Heiman (former aide to Sen. Moynihan), Preston, Gates, Ellis, Rouvelas & Meeds;
- o Joel Pritchard (former Congressman), Bogle & Gates;
- o Robert Strauss, Joel Jankowsky, Akin, Gump, Strauss, Hauer & Feld;
- o Anne Wexler (formerly of the Carter White House), Craig Fuller (formerly top aide to President Bush), The Wexler Group (part of Hill & Knowlton);
- o Kenneth Duberstein (formerly of the Reagan White House), Michael Berman (formerly of the Carter White House), Duberstein & Associates;
- o Lloyd Cutler (formerly Counsel to President Carter), Wilmer, Cutler & Pickering;
- o Richard Wiley (formerly FCC Chairman), Wiley, Rein & Fielding;
- o John Salmon (formerly Chief Counsel, House Ways & Means Committee), Dewey, Ballantine, Bushby, Palmer & Wood (Joseph Califano's firm);
- o The Price Waterhouse accounting firm;
- o Griffin, Johnson & Associates;
- o Black, Manafort, Stone & Kelly; and
- o Dutko & Associates.

Of course, in addition to these outside consultants, Intelsat has one key in-house lobbyist: Dean Burch, formerly RNC Chairman, formerly FCC Chairman, currently friend of the President.



June 92 : Next Assay of Parties

U.S. PSN over cables	89	40%
	90	60%

Convert markups

Voice	60%
Vides	40%
Digital	30%



ALPHA LYRACOM  
SPACE COMMUNICATIONS

March 29, 1991

TO: Tom Whitehead  
via fax: 703-847-8804

FROM: Doug Goldschmidt

SUBJECT: Comsat Markups of Intelsat Rates

	<u>Monthly Intelsat Rate</u>	<u>Monthly Comsat Rate</u>	<u>Comsat Mark-up</u>
Voice Grade Circuit <sup>1</sup>	\$340	\$545	60.29%
T1 IBS Data Circuit <sup>2</sup>	7,500	9,620	28.27%
Video Channel <sup>3</sup>	15,000	21,055	40.37%

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<sup>1</sup> Comperandered FDM Circuit, month-to-month lease, using Standard A earth station.

<sup>2</sup> R1/2 FEC, five year lease.

<sup>3</sup> 18 MHz channel, simplex hemi beam, seven year lease.



ALPHA LYRACOM  
SPACE COMMUNICATIONS

March 30, 1991

TO: Tom Whitehead  
via fax: 703-847-8804

FROM: Doug Goldschmidt

SUBJECT: Information Requested

1. Private Lines and PSN Connections - We do not know how many of Comsat's private lines connect with the PSN. Intelsat's and Comsat's tariffs prohibit such connection, but it is common knowledge that corporate users connect their private lines to the PSN through their PBX's (there are no policing provisions in the tariffs). It is likely that the *majority* of all IBS connections have some connection to the PSN. In effect, IBS partially competes with Intelsat's PSN offerings. However, given that IBS users are all large corporations, this is the "standard" rate discrimination in favor of large users. This is an issue Comsat has avoided when we've raised it, for fairly obvious reasons.
2. Percentage of Traffic Carried on Cable vs Satellites - While I don't have precise numbers now (I can get them from the Commission on Monday), the percentage until recently was 40% cable and 60% satellite. This percentage is swinging rapidly as the larger carriers, principally AT&T, are loading virtually all new Trans Atlantic traffic onto cable, and the smaller carriers are shifting all of their traffic to cable. I believe that the ratio will become 60% cable and 40% satellite this year, and will greatly deteriorate in 1994 when the AT&T contract with Comsat expires. Given the projected fiber cable projects worldwide, it is likely that Latin America, Africa, and Asia will become far more important to Intelsat than they are now. I have been told privately by a friend at Comsat that a number of Comsat's staff are worried by the trends in traffic moving to cable.
3. Intelsat Revenues by Service - See attached from Intelsat December Financial Report. We don't have the current figures for how much the U.S. represents of the total for each service. However, Comsat's ownership share of Intelsat hovers at about 26% (the actual

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share is higher, but includes ownership share purchased from other signatories). As ownership is based on traffic (measured in revenues), we can infer that Comsat accounts for 26% of the Intelsat system's revenues. Thus, by doubling the 26% (assuming that all traffic requires Signatories on both ends), we can approximate the U.S. as accounting for 50-52% of Intelsat's traffic/revenues.

4. Assembly of Parties - The next ordinary meeting of the Assembly of Parties will be in June 1992. Extraordinary meetings may be called on three months notice. There have been a number of such meetings recently due to the increase in Article XIVd consultation requests (eg. PAS, Orion, etc.).

5. Status of PSN Issues and Intelsat Assembly - Intelsat has been involved in an extensive review of its Article XIVd procedures. Responding to pressure largely from the U.S. and the U.K., Intelsat has simplified the non-technical aspects of Article XIVD by excluding satellite systems under 30 transponders from any non-technical consultation, by allowing up to 100 PSN circuits to be granted by the Board of Governors by automatically assuming that these do not cause economic harm, and similar measures. I have attached the recent Assembly review on Article XIVd.

The U.S., and presumably Comsat, is seeking further simplification of the Article XIVd procedure to exclude everything but PSN traffic from future non-technical consultations. This movement acknowledges that Intelsat cannot expect to be guaranteed competitive traffic, but that the importance of international PSN traffic requires that Intelsat's financial condition be monitored through the XIVd process for any PSN traffic. We have argued that there should be no XIVd review, but the U.S. government finds this view far too radical to pursue at this time.

Frankly, I would be very surprised to see a lifting of the Article XIVd process for PSN traffic anytime soon - the issue is just too sensitive. However, I expect that, once the U.S. lifts the PSN restriction on separate systems, there will be a series of XIVd consultations for individual traffic streams and, eventually, for network traffic. I don't expect that there will be serious opposition to such consultations until there is a consultation for a large traffic stream (eg. 10% of projected traffic). At that point, there will be some sharp words from some of the smaller Signatories.

ATTACHMENT No. 1 to  
 ADDENDUM No. 1 to  
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INTELSAT FINANCIAL STATUS  
AS OF 31 DECEMBER 1990  
 (\$'000)

*47%*

REVENUES	1990 Budget	1990 Actuals	Variance	
			Favorable/(Unfavorable) \$'000	%
FX Services	211,643	226,698 a/	15,055 b/	7.1
Digital Services:				
IDR	25,171	29,478 a/	4,307 c/	17.1
SGPC	26,337	22,952 a/	(3,385)	(12.9)
TDMA	16,958	17,796 a/	838	4.9
Full-Time IBS	30,170	36,994 a/	6,824 d/	22.6
	<u>98,636</u>	<u>107,220</u>	<u>8,584</u>	<u>8.7</u>
Transponder Leases:				
Unrestricted Use Units	10,065	10,098 a/	33	0.3
International Video	54,209	43,471	(10,738) e/	(19.8)
Planned Domestic	3,117	2,776	(341)	(10.9)
Conventional Domestic	31,144	26,180 a/	(4,964) f/	(15.9)
Intelnet	2,796	2,769	(27)	(1.0)
IBS	2,750	3,159	409	14.9
Cable Restoration	2,040	9,187	7,147 g/	350.3
	<u>106,121</u>	<u>97,640</u>	<u>(8,481)</u>	<u>(8.0)</u>
Maritime	<u>12,000</u>	<u>12,000</u>	<u>0</u>	<u>0.0</u>
Occasional Services:				
Video	34,000	32,085	(1,915) e/	(5.6)
Circuit Restoration	8,000	5,531	(2,469) h/	(30.9)
IBS	990	890	(100)	(10.1)
Other	3,250	1,237	(2,013) i/	(61.9)
	<u>46,240</u>	<u>39,743</u>	<u>(6,497)</u>	<u>(14.1)</u>
SPADE	<u>650</u>	<u>573</u>	<u>(77)</u>	<u>(11.8)</u>
Vista	<u>1,125</u>	<u>2,041</u>	<u>916 j/</u>	<u>81.4</u>
<b>Total Operating Revenues</b>	<b>476,415</b>	<b>485,915</b>	<b>9,500</b>	<b>2.0</b>
Income from Short-Term Investments	600	2,146	1,546 k/	257.7
HQ Office and Parking Rent-Phase I	860	805	(55)	(6.4)
HQ Office and Parking Rent-Phase II	3,249	3,194	(55)	(1.7)
Other Revenues	<u>2,150</u>	<u>6,865</u>	<u>4,715 l/</u>	<u>205.3</u>
<b>Total Revenues</b>	<b>483,274</b>	<b>498,625</b>	<b>15,351</b>	<b>3.2</b>

See Pages 3 and 4 for footnotes

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Report of the Review of Article XIV(d) Non-Technical Consultation Procedures.

4. After a very lengthy discussion regarding the Board of Governors' report on its review of the guidelines and procedures currently applied to the non-technical consultations under Article XIV(d) of the INTELSAT Agreement, set forth in document AP-16-20, as well as of documents AP-16-25 and AP-16-26, containing contributions from the Parties of Colombia and France, respectively, the Assembly took the following decision:

The ASSEMBLY OF PARTIES, having considered in detail the report by the Board of Governors regarding its review of the guidelines and procedures currently applied to the non-technical assessments under Article XIV(d) of the INTELSAT Agreement and its conclusions and recommendations with respect to appropriate changes regarding such guidelines and procedures DECIDED:

- (a) to NOTE the analyses, considerations and proposals set forth in document AP-16-20;
- (b) to AUTHORIZE the Board of Governors to issue, on its behalf, findings in the form of recommendations under Article XIV(d) regarding the question of significant economic harm with respect to separate systems intended to carry traffic interconnected to the public switched network which at no point during the period of coordination is forecast to reach above the specified threshold of one hundred (100) 64 Kbits equivalent circuits. As soon as the Director General receives a request for a consultation that falls under this category, he will notify all Parties and Signatories of the request and inform them of the meeting of the Board of Governors at which the request will be dealt with;

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- (c) to DETERMINE that a separate system proposed to carry traffic not interconnected to the public switched network which at no point during the period of coordination is forecast to reach above the specified threshold of thirty 36 MHz equivalent transponders for international services, does not cause significant economic harm to the INTELSAT system and is not subject to further economic harm assessment under Article XIV(d);
- (d) to AUTHORIZE the Board to make the determination referred to in paragraph (c) above, in respect of an individual system, on behalf of the Assembly of Parties, upon the advice of the Director General;
- (e) to AUTHORIZE the Board to issue, on its behalf, findings in the form of recommendations in cases of reconsultation where there are material changes to the technical aspects of the previous consultation(s) but where the non-technical aspects remain unchanged;
- (f) to AUTHORIZE the Board to issue, on its behalf, findings in the form of recommendations under Article XIV(d) with respect to separate systems intended to carry satellite services other than fixed satellite services;
- (g) to AUTHORIZE the Board to issue, on its behalf, findings in the form of recommendations regarding the technical assessment and the "direct links" test in those cases in which the Board is authorized to make findings regarding the economic harm assessment under subparagraph (b) above, and where the Board is authorized to make the determination under subparagraph (c) above;
- (h) to ADOPT the Procedures and Guidelines for Non-Technical Consultation Pursuant to Article XIV(d) set forth in Attachment No. 1 to document AP-16-20;
- (i) THAT the Board may decline in particular instances to issue findings pursuant to this authorization, in which event the matter will be treated under the full Article XIV(d) procedures and referred to the Assembly for its consideration;

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- (j) THAT proposing Parties and Signatories may request a full Article XIV(d) review by the Assembly of Parties at any time during the consultation process;
- (k) to REQUEST the Board of Governors to present to the next ordinary Assembly of Parties in 1992, a report analyzing the effects of all systems consulted under Article XIV(d) since the Sixteenth Assembly of Parties;
- (l) to REVIEW the experience gained with the authorization adopted above at its ordinary meeting in 1992, giving particular emphasis to the appropriateness of continuing with the threshold for non-switched traffic in the changing environment; to the question of the longer-term evolution of the economic harm assessment, including the proposals in the Australian contribution in BG-85-59, the Colombian contribution in AP-16-25 and the French contribution in AP-16-26; and to the impact on financial arrangements between Signatories resulting from the establishment of separate systems;
- (m) THAT the Working Party composed of Parties and Signatories formed to assist the Board of Governors in its Article XIV(d) Review be reconvened beginning with the Board's September 1991 meeting to assist the Board in formulating its further advice to the 1992 Assembly of Parties, referred to in subparagraph (l) above.

The ASSEMBLY OF PARTIES, in adopting the above decision (paragraph 23 of AP-16-3), further DECIDED:

- (a) to URGE All Parties and Signatories to:
  - (i) continue to use INTELSAT for the provision of traffic interconnected to the public switched network;



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- (ii) support the procurement by INTELSAT of facilities needed to enable it to compete effectively and the Organization's efforts to acquire and maintain requisite orbital slots in the geostationary orbit;
- (b) in order to apply the existing Article XIV(d) technical procedures in a more effective way, to URGE:
  - (i) Parties and Signatories to initiate the technical consultation process pursuant to Article XIV as early as possible in the project development which has the advantage of allowing INTELSAT and the consulting Party or Signatory to consider possible design changes which could ameliorate the interference between the two systems;
  - (ii) that, in planning deployment of satellites, INTELSAT and separate systems should take due regard of orbital spacing that promotes technical compatibility;
  - (iii) Parties and Signatories to note those frequency bands that have been set aside by WARC-88 to meet domestic and subregional public telecommunications services requirements.

The ASSEMBLY OF PARTIES NOTED that, in order to increase participation by both Parties and Signatories in the review process referred to in paragraphs 23 (l) and (m) of AP-16-3, the following steps and schedule should be followed:

- (a) the INTELSAT Executive Organ, based on contributions of Parties and Signatories will draft an initial document to be distributed to all Parties and Signatories for the September 1991 Working Party meeting;

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- (b) the Executive Organ's document would describe the various outstanding issues and discuss INTELSAT's experience with the expedited procedures adopted at the Sixteenth Assembly of Parties;
- (c) Parties and Signatories would be given 60 days to comment and these comments will be incorporated, unedited and unattributed, in a revised report that would be distributed to all Parties and Signatories prior to the meeting of the Working Party scheduled for December of 1991. The Working Party will further consider and revise the report;
- (d) the Working Party shall meet for two full days in conjunction with each Board meeting, ensuring adequate time for discussion and attendance by interested Parties and Signatories;
- (e) the final report will be finalized at the June 1992 Board of Governors Meeting and submitted to the 1992 Ordinary Meeting of the Assembly of Parties for its consideration as soon as possible thereafter.

INTELSAT Strategic Plan.

5. The Assembly of Parties noted the reports by the Director General contained in documents AP-16-22, AP-16-23 and AP-16-24 on the status of implementation of the INTELSAT strategic plan, strategic planning activities, and the international telecommunications environment and decided:

- (a) to express its continuing strong support for the INTELSAT strategic plan and the substantial progress made by the Director General and the Board of Governors since the plan's adoption in the implementation of the plan's important objectives;
- (b) to express its support for the continued initiatives by the Director General in the area of strategic planning as outlined in document AP-16-23.