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Form 10-K
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-K

ANNUAL REPORT ON FORM 10-K PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

COMMISSION FILE NO. 0-22531

PANAMSAT CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**95-4607698**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

20 WESTPORT ROAD, WILTON, CT 06897
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: **203-210-8000**

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

As of March 21, 2005, an aggregate of 548 shares of our common stock were outstanding.

In this annual report, unless the context otherwise requires or it is otherwise indicated, all references to (1) "we", "us" and "our" refer to PanAmSat Corporation and its subsidiaries and (2) "Holdco" refers to PanAmSat Holding Corporation and not its subsidiaries.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This annual report on Form 10-K contains certain forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business and growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Annual Report on Form 10-K, the words "may", "might", "will", "should", "estimate", "project", "plan", "anticipate", "expect", "intend", "outlook", "believe" and other similar expressions are intended to identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those identified within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" under "Risk Factors" and elsewhere in this annual report.

The following list represents some, but not necessarily all, of the factors that could cause actual results to differ from historical results or those anticipated or predicted by these forward-looking statements:

risks associated with operating our in-orbit satellites;

satellite launch failures, satellite launch and construction delays and in-orbit failures or reduced performance;

our ability to obtain new or renewal satellite insurance policies on commercially reasonable terms or at all;

possible future losses on satellites that are not adequately covered by insurance;

domestic and international government regulation;

changes in our contracted backlog or expected contracted backlog for future services;

pricing pressure and overcapacity in the markets in which we compete;

inadequate access to capital markets;

competition;

customer defaults on their obligations owed to us;

our international operations and other uncertainties associated with doing business internationally;

our high level of indebtedness;

limitations on our ability to pursue growth opportunities as a result of our dividend policy;

litigation; and

the other factors discussed in more detail within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" under "Risk Factors".

We caution you that the foregoing list of important factors is not exclusive. In light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this annual report may not in fact occur. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Reference is also made to such risks and uncertainties detailed from time to time in our filings with the United States Securities and Exchange Commission.

WEBSITE ACCESS TO COMPANY'S REPORTS

Our Internet website address is www.panamsat.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

PART I

Item 1. Business

Overview

We are a leading global provider of video, corporate, Internet, voice and government communications services with a large and modern fleet of 23 in-orbit satellites. We lease transponder capacity on our satellites to a variety of customers, including: cable television systems, television broadcasters, direct-to-home, or DTH, television systems, Internet service providers, or ISPs, telecommunications companies, governments and other corporations. The services that we provide to our customers are generally mission critical and our key customer relationships have been built over many years. Our customers include some of the world's leading media and communications companies, such as Time Warner, Inc. (including HBO, TBS and CNN), the BBC, The News Corporation (including the Fox family of channels and The DIRECTV Group), Sony, Viacom (including MTV and Nickelodeon), China Central Television, Doordarshan (India), Comcast and The Walt Disney Company (including ABC and ESPN) as well as civilian and military government agencies and contractors. Through our satellite-based video distribution business, we believe we distribute more television channels over our network than any other company in the world.

We operate in the fixed satellite services, or FSS, segment, the most mature segment of the satellite communications business, historically characterized by steady and predictable revenue streams, strong cash flows from operations and substantial contracted backlog. In 2003, the FSS industry generated revenues of approximately $6.6 billion according to Euroconsult. As of December 31, 2004, we had approximately $4.90 billion in contracted backlog.

We believe the FSS industry will benefit from, among other things, the increased transmission of HDTV signals and the increased reliance of governments on commercial satellite capacity for civilian and military applications. We believe that demand for large, cost effective private networks made possible through the combination of our satellite network's broad geographic coverage and the use of small, low-cost terrestrial satellite terminals, commonly referred to as VSATs (very small aperture terminal), will be an additional source of growth, especially in international markets where terrestrial networks are not well developed.

Our in-orbit fleet, which includes two in-orbit backup satellites, is one of the world's largest commercial geostationary earth orbit, or GEO, satellite networks, capable of reaching over 98% of the world's population. We are one of only a few companies worldwide capable of servicing a global footprint through a fleet of owned satellites. We have an extensive terrestrial network available to support the needs of our customers. We have seven technical facilities in the United States, which provide transmission, monitoring and control services for operating our fleet and transmission and other services for our customers. We lease such services outside of the United States to support the remainder of our worldwide satellite fleet.

On August 20, 2004, affiliates of Kohlberg Kravis Robert and Co. L.P., or KKR, The Carlyle Group, or Carlyle, and Providence Equity Partners, Inc., or Providence, completed a series of transactions resulting in an entity affiliated with KKR owning approximately 44% of our outstanding common stock and entities affiliated with Carlyle and Providence each owning approximately 27% of our common stock, with the remainder held by certain members of management and our board of directors. We collectively refer to KKR, Carlyle and Providence as the "Sponsors."

PanAmSat Holding Corporation, or Holdco, is a recently formed Delaware corporation that is owned by the Sponsors and certain members of management and our board of directors. On October 8, 2004, these stockholders contributed all of our common stock held by them to Holdco in exchange for a pro rata share of Holdco's common stock. As a result, we became a wholly-owned subsidiary of

Holdco. Holdco does not have, apart from its ownership of us, any independent operations. Holdco is currently undertaking an initial public offering of its common stock, which is expected to close shortly.

Background

We are a market leader in the FSS industry. FSS operators use satellites that are located in designated GEO slots 22,300 miles above the equator. The position of these satellites makes them appear to be at a fixed point above the earth. Receiving antennas, once pointed at a fixed satellite, need not be moved.

GEO slots are points on the GEO arc where satellites are permitted to operate. The number of orbital slots is limited. The right to use a GEO slot must be authorized under national and international regulatory regimes for the frequency bands in which a satellite will operate, and satellites operating in the same frequency bands must be sufficiently far apart to avoid interference with one another. Certain slots may not provide coverage over an entire market. Other slots may not be available for all of the frequency bands needed to make the slot commercially viable. Satellites operating at adjacent GEO slots at similar frequencies are generally separated by two or more degrees. Most of the GEO slots are either currently in use or already subject to filings for use. Once the particular frequencies at a GEO slot have been licensed and coordinated, the use is protected against interference from other operations at the same or adjacent slots.

The most important aspect of a GEO satellite is its ability to provide equally accessible coverage of a very large geographic area at once, in certain circumstances up to an entire hemisphere. Any antenna on the ground inside the satellite coverage area, or footprint, can receive the same transmission, and can be installed for the same incremental cost. GEO satellites receive radio communications from one or more origination points and distribute them to a single point or multiple receivers within the transmission range of the satellites' beams.

GEO satellites are well suited for connecting a number of locations that cannot otherwise be connected efficiently.

Because the cost of satellite services does not increase with distance or the number of receivers, GEO satellites are used for:

- the distribution of television and radio signals to cable television operators, television network affiliates, local radio stations and other redistribution systems;
- DTH transmissions of video and audio programming;
- data networking services, which include voice, data and video transmissions within private networks;
- Internet access and content distribution, including connecting international ISPs to the U.S. Internet backbone where there is a lack of terrestrial fiber, and distributing Internet Protocol content in a point-to-multipoint manner; and
- international and domestic telecommunications services, complementing fiber optic and coaxial cable backbone networks.

Once a satellite is in commercial service at a GEO slot, FSS operators generally lease capacity, or transponders, on the satellite to customers, including video programmers, telecommunications companies and ISPs. The most common frequency bands available for lease on GEO satellites are as follows:

C-band. These frequencies have traditionally been used for video broadcasting and data and voice communications. C-band frequencies have longer wavelengths and therefore are less susceptible to

terrestrial and atmospheric interference but require large antennas, typically three to six meters in diameter, to transmit and receive signals.

Ku-band. These frequencies have shorter wavelengths and require more powerful transponders, thereby allowing customers to use smaller antennas, 60 to 180 centimeters in diameter. Ku-band has been used for such services as DTH broadcasting, video distribution and private data networks.

Ka-band. These frequencies have the shortest wavelength of the three principal commercial fixed satellite bands. Currently, Ka-band frequencies are not widely utilized. While Ka-band allows for very small antennas, it requires high-power beams to be concentrated on smaller geographical areas. New applications, such as certain types of two-way communications, are being developed for these frequencies.

Our Services

Our operations are comprised of the following two segments, FSS and government services, or G2:

Fixed Satellite Services Through FSS, we lease transponder capacity to customers for various applications, including broadcasting, news gathering, Internet access and transmission, private voice and data networks, business television, distance learning and DTH and provide telemetry, tracking and control, or TT&C, and network services to customers.

Government Services Through G2, we provide global satellite and related telecommunications services to the U.S. government, international government entities and their contractors.

We derive our revenues primarily from our video and network services. For the years ended December 31, 2002, 2003 and 2004, we derived our revenues from the following service areas:

	Year Ended December 31,		
Services	**2002**	**2003**	**2004**
Video services	66%	60%	57%
Network services	24	25	26
Government services	3	9	10
Other services	7	6	7
Total	100%	100%	100%

Revenues derived from affiliates of The DIRECTV Group and The News Corporation comprised approximately 15% and 11%, respectively, of total revenues for the year ended December 31, 2004. No other customers provided us with revenues in excess of 10% of total revenues during this period.

Fixed Satellite Services segment

Our FSS segment is comprised of the following:

Video services

We provide satellite transponder capacity and other satellite and terrestrial services for the transmission of entertainment, news, sports and educational programming for over 300 content providers worldwide. Our video services are comprised of four categories:

Video distribution services full-time transmission of television programming to cable systems, network affiliates and other redistribution systems;

DTH television services full-time transmission of multiple television channels for household reception;

Full-time contribution services transmission of news, sports and entertainment segments to cable and broadcast centers around the world; and

Occasional use services short-term satellite services that we provide to broadcasters when they need on-the-scene coverage of sporting events and breaking news.

Video distribution services. Our primary video distribution service is the full-time transmission of television programming to cable systems, network affiliates and other redistribution systems. Our video distribution services are characterized by long-term contracts with premier media companies and content providers. These companies lease dedicated transponder capacity from us, both on our satellites in orbit and those planned for launch in the future. We also offer bundled, value-added services that include satellite capacity, digital encoding of video channels and, if required, uplinking and downlinking services to and from our satellites and teleport facilities.

We deliver television programming to virtually all cable systems in the United States. We also operate satellites for the distribution of television programming to cable and other redistribution systems in Latin America, Africa, Australia and the Asia Pacific and Indian Ocean regions. To attract and retain high quality customers, we have created "cable neighborhoods" in which popular television channels act as the "anchor tenants" on our satellites. Cable and other redistribution systems then install antennas to access these popular channels for their subscribers. Because these companies already have their antennas pointed toward these "cable neighborhoods," our experience has been that other programmers also want to distribute their programming through our satellites. The formation of cable neighborhoods has been an important driver of capacity utilization and revenues. Of our 23 satellites in orbit, 11 are part of cable neighborhoods around the world, with six serving the United States, two serving Latin America, two serving the Asia Pacific region and one serving the Indian Ocean region.

To capitalize further on our cable neighborhood concept, in November 2000, we introduced our "Power of Five" program. Under this program, over 9,200 qualified cable head-ends in the United States are eligible to receive or have received free equipment. A cable "head-end" is a location which receives satellite transmissions and distributes them to a cable television company's subscribers. This equipment enables access to five Galaxy satellites in the U.S. cable neighborhood using just two antennas. The program expands our U.S. cable neighborhood to include Galaxy 3C and Galaxy 13/Horizons 1. Under this program we provide participating cable operators with the required equipment free of charge, which they are required to use exclusively to receive our satellite signals. Partly as a result of this program, as of December 31, 2004, cable operators representing nearly 100% of the cable subscribers in the U.S. were able to access three of these satellites and 70% of such cable operators were able to access all five of these satellites.

DTH television services. Most of our satellites are capable of providing DTH services through the use of high-powered, Ku-band spot beams that transmit over specific geographic areas. DTH service providers lease transponder capacity from us, and our satellites provide the platform for their services. These services deliver a package of television programming channels directly to a consumer's home from our satellites. Digital transmissions over DTH platforms offer television viewers superior picture and sound quality and increased channel capacity for programming and pay-per-view options. Our global system transmits more than 750 DTH television and audio channels worldwide for seven DTH operators through long-term contracts. Because their subscribers have their receiving equipment pointed at our satellites, the cost for a DTH service provider to switch to a different satellite would be significant.

Full-time contribution services. We provide broadcasters with satellite transmission services for the transmission of news, sports and entertainment segments to their network affiliates or broadcast centers within the United States or around the world. Broadcasters use our contribution capacity to consolidate programming from various locations and assemble it in one central location for the final programming product. This service provides broadcasters with a dedicated transmission pipeline for the full-time retrieval of programming segments.

Occasional use services. We provide broadcasters with satellite transmission services for the timely broadcast of news, sports and events coverage on a short-term basis. This service is designed to enable broadcasters to conduct on-the-scene transmissions using small, portable antennas and to receive the

transmissions at their broadcast centers or affiliate stations. We conducted approximately 130,000, 110,000 and 100,000 hours of total special events transmissions in 2002, 2003 and 2004, respectively. For example, we delivered over 22,500 hours of live coverage for the 2004 Summer Olympics. In addition to short-term services for special events coverage, we have long-term transponder service agreements with certain satellite services resellers in the United States, who package domestic U.S. transponder capacity for their broadcast, business, educational and government customers.

Our occasional use services help us take advantage of unutilized capacity on our satellites and are complementary to other services we offer. As these services are not typically long-term in nature, the revenues we derive from them are not typically reflected in our contracted backlog.

Video service customers. The following table lists some of the customers under contract for our video distribution, DTH and full-time contribution services:

Video Distribution Services	DTH Services	Full-time Contribution Services
BBC	DIRECTV Latin America	Australian Broadcasting Corporation
Comcast	MultiChoice (South Africa)	CNN
China Central Television	Sky Brazil	NHK
Doordarshan (India)	Sky Mexico	FOX
The News Corporation (including the Fox family of channels and The DIRECTV Group)	Sky Multi-Country Partners	ABC
NHK (Japan)		
Sony		
Starz!		
Viacom (including MTV and Nickelodeon)		
The Walt Disney Company (including ABC and ESPN)		
Time Warner, Inc. (including HBO, Turner Broadcasting System and CNN)		

Network services

We provide satellite transponder capacity and other satellite and terrestrial network services to telecommunications carriers, multinational corporations and network service providers for relaying voice, video and data communications globally. Our network services are comprised of three categories:

Private business network services satellite capacity that we provide for secure, high speed corporate data networks, such as VSATs, used in a variety of business functions;

Internet services satellite capacity that we provide to ISPs for high data rate Internet connections and point-to-multipoint content distribution; and

Carrier services satellite capacity that we provide to telecommunications carriers for voice, video or data communications networks for businesses and other users.

Private business network services. We provide satellite services to companies that furnish networks for end users in the United States, Latin America, Europe, Africa and Asia. We also provide capacity directly to owners-operators of networks. These rooftop-to-rooftop VSAT networks provide dedicated, proprietary one-way and two-way communications links among multiple business sites. VSAT network end users include retail chains for rapid credit card authorization and inventory control, banks for the

connection of automated teller machines with processing computers and news agencies for the timely dissemination of news and financial information.

A VSAT network consists of many VSAT remote sites, a central hub with a large antenna, which enables the connection of all VSATs in the network, and satellite transponder capacity. Our teleports have the capability of serving as the central hub for our customers' VSATs. We expect growth in the use of VSATs to continue, particularly in less developed countries, as more businesses realize the benefits of communicating by a VSAT network, principally due to the following benefits of VSATs:

high quality and dedicated transmission availability;

the capability of transmitting extremely large data flows;

fixed transmission costs, insensitive to distance or the number of receiving stations; and

the ability to rapidly and cost-effectively deploy VSAT networks in geographically isolated regions.

Internet services. We provide satellite services for the full-time delivery of Internet traffic around the world. Our satellite Internet services enable our customers to improve the quality of their Internet packet delivery, including audio and video, by bypassing shared and congested terrestrial links and to reduce expenses, especially for international ISPs, by enabling simultaneous delivery of content to wide geographic areas without requiring additional terrestrial infrastructure. Our Internet customers deliver content for direct-to-consumer Internet applications, entertainment content providers, ISPs, educational organizations and telecommunications companies. We see growth opportunities for our Internet services, particularly in markets without sufficient fiber optic connectivity.

As part of our Internet services, we offer a bundled broadband satellite Internet connection package to ISP and corporate enterprise customers that we call SPOTbytes. The complete SPOTbytes service includes satellite capacity, teleport transmission, direct connectivity to Internet backbone providers, and dedicated operations support. SPOTbytes is available as a two-way platform or a one-way platform that utilizes a terrestrial link to provide return path connectivity.

Carrier services. We provide satellite services to eight telecommunications carriers in six countries to provide voice, video and data communications networks for businesses, governments and other users. Our satellites, which facilitate high volume information transmission and the ability to use VSATs on the ground, have enabled carriers in emerging countries to introduce competitive new telecommunications services in Latin America, Africa and Asia. In addition, we offer value-added satellite services for telecommunications customers that include satellite capacity and teleport services that connect customers to U.S. terrestrial networks. We currently do not expect carrier services to be a material part of our business, but we will continue to provide quality service to existing and potential customers.

Network services customers. Some of the customers for and users of our network services include Associated Press, General Communications Inc., Hughes Network Systems, Inc., Microspace and Telstra.

TT&C and other services

In addition to the TT&C services we perform for many of our satellites, we also provide TT&C services for satellites owned by other satellite operators. TT&C services include monitoring and maintaining the proper orbital location and orientation of a satellite, monitoring on-board systems, adjusting transponder levels and remotely bringing backup systems on-line in the event of a subsystem failure. Our other services include in-orbit backup service, which is backup transponder capacity that we

make available to certain customers. Our FSS segment also provides our G2 segment with certain of its satellite capacity requirements.

Government Services segment

Through our G2 segment, we provide global satellite and related telecommunications services to the U.S. government, international government entities and their contractors. Through our G2 segment we provide a "one-stop shopping" resource for government customers to obtain satellite bandwidth, ground terminals and related services, either as stand-alone components or as a complete, end-to-end service offering. We offer transponder capacity on our satellites as well as other mobile and fixed satellite systems.

G2 serves three customer groups:

Federal agencies and organizations. Through its Indefinite Delivery/Indefinite Quantity Government Wide Acquisition Contract with the General Services Administration, G2 offers U.S. government customers a flexible and streamlined procurement vehicle to request and purchase G2 products and services for military, civil and homeland security applications.

The U.S. Department of Defense. G2 provides satellite and related telecommunications services to the Defense Information Systems Agency, its prime contractors for commercial satellite communications and the four U.S. uniformed military branches. G2 supports a variety of military applications, from distance learning to communications support for unmanned aerial vehicles.

Prime contractors and systems integrators managing major government contracts. G2 provides satellite services and equipment that can address a specific government procurement or support a communications function within a larger program effort.

We currently serve more than 100 military and government agencies and contractors worldwide, directly or as a sub-contractor, including the Army Corps of Engineers, The Boeing Company, the Federal Aviation Administration, the Federal Bureau of Investigation, NASA, the Government of Australia, Raytheon Company, the Transportation Security Administration and the U.S. Air Force, Army, Navy and Marine Corps.

G2 is the combination of three organizations: our former government sales and service operation; Hughes Global Services, Inc., a provider of satellite and related services to government users, which we acquired from The DIRECTV Group in March 2003; and Esatel Communications, Inc., a telecommunications provider to the U.S. government, which we acquired in August 2003.

Our Strengths

Our business is characterized by the following key strengths:

Strong cash flow generation

Historically, we have been able to generate significant cash flows from our operating activities due to our stable and predictable revenues, high operating margins and prudent management of operating expenses and capital costs.

Substantial contracted backlog resulting from long-term contracts

As of December 31, 2004, we had a contracted backlog for future services of approximately $4.90 billion, of which approximately $755.0 million was contracted for receipt in 2005. Contracted backlog represents the actual dollar amount (without discounting for present value) of the expected future cash payments to be received from customers under all long-term contractual agreements, including operating leases, sales-type leases and related service agreements. Of this amount,

approximately $4.02 billion relates to contracts for our video distribution services, which are typically long-term and may extend to the end of life of the satellite or beyond to a replacement satellite. These contracts also are generally non-cancelable, with early termination or cancellation by the customer resulting in a significant cash obligation payable to us. Our contracted backlog as of December 31, 2004 included approximately $1.42 billion relating to future services on satellites to be launched.

Premier customer base and long-standing relationships

Through our commitment to superior customer service and our global reach, we have built a premier customer base for our video and network services. Some of the customers with whom we have long-standing relationships include Time Warner Inc., Viacom, The News Corporation, The Walt Disney Company and Hughes Network Systems, Inc.

Leading North American video franchise

Over the past 20 years, we have established ourselves as a leading transmission platform for the distribution of video programming to cable systems in North America, reaching all cable head-ends and cable households in the United States. Through a combination of our long-standing relationships with customers, key North American orbital slots and leading "anchor tenant" cable channels, we have been successful in creating "cable neighborhoods". These cable neighborhoods are a powerful tool in attracting and retaining customers and create high barriers to entry for competitors because terrestrial networks are specifically designed to receive information from our satellites, making switching costs significant.

High barriers to entry

There are a number of regulatory, economic and other barriers to entry in our industry that help to preserve our position as one of the world's leading satellite service providers. One of the most significant barriers to entry is the need to obtain operating rights to an orbital slot, a costly and time-consuming process. Most of the commercially useful GEO slots are either currently in use or already subject to filings for use. Once the use of particular frequencies at an orbital slot has been licensed and coordinated, it is protected against interference from other operations at the same or adjacent slots. Even with access to orbital slots, significant time and expense is necessary to build, launch and insure satellites. We have invested approximately $3.9 billion in our existing satellite fleet and terrestrial networks through December 31, 2004. As of December 31, 2004 our satellite fleet, which we have recently upgraded, had an average estimated remaining useful life of approximately seven years, excluding satellites we classified as being in secondary operating service.

Market leading global network infrastructure

With 23 owned and operated satellites currently in orbit and approximately 953 *36 MHz* equivalent transponders, we have one of the world's largest commercial GEO satellite networks, capable of reaching over 98% of the world's population. Our global reach and our ability to offer bundled services allow us to provide integrated worldwide distribution and delivery services, reducing our customers' risk of data loss or service interruptions. Through a carefully planned strategy of in-orbit spare satellites, on-board redundancies for critical systems and reserved capacity on our satellites, we believe we are well positioned to protect against service interruptions and to strategically manage our replacement costs. To complement our satellites, we have available to our customers an extensive terrestrial network including a technically advanced customer service center, teleports, a satellite operations control center and a fiber based terrestrial network. Our terrestrial network enables access to our satellites from key locations throughout the world, thereby enhancing the overall reach of our satellites.

Diversified revenues and contracted backlog by satellite

Our revenue base is diversified by satellite, which reduces our dependence on any one satellite. In 2004, no single satellite accounted for more than 12% of our total revenues (two satellites each accounted for more than 10% of total revenues) and as of December 31, 2004, one satellite accounted for approximately 15% of contracted backlog (no other satellite accounted for more than 10% of contracted backlog).

Experienced senior management team

Our senior management team has operated together successfully since 2001. Our senior management team, which is currently comprised of six individuals and has more than 70 years of combined industry experience, is led by Joseph R. Wright who has been our Chief Executive Officer since August 2001 and a member of its board of directors since 1997.

Our Business Strategy

Our goal is to be the world's leading provider of video, broadcasting and network distribution and delivery services through customer-driven, integrated, state-of-the-art satellite and terrestrial networks and to maximize our cash flow and income growth. To achieve these goals, we plan to increase the use of our existing satellite fleet, improve connectivity to our terrestrial network and continue to provide a 24/7 customer support organization that is capable of serving distributors of video entertainment, operators of business networks, government agencies and other customers around the world. Our strategy includes the following initiatives:

Commitment to maximizing cash flow

We are focused on prudently managing capital expenditures in order to maximize cash flow available for debt service and dividend payments. We have pioneered the use of smaller satellites, like our Galaxy 12 satellite, as a way to optimize returns on capital spending while maintaining capacity in key orbital locations. We also intend to replace existing capacity only as needed, based upon factors such as our ability to pre-sell capacity prior to launch. We believe this approach is significantly different from the historical investment strategies of our principal competitors.

Continuing to increase the value of our U.S. and international video services

Continue to capitalize on our cable neighborhoods. Because of our ability to create cable neighborhoods, which concentrate premium cable channels such as the HBO family of channels, the Fox family of channels, TBS, The Disney Channel, ESPN, MTV and Nickelodeon in our orbital locations, we have been able to attract additional programmers to our satellites. These cable neighborhoods have been sustainable over multiple generations of satellites, and we plan to continue to develop and expand our cable neighborhoods in the United States, South America and the Asia-Pacific region. As cable operators build out their plant capacity, we have the opportunity to benefit as more channels, services and other data require satellite distribution to cable head-ends. As the number of channels grows, demand increases for our premium cable neighborhood satellites.

Become a leader in HDTV distribution. We believe demand for HDTV will experience significant growth in the coming years, which will result in the need for more satellite bandwidth. According to a 2004 report by the Yankee Group, the number of U.S. households viewing HDTV is forecasted to increase from 8.3 million in 2004 to 57.5 million by year-end 2008. To take advantage of this opportunity, we have implemented a marketing program to make our newest satellite, Galaxy 13/Horizons 1, an HDTV neighborhood and attract the newest and fastest growing cable television segment. We believe that we carry more HDTV channels than any of our competitors.

Expand DTH services. We believe that greater demand for satellite capacity will be required from U.S. DTH providers as a result of increased HDTV demand and increased local and ethnic programming. We believe these services will consume bandwidth beyond what is currently available to DTH operators and will cause them to rely more heavily on FSS services.

Maintain market-leading position in traditional cable services. Many of the nation's largest cable systems have made significant investments in plant upgrades. We expect this increased plant capacity to be filled primarily with additional linear channels, HDTV programming, interactive programming and other materials that are distributed via satellite to cable head-ends. We believe that the point-to-multipoint requirements of video programmers will continue to make satellites the best, if not only, choice for distribution of this type of content for the foreseeable future. We believe that the market for video distribution will continue to grow as more channels are offered and a greater variety of formats are used. This benefits us as the switchover from standard analog and enhanced digital video programming will take several years or longer. This means that cable systems will likely carry multiple feeds of the same content for a substantial period of time: an analog feed for its basic subscribers, a digital feed of similar programming potentially time-shifted for premium subscribers and an HDTV feed of the same programming for HDTV subscribers. We also believe that video programmers will offer more services or variations of their content requiring distribution (video-on-demand, short-format, interactivity, streaming video, among others). Our strategy is to continue to create application-specific solutions and technology that anticipate and support the unique needs of these customers.

Integration of satellite with terrestrial networks. We recognize that our satellite network represents a single component of a larger and more complex distribution network. Historically, in order for a customer to access any satellite, the customer would be required to either construct its own uplink capabilities or continually deliver content to a teleport facility for uplink to the satellite. Our managed fiber network provides our customers with access to our satellites from around the world, thereby integrating our satellite network with our customers' terrestrial networks. This capability, which we have branded PASPort[SM], will continue to differentiate us from our competition and provide opportunities for the creation of new applications and revenue streams.

Additional spectrum available for development. In addition to our existing orbital slots, through various filings with regulatory agencies in the United States and other nations, we have the right to develop additional satellites and applications in order to expand our network or develop applications for growing markets in the future. At this time, we have not committed any capital to these growth opportunities.

Increasing sales to the U.S. government

According to the United States General Accounting Office, the U.S. government is the single largest user of commercial satellite bandwidth in the world. Through our G2 segment, we offer a range of satellite and value-added services to support the requirements of the U.S. government. G2's strategy is to sell its services to the government and assist in the migration of government satellite usage onto our capacity. We intend to leverage the skills acquired by G2 across our video and data networking customers, which we believe will further distinguish us from our competition.

Increasing VSAT sales

We believe we are a leading provider of satellite capacity for VSAT applications. These proprietary network services allow our customers and their end users to connect many remote business sites to a large central antenna by satellite for one-way or two-way communications. This is particularly valuable in developing regions where terrestrial alternatives are not available. We expect growth in the use of VSATs to come from businesses that can benefit from widely distributed point-to-multipoint networks that facilitate data exchange and transaction-oriented services (such as credit card point-of-sale

approvals). We believe that our strong knowledge of VSAT platforms, coupled with the availability of our international satellite capacity, position us as the preferred provider of VSAT services.

Using advanced Internet Protocol-based applications to meet increasing demand

We believe that IP-based applications will continue to become more prevalent on a global basis and that the line between video and data will continue to blur as video programmers become more comfortable converting their content to IP format. In addition, we believe that satellite-based access to both the Internet and private networks will become common in most of the developing world, where we have significant satellite capacity available.

Our SPOTbytes service provides customers with the ability to obtain a clear broadband Internet connection anywhere in the world. Although well-developed markets like the United States and Europe have multiple competing wireline options for broadband connectivity, in lesser-developed markets wireline connection options are unavailable. We believe that satellite-based Internet connectivity will continue to grow in these regions as the platform of choice due to its geographic flexibility, speed to market and lack of need for substantial capital spending versus wireline solutions.

Launching service extensions

We have made substantial investments in our satellite and terrestrial networks and facilities. We continue to strive to maximize the output of these assets in innovative ways. Examples of asset maximizing activities undertaken recently include:

Consulting services: In overseeing the construction and launch of dozens of our satellites, we have gained expertise in the management of satellite construction and launch programs which we market to third parties;

Shared payloads: In certain circumstances, we can achieve economies of scale on launch and satellite construction costs by sharing satellite payloads among multiple parties; and

Ground networks: Provision of the global communications networks used immediately following the launch of a new satellite, as well as hosting TT&C and production equipment for third-party network operators.

Selectively pursue complementary acquisitions

Over the last several years, the FSS industry has been reshaped as a result of consolidation, deregulation, privatization and, more recently, through increased private equity ownership of satellite operators. We believe that these trends may present opportunities to selectively pursue complementary acquisitions and joint ventures, which would allow us to expand our scope and scale to meet the needs of our customers. We intend to pursue these opportunities in a disciplined manner consistent with our dividend policy, considering as one criterion the impact of any proposed acquisition on our ability to continue paying dividends on our common stock at anticipated levels.

Our Satellite Network and Terrestrial Fiber Optic Network

We had invested approximately $3.9 billion in our existing satellite fleet and terrestrial fiber optic network through December 31, 2004, and we had approximately $113.0 million of expenditures remaining to be made under existing satellite construction and launch contracts as of December 31, 2004. Our fleet currently consists of 23 satellites in orbit, including two in-orbit spares.

Our ground facilities also play a critical role in providing quality service to our customers. We operate seven technical facilities, all of which are staffed 24 hours a day, seven days a week. Through our ground facilities, we constantly monitor signal quality, protect bandwidth from piracy or other

interference and maintain customer installed equipment. Our teleports operate nearly 100 antennas and are equipped to provide, among other things, analog and digital transmission services, tape play-out and time delay services, monitoring, downlinking of Internet services, connectivity to terrestrial links and network operations services.

Our 23 satellites currently in orbit contain approximately 953 *36 MHz* equivalent transponders. We are currently utilizing approximately 75% of our useable and available transponders, which excludes transponders dedicated to backup for our customers and those unavailable for regulatory or technical reasons.

Once a satellite is placed at its orbital location, ground stations control it until the end of its in-orbit lifetime. We generally provide TT&C services for our own satellites, as well as for satellites owned by other satellite operators. Third parties provide TT&C services for our satellites currently in orbit that our existing teleport networks cannot reach. At the end of a satellite's useful life, the satellite is de-orbited in accordance with standard industry practice by using the on-board propulsion system to move it to a higher location above its normal orbiting position.

Set forth below is a table containing certain basic information about our 23 in-orbit satellites. Under Spacecraft Model, "BSS" indicates a Boeing model, "SSL" indicates a Space Systems/Loral model and "ORB" indicates an Orbital Sciences model. For each satellite designated as being in primary operating service, we maintain some form of backup capacity. This backup capacity may include any one or more of the following: an in-orbit spare satellite, a ground-based spare satellite, designated reserve transponders on the satellite or interim restoration capacity on other satellites.

However, we do not maintain backups for all of our operating capacity. We believe that the availability of backup capacity addresses in part the operational risks relating to potential satellite anomalies, but backup capacity does not eliminate those risks. See "Risk Factors Risks Relating or Our Industry Once launched and properly deployed, satellites are subject to significant operational risks due to various types of potential anomalies". The estimated end of useful life shown below is determined using the lower of the satellite's design life and the estimated life of the satellite as determined by an engineering analysis. Under Position, "EL" indicates east longitude and "WL" indicates west longitude.

Satellite	Spacecraft Model	Launch Date	Estimated End of Useful Life(1)	Position	36 MHz Equivalent C-band Transponders	36 MHz Equivalent Ku-band Transponders	Geographic Coverage
North America							
Galaxy 1R(2)	BSS 376	02/94	2005	133WL	24.0		North America
Galaxy 3C(2)	BSS 702	06/02	2017	95WL	24.0	42.7	North America; Latin America; Caribbean
Galaxy 3R(3)	BSS 601	12/95	2008	74WL	24.0	24.0	North America
Galaxy 4R(2)	BSS 601 HP	04/00	2007	99WL	24.0	24.0	North America
Galaxy 9(4)	BSS 376	06/96	2008	91WL	24.0		North America
Galaxy 10R(2)	BSS 601 HP	01/00	2008	123WL	24.0	24.0	North America
Galaxy 11(2)	BSS 702	12/99	2009	91WL	24.0	36.0	North America; Brazil
Galaxy 12(2)	ORB Star 2	4/03	2018	125WL	24.0		North America
Galaxy 13/Horizons1(2)	BSS 601 HP	9/03	2018	127WL	24.0	24.0	North America
SBS 6	BSS 393	10/90	2007	74WL		22.7	Continental U.S.
HGS-5(5)	BSS 376	08/84	2008	125WL		11.9	Continental U.S.
Subtotal					216.0	209.3	
Atlantic Ocean Region							
PAS-1R	BSS 702	11/00	2010	45WL	36.0	36.0	Americas; Caribbean
PAS-3R	BSS 601	01/96	2009	43WL	25.1	25.1	Americas; Caribbean
PAS-6B	BSS 601 HP	12/98	2008	43WL		32.0	South America; Americas
PAS-9	BSS 601 HP	07/00	2013	58WL	24.0	24.0	Caribbean; Europe
Subtotal					85.1	117.1	
Indian Ocean Region							
PAS-4(6)	BSS 601	08/95	2010	72EL	25.1	24.6	Asia; Africa; Middle East; Europe
PAS-5	BSS 601 HP	08/97	2012	26EL	24.0	24.0	Middle East; Asia; Africa
PAS-7	SSL FS 1300	09/98	2013	68.5EL	14.0	30.0	Middle East
HGS-3	BSS 601	01/96	2011	38EL	30.0	8.0	South Asia
PAS-l0(7)	BSS 601 HP	05/01	2016	68.5EL	24.0	24.0	Asia; Africa; Middle East; Europe
Subtotal					117.1	110.6	
Pacific Ocean Region							
PAS-2	BSS 601	07/94	2009	169EL	25.1	25.1	Asia-Pacific
PAS-8	SSL FS 1300	11/98	2014	166EL	24.0	24.0	Asia-Pacific; Pacific Ocean Region
Leasat F5(8)	BSS 381	01/90	2008	100EL			
Subtotal					49.1	49.1	
Total Bandwidth					467.3	486.1	

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations Satellite Insurance Uninsured satellites" for a discussion of our replacement expectations.

(2) Galaxy 9 is available as an in-orbit backup for the C-band capacity on this satellite.

(3) Galaxy 3R is operating in an inclined orbit.

(4) Galaxy 9 is an in-orbit spare for the C-band capacity serving our U.S. cable customers.

(5) HGS-5 is operated in an inclined orbit.

(6) In addition to providing customer services, PAS-4 also provides back-up services.

(7) PAS-4 is available as an in-orbit backup for portions of the capacity on this satellite.

(8) Leasat F5 provides services in the X-band and L-band frequencies for military applications. It is operated in an inclined orbit.

Satellite Operations Risk Management

We manage certain of the business risks inherent in the operation of a satellite fleet by insuring satellite launches, maintaining backup satellites and transponders and insuring in-orbit satellites.

Satellite insurance

We have obtained launch insurance for all of our satellite launches. Launch insurance coverage is typically in an amount equal to the fully capitalized cost of the satellite, which includes the construction costs, the portion of the insurance premium related to launch, the cost of the launch services and capitalized interest (but may exclude any unpaid incentive payments to the manufacturer). Launch insurance has historically covered claims arising after a launch for a period of up to three to five years, providing for payment of the full insured amount if, for example, the satellite is lost during launch or the satellite fails to achieve the proper orbital location, or if other failures occur during the in-orbit coverage period. Currently, as a result of market conditions in the satellite insurance industry, insurers are offering commercially reasonable launch policies that extend for no more than one year after launch. The terms of launch policies generally provide for payment of the full insured amount if the satellite fails to maintain orbit, the satellite fails to perform in accordance with certain design specifications or 75% or more of a satellite's communications capacity is lost. See "Risk Factors Risks Relating to Our Industry".

Certain satellites in our fleet are covered by in-orbit insurance. In-orbit insurance coverage may initially be for an amount comparable to launch insurance levels and generally decreases over time, based on the declining book value of the satellite. Historically, in-orbit policies have covered a period ranging from one to three years. As with launch insurance, insurers today are offering in-orbit policies that last for no more than one year. The in-orbit policies generally provide for partial payment for losses of less than 75% of the satellite's communications capacity, in each case subject to applicable deductibles and exclusions. We also maintain third-party liability insurance.

Backup satellites and transponders

For each satellite designated as being in primary operating service, we maintain some form of backup capacity. This backup capacity may include any one or more of the following: an in-orbit spare satellite, a ground-based spare satellite, designated reserve transponders on the satellite or interim restoration capacity on other satellites. However, we do not maintain backups for all of our operating capacity. We believe that the availability of backup capacity addresses in part the operational risks relating to potential satellite anomalies, but backup capacity does not eliminate those risks. See "Risk Factors Risks Relating or Our Industry Once launched and properly deployed, satellites are subject to significant operational risks due to various types of potential anomalies". While these approaches do not provide a cash payment in the event of a loss or anomaly, they do offer certain protections against loss of business due to satellite failure. Because of the relatively high costs of insurance, a reduction in the number of satellites under insurance or a reduction in the amount of insurance coverage on satellites results in savings that can be applied towards the construction and launch of new satellites. New satellites or the satellites they replace may be available as in-orbit spares. The cost of an in-orbit spare that can provide backup support for multiple satellites may be comparable to the lifetime cost of in-orbit insurance for those satellites. We believe that using in-orbit backup satellites rather than having to build replacement satellites from proceeds received under typical insurance policies may help us better serve our customers, plan and control our replacement costs, protect our revenue streams and protect our rights to orbital slots. In addition, availability of in-orbit transponders and satellites as backup may also give us a competitive advantage, as it can take two years or more to replace a satellite.

Satellite risk management strategy

As a result of the relatively high number of satellite and launch vehicle anomalies in the last few years, the cost of satellite insurance has increased, while the level of available coverage has decreased. In addition to higher premiums, there is a trend toward higher deductibles, shorter coverage periods and additional satellite health-related policy exclusions. Accordingly, as our existing satellite insurance policies expire, and in response to changes in the satellite insurance market, we will continue to consider, evaluate and implement the use of backup satellites and transponders and the purchase of in-orbit insurance with lower coverage amounts, more exclusions and greater deductibles so that we can better protect our business and control our costs.

Sales and Marketing

For the majority of our services, including our video services, our sales and marketing efforts focus on developing long-term relationships with our customers. We assign an account representative to each customer who is responsible for understanding the customer's business and structure, as well as the markets that it may serve. We present comprehensive sales solutions to our customers that include multiple and diverse service offerings to address each customer's unique market and technical needs. As part of our selling efforts, we have a dedicated sales application engineering team that provides both pre-sale and post-sale technical advice and consultation to our customers to help them better utilize their contracted satellite capacity, integrate into our network and develop an efficient ground infrastructure.

Most of our sales are conducted through direct sales channels to a limited group of customers. Some of our customers resell our capacity for private business networks and broadcast services.

The Fixed Satellite Services Industry

Over the last several years, the FSS industry has been reshaped as a result of consolidation, privatization and deregulation. Many of these changes have important implications for FSS operators seeking to grow their core businesses.

Until the mid-1990s, the FSS industry was fragmented, with many national and regional providers. In 1997, our merger with the Galaxy Satellite Services, or Galaxy, division of Hughes Communications, Inc., represented one of the first significant consolidations in the industry. That merger brought together Galaxy, which pioneered the cable neighborhood strategy, and PanAmSat International, the first privately held international satellite operator. Since then, there has been a continued trend towards consolidation in the FSS industry, driven by customers' demand for more robust distribution platforms with network redundancies and worldwide reach and by FSS operators' desire to secure and improve their market access in key regions. In addition, there has been a recent trend of increased private equity ownership in the satellite industry.

Privatization took a significant step forward in 1998 when the intergovernmental organization Intelsat spun-off part of its business with the formation of New Skies Satellites N.V.. In July 2001, Intelsat and Eutelsat were both privatized and Intelsat is now owned by a group of private equity firms. Both Intelsat and Eutelsat are large satellite operators with extensive satellite fleets and a wide range of services. The privatization of these companies enables them to become more commercially focused. For example, in the past two years, Eutelsat has expanded its operations into other territories by acquiring a 27% stake in the Spanish regional FSS operator, Hispasat, and acquiring the French regional FSS operator, Stellat. In 2004, Intelsat acquired Loral Space and Communications Ltd.'s North American fleet.

In recent years, many of the regulatory agencies governing satellite transmissions into their countries have liberalized regulations, creating new markets for commercial FSS operators. An example of how we benefit from local market deregulation occurred in July 2001, when we were granted approval to provide a full range of satellite services from our PAS-1R satellite in Brazil, a market that

previously had been closed to foreign competition. Our Brazilian market opportunities were further expanded in 2003, when we obtained an authorization from the Brazilian government to provide Ku-band services with our PAS-9 satellite. Similarly, Mexico had been closed to foreign competition, but through our February 2001 joint venture with a Grupo Pegaso affiliate, we have gained access to the Mexican market through PanAmSat de México, which allows us to sell services for video, data and Internet applications in the Mexican telecommunications market. Other Latin American countries have also begun to deregulate their markets, increasing competition for the national satellite incumbents. Deregulation is also occurring in India, where the local telecommunications infrastructure is inadequate to support the expansion plans of television networks and communications providers. We were granted approval by the government of India to sell certain satellite services, and we opened an office there in December 2001. Recently, the Pakistani authorities have begun to permit the provision of international satellite services by foreign providers. Previously, only licensed domestic services providers were permitted to provide such services in Pakistan.

While the FSS industry has historically serviced video, telephony and private network data traffic, the growth of the Internet has created a greater need for satellite bandwidth. Satellites are increasingly used in numerous Internet-related applications, owing primarily to key inherent characteristics, including their ability to:

- establish high speed connections between two points or among multiple points within their broad footprints;
- multicast streaming media from a single source to multiple sites; and
- provide an alternative "bypass" network that does not rely on the limitations of the terrestrial Internet infrastructure.

Some of the new applications that FSS operators have been providing include:

- connecting international ISPs to the U.S. Internet backbone;
- providing a platform for Internet content providers to distribute their data to ISPs for local storage or caching; and
- providing a platform for streaming media content providers to deliver their streams real-time to broadband ISPs or directly to end users.

As an FSS industry leader, we are well positioned to benefit from the recent changes in the FSS industry due to our size, scale, reach and diversity of services. We are able to address these changes and continue to serve our existing customers, while looking to gain new customers in new markets and applications.

See "Risk Factors Risks Relating to our Industry The FSS industry is heavily regulated, both in the United States and elsewhere, and such regulation could impede us from executing our business plan."

Competition

Fixed satellite services

Our principal global competitors in the FSS industry are:

- Intelsat, a former intergovernmental agency privatized in 2001 that primarily provides telecommunications service to common carriers and other service providers, as well as the U.S. government and military. Intelsat reports a fleet of 33 owned GEO satellites. Intelsat is now owned by a group of private equity firms.
- SES Global, the entity formed by the November 2001 acquisition of GE American Communications, Inc. by SES Astra, which has a strong presence in European DTH services and U.S. video distribution services. SES Global reports a GEO fleet of 24 wholly owned satellites and 14 additional satellites through joint ventures and partnerships.

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New Skies Satellites N.V., a 1998 spin-off from Intelsat, which is owned by a private equity firm and has a fleet of five GEO satellites.

We also compete with numerous companies and governments that operate domestic or regional satellite systems in the United States, Latin America, Europe, the Middle East, Africa and Asia. Competition from these satellite operators is usually limited to service within one country or region, depending on the operator's satellite coverage and market activities. These regional operators compete with us primarily on price because many are subsidized by local governments. In addition, some countries limit our access to their markets in order to protect their national satellite systems. As regulations in various foreign markets are liberalized, we believe that we will be better able to compete in those markets.

Our principal regional competitors in the fixed satellite services industry are:

Asia Satellite Telecommunications Company Limited, also known as AsiaSat. AsiaSat provides network services and video distribution in the Asia-Pacific region. AsiaSat reports a fleet of three GEO satellites.

Satmex S.A. de C.V., which provides video distribution and network services in the Latin America region. Satmex reports a fleet of two GEO satellites.

Loral Space & Communications Ltd., which operates a fleet of five GEO satellites through joint marketing arrangements and provides services primarily to broadcasters.

Eutelsat, a former intergovernmental agency privatized in 2001 that primarily provides video and radio distribution services to the European market and into parts of the Middle East, Africa, South Asia and North and South America. Eutelsat operates a fleet of 20 GEO satellites.

In addition to the above, we have many competitors for our government services, including Electronic Data Systems, Marshall Communications and AT&T Government Group. We compete with these and other satellite service providers primarily on coverage, services, access, reliability and price.

In many situations, the satellite services provided by one operator may be indistinguishable from those provided by another. In such situations, pricing can be the most important competitive issue. In certain markets, the purchase of fixed satellite services may be influenced by factors in addition to price. Such competitive factors include: a satellite's technical capabilities, power, capacity, permitted frequencies of operation, broadcast coverage, health, estimated end of life and availability of additional capacity, the provision of ancillary services by the operator, and the other users of the satellite. In addition, purchase decisions may be based upon the satellite operator's country of origin and ownership.

Competition is intensifying among the major FSS providers due to a variety of factors, including competition from terrestrial based fiber optic cable systems, oversupply of capacity in a number of markets and increased privatization. We have experienced pricing pressure in certain international markets due to overcapacity and the ability to charge market-based prices by privatized satellite operators. For instance, Intelsat and Eutelsat now have the freedom to charge market-based prices, as opposed to the uniform prices they previously charged as intergovernmental agencies. In addition, the combined SES Global is now capable of providing services in many of the markets we serve. These and other factors are intensifying competition in our industry.

Fiber optics

Our satellite services also compete with certain of the services and products offered by providers of terrestrial fiber optic cables. Although we compete with land-based service providers for the transmission of video, voice and data, we believe that satellites have certain distinct advantages over fiber optic cables in both developed and underdeveloped areas of the world. In developed areas, FSS providers like us enjoy a significant competitive advantage over fiber optic cables because satellites provide point-to-multipoint broadcasting services and the ability to bypass shared and congested

terrestrial links, thereby enhancing network performance. In underdeveloped areas, the population density is often not substantial enough to warrant the investment required to build fiber optic networks. For example, for a cable company to cost-effectively offer cable television services and Internet services in an underdeveloped region, it requires a critical mass of serviceable homes to connect to the local cable head-end. Satellite service providers are not similarly constrained in underdeveloped regions.

Government Regulation

As an operator of a privately owned global satellite system, we are subject to:

the regulatory authority of the U.S. government;

the regulatory authority of certain other countries in which we operate; and

the frequency coordination process and other applicable regulations of the International Telecommunication Union.

U.S. regulation

The Federal Communications Commission, or FCC, regulates the ownership and operation of our current satellite system. We are subject to the FCC's jurisdiction primarily for:

the licensing of our current fleet of satellites and our U.S.-based earth stations;

avoidance of interference with radio stations; and

compliance with FCC rules governing U.S.-licensed satellite systems.

Violations of the FCC's rules can result in various sanctions including fines, loss of authorizations, or the denial of applications for new authorizations or to renew existing authorizations. We are not regulated as a common carrier and, therefore, are not subject to rate regulation or the obligation not to discriminate among customers, and we operate with minimal governmental scrutiny of our business decisions. We must pay FCC filing fees in connection with our space station and earth station applications; annual regulatory fees that are intended to defray the FCC's regulatory expenses; and, to the extent we are deemed to be providing interstate or international telecommunications, universal service contributions.

FCC authorization to launch and operate GEO satellites. The FCC authorizes satellite operators who meet its legal and technical qualification requirements to launch and operate satellites. In the case of GEO satellites, the FCC processes satellite applications on a first come, first served basis, and replacement satellite applications are eligible for streamlined processing if they are unopposed and propose technical characteristics consistent with those of the satellite that is being replaced.

When the FCC grants a GEO satellite application, other than a replacement satellite application, it requires the filer to post a bond and to comply with milestones specifying deadlines for entering into a satellite construction contract, completing critical design review, beginning construction of the satellite, and launching and commencing operation of the satellite. The amount of the bond for GEO satellites is $3.0 million. Upon completion of each milestone, the required amount of the bond is reduced proportionately. A satellite licensee not satisfying a milestone must forfeit the remaining amount on its bond absent circumstances warranting a milestone extension under the FCC's rules and policies.

Under the FCC's rules, a satellite operator may have no more than five GEO satellite applications and authorized but unlaunched GEO satellites in a frequency band at any given time. For purposes of this limit, the FCC counts both the satellite operator's own applications and unlaunched satellites and the applications and unlaunched satellites of other entities having overlapping ownership interests with the satellite operator above a specified "attribution" threshold. Licensees missing three milestones in any three year period, or engaging in a pattern of obtaining satellite licenses and surrendering them

before a milestone deadline, are subject to a substantial reduction in the number of satellite applications and authorized but unbuilt satellites that they are permitted to have.

Satellite licenses are currently issued for an initial fifteen-year term and the FCC gives licensees a "replacement expectancy" with respect to the replacement of their satellites. Most of our satellites were licensed for ten-year terms before the FCC changed to a fifteen-year policy, but the license terms for those satellites have been extended automatically to fifteen years.

In June 2004, the FCC adopted rules for the first time requiring that, absent a waiver or exemption, GEO satellites be placed in a disposal orbit at end of life that is at a specified altitude above the GEO arc. The new rules do not apply, however, to in-orbit GEO satellites that were launched prior to March 18, 2002.

We have final or temporary FCC authorization for all of our operating satellites in the C-band, the Ku-band or both bands. One of these final authorizations does not cover certain design changes that are the subject of a pending modification application. We have special temporary authority to operate the satellite as modified on an interim basis.

From time to time, we file applications for additional or replacement satellites in the C-band and/or the Ku-band. We also occasionally seek and sometimes receive temporary grants of authority to relocate satellites.

In January 2003, we returned to the FCC for cancellation of all but one of our U.S. authorizations to launch and operate Ka-band satellites. The remaining authorization was later transferred to another subsidiary of The DIRECTV Group.

Coordination requirements. The FCC requires applicants to demonstrate that their proposed satellites would be compatible with the operations of adjacent U.S.-licensed satellites. The FCC expects adjacent satellite operators to coordinate with one another to minimize frequency conflicts, and it does not become involved unless the operators are unable to resolve their conflicts.

Other U.S. government regulation. We must comply with U.S. export control laws and regulations, specifically the Arms Export Control Act, the International Traffic in Arms Regulations, the Export Administration Regulations and the trade sanctions laws and regulations administered by the U.S. Department of the Treasury's Office of Foreign Assets Control in the operation of our business. The export of satellites, satellite hardware, defense services and technical information relating to satellites to non-U.S. satellite manufacturing firms, launch services providers, insurers, customers, employees and other non-U.S. persons is regulated by the U.S. Department of State's Directorate of Defense Trade Controls under the International Traffic in Arms Regulations. Certain of our contracts for the manufacture, launch, operation and insurance of our satellites involve the export to non-U.S. persons of technical data or hardware regulated by the International Traffic in Arms Regulations. We have obtained all of the specific Directorate of Defense Trade Controls authorizations currently needed in order to fulfill our obligations under contracts with non-U.S. entities, and we believe that the terms of these licenses are sufficient given the scope and duration of the contracts to which they pertain.

The U.S. Department of Commerce's Bureau of Industry and Security also regulates some of our activities under the Export Administration Regulations. The Bureau regulates our export of equipment to earth stations in our ground network located outside of the United States. It is our practice to obtain all licenses necessary for the furnishing of original or spare equipment for the operation of our TT&C earth station facilities in a timely manner in order to facilitate the shipment of this equipment when needed.

We cannot provide services to certain countries subject to U.S. trade sanctions unless we first obtain the necessary authorizations from the Office of Foreign Assets Control. Where required, the Office of Foreign Assets Control has granted us the authorizations needed to provide satellite capacity and related administrative services to U.S.-sanctioned countries.

Regulation by foreign national telecommunications authorities

U.S.-licensed satellites. Even though the United States is the licensing jurisdiction for all of our operating satellites, we are nevertheless subject to regulation in many foreign countries in which we operate. Foreign laws and regulatory practices governing the provision of satellite services to licensed entities and directly to end users vary substantially. Among other things, we may be subject to national communications or broadcasting laws with respect to our provision of international satellite service.

While these vary from country to country, national telecommunications authorities, with limited exceptions, typically have not required satellite operators to obtain licenses or regulatory authorizations in order to provide space segment capacity to licensed entities. "Space segment capacity" consists solely of capacity on a given satellite without any uplink, downlink or other value-added services.

Many countries, particularly in Latin America, and increasingly in Europe, Africa and Asia, have liberalized their regulations to permit multiple entities to seek licenses to:

provide voice, data or video services for their own use or for third-party use;

own and operate private earth station equipment; and

choose a provider of satellite capacity.

This trend should continue with the commitments by many World Trade Organization members, in the context of the WTO Agreement on Basic Telecommunications Services, to open their satellite markets to competition.

Most countries permit satellite operators to provide space segment capacity without any prior licensing or authorization. In others, however, a license is required to provide space segment capacity or authorization is required for specific satellites. We have obtained such licenses in Argentina, Bolivia, Brazil, Colombia, Ecuador, Guatemala, Honduras, Nicaragua, Paraguay and Uruguay. Additionally, we have sought service-type licenses in order to provide certain space segment capacity directly to end users. We have obtained such licenses in Australia and Japan. In addition, PanAmSat de Mexico has been awarded a concession in Mexico that permits the resale of our space segment capacity in Mexico.

Non-U.S. licensed satellites. We and JSAT International Inc. are the sole members of Horizons Satellite LLC, and in 2002 the Japanese telecommunications ministry authorized Horizons to operate the Ku-band payload on the Galaxy 13/Horizons 1 satellite. In late 2003, the FCC added this Ku-band payload to its "Permitted Space Station List", enabling Horizons to use the payload to provide non-DTH services in the United States, and in May 2004 the FCC expanded this authority to include one-way DTH services. We are the exclusive owner of the C-band payload on Galaxy 13 /Horizons 1, which the FCC has licensed us to operate. We also have Australian-issued licenses for a future C/Ku-band hybrid satellite in the Pacific Ocean region and nine future Ka-band satellites in various regions including the U.S. Galaxy 3R, which was originally an FCC-licensed satellite, is operating temporarily pursuant to Canadian authority at a Canadian orbital location.

The International Telecommunication Union frequency coordination process. Use of our orbital slots is subject to the frequency coordination and registration process of the International Telecommunications Union, or ITU. In order to protect satellite systems from harmful radio frequency interference from other satellite systems, the ITU maintains a Master International Frequency Register of radio frequency assignments and their associated orbital locations. Each ITU notifying administration is required by treaty to give notice of, coordinate and register its proposed use of radio frequency assignments and associated orbital locations with the ITU's Radiocommunication Bureau.

When the coordination process is completed, the ITU formally notifies all proposed users of the frequencies and orbital location in order to protect the registered user of the orbital slot from subsequent or nonconforming interfering uses by other nations. The ITU's Radio Regulations do not

contain mandatory dispute resolution or enforcement mechanisms. The Radio Regulations' arbitration procedure is voluntary and neither the ITU specifically, nor international law generally, provides clear remedies if this voluntary process fails. Only nations have full standing as ITU members. Therefore, we must rely on governments to represent our interests before the ITU, including obtaining new rights to use orbital locations and resolving disputes relating to the ITU's rules and procedures.

See "Risk Factors Risks Relating to Our Industry The FSS industry is heavily regulated, both in the United States and elsewhere, and such regulation could impede us from executing our business plan".

History

We are the product of the May 1997 merger of PanAmSat International and the Galaxy business of Hughes Communication, Inc., a subsidiary of The DIRECTV Group, into a new publicly held company, which retained the PanAmSat name. Prior to the Recapitalization (as defined below) in August 2004, The DIRECTV Group beneficially owned approximately 80.4% of our outstanding common stock. The DIRECTV Group was owned by Fox Entertainment Group, Inc., an 82% owned subsidiary of The News Corporation. All of our outstanding common stock is now owned by Holdco. KKR owns approximately 44% of Holdco's outstanding common stock, entities affiliated with Carlyle and Providence each own approximately 27% of Holdco's outstanding common stock and the remainder of Holdco's outstanding common stock is held by certain members of management and of our board of directors. The purchase transactions whereby KKR, Carlyle and Providence acquired their equity interests in us, including our merger with a wholly-owned subsidiary of the DIRECTV Group, the related financing transactions and the related contractual arrangements entered into with The DIRECTV Group, are collectively referred to as the "Recapitalization."

Employees

As of December 31, 2004, we had approximately 613 full and part-time employees. We believe that our employee relations are good.

Environmental Matters

Our operations are subject to various laws and regulations relating to the protection of the environment, including those governing the management, storage and disposal of hazardous materials and the cleanup of contamination. As an owner or operator of property and in connection with current and historical operations at some of our sites, we could incur significant costs, including cleanup costs, fines, sanctions and third-party claims, as a result of violations of or liabilities under environmental laws and regulations. For instance, some of our operations require continuous power supply, and, as a result, current and past operations at our teleport and other technical facilities include fuel storage and batteries for back-up generators. We believe, however, that our operations are in substantial compliance with environmental laws and regulations.

Item 2. ***Properties***

Our principal executive offices are located in Wilton, Connecticut, pursuant to which we commenced a ten-year lease in July 2001. We have seven technical facilities in the U.S., which provide transmission, monitoring and control services for operating our fleet and teleport and other services for our customers. We currently operate five teleports, a satellite operations control center and a customer service center in conjunction with our global satellite network. We operate our primary teleport in Ellenwood, Georgia and operate regional teleports in Castle Rock, Colorado; Fillmore, California; Napa, California; and Silver Spring, Maryland. We own our teleports in Ellenwood, Napa, and Fillmore. We own our customer service center in Ellenwood and our satellite operations control center

in Long Beach, California. We lease our teleports in Castle Rock and Silver Spring. As part of an updating and restructuring of our terrestrial infrastructure, we closed our Homestead, Florida teleport during 2003 and closed our Spring Creek, New York teleport in June 2004. We sold our Spring Creek, New York facility in October 2004 and plan to sell our Homestead, Florida facility.

We also lease office space in New York, New York; Ellenwood, Georgia; Washington, D.C.; Coral Gables, Florida; Chantilly, Virginia; Sydney, Australia; Johannesburg, South Africa; London, England; Tokyo, Japan; Hong Kong; Sao Paulo and Rio de Janeiro, Brazil; Mexico City, Mexico; Beijing, China; and Mumbai, India. Our leases have been entered into upon terms that we believe to be reasonable and customary.

Item 3. ***Legal Proceedings***

We have outstanding tax claims related to withholding taxes assessed on revenues derived from broadcasters inside and outside of India who broadcast from or into India. The Indian government has assessed approximately $8.8 million (reduced from an initial assessment of $15.2 million) against one of our subsidiaries for the Indian tax year ended March 31, 1997. This assessment is being appealed to the Income Tax Appeals Tribunal. For Indian tax years ended March 31, 1996, 1998, 1999, 2000 and 2001, the Indian government has assessed approximately $39.2 million in the aggregate against us, including interest. This assessment has been appealed to the Commissioner of Income Tax (Appeals). We are contesting the imposition of such taxes. While this contest proceeds, we have been required to advance cash and provide a bank guarantee for a total of approximately $43.1 million. To date, we have paid cash of approximately $1.2 million related to these assessment years. If unsuccessful in our contest, we could be subject to comparable claims for subsequent years. The DIRECTV Group has agreed to indemnify us against certain withholding tax liabilities including foreign withholding tax obligations. See "Certain Relationships and Related Party Transactions".

We periodically become involved in various claims and lawsuits that are incidental to our business. Other than the matter described above, we believe that no matters currently pending would, in the event of an adverse outcome, be material.

Item 4. ***Submission of Matters to a Vote of Security Holders***

During the fourth quarter of 2004, no matters were submitted to a vote of stockholders through the solicitation of proxies or otherwise.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

We are a wholly-owned subsidiary of PanAmSat Holding Corporation and, accordingly, there is no market for our common stock.

Our board of directors has adopted a dividend policy, effective upon the closing of Holdco's initial public offering, which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating expenses and working capital requirements, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to Holdco for Holdco to distribute to its stockholders, rather than retaining such cash for other purposes such as significant acquisitions or growth opportunities. This policy reflects our judgment that it is in the best interests of our stockholder and Holdco's stockholders to distribute to them a substantial portion of the cash generated by our business rather than retaining these amounts for uses in the future that are unplanned and have not been specifically identified.

Item 6. ***Selected Financial Data***

The selected historical consolidated financial, operating and other data as of December 31, 2003 and 2004 and for each of the three years in the period ended December 31, 2004 presented in this table are derived from our audited consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2000, 2001 and 2002 and for each of the two years in the period ended December 31, 2001 presented in this table are derived from our audited consolidated financial statements and related notes thereto, which are not included in this Annual Report. You should read the selected financial data below in conjunction with our consolidated financial statements and notes thereto and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Year Ended December 31,				
	2000	2001	2002	2003	2004
	(In thousands, other than share and per share data)				
Statement of Operations Data:					
Revenues:					
Operating leases, satellite services and other	$ 780,256	$ 802,194	$ 792,691	$ 814,006	$ 811,124
Outright sales and sales-type leases(1)	243,314	67,881	19,599	17,005	15,946
Total revenues	1,023,570	870,075	812,290	831,011	827,070
Operating Costs and Expenses:					
Cost of outright sales and sales-type leases	85,776	12,766			2,224
Depreciation and amortization	337,450	414,744	335,717	312,833	294,822
Direct operating costs (exclusive of depreciation and amortization)	144,564	147,401	126,387	149,696	157,354
Selling, general and administrative expenses	102,579	121,622	101,983	86,081	111,629
Satellite impairment loss					99,946
Facilities restructuring and severance costs		8,223	13,708	4,227	6,192
Gain on insurance claims	(3,362)		(40,063)		(9,090)
Loss on termination of sales-type leases			18,690		
Gain on sale of teleport					(11,113)
Transaction-related costs					155,131
Total operating costs and expenses	667,007	704,756	556,422	552,837	807,095
Income from operations	356,563	165,319	255,868	278,174	19,975
Interest expense, net(2)	128,205	111,153	142,470	143,632	186,754
Income (loss) before income taxes	228,358	54,166	113,398	134,542	(166,779)
Income tax expense (benefit)	102,761	23,562	28,350	35,010	(91,290)
Net income (loss)	$ 125,597	$ 30,604	$ 85,048	$ 99,532	$ (75,489)
Balance Sheet Data (at end of period):					
Total assets	$ 6,178,351	$ 6,296,810	$ 6,487,738	$ 5,734,877	$ 4,764,495
Total debt, including to affiliates(3)	2,542,758	2,521,542	2,550,000	1,700,000	3,608,000
Total long-term liabilities	3,130,086	3,134,897	3,063,003	2,400,273	3,908,790
Total stockholders' equity	2,954,695	2,992,560	3,077,542	3,178,758	697,759

	Year Ended December 31,				
Other Financial Data:					
Net cash provided by operating activities	$ 418,713	$ 507,904	$ 519,247	$ 473,381	$ 294,857
Net cash provided by (used in) investing activities	(394,185)	(220,836)	(457,729)	69,234	572,699
Net cash provided by (used in) financing activities	(12,442)	9,853	1,420	(855,267)	(1,005,968)
Capital expenditures	449,560	338,203	294,313	104,082	178,713
Contracted backlog (at end of period; in billions)(4)	$ 6.0	$ 5.84	$ 5.55	$ 4.56	$ 4.90
Pro-Forma Effect of the Elimination of Goodwill Amortization(5):					
Net income (loss):					
Reported net income (loss)	$ 125,597	$ 30,604	$ 85,048	$ 99,532	$ (75,489)
Goodwill amortization	64,960	64,960			
Adjusted net income (loss)	$ 190,557	$ 95,564	$ 85,048	$ 99,532	$ (75,489)

(1) Under an outright sales contract, we sell all rights and title to a transponder to a customer, which in turn pays us the full amount of the sale price in cash at the commencement of the contract. At that time, we recognize the sale amount as revenues and record the cost of the transponder to cost of outright sales. Under sales-type leases, we recognize as revenues at the inception of the lease the net present value of the future minimum lease payments, but we continue to receive cash payments from the lessee throughout the term of the lease. In addition, during the life of the lease, we recognize as revenues the portion of each periodic lease payment deemed to be attributable to interest income. The principal difference between a sales-type lease and an operating lease is when we recognize the revenues and related costs, but not when we receive the cash.

(2) Net of capitalized interest of $56.1 million, $23.3 million, $27.3 million, $13.9 million and $8.5 million for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, respectively, and net of interest income of $6.8 million, $13.5 million, $15.2 million, $13.3 million, and $7.4 million in 2000, 2001, 2002, 2003 and 2004, respectively.

(3) Includes debt of $817.8 million, $796.5 million, $2.55 billion, $1.70 billion and $3.61 billion as of December 31, 2000, 2001, 2002, 2003 and 2004, respectively, and borrowings due to affiliates of $1.73 billion and $1.73 billion as of December 31, 2000 and 2001, respectively. There were no amounts due to affiliates as of December 31, 2002, 2003 or 2004.

(4) Contracted backlog represents the actual dollar amount (without discounting for present value) of the expected future cash payments to be received from customers under all long-term contractual agreements, including operating leases, sales-type leases and related service agreements, which may extend to the end of the life of the satellite or beyond to a replacement satellite. Contracted backlog is attributable both to satellites currently in orbit and those planned for future launch.

(5) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested for impairment annually or when a change in circumstances occurs. Our adoption of SFAS 142 resulted in the elimination of goodwill amortization beginning January 1, 2002. On such date, we had intangible assets of approximately $2.2 billion. The pro forma data gives effect to the discontinuance of goodwill amortization on net income (loss) as if we adopted SFAS 142 on January 1, 2000.

Item 7. ***Management's Discussion And Analysis Of Financial Condition And Results Of Operations***

The following discussion and analysis should be read in conjunction with the "Selected Financial Data and our audited consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report. Actual results could differ materially from those discussed below. This discussion contains forward-looking statements. Please see "Special Note Regarding Forward-Looking Statements", and "Risk Factors" for a discussion of certain of the uncertainties, risks and assumptions associated with these statements.

Management Overview

In evaluating our financial condition and operating performance, our management considers many factors. Among the most important are revenues, satellite health and technology, satellite insurance, profitability and liquidity.

We and our industry face certain challenges. Our experience continues to indicate that the demand for video services in many of the global markets we serve is relatively flat; we have experienced pricing pressure in certain international markets due to overcapacity and regional economic conditions; and some of our customers are trying to rationalize their cost structures, including satellite capacity costs, to match their existing and projected revenues. All of these challenges could negatively affect our revenues. Notwithstanding these challenges, we continue to see expansion potential with the increasing acceptance of new technologies such as digital cable and HDTV and through the further expansion of our cable neighborhoods. We are also well positioned to provide additional capacity to U.S. DTH service providers as they expand services to their customers. We have seen growth in our network services and believe that this will continue as developing markets increase their use of VSATs and other private network services. We have also focused our efforts on selling bandwidth and related services to new markets, including the U.S. government, which has consistently increased its use of commercial satellites in recent years. Finally, relative to our competitors, we believe we are in a strong position for dealing with these challenges as a significant portion of our business is video distribution in North America, which continues to have stable pricing, long-term contracts, predictable revenues and consistently strong margins.

In response to these challenges, we continue to provide high quality services and value to our customers to win, keep and/or expand their business. Nothwithstanding the pricing and overcapacity pressures in our industry, we have had several customer and revenue successes in 2004. In January 2004, we entered into a long-term contract with one of the largest commercial satellite services users in the world, Fox Entertainment Group, Inc.

In August 2004, in connection with the Recapitalization, The DIRECTV Group and affiliates, including Hughes Network Systems, Inc., DIRECTV Latin America, or DTVLA, and DIRECTV Operations LLC entered into, amended and in some cases extended, certain transponder lease and other arrangements with us. In addition, The DIRECTV Group paid us for certain past due receivables from, and guaranteed certain future obligations of, our customer Sky Multi-Country Partners, an affiliate of The News Corporation and also guaranteed certain long-term obligations of DTVLA owed to us, thereby substantially reducing credit risks associated with these two Latin American DTH platforms in our contracted backlog and protecting us against the possible impact of the future consolidation of those platforms.

As a result of these continued efforts, we increased our backlog from $4.56 billion as of December 31, 2003 to $4.90 billion as of December 31, 2004.

Our satellites are typically designed to operate at full capacity for 15 years. A satellite's actual performance and operating life may be affected by anomalies, which may not have become apparent until the satellite was placed in orbit or until the satellite has been in orbit for some time. We have identified three types of potential anomalies among the satellites in our fleet which, if they materialize, have the potential for a significant operational and financial impact. Typically, these identified

anomalies do not result in an immediate failure of the satellite. They can, however, result in a reduction of available capacity on the satellite or a reduction in the satellite's operating life. This, in turn, may result in lower revenues or require accelerated capital spending on a replacement satellite and may result in an impairment charge or accelerated depreciation. A satellite may also fail catastrophically for these or other reasons, although this happens less frequently. See "Risk Factors Risks Relating to Our Industry".

There are several options available for managing certain of the business risks inherent in the operation of a satellite fleet, none of which can fully compensate for the loss a business may experience upon the failure of a satellite. We typically fully insure the launch of all of our satellites and insure certain of our in-orbit satellites, as appropriate. We also utilize spare satellites and spare capacity to protect against certain business risks.

Due to increasing costs, limited coverage amounts, loss thresholds, deductibles and policy exclusions, payments for loss under in-orbit insurance policies may not coincide with the actual loss suffered on a covered satellite. It has been our experience that satellites for which total payments have been received may remain fully operational for extended periods of time and satellites which have lost operational capabilities may not result in any insurance payment. In addition to the limitations on coverage, in-orbit insurance is increasingly expensive, making in-orbit insurance an uneconomical choice for certain satellites. Finally, in-orbit insurance policies do not cover other aspects of the business risk inherent in the operation of a satellite such as lost revenues and continued customer service during the two years or more typically needed to launch a replacement.

As part of our risk management program, we have expanded our use of in-orbit spare satellites, ground-based spare satellites and designated reserve transponders. These alternatives address some of the limitations of satellite insurance as they may offer protection against loss of business due to satellite failure and may help us better serve our customers, plan and control our replacement costs, protect our revenue streams and protect our rights to orbital slots. However, in-orbit and ground-based spare satellites may not be immediately available when needed. They may only be economical replacements for certain high value satellites or services and the cost of a spare satellite may also be prohibitively expensive. See " Satellite Insurance" below.

In August 2004, in connection with the Recapitalization, we (i) entered into senior secured credit facilities consisting of an $800.0 million Term Loan A Facility (of which $674.3 million is currently outstanding), a $1,660.0 million Term Loan B Facility (of which $1,647.5 million is currently outstanding) and a $250.0 million revolving credit facility, of which $42.6 million was drawn (none of which is currently outstanding); (ii) issued $1,010.0 million aggregate principal amount of 9% senior notes due 2014; (iii) terminated and repaid our old senior secured credit facility; (iv) completed a tender offer for substantially all of our $275.0 million 6 1/8% Notes due 2005 and our $800.0 million 8 1/2% Senior Notes due 2012; and (v) completed the redemption of our remaining 6 1/8% Notes due 2005 in October 2004. In September 2004, we repaid the outstanding balance under our revolving credit facility from cash on hand.

On November 19, 2004, we made a voluntary prepayment of approximately $137 million under our senior secured credit facilities. As of December 31, 2004, as a result of these financing and repayment activities, we had total debt outstanding of approximately $3.61 billion.

We expect to repay approximately $290.0 million of the borrowings under the Term Loan A Facility and redeem $353.5 million, or 35%, of our 9% senior notes with a portion of the net proceeds from Holdco's initial public offering and cash on hand.

During 2004, subsequent to the Recapitalization, we incurred net operating losses and expects to incur net operating losses during 2005. Management expects these losses are fully recoverable based on the taxable income within the next several years. These net operating losses were primarily the result of transaction costs incurred in connection with the Recapitalization, accelerated depreciation on our

satellites currently in-orbit, the extraterritorial income exclusion related to certain of our satellites and interest expense deductions.

Our board of directors has adopted a dividend policy, effective upon the closing of Holdco's initial public offering, which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating expenses and working capital requirements, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to Holdco for Holdco to distribute to its stockholders, rather than retaining such cash for other purposes such as significant acquisitions or growth opportunities as described below. This policy reflects our judgment that it is in the best interests of our stockholder and Holdco's stockholders to distribute to them a substantial portion of the cash generated by our business rather than retaining these amounts for uses in the future that are unplanned and have not been specifically identified.

Following is a more detailed discussion of the items above and an analysis of our revenues, costs and expenses, results of operations, goodwill amortization, satellite technology, satellite insurance, recent insurance supplements, satellite deployment plans and commitments. Also following is a discussion of critical accounting policies, market risks, certain relationships and related party transactions, liquidity and capital resources and recent accounting pronouncements.

PanAmSat Holding Corporation

On October 8, 2004, all of our outstanding common stock held by our then existing stockholders was contributed to Holdco in exchange for an equal number of shares of Holdco's common stock. As a result of, and immediately following, that contribution, our then existing stockholders owned Holdco in equal proportion to their prior ownership interest in us, and we became a wholly-owned subsidiary of Holdco.

Holdco is undertaking an initial public offering of its common stock to repay a portion of our Term Loan A Facility and 9% Senior Notes due 2014 and to pay a dividend to its existing stockholders. Holdco's Board of Directors has adopted a dividend policy, effective upon the closing of such offering, which reflects an intention to distribute a portion of the cash generated by its business in excess of operating expenses and working capital requirements, interest and principal payments on its indebtedness and capital expenditures as regular quarterly dividends to its stockholders. Holdco's primary source of liquidity will be cash flow generated from our operations. Holdco's ability to make payments on its debt and pay dividends on its common stock is dependent on the earnings and the distribution of funds from us.

Other than its ownership of us, Holdco does not have any independent operations and derives all of its revenues and cash flow from its subsidiaries. We are Holdco's only subsidiary. Holdco's ability to make payments on its debt and pay dividends on its common stock is dependent on the earnings and the distribution of funds from us. The agreements governing our senior secured credit facilities and 9% senior notes are our two contractual obligations that significantly restrict our ability to pay dividends or otherwise transfer assets to Holdco.

Revenues

We earn revenues primarily from the sale of video, broadcasting and network distribution and delivery services through company-owned satellites to media and telecommunications companies and government entities. Video distribution and DTH services provide the majority of our revenues, are relatively predictable and are characterized by long-term contracts, stable pricing and consistently strong margins.

Over the last several years, revenue from our international DTH customers has declined. This decrease primarily relates to revenue from two of our Latin American DTH customers, as well as revenues related to an Australian DTH customer whose receivable balance was written off during the second quarter of 2004 as a result of credit related issues. Our revenue from Latin American DTH

customers has declined as we have renegotiated certain contracts to reduce the amount of capacity used by DTVLA and the pricing and terms related to its ongoing leases with us. We expect that our recently negotiated contract amendments with DTVLA and the related guaranty by The DIRECTV Group will mitigate a large portion of the impact on us of any decline in this market. In addition, we entered into new contractual arrangements with affiliates of The DIRECTV Group in connection with the Recapitalization that extended the term of certain lease agreements and extended the guarantee period related to DTVLA through the end of 2013.

Certain areas of our business, including our network services, government services, consulting services, long-term construction contracts and non-satellite bandwidth services provide opportunities for growth, expansion of our service offerings and increased sales of our existing capacity. As our revenue mix changes, certain of these services may produce lower margins or less predictable revenues than our other fixed satellite services.

For the years ended December 31, 2002, 2003 and 2004, we derived our revenues from the following service areas:

	Year Ended December 31,		
Services	**2002**	**2003**	**2004**
Video services	66%	60%	57%
Network services	24	25	26
Government services	3	9	10
Other services	7	6	7
Total	100%	100%	100%

Our video services generate the majority of our revenues. In 2003, we began to experience a change in the revenue mix of our services. Government services revenues increased as a percentage of total revenues in 2003 and 2004, as a result of our 2003 acquisitions of Hughes Global Services, Inc. and Esatel Communications, Inc. and the development of our G2 segment. While we expect video services to continue to generate the majority of our revenues, we expect that our government services revenues will become a larger portion of our total revenues in the future. We report our operations in two segments: our traditional fixed satellite services business and government services (See " Selected segment data" below). From 2002 to 2004, we experienced a decrease in operating lease video services revenues of approximately $58.9 million. The decrease was primarily due to lower DTH video revenues as a result of customer credit issues and capacity reductions largely associated with three of our DTH customers as described above.

We generally enter into operating lease contracts with customers to provide satellite transponders and transponder capacity and, in certain cases, teleport facility and other terrestrial services. On occasion, we have also entered into outright sales and sales-type lease contracts with our customers. Almost all of our contracts are denominated in U.S. dollars.

Operating leases and short-term agreements

Operating leases are contracts to provide satellite capacity and related services typically for periods of one to 15 years and may extend beyond the satellite's end of life to a follow-on satellite. Long-term operating leases provide us with a stable and predictable source of revenues. Short-term leases and occasional services fill spot market demand. We generally recognize revenues from operating leases on a straight-line basis over the lease term, unless collectability is not reasonably assured. Revenues for occasional services are recognized as services are performed. Operating leases, satellite services and other revenues for the years ended December 31, 2002, 2003 and 2004 represented 97.6%, 98.0% and 98.1% of our consolidated revenues for those periods, respectively (such amounts include a portion of TT&C and other services revenues, which are discussed below). Our FSS segment also provides our G2 segment with certain of its satellite capacity requirements. Our FSS segment recorded revenues to G2

related to satellite capacity leased of $18.1 million, $18.5 million and $21.7 million for the years ended December 31, 2002, 2003 and 2004, respectively, which have been eliminated in consolidation.

Sales-type leases

Our lease contracts that qualify for capital lease treatment are accounted for as sales-type leases (typically because the lease has certain characteristics, including having a term equal to 75% or more of the estimated economic life of the related satellite). Sales-type leases are similar to operating leases except that under sales-type leases, we recognize as revenues the net present value of the future minimum lease payments at the inception of the lease, but we continue to receive cash payments from the lessee throughout the term of the lease. In addition, during the life of the lease, we recognize as revenues the portion of each periodic lease payment deemed to be attributable to interest income. The principal difference between a sales-type lease and an operating lease is when we recognize the revenues, but not when we receive the cash. See Note 2 "Significant Accounting Policies Revenue Recognition" to our audited consolidated financial statements appearing elsewhere in this annual report.

We have entered into sales-type leases at the request of customers seeking to obtain capital lease treatment of their lease agreements. As of December 31, 2004, we had sales-type lease arrangements covering 20 transponders, in *36 MHz* equivalents, on our 23 satellites currently in orbit. We did not enter into any new sales-type leases in 2002, 2003 or 2004. We do not currently expect to enter into any new sales-type leases, although this may change in the future depending upon the facts and circumstances at that time.

Outright sales contracts

Under an outright sales contract, we sell all rights and title to a transponder to a customer, which in turn pays us the full amount of the sale price in cash at the commencement of the contract. At that time, we recognize the sale amount as revenues along with the related cost of sales and the risk of loss related to the transponder passes to the customer. We have sold the rights to 40 transponders, in *36 MHz* equivalents, on our 23 satellites currently in orbit. The number of sold transponders was reduced from 40 to 21 as a result of the deorbiting of Galaxy 5 at the end of its useful life in January 2005. We did not enter into any outright sales during the years ended December 31, 2002, 2003 and 2004. We expect outright sales of transponder capacity to occur infrequently in the future, as we have not entered into any outright sales contracts with customers for over four years and have not recently experienced significant demand from our customers for these contracts.

TT&C and other services

We earn TT&C services revenues from other satellite operators and from certain customers on our satellites. Revenues from TT&C service agreements represented approximately 3.5%, 3.0% and 2.6% of our revenues for the years ended December 31, 2002, 2003 and 2004, respectively. TT&C agreements entered into in connection with our lease contracts are typically for the period of the related lease agreement. TT&C services provided in connection with outright sales contracts are typically for the term of the sale contract and require the customer to pay a monthly service fee. We also earn revenues for TT&C services in relation to our operating lease agreements with customers. Fees for such services are either included in the customer's monthly lease payment or billed separately. We expect telemetry, tracking and control revenues in 2005 to remain at approximately the same level as in 2004, given our contracted backlog for these services as of December 31, 2004, as well as our expectation of future contracts to be entered into through 2005.

Our other services include in-orbit backup service, which is backup transponder capacity that we reserve for certain customers on agreed terms. We recognize revenues for in-orbit protection services over the term of the related agreement. Revenues from in-orbit protection for 2002, 2003 and 2004 were approximately 3.2%, 2.2% and 2.5% respectively, of our revenues.

Equipment sales

We also record revenues related to equipment (other than transponder) sales to customers. These equipment sales are primarily through G2 and represent equipment purchased, constructed or developed on behalf of our customers. We recognize revenues related to these equipment sales upon the transfer to the customer of title to the equipment. Revenues from equipment sales were minimal in 2002 and were approximately 2.4% and 1.8% of our revenues in 2003 and 2004, respectively. We expect that equipment sales will continue to become a larger percentage of our overall revenues in the future as we develop our government services business and strive to meet the increasing demand from our customers for equipment sales.

Long-term construction arrangements

During 2003, we entered into a long-term construction arrangement with a customer to construct an L-Band navigational payload on our Galaxy 1R replacement satellite, which will be known as Galaxy 15. We recognize revenues utilizing the percentage-of-completion accounting method for long-term construction contracts which extend beyond one year. Revenues and costs related to these contracts are recognized based upon the completion of pre-established milestones. Revenues from long-term construction arrangements for 2003 and 2004 were approximately 1.0% and 1.1% of our revenues, respectively. We did not have any revenues related to long-term construction arrangements during 2002.

Contracted backlog

Contracted backlog represents the actual dollar amount (without discounting to present value) of the expected future cash payments to be received from customers under all long-term contractual agreements, including operating leases, sales-type leases and related service agreements, which may extend to the end of the life of the satellite or beyond to a replacement satellite. See Note 4 "Operating Leases and Net Investment in Sales-type Leases" to our audited consolidated financial statements appearing elsewhere in this annual report. Contracted backlog is attributable both to satellites currently in orbit and those planned for future launch. Our contracted backlog for future services as of December 31, 2002, 2003 and 2004 was $5.55 billion, $4.56 billion and $4.90 billion, respectively. The change in contracted backlog from December 31, 2002 to December 31, 2003 was the result of customer contract activity during 2003 and a reduction of our total contracted backlog during 2003 of approximately $360.0 million as a result of the Xenon-Ion Propulsion System, or XIPS, failure and resulting shortened satellite life on PAS-6B. See " Satellite Technology BSS 601 HP XIPS" below.

As of December 31, 2004, we had contracted backlog for future services of $4.90 billion, which was up from $4.56 billion as of December 31, 2003. This increase was due primarily to contractual arrangements that were executed in connection with the Recapitalization of approximately $687 million, partially offset by reductions in backlog of approximately $81 million as a result of end of life reductions for our Galaxy 10R, Galaxy 11 and PAS-9 satellites (See " Satellite Technology" below) and a $259 million net reduction to contracted backlog as a result of other customer activity during the year ended December 31, 2004 (approximately $812 million of customer billings during the year less net new contracted backlog of approximately $553 million as a result of the execution of customer contracts). Our contracted backlog as of December 31, 2004 also included approximately $1.42 billion relating to future services on satellites we expect to launch. Approximately $5.1 million of our contracted backlog as of December 31, 2004 represents the aggregate contracted backlog from affiliates

of the Sponsors. As of December 31, 2003 and 2004, our contracted backlog was comprised of the following:

	December 31,	
	2003	2004
	(In billions)	
Category:		
Video services	$ 3.82	$ 4.02
Network services	0.67	0.71
Government services	0.05	0.09
Other	0.02	0.08
Total	$ 4.56	$ 4.90

Geographic distribution of revenues

Almost all of our contracts are denominated in U.S. dollars. For the years ended December 31, 2002, 2003 and 2004, we derived our revenues from operations in the following regions, shown in percentages:

	Year Ended December 31,		
Region	**2002**	**2003**	**2004**
United States	42%	44%	44%
Latin America	23	19	17
Asia	16	15	13
Africa	8	9	10
Other	11	13	16
Total	100%	100%	100%

Costs and Expenses

In general, the costs and expenses of our FSS operating segment are largely fixed in nature, providing us with the ability to recognize significant incremental revenues without incurring significant incremental costs once we have launched a satellite. The costs and expenses of our FSS segment include depreciation and amortization, direct operating costs, selling, general and administrative costs and costs associated with any outright sales or sales-type leases. The costs and expenses of our G2 operating segment are largely variable with the revenue that this segment generates. These costs and expenses include cost of equipment sales, salaries and other expenses related to consulting services and costs related to long-term construction arrangements.

Depreciation and amortization expense is primarily attributable to straight-line depreciation of our satellites. Direct operating costs are primarily comprised of costs to operate and maintain our satellites, such as engineering and operations costs, in-orbit insurance costs and third-party charges generally associated with the provision of special events and occasional services. Selling, general and administrative costs consist primarily of sales and marketing expenses, salaries and benefits, and corporate general and administrative expenses. At the inception of an outright sale or a sales-type lease, the cost basis of the transponder and related insurance is charged to the cost of the outright sale or sales-type lease.

Stock Split and Reverse Stock Split

In connection with the Recapitalization, on August 20, 2004, our board of directors effected an approximately 4.37 for 1 stock split of our common stock. In addition, on December 17, 2004, we

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amended and restated our certificate of incorporation to effect a 1 for 200,000 reverse stock split of our common stock. Unless otherwise indicated, all share amounts, as well as the par value amounts and additional paid-in-capital amounts related to our shares, contained in this annual report have been adjusted to give retroactive effect to the stock split and the reverse stock split.

Contribution of Our Common Stock to Holdco

Holdco is a recently formed Delaware corporation that is owned by the Sponsors and certain members of our management and our board of directors in the same proportion as their prior ownership of us as well as certain other members of management who purchased shares of Holdco after the contribution. Our capital stock was contributed to Holdco in October 2004.

Results of Operations 2004 Compared to 2003

The following table sets forth the consolidated statement of operations data and related changes expressed in dollars and percentages for each period indicated. The historical results are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,			
	2003	2004	Dollar Change	Percentage Change
	(In thousands, except percentages)			
Revenues:				
Operating leases, satellite services and other	$ 814,006	$ 811,124	$ (2,882)	(0.4)%
Outright sales and sales-type leases	17,005	15,946	(1,059)	(6.2)%
Total revenues	831,011	827,070	(3,941)	(0.5)%
Operating costs and expenses:				
Cost of outright sales and sales-type leases		2,224	2,224	
Depreciation and amortization expense	312,833	294,822	(18,011)	(5.8)%
Direct operating costs (exclusive of depreciation and amortization)	149,696	157,354	7,658	5.1 %
Selling, general and administrative expenses	86,081	111,629	25,548	29.7 %
Satellite impairment loss		99,946	99,946	
Facilities restructuring and severance costs	4,227	6,192	1,965	46.5 %
Gain on insurance claim		(9,090)	(9,090)	
Gain on sale of teleport		(11,113)	(11,113)	
Transaction-related costs		155,131	155,131	
Total operating costs and expenses	552,837	807,095	254,258	46.0 %
Income from operations	278,174	19,975	(258,199)	(92.8)%
Interest expense, net	143,632	186,754	43,122	30.0 %
Income (loss) before income taxes	134,542	(166,779)	(301,321)	(224.0)%
Income tax expense (benefit)	35,010	(91,290)	(126,300)	(360.8)%
Net income (loss)	$ 99,532	$ (75,489)	$ (175,021)	(175.8)%

Revenues

The decrease in total revenues was primarily attributable to lower program distribution and DTH video revenues of $26.0 million resulting from customer credit related issues in international regions, partially offset by additional government services revenues of $11.3 million related to our G2 operating segment and $5.9 million of additional consulting services revenues. Additionally, occasional services revenue increased by $3.7 million, due partially to the broadcast of the 2004 Summer Olympics and an increase in network services revenues of $2.3 million related to network resellers, data services within the Middle East and additional revenues related to VSAT applications in North America. See " Operating Segments" below.

Cost of outright sales and sales-type leases

The increase in cost of sales-type leases recorded during the year ended December 31, 2004 is the result of the recording of approximately $6.3 million of costs related to a warranty obligation to one of the customers on Galaxy 10R, partially offset by the reversal of approximately $4.1 million of in-orbit insurance liabilities related to sales-type leases that are no longer insured.

Depreciation and amortization expense

The decrease in depreciation and amortization is due primarily to lower depreciation on Galaxy 11, PAS-1R and Galaxy 4R of $25.4 million, as a result of the allocation of insurance proceeds against the carrying values of these satellites, partially offset by the reduced end of life of these satellites. In addition, we recorded lower non-satellite depreciation of $7.4 million and lower depreciation on PAS-6 of $9.3 million due to the impairment loss in the first quarter of 2004 (See " Satellite Technology" below). These decreases were partially offset by accelerated depreciation of $15.1 million due to reduced end of life estimates for Galaxy 10R and PAS-6B and PAS-9 for XIPS related issues and depreciation of $7.4 million on Galaxy 12 and Galaxy 13, which were placed in service in May 2003 and January 2004, respectively.

Direct operating costs (exclusive of depreciation and amortization)

The increase in direct operating costs was primarily due to:

additional direct operating costs of our G2 operating segment of $3.9 million due to the growth of services to the U.S. government.

$3.2 million of additional costs related to our Horizons joint venture, which commenced operations in January 2004.

increased expenses of $4.5 million attributable to the growth of our consulting business.

$3.6 million of additional costs related to our expanded fiber service offerings, after the 2003 acquisition of Sonic Telecommunications International Ltd.

$3.5 million of additional third party expenses required to perform services for customers under new lease agreements entered into during 2004.

These increases were partially offset by reduced satellite insurance expense of $7.8 million and a $3.9 million write-off of deferred charges as a result of the termination of certain vendor contracts during the first quarter of 2003.

Selling, general and administrative expenses

The increase in selling, general and administrative expenses was primarily due to higher bad debt expense of $32.9 million, as compared to 2003, as a result of the $29.6 million pre-tax charge recorded in relation to the write-off of an international customer's long and short-term receivable balances during the second quarter of 2004. Additionally, during the third quarter of 2004, we wrote-off approximately $3.1 million of a customer's net investment in sales-type leases as a result of the August 2004 satellite anomaly on our Galaxy 10R satellite. These increases were partially offset by

lower compensation, benefits and related costs of $7.7 million as compared to 2003, due to operational efficiencies achieved during 2004.

Satellite impairment loss

In the first quarter of 2004, we recorded a non-cash charge of $99.9 million related to the impairment of our PAS-6 satellite See " Satellite Technology" below.

Facilities restructuring and severance costs

In 2004, we recorded non-cash charges of $3.7 million related to our facilities restructuring plan, $1.8 million related to our teleport consolidation plan and $0.6 million related to our 2004 workforce reduction. During 2003, we recorded $4.2 million of charges related to our teleport consolidation plan and $1.4 million of severance charges related to our fourth quarter 2003 workforce reduction, both of which were partially offset by restructuring credits of $1.4 million related to our facilities restructuring plan. See " Liquidity and Capital Resources Facilities Restructuring and Severance Costs" below.

Gain on Satellite Insurance Claim

During the fourth quarter of 2004, we received approximately $75 million of insurance proceeds related to our Galaxy 10R satellite. Approximately $9.1 million of these insurance proceeds related to warranty obligations recorded during the third quarter of 2004 for a customer on Galaxy 10R and the write-off of a portion of our net investment in sales-type leases for another customer on this satellite. We recorded a gain on satellite insurance claim of approximately $9.1 million during the fourth quarter of 2004 for this portion of the insurance proceeds received, which related to the third quarter of 2004 charges. See " Cost of Outright Sales and Sales-type leases" and "Selling, General and Administrative Expenses" above.

Gain on sale of teleport

The gain on sale of teleport of $11.1 million represents the pre-tax gain recorded during the fourth quarter of 2004 related to the sale of our Spring Creek teleport in October 2004 for approximately $14.4 million, net of associated selling costs. See " Liquidity and Capital Resources Facilities Restructuring and Severance Costs" below.

Transaction-related costs

The increase is due to costs incurred in relation to the Recapitalization in 2004. These costs consist of $138.4 million of costs related to our debt tender offers, $9.5 million resulting from the cashing out of restricted stock units and stock options, $5.0 million of transaction related bonuses paid to certain of our executives and $2.2 million of costs related to the proxy solicitation and other costs.

Income (loss) from operations

The decrease in income from operations was primarily due to Recapitalization related costs of $155.1 million, the $99.9 million impairment loss for our PAS-6 satellite and the $29.6 million write-off of certain customer receivable balances, partially offset by the reduction in depreciation and amortization expense of $18.0 million and the gain on sale of teleport facility of $11.1 million.

Interest expense, net

Interest expense, net consisted of the following (in thousands):

	Year Ended December 31,		
	2003	2004	Dollar Change
Gross interest expense	$ 170,822	$ 202,676	$ 31,854
Less: Interest income	13,293	7,422	(5,871)
Less: Capitalized interest	13,897	8,500	(5,397)
Total interest expense, net	$ 143,632	$ 186,754	$ 43,122

Interest expense, net for the year ended December 31, 2004 increased primarily as a result of the following:

The increase in the write-off of debt issuance costs during 2004, as compared with 2003, primarily due to the repayment of indebtedness in relation to the Recapitalization.

Additional interest expense after the Recapitalization, which resulted in incremental indebtedness at higher average interest rates (See " Liquidity and Capital Resources Long-term Debt" below).

Lower interest income of $5.9 million primarily due to lower average cash and short term investment balances.

Lower capitalized interest during 2004 of $5.4 million due to lower satellite construction in progress balances during the year.

These increases to interest expense, net were partially offset by lower interest expense before the Recapitalization as a result of the repayments of debt made over the last year.

Income tax expense (benefit)

The decrease in income tax expense was primarily due to the income tax effect of costs recorded during the third quarter of 2004 related to the Recapitalization, the PAS-6 impairment loss recorded during the first quarter of 2004, and the write-off of the customer receivable balance in the second quarter of 2004. The effective income tax rate was a tax benefit of approximately 54.7% for 2004, as compared to a tax expense of approximately 26.0% for 2003.

Selected segment data

	Year Ended December 31,			
	2003	2004	Dollar Change	Percentage Change
	(In thousands, except percentages)			
Revenues:				
FSS	$ 775,009	$ 762,892	$ (12,117)	(1.6)%
G2	74,550	85,864	11,314	15.2 %
Eliminations	(18,548)	(21,686)	(3,138)	16.9 %
Total revenues	$ 831,011	$ 827,070	$ (3,941)	(0.5)%

	Year Ended December 31,			
Income from operations:				
FSS	$ 269,573	$ 8,523	$ (261,050)	(96.8)%
G2	8,601	11,452	2,851	33.1 %
Total income from operations	$ 278,174	$ 19,975	$ (258,199)	(92.8)%
Segment EBITDA:				
FSS	$ 623,718	$ 612,089	$ (11,629)	(1.9)%
G2	$ 9,329	$ 12,854	$ 3,525	37.8 %

As a result of the Recapitalization, we began utilizing Segment EBITDA (as defined below) as a measure of performance for our operating segments during the third quarter of 2004. We evaluate the performance of our operating segments based on several factors, of which the primary financial measure is segment net income (loss) plus net interest expense, income tax expense (benefit) and depreciation and amortization, further adjusted to exclude non-recurring items and other non-cash adjustments ("*Segment EBITDA*"). Segment EBITDA is presented because our chief operating decision maker evaluates and measures each business unit's performance based on its Segment EBITDA results. See Note 15 "Operating Segments" to our audited consolidated financial statements appearing elsewhere in this annual report for a reconciliation of income (loss) from operations to Segment EBITDA for our FSS operating segment and our G2 operating segment.

Our operations are comprised of the following two segments:

Fixed Satellite Services Through FSS, we lease transponder capacity to customers for various applications, including broadcasting, news gathering, Internet access and transmission, private voice and data networks, business television, distance learning and DTH and provide TT&C and network services to customers.

Government Services Through G2, we provide global satellite and related telecommunications services to the U.S. government, international government entities, and their contractors.

FSS Segment

FSS Revenue by Service-Type

	Year Ended December 31,			
	2003	2004	Dollar Change	Percentage Change
	(In thousands, except percentages)			
FSS Revenues:				
Video	$ 494,711	$ 472,390	$ (22,321)	(4.5)%
Network	213,735	215,991	2,256	1.1 %
Government	18,548	21,686	3,138	16.9 %
Other	48,015	52,825	4,810	10.0 %
Total FSS revenues	$ 775,009	$ 762,892	$ (12,117)	(1.6)%

Revenues. The decrease in FSS revenues of $12.1 million was primarily attributable to lower video services revenues of $22.3 million, partially offset by $4.8 million of additional other service revenues, $3.1 million of additional government services revenues and $2.3 million of additional network services revenues as follows:

Video Services. The decrease in video services revenues was primarily due to a decrease in program distribution and DTH video services revenues of $26.0 million, resulting primarily from customer credit related issues in international regions. This decrease was partially offset by an increase of $3.7 million in occasional services revenues due to the broadcast of the 2004 Summer Olympics, U.S. presidential conventions and election coverage and other sporting and world events.

Network Services. The increase in network services revenues is primarily due to additional revenue from network resellers and additional revenues from customers with VSAT applications in North America.

Government Services. The increase in government services revenues, as compared to 2003 represents an increase in satellite capacity leased to our G2 segment by our FSS segment. This revenue eliminates in consolidation.

Other Services. The increase in other services revenues is primarily due to additional consulting services revenues of $5.9 million.

Income from Operations. The decrease in FSS income from operations was primarily due to Recapitalization related costs of $155.1 million, the $99.9 million impairment loss for our PAS-6 satellite, the $29.6 million pre-tax charge described above and the reduction in FSS gross margin resulting from lower FSS revenues as described above, partially offset by a reduction in depreciation and amortization expense of $18.7 million and the gain on sale of teleport of $11.1 million described above.

Segment EBITDA. The decrease in FSS Segment EBITDA is primarily due to the reduction in FSS revenues for 2004 as compared to 2003, which is described above.

G2 Segment

Revenue. The increase in G2 segment revenues of $11.3 million reflects a full year of operations in 2004 for the Hughes Global Services, Inc. and Esatel Communications, Inc. acquisitions made during 2003, as well as an increase in satellite bandwidth sales of $7.3 million and an increase in equipment-based sales of $6.1 million as compared to the same period in 2003, partially offset by a decrease in non-satellite bandwidth sales of $2.4 million.

Income from operations and Segment EBITDA. Income from operations and Segment EBITDA increased by $2.9 million and $3.5 million, respectively, as compared to the same period in 2003. These increases were primarily a result of the higher revenues earned during 2004, as discussed above, partially offset by the related cost of sales.

Results of Operations 2003 Compared to 2002

	Year Ended December 31,			
	2002	2003	Dollar Change	Percentage Change
	(In thousands, except percentages)			
Revenues:				
Operating leases, satellite services and other	$ 792,691	$ 814,006	$ 21,315	2.7 %
Outright sales and sales-type leases	19,599	17,005	(2,594)	(13.2)%
Total revenues	812,290	831,011	18,721	2.3 %
Operating costs and expenses:				
Depreciation and amortization expense	335,717	312,833	(22,884)	(6.8)%
Direct operating costs (exclusive of depreciation and amortization)	126,387	149,696	23,309	18.4 %
Selling, general and administrative expenses	101,983	86,081	(15,902)	(15.6)%
Facilities restructuring and severance costs	13,708	4,227	(9,481)	(69.2)%
Gain on insurance claims	(40,063)		40,063	
Loss on termination of sales-type leases	18,690		(18,690)	
Total operating cost and expenses	556,422	552,837	(3,585)	(0.6)%
Income from operations	255,868	278,174	22,306	8.7 %
Interest expense, net	142,470	143,632	1,162	0.8 %
Income before income taxes	113,398	134,542	21,144	18.6 %
Income tax expense	28,350	35,010	6,660	23.5 %
Net income	$ 85,048	$ 99,532	$ 14,484	17.0 %

Year Ended December 31,

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Revenues

The increase in operating leases, satellite services and other was primarily due to higher government services and network services revenues. These increases were partially offset by lower program distribution and DTH video revenues attributable to lower net new business, customer credit issues and the 2002 FIFA World Cup as well as lower revenues from occasional use and other services (See " Selected segment data" below). Outright sales and sales-type lease revenues during 2002 and 2003 represent periodic interest from existing sales-type leases. No new outright sales or sales-type leases were recorded in 2002 or 2003.

Depreciation and amortization expense

This decrease was primarily due to:

- lower depreciation related to Galaxy 8-i of $43.4 million which was fully depreciated in July of 2002;
- lower depreciation expense recorded in 2003 of $4.1 million as a result of the write-off of our PAS-7 satellite during the first quarter of 2002. See " Gain on insurance claims"; and
- lower depreciation related to Galaxy 6 of $9.3 million which was fully depreciated in September of 2002.

These decreases were partially offset by:

- additional depreciation expense of $14.3 million related to accelerated depreciation on two satellites due to reduced end-of-life estimates; and
- additional depreciation expense of $18.0 million related to two satellites placed in service during 2002 and 2003.

Direct operating costs (exclusive of depreciation and amortization)

This increase was primarily related to $40.9 million in costs related to revenues from our G2 segment. This increase was partially offset by $3.6 million in lower broadcast service costs related to the 2002 FIFA World Cup, $6.3 million of lower insurance expense and $6.5 million of other operational efficiencies achieved during 2003, including lower coordination fees, webcast services costs and compensation and benefits.

Selling, general and administrative expenses

This decrease was primarily due to decreased bad debt expense of $14.2 million, partially offset by higher compensation and benefit expenses. The decrease in bad debt expense was primarily due to several large customer receivables that were provided for during 2002 and reversals of bad debt expense during 2003 as a result of collections on receivables previously reserved.

Facilities restructuring and severance costs

The 2003 facilities restructuring and severance costs of $4.2 million were related to the disposal and severance charges from our teleport consolidation plan, announced in March 2003, and severance charges related to the workforce reduction that took place in the fourth quarter of 2003. The 2002 facilities restructuring and severance costs of $13.7 million were primarily attributable to the restructuring of certain of our facilities. See Note 13 "Facilities Restructuring and Severance Costs" to our audited consolidated financial statements appearing elsewhere in this annual report.

Gain on insurance claims

This gain in 2002 reflects the net proceeds received from the insurers of PAS-7 of $215.0 million less the net book value of the PAS-7 satellite, including incentive obligations. See " Liquidity and Capital Resources Insurance settlements" below. There was no comparable transaction in 2003.

Loss on termination of sales-type leases

On March 29, 2002, we entered into an agreement with one of our customers regarding the revision of the customer's sales-type lease agreements as well as certain other trade receivables. This agreement resulted in the termination of the customer's sales-type leases and the establishment of new operating leases in their place. As a result, we recorded a non-cash charge in the year ended December 31, 2002 of $18.7 million. There was no comparable transaction in 2003.

Income from operations

The increase in income from operations was primarily due to the decrease in depreciation and amortization expense of $22.9 million, the $18.7 million loss on the termination of sales-type leases to operating leases in 2002, the $18.7 million increase in revenues and lower net facilities restructuring and severance charges of $9.5 million. These increases in income from operations were partially offset by the $40.1 million gain in 2002 related to the settlement of the PAS-7 insurance claim and higher direct operating costs and selling, general and administrative expenses of $7.4 million. The increases in revenues and operating costs were largely attributable to increased activity of our G2 segment. See " Selected segment data" below.

Interest expense, net

Interest expense, net consisted of the following:

	Year Ended December 31,		
	2002	2003	Dollar Change
	(In thousands)		
Gross interest expense	$ 184,928	$ 170,822	$ (14,106)
Less: Interest income	15,161	13,293	(1,868)
Less: Capitalized interest	27,297	13,897	(13,400)
Total interest expense, net	$ 142,470	$ 143,632	$ 1,162

Gross interest expense decreased in 2003 versus 2002 by $14.1 million due to the repayment of our $200.0 million 6% notes in January 2003, the July and December 2003 prepayments under our old senior secured credit facilities of $350.0 million and $300.0 million, respectively, and the write-off of $3.3 million in debt issuance costs related to the 2002 repayment of the $1.7 billion term loan owed to The DIRECTV Group. These decreases were offset by higher interest expense after the 2002 refinancing of The DIRECTV Group term loan and the write-off of $10.7 million of debt issuance costs related to the prepayments made in 2003. Interest income decreased by $1.9 million due to lower cash balances during 2003 while capitalized interest decreased by $13.4 million due to lower construction-in-progress balances as a result of the launches of Galaxy 3C and Galaxy 12 and the termination of the Galaxy 8-iR construction agreement.

Income tax expense

The increase in income tax expense was primarily due to an increase of $21.1 million in income before income taxes. The effective tax rate for 2003 was comparable to the rate for 2002.

Selected segment data

	Year Ended December 31,			
	2002	2003	Dollar Change	Percentage Change
	(In thousands, except percentages)			
Revenues:				
FSS	$ 806,272	$ 775,009	$ (31,263)	(3.9)%
G2	24,074	74,550	50,476	209.7%
Eliminations	(18,056)	(18,548)	(492)	2.7%
Total revenues	$ 812,290	$ 831,011	$ 18,721	2.3%
Income from operations:				
FSS	$ 249,850	$ 269,573	$ 19,723	7.9%
G2	6,018	8,601	2,583	42.9%
Total income from operations	$ 255,868	$ 278,174	$ 22,306	8.7%
Segment EBITDA:				
FSS	$ 615,011	$ 623,718	$ 8,707	1.4%
G2	$ 6,018	$ 9,329	$ 3,311	55.0%

FSS Segment

FSS Revenues by Service Type

	Year Ended December 31,			
	2002	2003	Dollar Change	Percentage Change
	(In thousands, except percentages)			
FSS Revenues:				
Video	$ 534,924	$ 494,711	$ (40,213)	(7.5)%
Network	198,420	213,735	15,315	7.7%
Government	18,056	18,548	492	2.7%
Other	54,872	48,015	(6,857)	(12.5)%
Total	$ 806,272	$ 775,009	$ (31,263)	(3.9)%

Revenues. The decrease in FSS revenues was primarily due to lower program distribution and DTH video revenues, which were partially offset by higher network services revenues.

Video services. The decrease in revenues from video services was primarily due to:

lower net new business related to program distribution and DTH video revenues of $11.8 million;

lower revenues resulting from customer credit issues of $8.8 million;

lower termination fee revenues of $9.9 million, including an $8.0 million termination fee received in 2002 from one of our customers; and

a decrease in occasional video services revenues of $9.4 million, which primarily related to the 2002 FIFA World Cup.

These decreases were partially offset by an increase in revenues related to one-time billings and credits of $3.0 million.

Network services. The increase in revenues from network services was primarily attributable to higher net new network service revenues and fewer customer credit issues of $18.4 million. These increases were partially offset by lower Internet related revenues of $6.1 million, primarily as a result of increased customer terminations and contract expirations.

Income from operations. The increase in income from operations is primarily due to lower direct operating costs and selling, general and administrative expenses of $39.3 million, a decrease in depreciation and amortization expense of $23.6 million (See " Depreciation and amortization expense" above), an $18.7 million loss on the termination of sales-type leases to operating leases in 2002, and lower net facilities restructuring and severance charges of $9.5 million. These increases in income from operations were partially offset by the decrease in revenues of $31.3 million and the $40.1 million gain in 2002 related to the settlement of the PAS-7 insurance claim.

Segment EBITDA. The increase in Segment EBITDA is primarily due to lower direct operating costs and selling, general and administrative expenses of $39.3 million described above, partially offset by the decrease in revenues of $31.3 million also described above.

G2 Segment

Revenues. The $50.5 million increase in G2 segment revenues was primarily the result of the purchases of Hughes Global Services, Inc. and Esatel Communications, Inc. in March 2003 and August 2003, respectively. Our G2 revenues during 2002 consisted primarily of leases of FSS satellite capacity to government contractors. During 2003, with the acquisitions of Hughes Global Services, Inc. and Esatel Communications, Inc., this segment's revenues were expanded to include direct contractual arrangements with the U.S. government and end-to-end satellite service offerings, such as equipment sales to customers.

Income from operations and Segment EBITDA. Income from operations and Segment EBITDA increased by $2.6 million and $3.3 million, respectively, primarily due to a $50.5 million increase in G2 revenues offset by an increase in operating costs of $47.9 million. These increases were due to the 2003 acquisitions of Hughes Global Services, Inc. and Esatel Communications, Inc., which resulted in increases in equipment sales and contractual arrangements with the U.S. government. Equipment and non-satellite bandwidth sales carry lower margins as compared to leases of FSS satellite capacity.

Satellite Technology

Our satellites are typically constructed to operate at full capacity over a design life of 15 years, although the actual performance and operating life of a satellite can vary significantly from that estimate. A satellite's performance and operating life will depend on operational considerations anticipated at the time of design and launch, such as the amount of fuel on board or expected degradation over time of electrical, propulsion, control or other on-board systems necessary for its operation. Performance or operating life may be extended if components degrade less than expected or if requirements are changed to allow reduced-fuel operations. However, performance or operating life may be reduced as a result of anomalies not contemplated by the satellite design which may not have become apparent until the satellite was placed in orbit or after the satellite has been in orbit for some time. It has been our experience that some of these anomalies can be common among satellites of the same model, or on satellite operating systems from the same manufacturer.

From time to time, our satellites experience operating problems that do not result in a reduction of expected life or usable capacity, but that may result in temporary outages for our customers. Recently, one of our satellites experienced such problems resulting in brief outages for several customers. These problems were resolved through adjustments in the operation of the satellite, and no further outages have occurred.

We have identified three types of common anomalies among the satellite models in our fleet, which, if they materialize, have the potential for a significant operational impact. These are:

failure of both of the on-board XIPS used to maintain the in-orbit position of BSS 601 HP satellites;

accelerated solar array degradation in early BSS 702 satellites; and

failure of the on-board spacecraft control processor, or SCP, in BSS 601 satellites.

On March 17, 2004, our PAS-6 satellite, an FS 1300 model satellite built by Space Systems/Loral, suffered an anomaly resulting in a loss of power. Following that event, we moved the satellite to a storage orbit while we evaluated the problem with the manufacturer. On April 1, 2004, this satellite experienced another anomaly and more significant loss of power. Neither of these losses was anticipated. We maintained communications with, and control of, this satellite and, as a result of the second anomaly, took the necessary steps to de-orbit it.

PAS-6 had previously been taken out of primary service and at the time of the anomaly was being used as a backup for another satellite, PAS-6B. Accordingly, these events have not affected service to any of our customers and we anticipate that they will not affect our revenues in 2005. We do not plan to replace this satellite. As a result of the March 17, 2004 event, we recorded a non-cash impairment charge within income from operations of approximately $99.9 million in the first quarter of 2004. This resulted in a non-cash charge to net income after taxes of approximately $63.3 million. PAS-6 was uninsured and we will not collect insurance proceeds as a result of these events. Further, as a result of this impairment, we no longer depreciate this asset, which has resulted in lower depreciation expense related to this satellite of approximately $9.3 million for the year ended December 31, 2004.

For tables showing all identified significant operational concerns, see " Satellite Insurance Insured satellites" and " Satellite Insurance Uninsured satellites" below.

BSS 601 HP XIPS

The BSS 601 HP satellite uses a XIPS as its primary propulsion system. There are two separate XIPS on each BSS 601 HP, each one of which is capable of maintaining the satellite in its orbital position. The satellite also has a completely independent bi-propellant propulsion system as a backup to the XIPS. As a result, a single failure of a XIPS on a BSS 601 typically would have no effect on the satellite's performance or its operating life. A failure of a second XIPS on a satellite would also have no impact on the performance of that satellite. However, such a failure would require the use of the backup bi-propellant propulsion system, which could result in a shorter operating life for the satellite depending on the amount of bi-propellant fuel remaining. XIPS failures do not typically result in a catastrophic failure of the satellite or affect the communications capability of the satellite.

Certain of our BSS 601 HP satellites have experienced various problems associated with XIPS. We currently operate seven BSS 601 HP satellites, excluding Galaxy 8-i. Galaxy 8-i experienced failures of both XIPS in 2000 and continued to operate using bi-propellant until it was de-orbited in February 2004. Three of our currently operated BSS 601 HP satellites have experienced failures of both XIPS.

The first of the currently operated satellites to experience failure of both primary and secondary XIPS was Galaxy 4R. This satellite is operating as designed on its backup bi-propellant propulsion system. We and the manufacturer of this satellite have determined that the XIPS on this satellite are no longer available. As a result, this satellite's estimated remaining useful life, based on the bi-propellant fuel on board, was reduced to approximately 3.5 years from June 28, 2003, the date of the secondary XIPS failure. The C-band capacity of this and other satellites is backed up by in-orbit satellites with immediately available capacity. We believe that this problem will not affect revenues

from the customers on this satellite or our total contracted backlog, as the satellite's backup bi-propellant propulsion system has sufficient fuel to provide ample time to seamlessly transition customers to a new or replacement satellite. We have determined that the satellite's net book value and our investments in sales-type leases on this satellite are fully recoverable.

We began accelerating depreciation on Galaxy 4R beginning in the third quarter of 2003 to coincide with the satellite's revised estimated useful life. As a result, we recorded additional depreciation expense of $7.7 million during 2003. As of March 2004, following the final insurance settlement on this satellite, depreciation on Galaxy 4R has been approximately equal to the monthly depreciation on this satellite before the anomaly occurred. We expect to launch a replacement for Galaxy 4R in 2006. See " Recent Insurance Settlements" and " Satellite Deployment Plan" below.

The second satellite with failure of both primary and secondary XIPS is PAS-6B. We and the manufacturer of this satellite have determined that the XIPS on this satellite are no longer available. As a result, this satellite's estimated remaining useful life, based on the bi-propellant fuel on board, was reduced to approximately 4.9 years from July 9, 2003, the date of the secondary XIPS failure. We do not expect this problem to affect service to our customers or to affect revenues from the customers on this satellite over the remaining life of the satellite. We plan to construct and launch a replacement satellite for PAS-6B prior to the end of its useful life, although no commitment has been made for the procurement of this satellite at this time. As a result of this XIPS failure, during 2003 we reduced our total contracted backlog by approximately $360.0 million. The insurance policy on this satellite has an exclusion for XIPS-related anomalies and, accordingly, this was not an insured loss.

We began accelerating depreciation on PAS-6B beginning in the third quarter of 2003 to coincide with the satellite's revised estimated useful life. As a result, we recorded additional depreciation expense of $6.6 million during 2003. See " Satellite Deployment Plan" below.

The third satellite with failure of both primary and secondary XIPS is Galaxy 10R. On August 3, 2004, the secondary XIPS on this satellite permanently failed. The primary XIPS on this satellite had previously failed. The satellite is operating normally on its back-up bi-propellant propulsion system, which has proven to be a highly reliable propulsion system with extensive flight experience. This satellite is expected to operate normally on its available bi-propellant fuel for over three years. Prior to this event, Galaxy 10R was scheduled to have an estimated end of useful life in 2015. We do not expect this event to affect service to our customers or to affect revenues from the customers on this satellite over the remaining life of the satellite and there should be no material impact on services, revenues or satellite operations. This event will result in acceleration to the 2005-2007 timeframe of planned capital expenditures to replace this satellite.

On August 31, 2004, we filed a proof of loss under the insurance policy for Galaxy 10R. During the fourth quarter of 2004, we received all of the expected insurance proceeds for our claim on Galaxy 10R, or approximately $75 million.

As a result of this event, we recorded approximately $9.1 million of losses in the third quarter of 2004 related primarily to a customer warranty obligation payable at the satellite's end of life and a non-cash write off of a portion of a sales-type lease receivable. These losses and warranty obligations are substantially covered by the Galaxy 10R insurance policies. In connection with the Galaxy 10R insurance settlement, a gain of approximately $9.1 million was recorded during the fourth quarter of 2004, offsetting the third quarter losses. The expected additional depreciation expense resulting from Galaxy 10R's revised estimated useful life will be approximately $3.0 million per year.

Of our four remaining BSS 601 HP satellites, PAS-5 has a book value of $0 and is no longer in primary customer service. The other three continue to have XIPS available as their primary propulsion system. However, no assurance can be given that we will not have further XIPS failures that result in shortened satellite lives or that such failures will be insured if they occur. For two of these three

satellites, the available bi-propellant life ranges exceeded 6 years from December 31, 2004. The third satellite, Galaxy 13/Horizons 1, which was placed into service in January 2004, has available bi-propellant of approximately 11.9 years from December 31, 2004.

In December 2004, after reviewing the operating time to failure and other data from failed BSS 601 HP XIPS systems in our fleet and from similar systems owned by others, as reported to us by the manufacturer, we reduced our estimate of the end of useful life of one of our BSS 601 HP satellites, PAS-9, from 2015 to 2013. This will result in an increase in our annual depreciation expense of $3.4 million beginning in the fourth quarter of 2004. This estimate is based on currently available data from satellite systems similar to PAS-9 and reflects our current expectations for these systems. We plan to replace this satellite prior to the end of its useful life. Because some of our customer contracts do not require their service to continue onto a replacement satellite, this reduction in our estimate of useful life resulted in a reduction in our contracted backlog of approximately $62.0 million as of December 31, 2004. However, given the nature of our customers' use of this satellite, we expect many of these customers will elect to renew their contracts onto a replacement satellite. We believe that the net book value of this satellite is fully recoverable. Along with the manufacturer, we continually monitor the performance of our satellites that use these systems and will, as warranted, reevaluate our expectations.

BSS 702 solar arrays

All of our satellites have solar arrays that power their operating systems and transponders and recharge the batteries used when solar power is not available. Solar array performance typically degrades over time in a predictable manner. Additional power margins and other operational flexibility are designed into satellites to allow for such degradation without loss of performance or operating life. Certain BSS 702 satellites have experienced greater than anticipated and unpredictable degradation of their solar arrays resulting from the design of the solar arrays. Such degradation, if continued, results in a shortened operating life of a satellite or the need to reduce the use of the communications payload.

We currently operate three BSS 702 satellites, two of which are affected by accelerated solar array degradation. On February 19, 2003, we filed proofs of loss under the insurance policies for two of our BSS 702 satellites, Galaxy 11 and PAS-1R, for constructive total losses based on degradation of the solar panels. Service to existing customers has not been affected, and we expect that both of these satellites will continue to serve these customers until we replace or supplement them with new satellites. Along with the manufacturer, we continually monitor the problem to determine its cause and its expected effect. Due to this continued degradation, based on a review of available data in December 2004, we reduced our estimate of the end of the useful life of Galaxy 11 from 2015 to 2009 and of PAS-1R from 2016 to 2010, which will result in an increase in our annual depreciation expense of $24.5 million beginning in the fourth quarter of 2004. We plan to replace these satellites prior to the point at which the solar array degradation would affect operation of the core communications payload. This will accelerate capital expenditures planned for their replacement. Pursuant to our contracts with our customers, a substantial portion of our customer activity on these satellites will continue onto replacement satellites and the reduced estimate of their useful lives will not result in a material reduction in our contracted backlog. We believe that the net book values of these satellites are fully recoverable. See "Recent Insurance Settlements" and "Satellite Deployment Plan" below.

The third BSS 702 satellite we operate, Galaxy 3C, was launched after the solar array anomaly was identified, and it has a substantially different solar array design intended to eliminate the problem. This satellite has been in service since September 2002 and has not experienced similar degradation problems.

SCP

Many of our satellites use an on-board SCP to provide advanced orientation control and fault protection functions. SCPs are a critical component in the operation of such satellites. Each such satellite has a backup SCP, which is available in the event of a failure. Certain BSS 601 satellites, including our Galaxy 3R and PAS-4 satellites, have experienced primary SCP failures and are operating on their backup SCPs. Galaxy 3R has limited fuel remaining and is operating in an inclined orbit. PAS-4 is operated as a backup satellite that also provides short-term services. We do not anticipate that a failure of the remaining SCP on either Galaxy 3R or PAS-4 will cause an interruption of our business or require replacement of a satellite.

We currently operate three additional BSS 601 satellites. PAS-2 and PAS-3R are both in primary service and are in a group of satellites that has been identified as having heightened susceptibility to the SCP problem. The risk of SCP failure appears to decline as these satellites age. PAS-2 and PAS-3R have been in continuous operation since 1994 and 1996, respectively. Both primary and backup SCPs on these satellites are monitored regularly and remain fully functional. Accordingly, we do not expect SCP failures to occur nor do we anticipate an interruption in business or to require early replacement of these satellites. HGS-3 is no longer in primary service and has a book value of less than $1.0 million.

Satellite Insurance

There are several options available for managing certain of the business risks inherent in the operation of a satellite fleet, none of which can fully compensate for the loss of business we may experience on the failure of a satellite. Launch insurance may replace the capitalized cost of a satellite, but it will not cover the business costs that may result from the delay before a replacement satellite can be constructed and placed into service, such as lost revenues. In-orbit insurance may not be economically available or may be limited in coverage or subject to deductibles or exclusions in a manner that limits its value to the business. In-orbit spare satellites, ground-based spare satellites, interim restoration capacity on other satellites and designated reserve transponders may offer certain protections against loss of business due to a satellite failure, but they may not be immediately available when needed and they may only be an economical choice in certain situations. Following is an analysis of our risk management plan.

We have obtained launch insurance for all of our satellite launches. Launch insurance coverage is typically in an amount equal to the fully capitalized cost of the satellite, which includes the construction costs, the portion of the insurance premium related to launch, the cost of the launch services and capitalized interest (but may exclude any unpaid incentive payments to the manufacturer). Launch insurance has historically covered claims arising after a launch for a period of up to three to five years, providing for payment of the full insured amount if, for example, the satellite is lost during launch or the satellite fails to achieve the proper orbital location, or if other failures occur during the in-orbit coverage period. Currently, as a result of market conditions in the satellite insurance industry, insurers are offering commercially reasonable launch policies that extend for no more than one year after launch.

The premium on a launch insurance policy can vary considerably based on the type of satellite and the success rate of the launch vehicle. Currently, launch insurance rates in the industry generally range from 15% to 30% of the fully capitalized cost for a policy covering the launch and initial operations for one year thereafter, although the rates on the types of satellites that we launch generally range from 18% to 25%. As a result of several launch and in-orbit failures in the industry over the last few years, a launch and initial operations insurance premium can equate to $40.0 million or more, assuming a typical $200.0 million satellite with a 20% launch premium. We capitalize the cost of the launch insurance premium and amortize it over the satellite's operational life.

In-orbit insurance coverage may initially be for an amount comparable to launch insurance levels and generally decreases over time, based on the declining book value of the satellite. Historically, in-orbit policies have covered a period ranging from one to three years. As with launch insurance, insurers today are offering in-orbit policies that last for no more than one year. Currently, the premium on an in-orbit policy is typically 2.50% to 3.25% per year of the insured amount, which equates to an annual premium of between $5.0 million and $6.5 million on a typical $200.0 million satellite that is fully insured. We record the in-orbit insurance premiums as direct operating costs as they are incurred. We also maintain third-party liability insurance.

The terms of our satellite insurance policies generally provide for payment of the full insured amount if the satellite fails to reach or maintain its orbital location, the satellite fails to perform in accordance with certain design specifications or 75% or more of its operational capacity is lost. In addition, the in-orbit policies generally provide for partial payment for losses of less than 75% of the satellite's operational capacity, in each case subject to applicable deductibles and exclusions. Accordingly, payments for loss under these policies may not coincide with the actual impairment of the satellite. Satellites for which total payments have been received may remain fully operational for extended periods of time and satellites which have been operationally impaired may not result in any insurance payment. Insurance policies typically provide for salvage payments to the insurer, which historically have been based on a share of any revenues generated from satellites that continue to operate after a total loss benefit has been paid.

See "Risk Factors Risks Relating to Our Industry".

Backup satellites and transponders

For each satellite designated as being in primary operating service, we maintain some form of backup capacity. This backup capacity may include any one or more of the following: an in-orbit spare satellite, a ground-based spare satellite, designated reserve transponders on the satellite or interim restoration capacity on other satellites. However, we do not maintain backups for all of our operating capacity. We believe that the availability of backup capacity addresses in part the operational risks relating to potential satellite anomalies, but backup capacity does not eliminate those risks. See "Risk Factors Risks Relating to Our Industry Once launched and properly deployed, satellites are subject to significant operational risks due to various types of potential anomalies". While these approaches do not provide a cash payment in the event of a loss or anomaly, they do offer certain protections against loss of business due to satellite failure. Because of the relatively high costs of insurance, a reduction in the number of satellites under insurance or a reduction in the amount of insurance coverage on satellites results in savings that can be applied towards the construction and launch of new satellites. New satellites or the satellites they replace may be available as in-orbit spares. The cost of an in-orbit spare that can provide backup support for multiple satellites may be comparable to the lifetime cost of in-orbit insurance for those satellites. We believe that using in-orbit backup satellites rather than having to build replacement satellites from proceeds received under typical insurance policies may help us better serve our customers, plan and control our replacement costs, protect our revenue streams and protect our rights to orbital slots. In addition, availability of in-orbit transponders and satellites as backup may also give us a competitive advantage, as it can take two years or more to replace a satellite with insurance proceeds.

We currently use in-orbit spares to backup portions of our fleet. For example, Galaxy 9 is an in-orbit spare for the C-band capacity serving our U.S. cable customers. This satellite backs-up all or portions of Galaxy 1R, Galaxy 3C, Galaxy 4R, Galaxy 10R, Galaxy 11, Galaxy 12 and Galaxy 13/Horizons 1. PAS-4 provides backup capacity to PAS-10.

Satellite risk management strategy

As a result of the relatively high number of satellite and launch vehicle anomalies in the last few years, the cost of satellite insurance has increased, while the level of available coverage has decreased. In addition to higher premiums, there is a trend toward higher deductibles, shorter coverage periods and additional satellite health-related policy exclusions. Accordingly, as our existing satellite insurance policies expire, and in response to changes in the satellite insurance market, we will continue to consider, evaluate and implement the use of backup satellites and transponders and the purchase of in-orbit insurance with lower coverage amounts, more exclusions and greater deductibles so that we can better protect our business and control our costs. As a result of the trends in satellite insurance, the capital expenditure, fleet deployment and financial plans used in evaluating our dividend policy contemplate the increased use of backup satellites and transponders and lower insurance coverage amounts, more insurance exclusions and greater insurance deductibles.

Insured satellites

As of December 31, 2004, we had in effect launch and in-orbit insurance policies covering seven satellites in the aggregate amount of $690.1 million. As of such date, these insured satellites, which are listed in the table below, had an aggregate net book value and other insurable costs of approximately $820.6 million. In January 2005, the insurance policy covering our Galaxy 10R satellite expired, was not replaced and as a result, is no longer insured. As of December 31, 2004, our Galaxy 10R satellite was insured for its net book value and other insurable costs of approximately $98 million.

Set forth below is a table describing our currently insured satellites. Under Spacecraft Model, "BSS" indicates a Boeing model and "ORB" indicates an Orbital Sciences model.

Satellite	Spacecraft Model	Estimated End of Useful Life	Material Operating Anomalies	Significant Exclusion in Policy
Galaxy 3C	BSS 702	2017		No
Galaxy 4R	BSS 601 HP(1)	2007	XIPS(2)	Yes XIPS(3)
Galaxy 12	ORB Star 2	2018		No
Galaxy 13/Horizons 1	BSS 601 HP(1)	2018		Yes XIPS
PAS-9	BSS 601 HP(1)	2013		Yes XIPS
PAS-10	BSS 601 HP(1)	2016		No(4)

(1) All of our owned BSS 601 HP satellites have XIPS. See " Satellite Technology BSS 601 HP XIPS" above.

(2) Both the primary and secondary XIPS have failed and this satellite is operating on its back-up bi-propellant propulsion system.

(3) We have settled a constructive total loss claim on the main policy. A supplemental policy remains which has a XIPS exclusion.

(4) The supplemental policy on PAS-10, covering an investment in a sales-type lease of $35.9 million, has a component exclusion for XIPS. The primary policy on this satellite has no component exclusion.

Significant exclusion policies

Of the insured satellites, as of December 31, 2004, three were covered by Significant Exclusion Policies. The exclusions reduce the probability of an insurance recovery in the event of a loss on these satellites. The three satellites covered by Significant Exclusion Policies as of December 31, 2004, were:

PAS-9, which has on-satellite backups available for the systems on which exclusions have been imposed. We believe that these backups would allow for uninterrupted operation of the satellite in the event of a failure of the component subject to the insurance exclusion.

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Galaxy 4R, in respect of which we recently received insurance proceeds, and which has a remaining policy covering $19.4 million of investments in sales-type leases that is subject to a component exclusion. Galaxy 4R is currently operating on its backup bi-propellant propulsion system. See " Recent Insurance Settlements" below.

Galaxy 13/Horizons 1, which was placed in service in January 2004, continues to have a fully redundant XIPS as its primary propulsion system. Certain enhancements have been made to XIPS on this satellite to make the systems more robust. In addition, this satellite has available backup bi-propellant of approximately 11.9 years.

PAS-9, Galaxy 4R and Galaxy 13/Horizons 1 had an aggregate net book value and other insurable costs of $265.1 million as of December 31, 2004.

Upon the expiration of the insurance policies, there can be no assurance that we will be able to procure new policies on commercially reasonable terms. New policies may only be available with higher premiums or with substantial exclusions or exceptions to coverage for failures of specific components. In addition, higher premiums on insurance policies will increase our costs, thereby reducing our operating income by the amount of such increased premiums.

Uninsured satellites

We had 17 uninsured satellites in orbit as of December 31, 2004. As of December 31, 2004, our uninsured satellites had a total net book value and other insurable costs of approximately $706.6 million. In January 2005, one of these uninsured satellites, Galaxy 5, was replaced by our Galaxy 12 satellite and was deorbited. Additionally, as indicated above, the insurance policy for Galaxy 10R expired and was not replaced. As such, Galaxy 10R is currently uninsured. Galaxy 10R and Galaxy 5 had net book values and other insurable costs of approximately $98 million and $0, respectively, as of December 31, 2004.

Set forth below is a table describing our currently uninsured satellites. Under Spacecraft Model, "BSS" indicates a Boeing model and "SSL" indicates a Space Systems/Loral model. We designate satellites as being in primary operating service based on various factors, including, without limitation, estimated useful life, revenue generating ability, history of anomalies and health of the satellite.

Satellite	Spacecraft Model	Estimated End of Useful Life	Material Operating Anomalies	Insurance Considerations	Replacement Expectations
Satellites in primary operating service:					
Galaxy 1R	BSS 376	2005		Limited life remaining; Protected by in-orbit spare	Yes 2005
Galaxy 10R	BSS 601 HP	2008	XIPS(1)	Insurance policy expired in January 2005 and was not replaced(2); Partially protected by in-orbit spare	Yes 2007
Galaxy 11	BSS 702	2009	Solar Panel	Previous insurance settlement; Insurance not available on commercially reasonable terms; Partially protected by in-orbit spare	Yes Ground spare construction commenced in 2004
PAS-1R	BSS 702	2010	Solar Panel	Previous insurance settlement; Insurance not available on commercially reasonable terms	Yes At a date to be determined
PAS-2	BSS 601	2009	SSPA(3)	Insurance not available on commercially reasonable terms	Yes 2008
PAS-3R	BSS 601	2009		Insurance not available on commercially reasonable terms	Yes 2009
PAS-6B	BSS 601 HP	2008	XIPS(1)	Insurance not available on commercially reasonable terms	Yes 2007
PAS-7	SSL FS 1300	2013	Solar Panel	Previous insurance settlement; No net book value	Yes 2013
PAS-8	SSL FS 1300	2014		Insurance not available on commercially reasonable terms	Yes 2014

Back-up satellites and satellites in secondary operating service:					
Galaxy 3R	BSS 601	2008	Single SCP	Minimal net book value;	No Already replaced
Galaxy 9	BSS 376	2008		Back-up satellite; Insurance not available on commercially reasonable terms	No Already replaced
PAS-4	BSS 601	2010	Single SCP	Back-up satellite	No Already replaced
SBS 6	BSS 393	2007	Battery Cells	Limited life remaining	Under review
PAS-5	BSS 601 HP	2012	Battery Cells	Previous insurance settlement; No net book value	No Already replaced
HGS-3	BSS 601	2011	Battery Controller	Minimal net book value	No
HGS-5	BSS 376	2008		Limited life remaining; No net book value	Under Review
Leasat F5	BSS 381	2008		No net book value	No

(1) Both the primary and secondary XIPS have failed and this satellite is operating on its back-up bi-propellant propulsion system.

(2) In November 2004, we settled a constructive total loss claim on this policy.

(3) Solid state power amplifiers, or SSPAs, have been failing over time, which reduces C-band transponder capacity.

An uninsured failure of one or more of our satellites could have a material adverse effect on our financial condition and results of operations. See "Risk Factors Risks Relating to Our Business Our financial condition could be materially and adversely affected if we were to suffer a loss that is not adequately covered by insurance".

Recent Insurance Settlements

On February 19, 2003, we filed proofs of loss under the insurance policies for two of our BSS 702 satellites, Galaxy 11 and PAS-1R, for constructive total losses based on degradation of the solar panels. On December 29, 2003, we reached a final settlement of these insurance claims for payment of $260.0 million. We will continue to own and operate these satellites free and clear of any claims of these insurers. In the first quarter of 2004, we received the $260.0 million settlement amount.

On July 31, 2003, we filed a proof of loss under the insurance policy for our Galaxy 4R satellite after the secondary XIPS on this satellite ceased working. In 2003, we settled with and received $102.6 million from insurers representing approximately 83% of the insurance coverage on the satellite. In March 2004, we reached an agreement with and received $26.9 million from the insurer representing the remaining 17% of the insurance coverage on this satellite. The settlement with the insurer representing 17% coverage includes a future sharing of revenues actually received from the satellite. We are constructing a replacement satellite for Galaxy 4R, which is scheduled to be launched in 2006, prior to the end of its useful life.

On August 31, 2004 we filed a proof of loss under the insurance policy for our Galaxy 10R Spacecraft after the secondary XIPS on this satellite permanently failed. During the fourth quarter of 2004, we received all of the expected insurance proceeds for our claim on Galaxy 10R, or approximately $75 million. See " Long-term debt" below.

Satellite Deployment Plan

Our construction and launch strategy is to replace existing satellites as they approach the end of their useful lives. In addition, we selectively expand our global coverage, capacity and service offerings

by deploying satellites into new orbital locations where we perceive sufficient customer demand and market opportunities.

During 2003, we launched our Galaxy 12 and Galaxy 13/Horizons 1 satellites. We expect to launch three satellites by the end of 2006. We are scheduled to launch Galaxy 14 in the second quarter of 2005 to serve as an in-orbit spare. We plan to launch Galaxy 15 in the third quarter of 2005 to replace Galaxy 1R at 133 degrees west longitude. We plan to launch Galaxy 17 in the third quarter of 2006 to replace Galaxy 4R at 99 degrees west longitude. We replaced Galaxy 5 at 125 degrees west longitude with Galaxy 12 in January 2005 and subsequently deorbited Galaxy 5.

In April 2004, we entered into an agreement for the construction of Galaxy 16, an on-ground spare for Galaxy 11, which will also serve as a spare to protect against launch failure of Galaxy 17 or Galaxy 18. In June 2004, we executed a definitive agreement for the procurement of Galaxy 17, which will replace Galaxy 4R. In addition, we plan to construct and launch a replacement satellite for PAS-6B prior to the end of its useful life, although no commitments have been made for the procurement of this satellite.

The August failure of the secondary XIPS on our Galaxy 10R satellite will result in acceleration to the 2005-2007 timeframe of planned capital expenditures to replace it. In February 2005, we signed a contract for the construction of Galaxy 18, which will serve as a replacement satellite for Galaxy 10R. We plan to launch Galaxy 18 in the third quarter of 2007.

Assuming satellites under development are successfully launched and services on the satellites commence on schedule, we believe that amounts available under our revolving credit facility, vendor financing, future cash flows from operations and cash on hand will be sufficient to fund our operations and our remaining costs for the construction and launch of satellites currently under development. There can be no assurance, however, that our assumptions with respect to costs for future construction and launch of our satellites will be correct, or that amounts available under our revolving credit facility, vendor financing, future cash flows from operations and cash on hand will be sufficient to cover any shortfalls in funding for (i) launches caused by uninsured launch or in-orbit failures, (ii) cost overruns, (iii) delays, (iv) capacity shortages, or (v) other unanticipated expenses.

Liquidity and Capital Resources

We intend to fund ongoing operations through cash generated by operations and availability under our revolving credit facility. As part of the Recapitalization, we incurred substantial debt, including outstanding debt under our senior secured credit facilities and 9% senior notes, with interest payments on this indebtedness substantially increasing our liquidity requirements. See "Risk Factors Risks Relating to Our Business We have a substantial amount of indebtedness, which may adversely affect our cash flow and our ability to pay dividends on our common stock, comply with our debt covenants, repay our indebtedness and operate our business".

Holdco's primary source of liquidity will be cash flow generated from our operations. Holdco's ability to make payments on its debt and pay dividends on its common stock is dependent on the earnings and the distribution of funds from us. The agreements governing our senior secured credit facilities and our 9% senior notes are the two contractual obligations that significantly restrict our ability to pay dividends or otherwise transfer assets to Holdco.

Our senior secured credit facilities are comprised of an $800.0 million Term Loan A Facility (of which $674.3 million is currently outstanding) due in 2009, a $1,647.5 million Term Loan B Facility (of which $1,647.5 million is currently outstanding) due in 2011 and a $250.0 million revolving credit facility due in 2009. We currently do not have any outstanding borrowings under the revolving credit facility and have approximately $43.0 million of standby letters of credit outstanding. We currently have outstanding approximately $1.2 million aggregate principal amount of our 8½% Senior Notes due 2012.

We have repaid an aggregate of approximately $125.7 million of our Term Loan A Facility and $12.5 million of our existing Term Loan B Facility since closing of the Recapitalization, and we expect to repay approximately $290.0 million of the Term Loan A Facility with a portion of the net proceeds from Holdco's initial public offering and cash on hand. In addition, we redeemed the entire outstanding aggregate principal amount of our 6 1/8% Senior Notes due 2005 on October 22, 2004 with cash on hand and cash from operations.

We also expect to repay approximately $353.5 million, or 35%, of our $1,010.0 million of outstanding senior notes at a redemption price equal to 109% of the aggregate principal amount thereof with a portion of the net proceeds from Holdco's initial public offering.

Concurrent with the completion of Holdco's initial public offering, we intend to amend our senior secured credit facilities. Borrowings under our senior secured credit facilities will bear interest at the borrower's option at either adjusted LIBOR plus an applicable margin or the alternate base rate plus an applicable margin. Borrowings under our senior secured credit facilities will be subject to adjustment based on a pricing grid.

Our senior secured credit facilities require us and our subsidiaries to meet a maximum total leverage ratio, a minimum interest coverage ratio and a maximum capital expenditures limitation. In addition, our senior secured credit facilities contain certain restrictive covenants which, among other things, limit the incurrence of additional indebtedness, dividends, prepayments of subordinated debt, investments, mergers and consolidations, changes in business, liens, amendment of subordinated debt and other matters customarily restricted in such agreements. It also contains certain customary events of defaults, subject to grace periods, as appropriate.

The amendment to our senior secured credit facilities, which will be effective concurrently with Holdco's initial public offering will, among other things:

- increase the amount of permitted dividends;
- eliminate the requirement that we repay the term loans under the senior secured credit facilities with excess cash flow;
- tighten the maximum required total leverage ratio covenant;
- lower the applicable margins for the Term Loan B Facility;
- permit the payment of the management fee payable to the Sponsors in connection with termination of the management services agreement (See " Certain Relationships and Related Transactions Prior to and as a Result of the Completion of the Recapitalization Transactions with The Sponsors and Their Affiliates" below); and
- conform the change of control definition to the change of control definition in the indenture governing our 9% senior notes.

The description of the required financial covenant levels contained in the senior secured credit facilities and the calculations below reflect the amendments to be made concurrently with Holdco's initial public offering.

Required financial covenant levels under the senior secured credit facilities and actual results as of and for the four quarters ended December 31, 2004 were as follows:

	Required Covenant Levels for the Four Quarters Ended December 31, 2004	Actual Results for the Four Quarters Ended December 31, 2004
Total leverage ratio(1)	6.75 to 1.00	5.71 to 1.00
Interest coverage ratio(2)	2.00 to 1.00	3.05 to 1.00
Capital expenditures(3)	$400 million	$51.2 million

(1) Ratio calculations are determined as of the end of such period. Under the credit agreement governing our senior secured credit facilities, the total leverage ratio is calculated as consolidated total debt (defined as the sum of all indebtedness for borrowed money of us and our restricted subsidiaries (as defined in the credit agreement) outstanding and all capitalized lease obligations of us and our restricted subsidiaries outstanding less the aggregate amount of cash included in the cash accounts listed on our consolidated balance sheet and the balance sheet of our restricted subsidiaries to the extent the use thereof for application to payment of indebtedness is not prohibited by law or any contract to which we or any of our restricted subsidiaries is a party) divided by Adjusted EBITDA. Non-compliance with this covenant could result in the requirement to immediately repay all amounts outstanding under the senior secured credit facilities.

(2) Ratio calculations are determined for such period. Under the credit agreement governing our senior secured credit facilities, the interest coverage ratio is calculated as Adjusted EBITDA divided by consolidated interest expense (defined as the cash interest expense for us and our restricted subsidiaries (including that attributable to capital leases), net of cash interest income, including all commissions, discounts and other fees and charges owed with respect to letters of credit, bankers' acceptance financing and net costs under hedge agreements, and including, capitalized interest in connection with the purchase of satellites to the extent paid in cash, but excluding amortization of deferred financing costs and any other non-cash interest). Non-compliance with this covenant could result in the requirement to immediately repay all amounts outstanding under the senior secured credit facilities.

(3) Calculations are determined for such period. Under the credit agreement governing our senior secured credit facilities, capital expenditures means the aggregate of all expenditures (but excluding any amount representing capitalized interest), provided that capital expenditures does not include among other things expenditures made in connection with the replacement or repair of assets to the extent financed from insurance proceeds. Non-compliance with this covenant could result in the requirement to immediately repay all amounts outstanding under the senior secured credit facilities.

The indenture governing our 9% senior notes limits our ability and the ability of our restricted subsidiaries to incur or guarantee additional debt or issue disqualified stock or preferred stock; pay dividends or make other equity distributions; repurchase or redeem capital stock; make investments or other restricted payments; create liens; enter into sale and lease-back transactions; sell assets or consolidate or merge with or into other companies; create limitations on the ability of our restricted subsidiaries to make dividends or distributions to us; and engage in transactions with affiliates. Subject to certain exceptions, the indenture permits us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness.

We are required to maintain certain financial covenants and are also subject to restrictive covenants under our borrowings. As of December 31, 2004, we were in compliance with all such covenants.

The indenture governing our 9% senior notes and our senior secured credit facilities contain financial covenant ratios, specifically total leverage and interest coverage ratios, that are calculated by reference to Adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) plus net interest expense, income tax expense (benefit) and depreciation and amortization, further adjusted to give effect to unusual items, non-cash items and other adjustments specifically required in calculating covenant ratios and compliance under the indenture governing our 9% senior notes due 2014 and our senior secured credit facilities. These adjustments include unusual items such as severance, relocation costs and one-time compensation charges, non-cash charges such as non-cash compensation expense and the other adjustments shown below. Adjusted EBITDA is a material component of these covenants. For instance, non-compliance with the financial ratio maintenance covenants contained in the senior secured credit facilities could result in the requirement that we immediately repay all amounts outstanding under such facilities and a prohibition on us paying dividends to Holdco, and non compliance with the debt incurrence ratios contained in our 9% senior notes prohibit us from being able to incur additional indebtedness or make restricted payments, including payments of dividends on our respective common stocks, other than pursuant to specified exceptions. In addition, under the restricted payments covenants contained in the indentures, our ability to pay dividends is restricted by a formula based on the amount of Adjusted EBITDA. We believe the adjustments listed below are in accordance with the covenants discussed above.

Adjusted EBITDA is not a presentation made in accordance with GAAP, and does not purport to be an alternative to net income (loss) determined in accordance with GAAP or as a measure of operating performance or to cash flows from operating activities determined in accordance with GAAP as a measure of liquidity. Additionally, Adjusted EBITDA is not intended to be a measure of cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Because not all companies use identical calculations, this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. The following table sets forth a reconciliation of Adjusted EBITDA and EBITDA to net income (loss) and to net cash provided by operating activities for the periods indicated.

	December 31,		
	2002	2003	2004
	(In thousands)		
Reconciliation of Net Cash Provided by Operating Activities to Net Income (Loss):			
Net cash provided by operating activities	$ 519,247	$ 473,381	$ 294,857
Depreciation and amortization	(335,717)	(312,833)	(294,822)
Deferred income taxes	(38,107)	(14,722)	97,958
Amortization of debt issue costs and other deferred charges	(12,474)	(9,731)	(14,079)
Gain on sale of teleport			11,113
Provision for uncollectible receivables	(12,616)	1,632	(31,226)
Effect of Galaxy 10R XIPS anomaly			(9,090)
Other non-cash items		(2,756)	2,567
Gain on insurance claims	40,063		9,090
Satellite impairment loss			(99,946)
Loss on termination of sales-type leases	(18,690)		
Facilities restructuring and severance costs	(13,708)	(4,227)	(6,093)
Reversal of sales-type lease liabilities			3,727
Gain on disposal of fixed assets			1,332
Loss on early extinguishment of debt	(3,309)	(10,663)	(25,751)
Changes in assets and liabilities, net of acquired assets and liabilities	(39,641)	(20,549)	(15,126)
Net income (loss)	$ 85,048	$ 99,532	$ (75,489)
Reconciliation of Net Income (Loss) to EBITDA:			
Net income (loss)	$ 85,048	$ 99,532	$ (75,489)
Interest expense, net	142,470	143,632	186,754
Income tax expense (benefit)	28,350	35,010	(91,290)
Depreciation and amortization	335,717	312,833	294,822
EBITDA	$ 591,585	$ 591,007	$ 314,797
Reconciliation of EBITDA to Adjusted EBITDA:			
EBITDA	$ 591,585	$ 591,007	$ 314,797
Adjustment of sales-type leases to operating leases (a)	22,442	22,858	25,771
Loss on termination of sales-type leases (b)	18,690		
Satellite impairment loss (c)			99,946
Gain on insurance claims (d)	(40,063)		
Facilities restructuring and severance costs (e)	13,708	4,227	6,192
Reserves for long-term receivables and sales-type lease adjustments (f)	5,750	(632)	24,419
Reversal of allowance for customer credits (g)		8,100	7,200
Investments (h)	5,000	1,800	
Transaction-related costs (i)			155,131
Gain on sale of teleport (j)			(11,113)
Other items (k)	3,917	5,687	2,600

	December 31,		
Adjusted EBITDA	$ 621,029	$ 633,047	$ 624,943

(a)

For all periods presented, adjustment of sales-type leases to operating leases represents the principal portion of the periodic sales-type lease payments that are recorded against the principal balance outstanding. These amounts would have been recorded as operating lease revenues if these agreements had been accounted for as operating leases instead of sales-type leases. These adjustments have the effect of including the principal portion of our sales-type lease payments in the period during which cash is collected.

(b)

For fiscal 2002, loss on termination of sales-type leases represents the non-cash loss of $18.7 million incurred upon the conversion of one of our customer's sales-type lease agreements to operating leases. The loss includes the write-off of the related sales-type lease receivable less the cost of the transponder recorded on our books as satellites upon the termination. See Note 4 to the audited consolidated financial statements appearing elsewhere in this annual report.

(c)

For fiscal 2004, satellite impairment represents the pre-tax impairment charge related to the anomalies experienced by our PAS-6 satellite during the first quarter of 2004, which resulted in this satellite being de-orbited on April 2, 2004. See Note 6 to the audited consolidated financial statements appearing elsewhere in this annual report.

(d)

For fiscal 2002, gain on satellite insurance claims represents the gain recorded related to the PAS-7 insurance claim. This gain reflects insurance proceeds of $215.0 million offset by the write-off of approximately $175.0 million of net assets related to the PAS-7 satellite. See Note 6 to the audited consolidated financial statements appearing elsewhere in this annual report.

(e)

For all periods presented, restructuring charges represent severance costs, leasehold termination costs and/or other facility closure costs. See Note 13 to the audited consolidated financial statements appearing elsewhere in this annual report.

(f)

For all periods presented, reserves for long-term receivables and sales-type lease adjustments represent the amount of customer-related long-term receivables that were evaluated as uncollectible and were partially or fully reserved for during the period. In addition, in 2002, additional reserves for sales-type leases were recorded based on the credit evaluation of certain customers. The fiscal 2003 amount represents the receipt of customer payments related to balances previously reserved for, as well as reductions in the reserves for sales-type leases due to our belief that certain customers had improved their credit outlook. These 2003 reserve reductions and collections were partially offset by amounts reserved for in 2003. For fiscal 2004, the adjustment represents the write-off of the long-term receivable balances due from a customer of $28.1 million, partially offset by the reversal of reserves established in relation to our sales-type leases during this period.

(g)

For fiscal 2003 and 2004, we recorded an allowance for customer credits related to receivables from a customer affiliated with The News Corporation, as collectibility was not reasonably assured. See Note 2 to the audited consolidated financial statements appearing elsewhere in this annual report. In connection with the Recapitalization, The DIRECTV Group guaranteed the obligations under these contracts. The adjustments represent the amount of revenues that would have been recognized had the allowance for customer credits not been recorded.

(h)

For all periods presented, we reserved for investments that are accounted for using the cost method to reflect our assessment of their current market value.

(i)

For fiscal 2004, amount represents the costs incurred in relation to the Recapitalization. These costs consisted of $138.4 million related to our debt tender offers, $9.5 million resulting from the cashing out of restricted stock units and stock options, $5.0 million of transaction related bonuses paid to certain of our executives, and the remainder relating to the proxy solicitation and other costs.

(j)

For fiscal 2004, amount represents an $11.1 million gain recorded during the fourth quarter of 2004 in relation to the sale of our Spring Creek Teleport. See Note 13 to the audited consolidated financial statements appearing elsewhere in this annual report.

(k)

For fiscal 2002, other items consists of (i) $2.2 million of loss on disposal of assets and (ii) $1.7 million of transaction costs related to acquisitions not consummated. For fiscal 2003, other

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items consists of (i) $2.2 million of management retention bonuses, (ii) $1.8 million of non-cash stock compensation expense, (iii) $1.6 million of transaction costs related to acquisitions not consummated and (iv) $1.5 million of loss on disposal of assets, offset by $1.4 million of gain related to the termination of the Galaxy 8-iR construction contract. For fiscal 2004, other items consists of (i) $2.6 million of non-cash stock compensation expense (ii) $0.7 million of expenses for management advisory services from the Sponsors, (iii) $0.3 million of transaction costs related to acquisitions not consummated, (iv) $0.2 million of loss on disposal of assets and (v) $0.1 million loss from an investment accounted for by the equity method, partially offset by $1.3 million of non-cash reserve adjustments.

Future principal debt repayments are expected to be paid out of cash flows from operations, borrowings under our revolving credit facility, future refinancing of our debt and any future insurance proceeds received.

The following significant transactions impacting cash and cash equivalents are expected to occur during 2005:

capital expenditures in the range of $150 million to $170 million, including cash capital expenditures in the range of $130 million to $140 million (cash capital expenditures exclude new incentive obligations, which will be paid in the future, and capitalized interest). Expected cash capital expenditures are net of approximately $35 million to $40 million of expected reimbursements from a major customer resulting from the accelerated construction of a satellite for the customer's use;

cash interest payments related to our debt obligations in the range of $200 million to $215 million and cash interest payments related to our incentive obligations in the range of $9 million to $12 million; and

dividend payments to Holdco after the completion of Holdco's initial public offering of approximately $100 million.

Capital Expenditures

We have invested approximately $3.9 billion in our existing satellite fleet and ground infrastructure through December 31, 2004. We believe that annual capital expenditure limitations in the senior secured credit facilities will not inhibit us from meeting ongoing capital expenditure needs. Our average annual capital expenditures from 1998 through 2002 were approximately $480.0 million. For the years ended December 31, 2002, 2003 and 2004, our satellite and non-satellite capital expenditures were as follows (in thousands):

	Year Ended December 31,		
Description	**2002**	**2003**	**2004**
		(In thousands)	
Satellite Capital Expenditures	$ 282,464	$ 76,991	$ 155,323
Non-Satellite Capital Expenditures	11,849	27,091	23,390
Total	$ 294,313	$ 104,082	$ 178,713

Expected capital expenditures for 2005 relate to the following satellites:

Satellite	**Expected Launch Date**	**Expected In Service Date**
Galaxy 14	Second quarter of 2005	Second quarter of 2005
Galaxy 15	Third quarter of 2005	Third quarter of 2005
Galaxy 17	Third quarter of 2006	Fourth quarter of 2006
Galaxy 18	Third quarter of 2007	Third quarter of 2007

In addition, in the second quarter of 2004, we commenced construction of Galaxy 16, an on-ground spare for Galaxy 11 and Galaxy 17. Upon the successful launch of Galaxy 17, Galaxy 16 will be available as a replacement for Galaxy 11. We also have a contractual arrangement in place that would allow us to procure the construction of an additional satellite.

Our ability to make scheduled payments of principal, or to pay the interest or special interest, if any, on, or to refinance our indebtedness, to make dividend payments on our common stock, or to fund planned capital expenditures will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based upon the current level of operations, we believe that cash flow from operations, available cash and cash equivalents, together with borrowings available under our senior secured credit facilities, will be adequate to construct and launch our satellites currently under development for at least the next 24 months and meet our future liquidity needs, including the payment of dividends on our common stock through the end of 2005.

There can be no assurance, however, that our assumptions with respect to costs for future construction and launch of our satellites will be correct, or that funds available to us from the sources discussed above will be sufficient to enable us to pay dividends on our common stock at the levels anticipated or service our indebtedness, cost overruns, delays, capacity shortages or other unanticipated expenses. Based on the dividend policy with respect to our common stock which our board of directors will adopt upon the closing of Holdco's initial public offering, we may not retain a sufficient amount of cash to finance growth opportunities, including acquisitions, or unanticipated capital expenditures or to fund our operations. If we do not have sufficient cash for these purposes, our financial condition and our business may suffer. However, our board of directors may, in its discretion, amend or repeal this dividend policy to decrease the level of dividends provided for or discontinue entirely the payment of dividends.

Commitments and Contingencies

The following schedule summarizes our contractual obligations and commercial commitments as of December 31, 2004 on a historical basis:

		Payments Due by Period			
Contractual Obligations	**Total**	**One Year or Less**	**2-3 Years**	**4-5 Years**	**After 5 Years**
			(in thousands)		
Total Debt:					
Senior Secured Credit Facilities	$ 2,321,810	$ 4,100	$ 327,510	$ 413,200	$ 1,577,000
9% Senior Notes Due 2014	1,010,000				1,010,000
Other Notes (1)	276,190			150,000	126,190
Total	3,608,000	4,100	327,510	563,200	2,713,190
Interest payments (2)	2,105,478	252,352	546,318	499,870	806,938
Satellite Incentive Obligations	112,260	13,150	25,948	24,962	48,200
Operating Leases	32,084	5,903	10,277	8,710	7,194
Satellite Construction and Launch Contracts	112,978	64,994	14,019	1,912	32,053
Customer Contracts	48,907	20,635	11,242	5,984	11,046
Vendor Contracts	60,077				