

Intelsat CORP
Form 10-Q
August 14, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the Quarterly Period Ended June 30, 2006

OR

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from to

Commission File Number 0-22531

INTELSAT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

95-4607698
(I.R.S. Employer Identification No.)

of incorporation or organization)

3400 International Drive, N.W., Washington, D.C.
(Address of principal executive offices)

20008
(Zip Code)

(202) 944-6800

(Registrant's telephone number, including area code)

PANAMSAT CORPORATION

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20 Westport Road

Wilton, Connecticut 06897

(Former name and former address, if changed since last report)

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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of August 11, 2006, an aggregate of 548 shares of our common stock were outstanding.

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INTELSAT CORPORATION
(FORMERLY KNOWN AS PANAMSAT CORPORATION)

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INTRODUCTION

On July 3, 2006, following the completion of the acquisition of PanAmSat Holding Corporation by a subsidiary of Intelsat, Ltd., the certificate of incorporation of PanAmSat Holding Corporation was amended to rename the entity Intelsat Holding Corporation and the certificate of incorporation of PanAmSat Corporation was amended to rename the entity Intelsat Corporation. In this quarterly report on Form 10-Q, unless the context otherwise requires or it is otherwise indicated, all references to (1) Intelsat Corp , we , us and our refer to Intelsat Corporation (formerly known as PanAmSat Corporation) and its subsidiaries and (2) Holdco refers to Intelsat Holding Corporation (formerly known as PanAmSat Holding Corporation) and not its subsidiaries.

FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, all references to dollars and \$ in this quarterly report are to, and all monetary amounts in this quarterly report are presented in, U.S. dollars. Unless otherwise indicated, the financial information contained in this quarterly report has been prepared in accordance with United States generally accepted accounting principles, referred to as GAAP.

Certain monetary amounts, percentages and other figures included in this quarterly report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

In this quarterly report, we refer to and rely on publicly available information regarding our industry and our competitors. Although we believe the information is reliable, we cannot guarantee the accuracy and completeness of the information and have not independently verified it.

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q 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 quarterly report on Form 10-Q, the words may , might , should , estimate , project , plan , anticipate , expect , intend , outlook , similar expressions are intended to identify forward-looking statements and information.

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;

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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; and

litigation.

In connection with Intelsat (Bermuda), Ltd.'s acquisition of Holdco as described in this quarterly report, factors that may cause results or developments to differ materially from the forward-looking statements made in this quarterly report include, but are not limited to:

our substantial level of indebtedness following consummation of the Intelsat Merger, as defined in this quarterly report;

certain covenants in our debt agreements following consummation of the Intelsat Merger;

the ability of our subsidiaries to make distributions to us in amounts sufficient to make required interest and principal payments on our indebtedness;

a change in the health of, or a catastrophic loss during the in-orbit operations of, one or more of our existing satellites or the satellites of Intelsat (Bermuda), Ltd.;

the failure to successfully integrate or to obtain expected synergies in connection with our acquisition by Intelsat (Bermuda), Ltd. on the expected timetable or at all; and

the failure to achieve the strategic objectives envisioned for Intelsat (Bermuda), Ltd.'s acquisition of Holdco.

The forward-looking statements made in this quarterly report reflect our intentions, plans, expectations, assumptions and beliefs about future events. These forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and other factors, many of which are outside of our control. These factors could cause actual results or developments to differ materially from the expectations expressed or implied in the forward-looking statements and include known and unknown risks. Known risks include, among others, the risks discussed under Item 1A Risk Factors, the political, economic and legal conditions in the markets we are targeting for communications services or in which we operate and other risks and uncertainties inherent in the telecommunications business in general and the satellite

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communications business in particular.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee our future results, level of activity, performance or achievements. Because actual results could differ materially from our intentions, plans, expectations, assumptions and beliefs about the future, you are urged not to rely on forward-looking statements in this quarterly report and to view all forward-looking statements made in this quarterly report with caution. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****INTELSAT CORPORATION****(FORMERLY KNOWN AS PANAMSAT CORPORATION)****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006****(in thousands)**

	June 30, 2005	June 30, 2006
REVENUES:		
Operating leases, satellite services and other	\$ 210,345	\$ 226,627
Outright sales and sales-type leases	3,507	2,903
Total revenues	213,852	229,530
OPERATING COSTS AND EXPENSES:		
Cost of outright sales and sales-type leases	(1,450)	(1,943)
Depreciation and amortization	67,165	68,897
Direct operating costs (exclusive of depreciation and amortization)	33,891	37,766
Selling, general and administrative expenses	19,565	22,309
Loss on investment		3,316
Facilities restructuring and severance costs	416	
(Gain) loss on undesignated interest rate swap	18,637	(9,900)
Total operating costs and expenses	138,224	120,445
INCOME FROM OPERATIONS	75,628	109,085
INTEREST EXPENSE Net	94,776	54,437
INCOME (LOSS) BEFORE INCOME TAXES	(19,148)	54,648
INCOME TAX EXPENSE (BENEFIT)	(272)	21,878
NET INCOME (LOSS)	\$ (18,876)	\$ 32,770

See notes to unaudited consolidated financial statements.

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INTELSAT CORPORATION
(FORMERLY KNOWN AS PANAMSAT CORPORATION)
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2006
(in thousands)

	June 30, 2005	June 30, 2006
REVENUES:		
Operating leases, satellite services and other	\$ 415,546	\$ 436,864
Outright sales and sales-type leases	7,114	5,895
 Total revenues	 422,660	 442,759
OPERATING COSTS AND EXPENSES:		
Cost of outright sales and sales-type leases	(4,303)	(1,943)
Depreciation and amortization	136,930	138,655
Direct operating costs (exclusive of depreciation and amortization)	68,838	70,977
Selling, general and administrative expenses	37,920	40,250
Prior Sponsor management fees	10,444	
Loss on investment		3,316
Facilities restructuring and severance costs	3,765	
Loss on termination of sales-type lease	2,307	
(Gain) loss on undesignated interest rate swap	18,637	(23,140)
 Total operating costs and expenses	 274,538	 228,115
 INCOME FROM OPERATIONS	 148,122	 214,644
INTEREST EXPENSE Net	163,603	107,601
 INCOME (LOSS) BEFORE INCOME TAXES	 (15,481)	 107,043
INCOME TAX EXPENSE (BENEFIT)	(3,238)	37,249
 NET INCOME (LOSS)	 \$ (12,243)	 \$ 69,794

See notes to unaudited consolidated financial statements.

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INTELSAT CORPORATION
(FORMERLY KNOWN AS PANAMSAT CORPORATION)

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share data)

	December 31, 2005	June 30, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 125,945	\$ 73,056
Accounts receivable net	66,418	87,788
Net investment in sales-type leases	12,260	10,189
Prepaid expenses and other (principally prepaid insurance)	20,143	9,955
Deferred income taxes	16,711	16,711
Total current assets	241,477	197,699
SATELLITES AND OTHER PROPERTY AND EQUIPMENT Net	1,949,560	1,946,616
NET INVESTMENT IN SALES-TYPE LEASES	64,913	62,150
GOODWILL	2,244,131	2,244,131
DEFERRED CHARGES AND OTHER ASSETS Net	328,000	343,724
TOTAL ASSETS	\$ 4,828,081	\$ 4,794,320
LIABILITIES AND STOCKHOLDER S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 85,261	\$ 118,905
Current portion of long-term debt	16,600	16,600
Current portion of satellite incentive obligations	13,240	12,591
Accrued interest payable	37,103	36,364
Due to affiliate	50,233	
Deferred gains and revenues	24,514	36,053
Total current liabilities	226,951	220,513
LONG-TERM DEBT	2,915,400	2,907,100
DEFERRED INCOME TAXES	24,312	54,595
DEFERRED CREDITS AND OTHER (principally customer deposits, satellite incentive obligations and deferred revenue)	348,888	364,026
TOTAL LIABILITIES	3,515,551	3,546,234
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER S EQUITY:		
Common stock \$0.01 par value; 1,000 shares authorized, at December 31, 2005 and June 30, 2006, respectively, and 548 shares outstanding at December 31, 2005 and June 30, 2006, respectively		
Additional paid-in capital	803,545	803,545
Retained earnings	512,500	447,277
Accumulated other comprehensive income (loss)	(97)	682
Other stockholder s equity	(3,418)	(3,418)
Total stockholder s equity	1,312,530	1,248,086

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TOTAL LIABILITIES AND STOCKHOLDER S EQUITY	\$ 4,828,081	\$ 4,794,320
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See notes to unaudited consolidated financial statements.

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INTELSAT CORPORATION
(FORMERLY KNOWN AS PANAMSAT CORPORATION)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME (UNAUDITED)
(in thousands, except share data)

	Common Stock			Additional Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Other Stockholder's Equity (1)	Total	Comprehensive Income
	Shares	Par Value Amount	Paid-In Capital					
BALANCE, JANUARY 1, 2006	548	\$	\$ 803,545	\$ 512,500	\$ (97)	\$ (3,418)	\$ 1,312,530	
Foreign currency translation adjustment					621		621	\$ 621
Amortization of unrealized gain on interest rate hedge					158		158	158
Dividends to stockholder				(135,017)			(135,017)	
Net income				69,794			69,794	69,794
BALANCE, JUNE 30, 2006	548	\$	\$ 803,545	\$ 447,277	\$ 682	\$ (3,418)	\$ 1,248,086	\$ 70,573

(1) Represents excess of purchase price over historical cost basis of net assets acquired.
See notes to unaudited consolidated financial statements.

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INTELSAT CORPORATION
(FORMERLY KNOWN AS PANAMSAT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2006
(in thousands)

	June 30, 2005	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (12,243)	\$ 69,794
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	136,930	138,655
Deferred income taxes	(4,944)	30,293
Amortization of debt issuance costs and other deferred charges	9,749	10,741
Loss on early extinguishment of debt	24,161	
Provision for uncollectible receivables	33	(1,903)
Facilities restructuring and severance costs	3,765	
(Gain) loss on undesignated interest rate swap	18,637	(20,303)
Reversal of sales-type lease liabilities	(4,303)	(1,943)
Loss on termination of sales-type lease	2,307	
Loss on investment		3,316
Other non-cash items	(1,664)	(378)
Changes in assets and liabilities:		
Collections on investments in sales-type leases	13,219	8,761
Operating leases and other receivables	7,145	(21,682)
Prepaid expenses and other assets	3,606	2,951
Accounts payable and accrued liabilities	(17,861)	19,685
Due to affiliate	125	896
Deferred gains and revenues	(8,641)	11,505
NET CASH PROVIDED BY OPERATING ACTIVITIES	170,021	250,388
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures (including capitalized interest)	(67,716)	(129,265)
Proceeds from sale of teleport	3,161	
Distribution from equity investment		1,796
Acquisitions, net of cash acquired		(5,543)
NET CASH USED IN INVESTING ACTIVITIES	(64,555)	(133,012)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contribution by parent	658,350	
Repayments of long-term debt	(671,900)	(8,300)
Dividends to stockholder	(5,278)	(186,481)
Capitalized debt issuance costs	(632)	
Funding of capital expenditures by customer		30,172
Repayments of incentive obligations	(6,441)	(5,683)
NET CASH USED IN FINANCING ACTIVITIES	(25,901)	(170,292)

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EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,247	27
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	80,812	(52,889)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	38,607	125,945
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 119,419	\$ 73,056
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash received for interest	\$ 1,502	\$ 2,863
Cash paid for interest	\$ 151,828	\$ 112,474
Cash received for taxes	\$ 65	\$ 3,214
Cash paid for taxes	\$ 6,007	\$ 1,355

See notes to unaudited consolidated financial statements.

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INTELSAT CORPORATION

(FORMERLY KNOWN AS PANAMSAT CORPORATION)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

These consolidated financial statements reflect the financial statements of Intelsat Corporation (formerly known as PanAmSat Corporation) and its subsidiaries on a consolidated basis. Unless the context otherwise requires or it is otherwise indicated, within these consolidated financial statements, Intelsat Corporation and its subsidiaries are referred to as Intelsat Corp, PanAmSat Corporation, PanAmSat, we, us and our. The terms Holdco and PanAmSat Holding Corporation refer to our parent company, Intelsat Holding Corporation (formerly known as PanAmSat Holding Corporation).

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The condensed consolidated financial statements include all normal and recurring adjustments that management considers necessary to present fairly the financial position as of June 30, 2006, and results of operations for the three and six months ended June 30, 2005 and 2006 and cash flows for the six months ended June 30, 2005 and 2006. Certain prior period amounts have been reclassified to conform to the current period's presentation. Operating results for the three and six months ended June 30, 2005 and 2006 are not necessarily indicative of the operating results for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our audited financial statements for the year ended December 31, 2005 included in Intelsat Corp's Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 10, 2006, and all of our other filings filed with the SEC from March 10, 2006 through the date of this report. Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123 (Revised), Share Based Payment (SFAS 123R). See Note 8. Stock Based Compensation.

On August 20, 2004, affiliates of Kohlberg Kravis Roberts & 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 PanAmSat Corporation's outstanding common stock and entities affiliated with Carlyle and Providence each owning approximately 27% of PanAmSat Corporation's 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 Prior Sponsors in this quarterly report. We refer to the August 20, 2004 series of transactions through which the Prior Sponsors acquired and recapitalized PanAmSat as the Recapitalization.

On September 22, 2004, Holdco was formed by the then existing stockholders of PanAmSat Corporation. On October 8, 2004, all of PanAmSat Corporation's outstanding common stock held by its then existing stockholders was contributed to Holdco in exchange for an equal number of shares of Holdco common stock, par value \$.01 per share (the Contribution). As a result of and immediately following that contribution, PanAmSat Corporation's then existing stockholders owned Holdco in equal proportion to their prior ownership interest in PanAmSat Corporation, and PanAmSat Corporation became a wholly-owned subsidiary of Holdco.

The Contribution of PanAmSat to Holdco was accounted for as a recapitalization because neither a change in control nor a business combination occurred and Holdco was not a substantive operating entity. Accordingly, there was no change in the basis of the assets and liabilities of PanAmSat Corporation. Therefore, all operations of PanAmSat Corporation prior to the Contribution to Holdco are reflected herein at their historical amounts.

On July 3, 2006, Intelsat (Bermuda), Ltd., referred to as Intelsat Bermuda, completed the acquisition of PanAmSat Holding Corporation, pursuant to a Merger Agreement, dated as of August 28, 2005, by and among

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INTELSAT CORPORATION

(FORMERLY KNOWN AS PANAMSAT CORPORATION)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intelsat Bermuda, Proton Acquisition Corporation, a wholly owned subsidiary of Intelsat Bermuda, and PanAmSat Holding Corporation (the Intelsat Merger Agreement). Pursuant to the Intelsat Merger Agreement, Proton Acquisition Corporation merged with and into PanAmSat Holding Corporation, with PanAmSat Holding Corporation surviving the merger (the Intelsat Merger). On July 3, 2006, following the completion of the acquisition of PanAmSat Holding Corporation by Intelsat Bermuda, the certificate of incorporation of PanAmSat Holding Corporation was amended to rename the entity Intelsat Holding Corporation and the certificate of incorporation of PanAmSat Corporation was amended to rename the entity Intelsat Corporation. Upon completion of the Intelsat Merger, Intelsat Holding Corporation became 100% wholly-owned by Intelsat Bermuda. (See Note 2. PanAmSat/Intelsat Merger).

2. PanAmSat/Intelsat Merger

On August 29, 2005, Holdco and Intelsat Bermuda announced that the two companies had signed the Intelsat Merger Agreement under which Intelsat Bermuda would acquire Holdco and its sole subsidiary, PanAmSat Corporation, for \$25 per common share in cash, or approximately \$3.2 billion, plus a pro rata share of undeclared regular quarterly dividends, if any, for the quarter in which the acquisition was consummated. Under the agreement, which was approved unanimously by the boards of directors of both companies, Intelsat Bermuda would acquire all of Holdco's outstanding common shares. Also in connection with the Intelsat Merger, our board of directors approved the adoption of a severance plan, on terms similar to our then existing severance plan, and authorized a retention pool of up to \$10 million for non-senior management employees.

On October 26, 2005, Holdco's shareholders approved and adopted the Intelsat Merger Agreement. Also on October 26, 2005, Holdco received a request from the United States Department of Justice, or DOJ, for additional information and documentary materials in connection with the Intelsat Merger. On January 20, 2006, Holdco was informed by the Committee on Foreign Investment in the United States, or CFIUS, that CFIUS had reviewed a joint voluntary notice delivered to it by the parties to the Intelsat Merger Agreement, and had concluded that there were no issues of national security sufficient to warrant an investigation under Section 721 of the U.S. Defense Production Act of 1950, as amended (commonly referred to as Exon-Florio). On May 25, 2006, Holdco was informed that the DOJ had closed its antitrust investigation of the Intelsat Merger. Acting under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the DOJ did not seek to condition, and did not otherwise comment on, the Intelsat Merger. On June 19, 2006, the Federal Communications Commission approved the Intelsat Merger.

On July 3, 2006, Intelsat Bermuda completed the acquisition of Holdco, pursuant to the Intelsat Merger Agreement, with Proton Acquisition Corporation, a wholly owned subsidiary of Intelsat Bermuda, merging with and into Holdco, with Holdco surviving the merger, and each share of common stock of Holdco was converted into the right to receive \$25.00, plus approximately \$0.00927 as the pro rata share of undeclared regular quarterly dividends. On July 3, 2006, the common stock of PanAmSat Holding Corporation (Symbol PA) was de-listed from the New York Stock Exchange.

Prior to, and in connection with the completion of the Intelsat Merger, on May 30, 2006, Holdco commenced an offer to purchase, referred to as the Tender Offer, any and all of its outstanding \$416.0 million aggregate principal amount at maturity 10³/8% Senior Discount Notes due 2014, referred to as the 10³/8% Senior Discount Notes. In connection with the Tender Offer, Holdco also solicited the consent of the holders of its 10³/8% Senior Discount Notes to amend the indenture governing the 10³/8% Senior Discount Notes to, among other things, eliminate substantially all of the restrictive covenants, certain events of default and certain other provisions contained in that indenture. The amendment to the indenture governing the 10³/8% Senior Discount

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INTELSAT CORPORATION

(FORMERLY KNOWN AS PANAMSAT CORPORATION)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Notes was approved by the requisite holders of the 10³/₈% Senior Discount Notes on June 14, 2006 and entered into as of July 3, 2006, at which time approximately 99.65% of the outstanding 10³/₈% Senior Discount Notes were repurchased by Holdco. The 10³/₈% Senior Discount Notes not tendered to Holdco in the Tender Offer remain outstanding. This Tender Offer had no impact on our consolidated financial statements.

Consummation of the Intelsat Merger resulted in a change of control under the indenture governing Intelsat Corp's currently outstanding 9% senior notes due 2014, referred to as the 2014 senior notes, giving the holders of these notes the right to require Intelsat Corp to repurchase these notes at the price stated in the indenture therefor. Intelsat Bermuda has obtained commitments from certain financial institutions to provide us with necessary funding to make such repurchases, should we be required to do so. These commitments, however, are subject to the satisfaction or waiver of certain customary conditions. We commenced an offer to purchase the 2014 senior notes, referred to as the Change of Control Offer, on August 2, 2006. The Change of Control Offer expires on September 26, 2006.

In connection with the completion of the Intelsat Merger, our board of directors authorized the amendment of our senior secured credit facilities (the July 2006 Amended and Restated Credit Agreement), which included revised terms for our revolving credit facility and term loans, and which became effective at the completion of the Intelsat Merger. The July 2006 Amended and Restated Credit Agreement renewed and extended the credit facilities provided under our Credit Agreement dated as of August 20, 2004, as previously amended and restated as of March 22, 2005 (the March 2005 Amended and Restated Credit Agreement), and consists of a \$355.9 million Tranche A-3 Term loan with a six year maturity, a \$1,635.1 million Tranche B-2 Term Loan with a seven and one-half year maturity, and a \$250.0 million Revolving Credit Facility with a six year maturity. Up to \$150.0 million of the Revolving Credit Facility is available for issuance of letters of credit. Additionally, up to \$35.0 million of the Revolving Credit Facility is available for swingline loans. Both the face amount of any outstanding letters of credit and any swingline loans reduce availability under the Revolving Credit Facility on a dollar for dollar basis. The Revolving Credit Facility is available on a revolving basis from July 3, 2006 and terminating six years later. Interest rates under the July 2006 Amended and Restated Credit Agreement range from LIBOR plus 2.125% to LIBOR plus 2.875% or ABR plus 1.125% to ABR plus 1.875%, depending on certain financial measures. Obligations under the July 2006 Amended and Restated Credit Agreement continue to be guaranteed by certain of Intelsat Corp's subsidiaries and secured by a perfected first priority security interest to the extent legally permissible in substantially all of the borrower's and the guarantors tangible and intangible assets, with certain agreed exceptions, as was the case with the March 2005 Amended and Restated Credit Agreement.

Also in connection with the Intelsat Merger, the board of directors of Holdco authorized in principle the issuance of \$975.0 million aggregate principle amount of senior notes in favor of Intelsat Bermuda to fund a portion of the consideration to be paid to stockholders of Holdco and an additional senior promissory note in the principal amount of approximately \$306.4 million to fund the Tender Offer. On July 3, 2006, in connection with the closing of the Intelsat Merger, these notes, referred to collectively as the Intelsat Bermuda Loans, were issued. The Intelsat Bermuda Loans consist of a senior promissory note in the principal amount of \$725.0 million and senior discount notes in the principal amount of \$250.0 million. The senior promissory note in the principal amount of \$725.0 million bears interest at a rate of 11.25% per annum, compounded semi-annually, matures on June 15, 2016, and has interest payable semi-annually in arrears on June 15th and December 15th, commencing on December 15, 2006. The senior discount notes in the principal amount of \$250.0 million mature on June 15, 2016 and accrete at the rate of 10.875% per annum, compounded semi-annually to, but not including, July 3, 2009. From and after July 3, 2009, Holdco may elect a cash pay option, whereby cash interest on the senior discount notes will accrue at the rate of 10.875% per annum, and will be payable semi-annually in arrears on June 15th and December 15th of each year following the cash pay election date. If the cash pay option is not

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elected, the senior discount notes will accrete to approximately \$718.0 million at maturity on June 15, 2016. The senior promissory note in the amount of approximately \$306.4 million bears interest at the rate of 11.25% per annum, compounded semi-annually, matures on June 15, 2016, and has interest payable semi-annually in arrears on June 15th and December 15th, commencing on December 15, 2006.

On July 3, 2006, also in connection with the Intelsat Merger, we issued 9% Senior Notes due 2016 in an aggregate principal amount of \$575.0 million, referred to as the New Opco Notes. The Intelsat Merger, the Tender Offer and related fees and expenses were funded through the incurrence of significant debt, including the proceeds of the New Opco Notes, and \$260.0 million principal amount Floating Rate Senior Notes due 2013 (the Intelsat Bermuda Floating Rate Notes), \$1,330.0 million principal amount 1/4% Senior Notes due 2016 (the Intelsat Bermuda Non-Guaranteed Fixed Rate Notes) and \$750.0 million principal amount 9/4% Senior Notes due 2016 (the Intelsat Bermuda Guaranteed Notes), referred to collectively as the New Intelsat Bermuda Notes, issued by Intelsat Bermuda; and a borrowing by Intelsat Bermuda under a new \$600.0 million senior unsecured credit facility, referred to as the Intelsat Bermuda Bridge Credit Facility. Cash on hand at Intelsat Bermuda and its subsidiaries, including us, was also used.

Following completion of the Intelsat Merger, Intelsat General Corporation, a wholly-owned indirect subsidiary of Intelsat Bermuda (IGen), acquired our subsidiary, G2 Satellite Solutions Corporation, which comprised our government services business, for cash consideration in the amount of \$73 million. The acquisition occurred by means of a merger in which G2 Satellite Solutions Corporation merged into IGen, with IGen continuing as the surviving entity.

Following the completion of the Intelsat Merger, substantially all of the employees of Intelsat Global Service Corporation, an indirect subsidiary of Intelsat Bermuda, were transferred to us pursuant to an employee transfer agreement. In addition, substantially all of the Intelsat entities, following the Intelsat Merger, including Holdco and us have entered into a master intercompany services agreement pursuant to which these entities will provide services to each other. In each case, services will be provided on terms that are not materially less favorable to each party than are available on an arms length basis and on terms that our board of directors and the board of directors of Intelsat Bermuda and Holdco have determined to be fair.

A preliminary allocation of the purchase price was performed using information currently available and is based on preliminary estimates of the fair values of assets acquired and liabilities assumed in connection with the Intelsat Merger Transactions. These preliminary estimates are based on available information and certain assumptions we consider reasonable and may be revised as additional information becomes available. These preliminary valuation estimates were derived using the assistance of an independent appraiser. The final purchase price allocation for the Intelsat Merger Transactions will be dependent upon the finalization of asset and liability valuations, which may depend in part on prevailing market rates and conditions. These final valuations will be based on the actual net tangible and intangible assets that existed as of the closing date of the Intelsat Merger Transactions. Any final adjustments may change the allocations of purchase prices which could affect the fair value assigned to the assets acquired and liabilities assumed and could result in a material change, including the recording of additional goodwill.

The assets and liabilities estimated values have been based on a preliminary purchase price which was calculated as follows (in thousands):

Cash paid	\$ 3,433,100
Transaction costs	113,000
Preliminary purchase price	\$ 3,546,100

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A reconciliation of the preliminary purchase price allocation is presented below (in thousands):

	Fair Value of Net Assets Acquired
Current Assets Acquired	\$ 227,724
Satellites and other property and equipment	1,817,616
Other non-current assets	190,916
Intangible Assets	1,570,000
Goodwill	3,780,221
Assumed Debt	(2,943,040)
Current liabilities less current portion of debt	(240,662)
Deferred tax liability	(545,326)
Other non-current liabilities	(311,349)
	\$ 3,546,100

As a result of the Intelsat Merger Transactions, the accounting for sales-type leases to be acquired in the Intelsat Merger Transactions will change to conform to Intelsat, Ltd.'s current accounting policies. We recognized as revenues at the inception of the lease the net present value of the future minimum lease payments, and continue to receive cash payments from the lessee throughout the term of the lease. In addition, during the life of the lease, we recognized as revenue the portion of each periodic lease payment deemed attributable to interest income. Additionally, we previously sold all rights and title to transponders to customers, and the customers in turn paid the full amount of the sale price in cash at the commencement of the contract. As a result of the change to conform accounting policies, these sales-type leases and previous outright sales will be recognized as service contracts, and a liability for our obligations will be established and recorded within deferred revenue. The deferred revenue will be recognized over the remaining service period.

Furthermore, the purchase price and related costs of the Intelsat Merger Transactions will be allocated to the estimated fair values of the assets acquired and liabilities assumed at the time of the acquisition based on management's best estimates, which will be based in part on the work of third-party appraisers. More specifically, our assets and liabilities will be adjusted to fair value as of the closing date of the Intelsat Merger Transactions. As a result of these adjustments, our depreciation and amortization expense will increase significantly. Also, our interest expense will increase due to the interest on the New Opco Notes and interest accrued from the amortization of the net discount applied to the face value of our outstanding long-term debt. This discount resulted from a lower estimated fair value of this long-term debt.

The following unaudited pro forma results of operations assume the Intelsat Merger Transactions took place on January 1, 2005 for the periods presented (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006
Revenue	\$ 231,368	\$ 246,724	\$ 465,665	\$ 486,806
Net Income (loss)	(32,868)	3,921	(37,616)	29,774

The unaudited pro forma results of operations are being furnished solely for informational purposes and are not intended to represent or be indicative of the consolidated results of operations that we would have reported had these transactions been completed as of the dates and for the periods presented, nor is it necessarily indicative of future results.

Table of Contents**INTELSAT CORPORATION****(FORMERLY KNOWN AS PANAMSAT CORPORATION)****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Holdco's Initial Public Offering**

On March 22, 2005, Holdco consummated an initial public offering of 50 million shares of its common stock at \$18 per share and used a portion of the net proceeds to make a capital contribution to us of approximately \$658.4 million. We used this capital contribution to repay approximately \$265.0 million of the borrowings under our Term Loan A Facility and on April 1, 2005, we redeemed \$353.5 million, or 35%, of our 2014 senior notes, and paid a redemption premium of \$31.8 million to holders of those notes. We also repaid an additional \$25.0 million of the Term Loan A Facility with cash on hand on March 22, 2005.

4. Historical Dividend Policy

Our board of directors adopted a dividend policy that became effective upon the closing of Holdco's initial public offering, and remained in effect until the closing of the Intelsat Merger on July 3, 2006. Our dividend policy reflected 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 our sole stockholder, Holdco, for payment as a dividend to its stockholders. On December 14, 2005, our board of directors declared a dividend to Holdco of approximately \$47.5 million, which was paid on January 13, 2006. Also in December 2005, we recorded dividends of \$4.5 million related to amounts to be funded to Holdco for the payment of certain expenses, of which \$0.5 million was paid in December 2005, \$1.5 million was paid in March 2006, and the remaining \$2.5 million was paid in April 2006. On March 16, 2006, our board of directors declared a dividend to Holdco of approximately \$52.3 million, which was paid in April 2006. Also, in March 2006, we recorded dividends of \$7.0 million related to amounts to be funded to Holdco for the payment of certain expenses, of which \$1.5 million was paid in May 2006 and \$5.5 million was paid in June 2006. On June 9, 2006, our board of directors declared a dividend to Holdco of approximately \$52.3 million, which was paid on June 29, 2006. Also, in June 2006, we recorded and paid dividends of \$23.5 million related to amounts funded to Holdco for the payment of certain expenses related to the Intelsat Merger in July 2006.

On March 21, 2005, our board of directors declared a dividend to Holdco of approximately \$5.28 million, which was paid in April 2005. On June 20, 2005, our board of directors declared a dividend to Holdco of approximately \$47.5 million, which was paid on July 14, 2005.

5. Long-term Debt

As of December 31, 2005 and June 30, 2006, long-term debt consisted of the following (in thousands):

	December 31, 2005	June 30, 2006
6 ³ / ₈ % Notes due 2008	\$ 150,000	\$ 150,000
8 ¹ / ₂ % Notes due 2012	1,190	1,190
6 ⁷ / ₈ % Notes due 2028	125,000	125,000
<i>Transaction Related Financing:</i>		
Revolving Credit Facility		
Term Loan A due 2009	355,910	355,910
Term Loan B-1 due 2011	1,643,400	1,635,100
2014 Senior Notes	656,500	656,500
	2,932,000	2,923,700
Less: current maturities	16,600	16,600
Total Long-Term Debt	\$ 2,915,400	\$ 2,907,100

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At June 30, 2006, we had total debt outstanding of approximately \$2.9 billion, including current maturities of \$16.6 million related to our Term Loan B-1 Facility due 2011.

On July 3, 2006, also in connection with the Intelsat Merger, we issued the New Opco Notes with aggregate principal of \$575.0 million. The Intelsat Merger, the Tender Offer and related fees and expense were funded through the incurrence of significant debt, including the proceeds of the New Opco Notes, the New Intelsat Bermuda Notes and the Intelsat Bermuda Bridge Credit Facility. Cash on hand at Intelsat Bermuda and its subsidiaries, including us, was also used.

Our senior secured credit facilities which were entered into in connection with the Recapitalization were comprised of a \$250.0 million revolving credit facility, which will terminate in August 2009, an \$800.0 million Term Loan A Facility, which matures in August 2009 (of which \$355.9 million was outstanding at June 30, 2006), and a \$1,660.0 million Term Loan B-1 Facility, which matures in August 2011 (of which \$1,635.1 million was outstanding at June 30, 2006). At June 30, 2006, the interest rate on the Term Loan A Facility was 7.05% (LIBOR of 5.30% plus 1.75%). At June 30, 2006, the Term Loan B-1 Facility had an interest rate of 7.18% (LIBOR of 5.18% plus 2.00%). These rates are subject to change based upon our total leverage ratio. In addition, we are required to pay a commitment fee for the unused commitments under the revolving credit facility, if any, which, as of June 30, 2006 on an annual basis was 0.25%. As of June 30, 2006, we had outstanding letters of credit totaling \$54.6 million and the revolving credit facility was undrawn. Outstanding letters of credit reduce our ability to borrow against the revolving credit facility by an equivalent amount. Any amounts borrowed under the revolving credit facility would bear interest at LIBOR plus 1.75% as of June 30, 2006, although this interest rate is subject to adjustment based on our total leverage ratio. Borrowings under our senior secured credit facilities generally bear interest at the borrower's option at either adjusted LIBOR plus an applicable margin or the alternate base rate plus an applicable margin, and are subject to adjustment based on a pricing grid.

In connection with the completion of the Intelsat Merger, our board of directors authorized the amendment of our senior secured credit facilities, which included revised terms for our revolving credit facility and term loans, and which became effective at the completion of the Intelsat Merger. The July 2006 Amended and Restated Credit Agreement renewed and extended the credit facilities provided under our March 2005 Amended and Restated Credit Agreement, and consists of a \$355.9 million Tranche A-3 Term loan with a six year maturity, a \$1,635.1 million Tranche B-2 Term Loan with a seven and one-half year maturity, and a \$250.0 million Revolving Credit Facility with a six year maturity. Up to \$150.0 million of the Revolving Credit Facility is available for issuance of letters of credit. Additionally, up to \$35.0 million of the Revolving Credit Facility is available for swingline loans. Both the face amount of any outstanding letters of credit and any swingline loans reduce availability under the Revolving Credit Facility on a dollar for dollar basis. The Revolving Credit Facility is available on a revolving basis from July 3, 2006 and terminating six years later. Interest rates under the July 2006 Amended and Restated Credit Agreement range from LIBOR plus 2.125% to LIBOR plus 2.875% or ABR plus 1.125% to ABR plus 1.875%, depending on certain financial measures. Obligations under the July 2006 Amended and Restated Credit Agreement continue to be guaranteed by certain of Intelsat Corp's subsidiaries and secured by a perfected first priority security interest to the extent legally permissible in substantially all of the borrower's and the guarantors' tangible and intangible assets, with certain agreed exceptions, as was the case with the March 2005 Amended and Restated Credit Agreement.

During the six months ended June 30, 2005, we recorded non-cash interest expense charges totaling approximately \$24.2 million for unamortized debt issuance costs written off as a result of the \$353.5 million, or 35% of the outstanding principal amount, repayment of our 2014 senior notes in April 2005 and \$318.4 million of voluntary debt repayments made on our Term Loan A Facility during this period. There were no such charges recorded during the six months ended June 30, 2006.

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Our 2014 senior notes require interest payments to be made semi-annually, mature on August 15, 2014, are unsecured, and are, or will be, as the case may be, unconditionally guaranteed by each of our existing and certain subsequently acquired or organized domestic restricted subsidiaries. (See Note 15. Condensed Consolidating Financial Information below). Consummation of the Intelsat Merger resulted in a change of control under the indenture governing Intelsat Corp's currently outstanding 2014 senior notes, giving the holders of these notes the right to require Intelsat Corp to repurchase these notes at the price stated in the indenture therefor. Intelsat Bermuda has obtained commitments from certain financial institutions to provide us with necessary funding to make such repurchases, should we be required to do so. These commitments, however, are subject to the satisfaction or waiver of certain customary conditions. We commenced a Change of Control Offer on August 2, 2006. The Change of Control Offer expires on September 26, 2006. As of June 30, 2006, we also had outstanding 10 and 30-year fixed rate notes totaling \$275.0 million which were issued in January 1998. The outstanding principal balances, interest rates and maturity dates for these notes as of June 30, 2006, are \$150.0 million at 6³/₈% due 2008 and \$125.0 million at 6⁷/₈% due 2028, respectively. Principal on these notes is payable at maturity, while interest is payable semi-annually. As of June 30, 2006, we also had outstanding \$1.2 million of our 8¹/₂% senior notes due 2012. These notes are unsecured, and are unconditionally guaranteed by each of our existing domestic restricted subsidiaries. (See Note 15. Condensed Consolidating Financial Information below).

With a portion of the proceeds from Holdco's initial public offering, Holdco made a capital contribution to us of approximately \$658.4 million, which we used to repay approximately \$265.0 million of the borrowings under our Term Loan A Facility on March 22, 2005, redeem \$353.5 million, or 35%, of our 2014 senior notes and pay a redemption premium of \$31.8 million to holders of these notes on April 1, 2005. We also repaid an additional \$25.0 million of the Term Loan A Facility with cash on hand on March 22, 2005. On June 17, 2005, we made a voluntary prepayment of \$28.4 million under our Term Loan A facility from available cash on hand.

We are required to maintain certain financial covenants and are also subject to restrictive covenants under our borrowings. As of June 30, 2006, we were in compliance with all such covenants.

6. Interest Rate Swap Agreements

In accordance with the agreement governing our prior senior secured credit facilities that were repaid in 2004, we were party to an interest rate swap agreement for a fixed rate payment of 5.64% on \$100.0 million through August 30, 2005. In June of 2004, in connection with the repayment of the term loan B-1 Facility of our old credit facility, our cash flow hedge became undesignated and, therefore, changes in the fair value of the interest rate swap have been recorded within our consolidated statement of operations from that time. The fair value of the outstanding interest rate swap agreement as of June 30, 2005, based on quoted market prices from the counterparty, reflected a short-term asset of approximately \$46 thousand. In August 2005, this agreement expired.

On March 14, 2005, we entered into a five-year interest rate swap agreement to hedge interest expense on a notional amount of \$1.25 billion. The notional amount will amortize down to \$625 million from March 14, 2008 until expiration on March 15, 2010. In relation to this swap agreement, we exchanged our floating-rate obligation on \$1.25 billion of our Term Loan B-1 Facility for a fixed-rate obligation, subject to scheduled rate increases based on the LIBOR rate used.

The counterparties to this agreement are highly rated financial institutions. In the unlikely event that the counterparties fail to meet the terms of the interest rate swap agreement, our exposure is limited to the interest rate differential on the notional amount at each quarterly settlement period over the life of the agreements. We do not anticipate non-performance by the counterparties.

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The fair value of the interest rate swap agreement is the estimated amount that we would pay or receive to terminate the agreement at the reporting date, taking into account current interest rates, the market expectation for future interest rates and our current creditworthiness. The interest rate swap agreement remained undesignated through May 24, 2005, and the decrease in the fair value of the interest rate swap of approximately \$18.6 million was recorded within loss on undesignated interest rate swap in our consolidated statement of operations for the six months ended June 30, 2005, in accordance with the provisions of SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities as amended and interpreted (SFAS 133). Between May 25, 2005 and June 30, 2005, the interest rate swap was designated as a cash flow hedge and deemed effective and, therefore, qualified for hedge accounting treatment under SFAS 133. In accordance with SFAS 133, changes in the hedged asset or liability representing the effectiveness of the hedge were recorded within accumulated other comprehensive income (loss) in our consolidated balance sheet. The balance within accumulated other comprehensive income (loss) related to the interest rate swap was approximately \$1.4 million and \$1.3 million, net of income taxes at December 31, 2005 and June 30, 2006, respectively. For the six months ended June 30, 2005, \$630 thousand of hedge ineffectiveness was recorded as additional interest expense.

Pursuant to SFAS 133, we are required to perform a quarterly analysis of the effectiveness of the hedge. Under SFAS 133, in order to maintain the effectiveness of the hedge, an effectiveness rate of between 80% and 125% must be maintained. This effectiveness rate is calculated by dividing the cumulative change in the hedge liability by the cumulative change in the cash flows of the debt being hedged. As of September 30, 2005, we completed our effectiveness assessment in relation to this swap agreement. As a result of this test, it was determined that the interest rate swap agreement was no longer an effective hedge and, therefore, did not qualify for hedge accounting treatment under SFAS 133. As a result, the interest rate swap has been undesignated from July 1, 2005 through June 30, 2006 and, therefore, the increase in the fair value of the interest rate swap from January 1, 2006 through June 30, 2006, and swap interest earned during the six months ended June 30, 2006 totaling \$23.1 million were recorded within gain on undesignated interest rate swap in our consolidated statement of operations.

As of June 30, 2005, the long-term liability related to this interest rate swap of \$22.1 million was included in deferred credits and other and as of June 30, 2006, the asset related to this interest rate swap of \$24.2 million was included in deferred charges and other assets net within our condensed consolidated balance sheet.

On the interest rate reset date of June 14, 2006, the interest rate which the counterparties will utilize on September 14, 2006 to compute interest due to us was determined to be 5.319%. This will result in the counterparties paying us approximately \$2.9 million on September 14, 2006 (the difference between the rate we must pay of 4.422% and the rate we will receive from the counterparties of 5.319%).

7. Acquisitions

On August 31, 2005, we acquired multiple European orbital slots, as well as a satellite with European, Middle Eastern, African and Asian coverage from Alcatel, a French communications company, for a purchase price of approximately \$60.2 million plus liabilities and costs incurred in relation to the acquisition of approximately \$13.7 million, including \$9.0 million of contingent performance payments due to Alcatel in addition to the purchase price. This acquisition was accomplished in order to strengthen our presence in these markets and expand our global reach into key growth regions. Through June 30, 2006, we paid \$48.0 million of this aggregate purchase price from cash on hand, including a purchase price installment of \$5.0 million which was paid in May 2006. The satellite acquired, formerly known as Europe*Star 1, was renamed PAS-12, and is capable of providing a broad range of enhanced services to European customers for program distribution,

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broadcast contribution and enterprise networking. The agreement provides for a future purchase price installment in August 2006 of \$15.2 million and future performance payment installments plus related interest contingent on the future performance of the satellite. The results of this acquisition have been included in our fixed satellite services segment from the date of acquisition.

8. Stock Based Compensation

Effective January 1, 2006, we adopted SFAS No. 123 (Revised 2004), Share-Based Payment, (SFAS 123R) using the prospective method. Accordingly, prior periods have not been restated. We also adopted the fair value recognition provisions of SFAS 123, Accounting for Stock Based Compensation (SFAS 123) on January 1, 2003, for all employee awards granted on or after January 1, 2003, pursuant to SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148). As such, we recorded compensation expense for employee stock options granted after December 31, 2002, but not in relation to previous awards granted. Awards granted prior to January 1, 2003 were accounted for in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Prior to our adoption of SFAS 123R, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. SFAS 123R now requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. The adoption of SFAS 123R as required on January 1, 2006 did not have a material impact on our consolidated financial statements.

1997 Stock Incentive Plan On May 5, 1997, our board of directors adopted the PanAmSat Corporation Long-Term Stock Incentive Plan (the 1997 Stock Plan), which provides for the granting of nonqualified stock options, incentive stock options, alternate appreciation rights, restricted stock, performance units and performance shares to executive officers, other employees, directors and its independent contractors. Awards were granted at the discretion of the Compensation Committee on such terms as the committee decided. Effective December 7, 2000, we amended the 1997 Stock Plan to provide that, upon a Change-in-Control (as defined) of it, all unvested stock options and other awards granted under the 1997 Stock Plan would immediately vest and become exercisable, and restrictions on any awards, such as restricted stock, would immediately lapse.

Upon consummation of the Recapitalization, which constituted a Change-in-Control as defined in the 1997 Stock Plan, all outstanding employee stock options vested and became exercisable, and all outstanding restricted shares and restricted stock units immediately vested. Certain members of our management agreed not to have certain of their equity interests cashed out in the Recapitalization; existing options, restricted shares and restricted stock units granted to such individuals remain outstanding as options and shares.

In October 2004, Holdco assumed the 1997 Stock Plan, and the outstanding stock options were converted into an aggregate of 762,372 options to purchase shares of Holdco common stock. No new awards have been made, and no new awards can be made, under the 1997 Stock Plan since March 31, 2004.

2004 Stock Option Plan On August 20, 2004, our board of directors adopted the 2004 Stock Option Plan for Key Employees of PanAmSat Corporation (the 2004 Stock Plan), which provides for the granting of stock options, stock appreciation rights and dividend equivalent rights to executive officers, other employees, and others having a relationship with it or its subsidiaries. In 2004, we granted options to purchase 3,578,828 shares of common stock at an exercise price of \$4.21.

In October 2004, Holdco assumed the 2004 Stock Plan in connection with the Contribution and all outstanding options became options of Holdco. Subsequently, Holdco granted 702,597 options in October 2004

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at an exercise price of \$4.21 and 26,339 options in February 2005 at an exercise price of \$18.04. The maximum number of shares that can be issued under the 2004 Stock Plan is 9,500,000. New shares issued would be issued to satisfy any stock option exercises.

There have been no grants, exercises, forfeitures, expirations or cancellations in either the 1997 Stock Plan or the 2004 Stock Plan during the three and six months ended June 30, 2006, as shown below:

	Shares	Weighted Average Exercise Price	Range
1997 Stock Plan			
Balance at December 31, 2005	762,372	\$ 3.46	\$ 3.43-\$4.04
Balance at June 30, 2006	762,372	\$ 3.46	\$ 3.43-\$4.04
Exercisable at June 30, 2006	762,372	\$ 3.46	\$ 3.43-\$4.04
2004 Stock Plan			
Balance at December 31, 2005	4,307,764	\$ 4.29	\$ 4.21-\$18.04
Balance at June 30, 2006	4,307,764	\$ 4.29	\$ 4.21-\$18.04
Exercisable at June 30, 2006	861,556	\$ 4.29	\$ 4.21-\$18.04

	Options Outstanding at June 30, 2006	Weighted Average Remaining Contractual Life Options Outstanding and Exercisable	Weighted Average Exercise Price of options outstanding	Options Exercisable As of June 30, 2006	Weighted Average Exercise Price of options exercisable
Range of Exercise Prices					
1997 Stock Plan					
\$3.43-\$4.04	762,372	8.14	\$ 3.46	762,372	\$ 3.46
2004 Stock Plan					
\$4.21-\$18.04	4,307,764	8.17	\$ 4.29	861,556	\$ 4.29

For the six months ending June 30, 2005 and 2006, there were no options exercised, no related tax benefits realized and no cash inflows from share-based compensation in financing activities. The total intrinsic values of stock options outstanding as of June 30, 2005 and 2006 were approximately \$82.9 million and \$105.5 million, respectively. The total intrinsic values of stock options exercisable as of June 30, 2005 and 2006 were approximately \$13.0 million and \$34.2 million, respectively. As of June 30, 2006, there was approximately \$4.8 million in unamortized compensation cost related to our outstanding stock options, which is expected to be recognized over a weighted average period of approximately 5.2 years.

The stock options granted in the third and fourth quarters of 2004 by both Holdco and us vest over five to eight years. Certain of the awards granted in the third and fourth quarters of 2004 vest over a five-year period based upon the passage of time and the remainder vest after an eight-year period, which may be reduced if certain pre-established company operating performance targets are achieved. The 2005 operating performance targets established for the plan were met, resulting in the accelerated vesting of 20%, or 445,814, of the 2,229,072 outstanding performance based options. Compensation expense for these nonqualified stock options is based on the fair value of the options at the respective grant dates utilizing the Black-Scholes model for estimating fair value. Holdco recorded stock compensation expense of \$0.3 million, as well as related tax benefits of \$0.1 million in both three-months periods ended June 30, 2005 and 2006, in relation to the options

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granted under the 2004 Stock Plan. For the six months ended June 30, 2005 and 2006, stock compensation expense of \$0.5 million and related tax benefits of \$0.2 million were recorded for both periods. These amounts were recorded by Holdco as they were not considered material in relation to our financial statements.

During the first quarter of 2005, we granted 26,339 stock options under the 2004 Stock Plan. The weighted average fair value per option granted during the six months ended June 30, 2005 was \$2.62. This estimate was based on the Black-Scholes option pricing model with the following weighted average assumptions:

The risk-free rate of the options granted was based on the U.S. Treasury yield curve in effect at the time of grant.

The expected life of the options granted was estimated using the historical exercise behavior of employees.

The dividend yield and stock volatility of the options granted were based on the fact that we were privately held at that time and had no plan to issue dividends to our then existing shareholders.

	Six months ended June 30, 2005
Risk free rate	3.82%
Dividend yield	0%
Expected life	6.8 years
Stock volatility	0%

Deferred Stock Units We have a Supplemental Savings Plan and a Deferred Compensation Plan for eligible employees. Under both plans, executives and other highly compensated employees are entitled to defer a portion of their compensation to future years. In July 2004, our board of directors amended the Deferred Compensation Plan and the Supplemental Savings Plan to permit certain senior executives to elect to have all or part of their accounts under the plans invested in deferred stock units, each of which represented the notional right to receive a share of our common stock. The deferred stock units were converted into a notional right to receive a share of Holdco common stock at the same conversion ratio as for the other transactions in the Recapitalization. As of the date of conversion, these deferred stock units represented the notional right to receive 202,213 shares of Holdco common stock, on an adjusted basis, with a value of \$1.5 million. During 2005, we reclassified this amount from our liability for deferred compensation plans to additional paid-in capital as these deferred stock units were expected to be paid out in shares of Holdco common stock, rather than in cash. Additionally, these deferred stock units, all of which were outstanding and vested as of June 30, 2006, are entitled to accrue credits in the same amount as dividends paid to holders of Holdco's common stock. For the three months ended June 30, 2005 and 2006, we recorded compensation expense of \$0.1 million in each period, and for the six months ended June 30, 2005 and 2006, we recorded compensation expense of \$0.6 million and \$0.2 million, respectively, in relation to these deferred stock units.

In connection with the Intelsat Merger, we terminated both the Supplemental Savings Plan and the Deferred Compensation Plan immediately before the closing on July 3, 2006. Payments of account balances to participants of the plans are expected to be made within twelve months of the plans' termination. As of June 30, 2006, our liabilities for the two plans totaled approximately \$15.2 million. Additionally, the settlement of the 0.2 million deferred stock units held within the Deferred Compensation Plan resulted in an additional liability of approximately \$5.1 million, which was paid in connection with the closing of the Intelsat Merger. As stated above, \$1.5 million of this amount was recorded within additional paid in capital in our consolidated balance sheet as of June 30, 2006. The difference of \$3.6 million was expensed in connection with the Intelsat Merger in July 2006.

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On September 16, 2004, our board of directors approved a revised compensation program for our non-employee directors. Each non-employee director was entitled to annual cash compensation of \$50,000, and was also granted options to purchase 65,848 shares of common stock. The chairman of our board of directors received an additional annual fee of \$100,000 and was granted options to purchase an additional 65,848 shares. Holdco has assumed this program and the options are now for Holdco stock at the modified price of \$4.21.

On June 8, 2005, the Compensation Committee of our board of directors and that of Holdco approved a combined compensation program for non-employee directors. Costs of this compensation program are shared equally by Holdco and us. Non-employee directors are compensated \$70,000 per annual term, \$35,000 paid in cash, quarterly and as earned, and \$35,000 paid in shares of Holdco common stock, calculated using the closing price of our common stock on the day prior to the grant date.

For the initial board term following the closing of the initial public offering of Holdco's common stock on March 22, 2005, the \$35,000 in compensation paid in shares of our common stock was calculated as above and granted on the date the plan was approved. Accordingly, each non-employee director was granted 1,747 shares on June 8, 2005. Common stock issued to non-employee directors as compensation is not transferable until vested. The common stock granted on June 8, 2005, vested on March 22, 2006.

The terms of the 2006 compensation program for non-employee directors remained the same as the 2005 compensation program through July 3, 2006 except that the \$35,000 per director previously paid in shares of our common stock was paid in cash in April 2006.

In addition to compensation for service on our board, our prior Audit Committee members were paid \$7,500 per term, our prior Compensation Committee members \$5,000 per term, our prior Chairman of the board \$100,000 per term, our prior Audit Committee Chairman \$20,000 per term, and our prior Compensation Committee Chairman \$10,000 per term, each payable quarterly in cash and as earned.

During the three months ended June 30, 2005 and 2006, we recorded expense of approximately \$0.1 million and \$0.2 million, respectively, and during the six months ended June 30, 2005 and 2006, we recorded expense of approximately \$0.2 million and \$0.3 million, respectively, related to this compensation plan.

On July 3, 2006 in connection with the completion of the Intelsat Merger, all shares of Holdco's outstanding common stock, stock options and deferred stock units, except for the options discussed below, were convertible into shares of Holdco common stock and were cashed out. The holders of such equity based arrangements received the \$25 per share Intelsat Merger consideration (plus approximately \$0.00927 per share in respect of undeclared regular quarterly dividends) as a result of the completion of the Merger. In the third quarter of 2006, we expect to record total costs related to these equity based arrangements of between \$100 million and \$110 million as a result of the completion of the Intelsat Merger on July 3, 2006.

Certain of our senior executives were offered, and accepted, employment with post-merger Intelsat and, as a result, agreed not to have certain of their stock options cashed out in the Intelsat Merger. As a result, a total of 168,349 options granted to such individuals were converted into options in Intelsat Holding, Ltd., and remain outstanding.

9. Facilities Restructuring and Severance Costs

Facilities restructuring and severance costs were \$0.4 million and \$0.0 million for the three months ended June 30, 2005 and 2006, and \$3.8 million and \$0.0 million for the six months ended June 30, 2005 and 2006, respectively.

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In January 2003, our management approved a plan to consolidate certain of our teleports in order to improve customer service and reduce operating costs. This teleport consolidation plan included the closure of certain owned teleports and the reduction of services at our Fillmore and Castle Rock teleports. Under this plan, our Homestead, Florida teleport was closed in 2003 and, in June 2004, we closed our Spring Creek, New York teleport. We sold our Spring Creek teleport on October 28, 2004, and our Homestead teleport on June 3, 2005. During the three months ended June 30, 2005 and 2006, we did not record any charges related to this teleport consolidation plan. During the six months ended June 30, 2005 and 2006, we recorded charges of \$2.5 million and \$0.0 million, respectively, related to this teleport consolidation plan, representing costs to relocate equipment.

On March 29, 2002, our management approved a plan to restructure several of our United States locations and close certain facilities, some of which are currently being leased through 2011. In an effort to further streamline our operations, in the first quarter of 2004, we consolidated our Manhattan Beach, El Segundo and Long Beach, California facilities. In the first quarter of 2005, we recorded a non-cash charge of approximately \$0.4 million in relation to increased future lease costs related to one of our idle facilities. There were no such charges recorded during the six months ended June 30, 2006.

As part of our continuing effort to improve operational efficiencies, in October 2004 our management approved plans to reduce our workforce by approximately 25 employees. During the three months ended June 30, 2005 and 2006, we recorded severance charges of \$0.4 million and \$0.0 million, respectively, and during the six months ended June 30, 2005 and 2006, we recorded severance charges of approximately \$0.8 million and \$0.0 million, respectively related to severance plans. These severance costs were primarily related to employee compensation, benefits and outplacement services.

The following table summarizes the recorded accruals and activity related to the teleport consolidation, facilities restructuring and severance charges during the six months ended June 30, 2006 (in millions):

	Facilities Restructuring Plans	Teleport Consolidation Plan	Severance Plans	Total
Balance as of January 1, 2006	\$ 5.3	\$	\$ 0.4	\$ 5.7
Restructuring charges				
Non-cash items			(0.1)	(0.1)
Net cash payments	(0.5)		(0.3)	(0.8)
Balance as of June 30, 2006	\$ 4.8	\$	\$ 0.0	\$ 4.8

We expect to pay the \$4.8 million of liabilities related to our facilities restructuring plan over the next five years.

10. Interest Expense Net

Interest expense for the three months ended June 30, 2005 and 2006 is recorded net of capitalized interest of \$6.2 million and \$7.1 million, respectively, and interest income of \$0.7 million and \$1.6 million, respectively. Interest expense for the six months ended June 30, 2005 and 2006 is recorded net of capitalized interest of \$11.0 million and \$13.0 million, respectively, and interest income of \$1.3 million and \$2.8 million, respectively. Included in interest expense for the three and six months ended June 30, 2005 is approximately \$46.5 million and \$56.0 million, respectively, of unamortized debt issuance costs which were written-off as a result of the

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\$290.0 million debt repayment made on our senior secured credit facilities on March 22, 2005, the redemption of \$353.3 million, or 35%, of our 2014 senior notes on April 1, 2005, including the redemption premium of \$31.8 million paid to the holders of these notes, and the voluntary prepayment of \$28.4 million on June 17, 2005 under our Term Loan A facility from available cash on hand. There were no such charges recorded during the three and six months ended June 30, 2006.

11. Commitments and Contingencies

Satellite Incentive Obligations

Satellite construction contracts typically require that we make progress payments during the period of the satellite's construction and orbital incentive payments (plus interest) over the orbital life of the satellite. The incentive obligations may be subject to reduction if the satellite fails to meet specific technical operating standards. As of June 30, 2006, we had \$104.6 million of liabilities recorded in relation to these satellite incentive obligations. Certain of our satellite construction contracts also provide that certain amounts paid by us during the construction phase are subject to refund (with interest) if the satellite fails to meet these technical operating standards.

Operating Leases

We have commitments for operating leases primarily relating to equipment and our former executive office facilities in Wilton, Connecticut and various other locations. These leases contain escalation provisions for increases as a result of increases in real estate taxes and operating expenses. As of June 30, 2006, minimum annual rentals of all leases, exclusive of potential increases in real estate taxes, operating assessments and future sub-lease income aggregated approximately \$24.7 million.

Satellite Construction and Launch Commitments

As of June 30, 2006, we had approximately \$76.1 million of expenditures remaining under existing satellite construction contracts and \$114.0 million remaining under existing satellite launch contracts. Satellite launch and in-orbit insurance contracts related to future satellites to be launched are cancelable up to thirty days prior to the satellite's launch. As of June 30, 2006, we did not have any non-cancelable commitments related to existing launch insurance or in-orbit insurance contracts for satellites to be launched.

On April 12, 2005, we entered into an agreement for the construction of PAS-11, which will be located at 43 degrees west longitude and will serve as a replacement for our PAS-6B Ku-band satellite and the C-band portion of our PAS-3R satellite. In July 2005, we signed an agreement for the launch of this satellite in the first quarter of 2007. Additionally, we have an agreement with one of our major customers for the funding of a portion of the capital expenditures necessary to construct and launch PAS-11 in this timeframe. Such funding represents an obligation for us when it is received from the customer. As of June 30, 2006, we received approximately \$77.5 million of funding from this customer. This obligation is scheduled to be repaid to the customer over a three-year period beginning in the second half of 2006. Within our consolidated balance sheet as of June 30, 2006, \$32.6 million of this obligation was recorded within short-term accounts payable and accrued liabilities, while the remainder of \$44.9 million was recorded within long-term deferred credits and other.

On December 5, 2005, we entered into agreements with the same customer and with the manufacturer of our PAS-11 satellite, which, among other things, allows the customer to procure directly from the manufacturer long-lead items that could be used for the construction of a replacement satellite for PAS-11 on an expedited basis, if

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needed. Pursuant to the agreement with the customer, we would be required to construct and launch a replacement for PAS-11 in the event of a launch failure or other significant health related issue impacting PAS-11's Ku-band transponders within two years after completion of its in-orbit testing. This customer has leased all of the Ku-band capacity on PAS-11 and would be required to lease all of the Ku-band capacity on a replacement satellite for PAS-11, if such replacement satellite is required.

Horizons Contribution Obligation

On August 1, 2005, we formed our second 50-50 joint venture with JSAT, a leading satellite operator in the Asia-Pacific region, that will build and launch a Ku-band satellite to replace our SBS-6 satellite at 74 degrees west longitude. The joint venture is named Horizons-2. The satellite will support digital video, high-definition television and IP-based content distribution networks to broadband Internet and satellite news gathering services in the United States. This Horizons-2 satellite is currently being constructed and is expected to be in service by late 2007. The total investment in this joint venture is expected to be approximately \$165 million, of which each of the joint venture partners is required to fund their 50% share beginning in early 2008. Our investment in this joint venture is being accounted for using the equity method. As of June 30, 2006, we have recorded a liability of \$82.7 million within our consolidated financial statements in relation to the future funding of this investment in Horizons-2.

Europe*Star Purchase Price Obligation

On August 31, 2005, we acquired certain assets and liabilities of the Europe*Star business for a purchase price of approximately \$60.2 million plus liabilities and costs incurred in relation to the acquisition of approximately \$13.7 million, including \$9.0 million of contingent performance payments due to Alcatel in addition to the purchase price. The agreement provides for purchase price installments during 2006 of \$20.2 million, of which \$5.0 million was paid in May 2006 and \$15.2 million will be paid in August 2006, and future performance payment installments plus related interest contingent on the future performance of the satellite. (See Note 7. Acquisitions.)

Satellite Insurance

On January 15, 2006, our Galaxy 3R satellite, operating in an inclined orbit at 74 degrees WL, experienced an anomaly of its secondary spacecraft control processor (SCP) and was taken out of service. This satellite had no net book value as of December 31, 2005 and this event is not expected to have a material impact on our future operations or financial results. In January 2006, our Galaxy 12 satellite was replaced by our Galaxy 14 satellite and Galaxy 12 became an in-orbit spare. Additionally, in late February 2006, our Galaxy 1R satellite was replaced by our Galaxy 15 satellite and on March 3, 2006, Galaxy 1R was de-orbited. On June 18, 2006, we successfully launched our Galaxy 16 satellite into orbit. This satellite will replace our Galaxy 4R satellite at 99 degrees WL and is expected to be operational in the third quarter of 2006. Upon replacement, we expect to place our Galaxy 4R satellite into non-primary operating service at an inclined orbit at 77 degrees WL.

As of June 30, 2006, we had in effect launch and in-orbit insurance policies covering five satellites in the aggregate amount of approximately \$512.6 million. As of such date, these insured satellites had an aggregate net book value and other insurable costs of \$535.7 million. We had 19 uninsured satellites in orbit as of June 30, 2006 as follows: PAS-4, which is used as a backup satellite; PAS-5 and PAS-7, for which we received insurance proceeds for constructive total losses; SBS-6, which is approaching the end of its useful life; Galaxy 4R, Galaxy 10R, Galaxy 11 and PAS-1R, for which we received insurance proceeds for partial losses; PAS-2, PAS-3R,

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PAS-6B, PAS-8, PAS-9, PAS-10, Galaxy 3C, Galaxy 9, and Galaxy 12, for which we determined that insurance was not available on commercially reasonable terms; and HGS-3 and Leasat, which have an aggregate book value of approximately \$0.4 million. Our Galaxy 9 and Galaxy 12 satellites currently serve as in-orbit backups for the C-band portions of Galaxy 3C, Galaxy 4R, Galaxy 10R, Galaxy 11 and Galaxy 13/Horizons 1 and will serve as in-orbit backups for the C-band portion of our Galaxy 16 satellite once it is placed in service. In addition, Galaxy 9 also serves as a back-up for Galaxy 12. The C-band portion of the satellites that were covered by C-band in-orbit backups had an aggregate net book value of approximately \$280.6 million as of June 30, 2006.

Of the insured satellites, as of June 30, 2006, one was covered by an insurance policy with substantial exclusions or exceptions to coverage for failures of specific components identified by the underwriters as at risk for possible failure, or Significant Exclusion Policies. The exclusions reduce the probability of an insurance recovery in the event of a loss on this satellite. Galaxy 13/ Horizons 1, which was placed in service in January 2004 and is insured by a policy with an exclusion for Xenon-Ion Propulsion Systems (XIPS) related anomalies, continues to have XIPS available as its primary propulsion system. Certain enhancements have been made to the XIPS on this satellite to make the systems more robust. In addition, Galaxy 13/Horizons 1 has available backup bi-propellant of approximately 10.3 years as of June 30, 2006.

At June 30, 2006, the uninsured satellites and the satellite insured by a Significant Exclusion Policy had a total net book value and other insurable costs of approximately \$1,142.7 million. Of this amount, \$1,055.5 million related to uninsured satellites and \$87.2 million related to the satellite insured by a Significant Exclusion Policy. Upon the expiration of the insurance policies, there can be no assurance that we will procure new policies.

An uninsured failure of one or more of our satellites could have a material adverse effect on our financial condition and results of operations. In addition, higher premiums on insurance policies will increase our costs, thereby reducing our income from operations by the amount of such increased premiums.

Customer and Vendor Obligations

We have contracts with certain of our customers which require us to provide equipment, services and other support during the term of the related contracts with us and we have long-term contractual obligations with service providers primarily for the operation of certain of our satellites. As of June 30, 2006, we had commitments under these customer and vendor contracts which aggregated approximately \$201.9 million related to the provision of equipment, services and other support.

In July 2005, we entered into a series of contracts, one of which obligates us to guarantee the performance of one of our customers serving as the general contractor for an unrelated third party under a Contractor's Bond in the amount of approximately \$8.8 million. We believe that if the customer defaults on its obligations to the unrelated third party, we will take the place of the customer as the general contractor on the overall project. Accordingly, we have recorded a non-contingent liability and a deferred charge of approximately \$0.8 million to reflect the fair value of our obligation to stand ready to perform under the terms of the guarantee in accordance with the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). We have also determined that we have no contingent liability under these contracts as prescribed in Statement of Financial Accounting Standards No. 5, Accounting for Contingencies because the likelihood that we will be required to perform under the agreements is remote.

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At the completion of the project, which is expected to occur within the next year, we will be relieved from our non-contingent obligations under the indemnity agreement. Accordingly and based on the provisions of FIN 45, the balance of the non-contingent liability is being amortized ratably against selling, general and administrative expenses over the overall term of the project based on the percentage of the overall project completed in each period. The deferred charge is being amortized against revenues over the term of the related customer contracts based upon the percentage of total customer revenues recognized in each period. As of June 30, 2006, the balances of the liability and the related deferred charge were both approximately \$0.4 million.

Change-in-Control Obligations

Certain of our senior executives are party to change-in-control severance agreements which provide for payment of severance and other benefits in the event of an involuntary termination of the executive's employment (as defined in such agreements) within three years after a change in control. The closing of the Intelsat Merger on July 3, 2006 constituted a change in control which satisfied the conditions for payment under these agreements. Accordingly, the payments required under these severance agreements will become payable by us if an involuntary termination of an executive occurs during the periods specified by the agreements. As a result of the completion of the Intelsat Merger, certain of our senior executives were involuntarily terminated. Certain of our other senior executives were offered, and accepted, employment with post-merger Intelsat and as a result, were not eligible to receive any payments related to their respective change-in-control agreements. The pre-tax cost of termination-related benefits specified by the severance agreements of those senior executives that were involuntarily terminated was \$8.5 million, which was expensed in July 2006 in connection with the closing of the Intelsat Merger.

In connection with the Intelsat Merger, our board of directors approved the adoption of a 2005 Severance Pay Plan on terms similar to our existing 2003 Severance Pay Plan and authorized a retention pool of up to \$10 million for employees. Retention bonuses totaling approximately \$9.6 million have been designated for employees, of which \$4.1 million has been expensed through June 30, 2006. The remainder of \$5.5 million will be expensed over the required employee service periods following the completion of the Intelsat Merger through the first quarter of 2008. The 2005 Severance Pay Plan allows for the payment of enhanced severance to employees laid off or who resign for good reason (as defined in such plan) due to, and within 18 months following, a change in control (as defined in such plan). As a result of the completion of the Intelsat Merger, a change-in-control (as defined in the plan) occurred in July 2006. The total expected cost of future severance and related costs to be paid pursuant to the 2005 Severance Pay Plan as a result of the completion of the Intelsat Merger is estimated to be approximately \$16.0 million.

As more fully described in Note 8 *Stock Based Compensation*, we and Holdco granted stock options to certain employees and non-employee directors subsequent to the Recapitalization. The options granted by us were assumed by Holdco in October 2004. The vesting of the stock options was to accelerate in the event of certain changes in control of Holdco. In addition, certain employees received deferred stock units, each of which represented the notional right to receive a share of Holdco common stock. Upon the completion of the Intelsat Merger, all outstanding options and other equity based arrangements, with the exception of 168,349 stock options which were converted into options of Intelsat Holdings, Ltd., became fully vested and were converted into a right to receive cash as required by the Intelsat Merger Agreement. The holders of such equity based arrangements received the \$25 per share Intelsat Merger consideration (plus approximately \$0.00927 per share in respect of undeclared regular quarterly dividends) as a result of the completion of the Merger. In the third quarter of 2006, we expect to record total costs related to these equity based arrangements of between \$100 million and \$110 million as a result of the completion of the Intelsat Merger on July 3, 2006.

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We estimate that the maximum tax costs related to the executive change-in-control obligations and the stock based compensation obligations, including reimbursement of employee excise taxes and lost income tax deductions, will be approximately \$35 million.

Foreign Withholding Taxes

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 total amount assessed for all periods from March 31, 1996 through March 31, 2004 is approximately \$64.1 million. We are contesting the imposition of such taxes. On August 11, 2006, the Income Tax Appellate Tribunal in New Delhi issued a decision which overturned the tax assessment for the 1997/98 assessment year. If the decision is not appealed or is ultimately upheld on appeal, this decision would resolve the dispute at issue in our favor. However, there can be no assurance that the tax authorities will not appeal this decision to the High Court. While this contest proceeds, we have been required to advance cash and provide letters of credit totaling approximately \$54.7 million. As of June 30, 2006, we had 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. In connection with the Recapitalization, The DIRECTV Group, which controlled us prior to the Recapitalization, agreed to indemnify us for these and certain other taxes related to any periods or portions of such periods ending on or prior to the day of the closing of the Recapitalization in amounts equal to 80% of the first \$75.0 million of such taxes and 100% of such taxes in excess of the first \$75.0 million. As a result, our net tax liability related to these periods is capped at \$15.0 million.

In relation to the tax separation agreement we entered into with The DIRECTV Group as part of the Recapitalization, we have recorded a \$49.4 million receivable at June 30, 2006 related to foreign withholding tax claims made against us by the Indian government, the related payments made to date by us on those claims, and for certain other foreign and domestic tax claims against us and tax payments made by us.

Additional Tax Contingencies

Management has increased its accrual by \$5.2 million related to tax exposure items for periods prior to 2006 and recorded an additional expense in this amount in the second quarter of 2006. Management does not believe this item to be material with respect to the year as a whole.

Other

Boeing Satellite Systems, Inc., formerly Hughes Space and Communications Company, has security interests in certain transponders on our PAS-2, PAS-3, PAS-4 and PAS-5 satellites to secure incentive payments owed by us pursuant to satellite construction contracts.

We currently have outstanding letters of credit totaling \$54.6 million, which primarily relate to the India tax issue noted above.

We are involved in litigation in the normal course of our operations. Management does not believe the outcome of such matters will have a material effect on the consolidated financial statements.

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12. Certain Relationships and Related Transactions

Transactions with the Prior Sponsors and their Affiliates

The Prior Sponsors provided management and advisory services to us pursuant to management services agreements executed at the closing of the Recapitalization. The Prior Sponsors charged us an aggregate management fee of \$2.0 million annually for the provision of these services, subject to an annual increase of three percent. In connection with, and effective upon completion of, Holdco's initial public offering on March 22, 2005, each of the Prior Sponsors terminated their respective management services agreements for an aggregate consideration of \$10.0 million. For the period from January 1, 2005 through March 22, 2005, we recorded approximately \$10.4 million of expense for these management fees (including the termination payment). The annual advisory fee did not include, and the Prior Sponsors were entitled to receive, additional compensation for providing investment banking or other advisory services provided in connection with any specific acquisition or divestiture transactions or in the event the Prior Sponsors perform services above and beyond those previously called for by the agreements. During the three months ended June 30, 2005 and 2006, we reimbursed the Prior Sponsors for approximately \$75 thousand and \$40 thousand, respectively, and during the six months ended June 30, 2005 and 2006, we reimbursed the Prior Sponsors for approximately \$98 thousand and \$48 thousand, respectively, for expenses incurred. Certain members of our former board of directors whose services were compensated were principals of or were affiliated with the Prior Sponsors.

We provide satellite capacity, TT&C and other related services to affiliates of the Prior Sponsors. Revenues for these services were \$0.6 million and \$0.7 million for the three months ended June 30, 2005 and 2006, respectively and \$1.2 million and \$1.5 million for the six months ended June 30, 2005 and 2006, respectively. As of December 31, 2005 and June 30, 2006, we had customer receivables related to these affiliates of approximately \$550 thousand and \$28 thousand, respectively. Included in our total contracted backlog of \$4.56 billion as of June 30, 2006 is approximately \$13.5 million of contracted backlog from these affiliates of the Prior Sponsors. Contracted backlog represents future cash payments expected from customers under all long-term contractual agreements.

During the three and six months ended June 30, 2005, we procured \$0.1 million and \$0.9 million, respectively, of insurance and insurance-related services from an affiliate of one of the Prior Sponsors. This company was no longer an affiliate of the Prior Sponsor in 2006.

Other Related Party Transactions

We have a 50% ownership interest in the Horizons-1 joint venture, which we account for under the equity method of accounting. We lease Ku-band satellite capacity on the Horizons I satellite, which is owned by this joint venture. During the three months ended June 30, 2005 and 2006, we recorded expenses of approximately \$0.9 million and \$1.0 million, respectively, and during the six months ended June 30, 2005 and 2006, we recorded expenses of approximately \$1.8 million and \$2.0 million, respectively, in relation to the lease of such Ku-band satellite capacity. Additionally, we provide telemetry, tracking and control services for the Horizons-1 satellite. During the three months ended June 30, 2005 and 2006, we recorded revenues of approximately \$0.2 million in each period. During the six months ended June 30, 2005 and 2006, we recorded revenues of approximately \$0.3 million in each period.

Other Relationships

We utilize the consulting and lobbying services of R. Thompson & Co., which is owned by Robert J. Thompson, Chairman of Jefferson Consulting Group. Mr. Wright, our Chief Executive Officer, owns a minority

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interest in Jefferson Consulting Group. Mr. Wright does not have any ownership or financial interest directly or indirectly in R. Thompson & Co. During the three months ended June 30, 2005 and 2006, we paid approximately \$30 thousand and \$30 thousand, respectively, and during the six months ended June 30, 2005 and 2006, we paid approximately \$95 thousand and \$61 thousand, respectively, in expenses for services provided by R. Thompson & Co.

During 2004, we retained Capstone Consulting to provide us with consulting services, primarily to identify and advise on potential opportunities to reduce our costs and identify other potential opportunities to grow our business. Although neither KKR nor any entity affiliated with KKR owns any of the equity of Capstone, KKR has provided financing to Capstone. We recorded approximately \$0.3 million and \$0.0 million, respectively, during the three months ended June 30, 2005 and 2006 and \$0.5 million and \$0.0 million for the six months ended June 30, 2005 and 2006, respectively, of expenses related to Capstone Consulting, all of which was paid through June 30, 2005.

13. Operating Segments

Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information (SFAS 131) establishes standards for reporting information about operating segments in annual financial statements of public business enterprises and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker(s) of an enterprise. We organized our company into two operating segments based upon the types of customers served, services provided and the economic characteristics of each segment. Our operating segments as of June 30, 2006 were:

Fixed Satellite Services (FSS): 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 direct-to-home, or DTH, television and provide TT&C and network services to customers.

The DIRECTV Group and The News Corporation, which are customers of our FSS segment, comprised approximately 15.2% and 11.2%, respectively, of our total revenues for the three months ended June 30, 2006 and 15.6% and 11.7%, respectively, of our total revenues for the six months ended June 30, 2006.

Government Services (G2): Through G2, we provided global satellite and related telecommunications services to the federal government, international government entities, and their contractors.

On June 30, 2006, G2 Satellite Solutions Corporation recorded a dividend to its parent, Intelsat Corp, in the amount of approximately \$19.6 million to settle an inter-company balance. This transaction resulted in a decrease in the total assets and shareholder s equity of our G2 segment of approximately \$19.6 million and a decrease in the total liabilities and an increase in stockholder s equity of our FSS segment of the same amount. This was an inter-company transaction and therefore had no effect on the consolidated financial statements of either Holdco or us.

Following completion of the Intelsat Merger, IGen acquired our subsidiary, G2 Satellite Solutions Corporation, which comprised our government services business, for cash consideration in the amount of \$73 million. The acquisition occurred by means of a merger in which G2 Satellite Solutions Corporation merged into IGen, with IGen continuing as the surviving entity.

Table of Contents**INTELSAT CORPORATION****(FORMERLY KNOWN AS PANAMSAT CORPORATION)****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 largely outside of the segment operating managers' control (Segment EBITDA). Segment EBITDA is presented herein because our chief operating decision maker evaluates and measures each business unit's performance based on its Segment EBITDA results.

Selected information for our operating segments is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
Revenues:				
FSS	\$ 198,448	\$ 215,464	\$ 392,317	\$ 415,547
G2	22,522	21,244	42,981	41,089
Eliminations	(7,118)	(7,178)	(12,638)	(13,877)
Total Revenues	\$ 213,852	\$ 229,530	\$ 422,660	\$ 442,759
Depreciation and Amortization Expense:				
FSS	\$ 66,875	\$ 68,720	\$ 136,350	\$ 138,062
G2	290	177	580	593
Total Depreciation and Amortization Expense	\$ 67,165	\$ 68,897	\$ 136,930	\$ 138,655
Income from Operations:				
FSS	\$ 72,126	\$ 105,112	\$ 141,618	\$ 207,409
G2	3,502	3,973	6,504	7,235
Total Income from Operations	\$ 75,628	\$ 109,085	\$ 148,122	\$ 214,644
Segment EBITDA:				
FSS	\$ 163,316	\$ 170,395	\$ 323,365	\$ 336,553
G2	\$ 4,068	\$ 4,293	\$ 7,490	\$ 7,961
Capital Expenditures:				
FSS	\$ 52,190	\$ 79,646	\$ 66,476	\$ 128,353
G2	476	148	1,240	912
Total Capital Expenditures	\$ 52,666	\$ 79,794	\$ 67,716	\$ 129,265

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	December 31, 2005	June 30, 2006
Assets:		
FSS	\$ 4,808,402	\$ 4,779,720
G2	44,933	25,374
Eliminations	(25,254)	(10,774)
Total Assets	\$ 4,828,081	\$ 4,794,320

Table of Contents**INTELSAT CORPORATION****(FORMERLY KNOWN AS PANAMSAT CORPORATION)****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth a reconciliation of income from operations to Segment EBITDA for our FSS operating segment and our G2 operating segment for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
FSS Operating Segment:				
Reconciliation of income from operations to Segment EBITDA:				
Income from operations	\$ 72,126	\$ 105,112	\$ 141,618	\$ 207,409
Depreciation and amortization	66,875	68,720	136,350	138,062
EBITDA	139,001	173,832	277,968	345,471
Adjustment of sales-type leases to operating leases (a)	6,677	3,261	13,210	8,762
Loss on termination of sales-type lease (b)			2,307	
Restructuring charges (c)	140	(12)	3,359	(26)
Reserves for long-term receivables (d)	(1,450)	(1,943)	(4,303)	(1,943)
Transaction-related costs (e)	12	832	10,545	2,712
Loss on investment (f)		3,316		3,316
(Gain) loss on undesignated interest rate swap (g)	18,637	(9,900)	18,637	(23,140)
Other items (h)	299	1,009	1,642	1,401
Segment EBITDA	\$ 163,316	\$ 170,395	\$ 323,365	\$ 336,553
G2 Operating Segment:				
Reconciliation of income from operations to Segment EBITDA:				
Income from operations	\$ 3,502	\$ 3,973	\$ 6,504	\$ 7,235
Depreciation and amortization	290	177	580	593
EBITDA	3,792	4,150	7,084	7,828
Restructuring charges (c)	276		406	(10)
Transaction-related costs (e)		143		143
Segment EBITDA	\$ 4,068	\$ 4,293	\$ 7,490	\$ 7,961

- (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 the six months ended June 30, 2005, loss on termination of sales-type lease represents the non-cash loss of \$2.3 million incurred upon the conversion of one of our customer's sales-type lease agreements to an operating lease agreement in the first quarter of 2005.
- (c) Restructuring charges represent severance costs, leasehold termination costs and/or other facility closure costs. (See Note 9. Facilities Restructuring and Severance Costs).
- (d) For the three months ended June 30, 2005, amount represents the reversal of approximately \$1.5 million of in-orbit insurance liabilities, representing previously recorded expenses for sales-type leases on our Galaxy 4R satellite that are no longer insured. For the six months ended June 30, 2005, amount represents the reversal of approximately \$4.3 million of in-orbit insurance liabilities, representing previously

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recorded expenses for sales-type leases on our Galaxy 4R and Galaxy 10R satellite that are no longer insured. During the six months ended June 30, 2005, the insurance policies covering our Galaxy 4R and Galaxy 10R satellites expired and were not replaced, and as a result, these satellites and their related assets were no

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INTELSAT CORPORATION

(FORMERLY KNOWN AS PANAMSAT CORPORATION)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- longer insured. For the three and six months ended June 30, 2006, amount represents the reversal of approximately \$1.9 million of in-orbit insurance liabilities, representing previously recorded expenses for sales-type leases on our PAS-10 satellite that is no longer insured. During the second quarter of 2006, the insurance policies covering our PAS-10 and Galaxy 3C satellites expired and were not replaced, and as a result, these satellites and their related assets were no longer insured.
- (e) For the three months ended June 30, 2005, amount primarily represents costs associated with Holdco's initial public offering. For the three months ended June 30, 2006, amount represents costs associated with the Intelsat Merger. For the six months ended June 30, 2005, amount represents (i) \$10.0 million paid to the Prior Sponsors on March 22, 2005 in relation to the termination of their respective management services agreement with us, (ii) costs associated with Holdco's initial public offering and (iii) non-capitalizable third party costs. For the six months ended June 30, 2006, amount represents costs associated with the Intelsat Merger.
 - (f) For the three and six months ended June 30, 2006, loss on investment represents an impairment loss in relation to an investment that we account for under the cost method. (See Note 14. Investment in Equity Securities Cost Method).
 - (g) For the three and six months ended June 30, 2005, loss on undesignated interest rate swap represents changes in the fair value of the interest rate swap obligation prior to the swap being designated as a hedge and qualifying for hedge accounting treatment under generally accepted accounting principles. For the three and six months ended June 30, 2006, amount represents the change in the fair value of the interest rate swap and swap interest earned. During the six months ended June 30, 2006, the interest rate swap was undesignated and therefore did not qualify for hedge accounting treatment under generally accepted accounting principles.
 - (h) For the three months ended June 30, 2005, other items consist of (i) \$0.1 million of expenses for management advisory services from the Prior Sponsors, (ii) \$0.1 million of non-cash stock compensation expense, (iii) \$0.1 million of acquisition fees, and (iv) \$0.2 million of loss from discontinued operations, offset by \$0.1 million gain on disposal of fixed assets and \$0.1 million gain from an equity investment. For the six months ended June 30, 2005, other items consist of (i) \$0.5 million of expenses for management advisory services from the Prior Sponsors, (ii) \$0.1 million loss on disposal of fixed assets, (iii) \$0.6 million of non-cash stock compensation expense, (iv) \$0.4 million loss from discontinued operations and (v) \$0.1 million of acquisition costs, less \$0.1 million of gains on equity investment. For the three months ended June 30, 2006, other items consist of (i) \$0.1 million of non-cash amortization of acquisition-related costs, (ii) \$0.1 million of non-cash stock compensation expense and (iii) \$0.7 million loss on disposal of fixed assets, and \$0.1 million of non-cash amortization related to a customer guarantee. For the six months ended June 30, 2006, other items consist of (i) \$0.5 million of non-cash amortization of acquisition-related costs, (ii) \$0.2 million of non-cash stock compensation expense and (iii) \$0.8 million loss on disposal of fixed assets, less \$0.1 million of gains on equity investment.
- 14. Investment in Equity Securities Cost Method**

In June 2006, we recorded an impairment loss of approximately \$3.3 million in relation to an investment that we account for under the cost method. We have determined that the decline in the fair value of this investment is other than temporary and, as a result, the cost basis of this investment was written down to its fair value of approximately \$0.4 million.

15. Condensed Consolidating Financial Information

Our 8 1/2% senior notes due 2012 and our 2014 senior notes are unconditionally guaranteed by certain of our domestic subsidiaries. The following disclosures reflect our Condensed Consolidating Financial Information for the periods presented.

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INTELSAT CORPORATION

(FORMERLY KNOWN AS PANAMSAT CORPORATION)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 1/2% Senior Notes due 2012

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2005, management determined that the previously presented condensed consolidating financial data for 2004 and 2005 did not reflect the investments in subsidiaries within Intelsat Corp under the equity method for purposes of the supplemental combining disclosure. The presentation within the supplemental combining disclosure within the March 31, 2006 Form 10-Q was restated to reflect all investments in subsidiaries under the equity method. In connection with the preparation of this quarterly report, it was determined that certain of the previously adjusted data disclosed in the supplemental combining disclosure within the March 31, 2006 Form 10-Q must be restated to properly reflect the impact of the application of the equity method with respect to previously reported balance sheet data as of December 31, 2004 and 2005 and March 31, 2006. Additionally, certain reclassifications were required to conform to the current period presentation.

The current presentation has been restated to reflect all investments in subsidiaries under the equity method. Net income (losses) of the subsidiaries accounted for under the equity method are therefore reflected in the parent's investment accounts. The principal elimination entries eliminate investments in subsidiaries and inter-company balances and transactions. The changes in presentation did not affect our consolidated financial position or consolidated results of operations, nor did the changes adversely impact our compliance with debt covenants or ratios.

Obligations under our 8 1/2% senior notes due 2012 are unconditionally guaranteed on a joint and several basis by certain of our existing domestic subsidiaries. In the first quarter of 2004, we reorganized portions of our subsidiary structure so that certain of our government sales activities operate through a wholly owned subsidiary, G2 Satellite Solutions Corporation. As a result, we are required to present consolidating financial information for our company and our subsidiaries within the notes to our condensed consolidated financial statements in accordance with the criteria established for parent companies in Rule 3-10(f) of Regulation S-X. In the second quarter of 2004, we determined that our non-guarantor subsidiaries, which at that time only included our foreign subsidiaries which do not guarantee the 8 1/2% senior notes due 2012, were no longer minor (as defined in Rule 3-10 (h) of Regulation S-X). Our satellite operating companies, which were formed during 2004, are also considered non-guarantor subsidiaries under our 8 1/2% senior notes due 2012, as all domestic subsidiaries formed subsequent to the consummation of the offering of these notes are not considered guarantors under these notes. Therefore, these non-guarantor subsidiaries are included within the following condensed consolidating financial statements for our 8 1/2% senior notes due 2012.

The following condensed consolidating financial information presents the results of operations and cash flows of Intelsat Corp, the Guarantor Subsidiaries, the Non-guarantor Subsidiaries (which are our international subsidiaries and our satellite operating companies) and the eliminations necessary to arrive at the information for our company on a consolidated basis as of December 31, 2005 and June 30, 2006 and for the three and six months ended June 30, 2005 and 2006. The principal elimination entries eliminate investments in subsidiaries and inter-company balances and transactions. The following information does not reflect the changes effected to our debt structure in connection with the completion of the Intelsat Merger on July 3, 2006.

Table of Contents**INTELSAT CORPORATION****(FORMERLY PANAMSAT CORPORATION)****CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS****FOR THE THREE MONTHS ENDED JUNE 30, 2005 (UNAUDITED)****(in thousands)**

	Intelsat Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Operating leases, satellite services and other	\$ 198,491	\$ 23,980	\$ 208,591	\$ (220,717)	\$ 210,345
Outright sales and sales-type leases	3,507				3,507
Total revenues	201,998	23,980	208,591	(220,717)	213,852
OPERATING COSTS AND EXPENSES:					
Cost of outright sales and sales-type leases	(1,450)				(1,450)
Depreciation and amortization	6,914	419	59,832		67,165
Direct operating costs (exclusive of depreciation and amortization)	208,730	18,075	27,803	(220,717)	33,891
Selling, general and administrative expenses	17,618	1,715	232		19,565
Facilities restructuring and severance costs	202	214			416
Loss on undesignated interest rate swap	18,637				18,637
Total operating costs and expenses	250,651	20,423	87,867	(220,717)	138,224
INCOME (LOSS) FROM OPERATIONS	(48,653)	3,557	120,724		75,628
INTEREST EXPENSE Net	76,022		18,754		94,776
INCOME (LOSS) BEFORE INCOME TAXES	(124,675)	3,557	101,970		(19,148)
INCOME TAX EXPENSE (BENEFIT)	(37,334)	1,477	35,585		(272)
EQUITY IN EARNINGS OF SUBSIDIARIES	68,465			(68,465)	
NET INCOME (LOSS)	\$ (18,876)	\$ 2,080	\$ 66,385	\$ (68,465)	\$ (18,876)

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(FORMERLY KNOWN AS PANAMSAT CORPORATION)
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2006 (UNAUDITED)
(in thousands)

	Intelsat Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Operating leases, satellite services and other	\$ 223,955	\$ 25,216	\$ 213,885	\$ (236,429)	\$ 226,627
Outright sales and sales-type leases	2,903				2,903
Total revenues	226,858	25,216	213,885	(236,429)	229,530
OPERATING COSTS AND EXPENSES:					
Cost of outright sales and sales-type leases	(1,943)				(1,943)
Depreciation and amortization	5,769	453	62,675		68,897
Direct operating costs (exclusive of depreciation and amortization)	224,544	19,464	30,187	(236,429)	37,766
Selling, general and administrative expenses	19,566	1,599	1,144		22,309
Loss on investment	3,316				3,316
Gain on undesignated interest rate swap	(9,900)				(9,900)
Total operating costs and expenses	241,352	21,516	94,006	(236,429)	120,445
INCOME (LOSS) FROM OPERATIONS	(14,494)	3,700	119,879		109,085
INTEREST EXPENSE (INCOME) Net	35,653	(1)	18,785		54,437
INCOME (LOSS) BEFORE INCOME TAXES	(50,147)	3,701	101,094		54,648
INCOME TAX EXPENSE (BENEFIT)	(16,742)	2,959	35,661		21,878
EQUITY IN EARNINGS OF SUBSIDIARIES	66,175			(66,175)	
NET INCOME	\$ 32,770	\$ 742	\$ 65,433	\$ (66,175)	\$ 32,770

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INTELSAT CORPORATION
(FORMERLY KNOWN AS PANAMSAT CORPORATION)
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)
(in thousands)

	Intelsat Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Operating leases, satellite services and other	\$ 397,570	\$ 45,834	\$ 412,787	\$ (440,645)	\$ 415,546
Outright sales and sales-type leases	7,114				7,114
 Total revenues	 404,684	 45,834	 412,787	 (440,645)	 422,660