Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of the Application of	)	
	)	
FINAL ANALYSIS COMMUNICATION SERVICES, INC.	)	File Nos. 151-SAT-AMEND-96
	)	75-SAT-AMEND-96
For Authority to Construct, Launch and Operate a Non-Voice, Non-Geostationary, Low Earth Orbit Mobile Satellite System	)	25-SAT-P/LA-95

To: Chief, International Bureau

OPPOSITION TO MOTION TO DISMISS AND PETITIONS TO DENY

Final Analysis Communication Services, Inc. ("Final Analysis"), by its attorneys, hereby submits its "Opposition" to the Motion to Dismiss filed by Leo One USA Corporation ("Leo One") on September 4, 1996 and the Petitions to Deny filed by Leo One and CTA Commercial Systems, Inc. ("CTA") (hereinafter referred to collectively as "Petitioners") on October 16, 1996.

I. Background

Final Analysis is a second round applicant for the construction, launch and operation of a commercial Non-Voice, Non-Geostationary Mobile Satellite System ("NVNG MSS"). On September 16, 1994, the Commission released a Public Notice establishing the cut-off date for the filing of applications in the second round as November 16, 1994.[1] Final

[1] Public Notice, Report No. DS-1459, DA 94-1011 (September 16, 1996).

Analysis timely filed its Application. On November 25, 1994, the Commission released a Public Notice accepting Final Analysis' Application for filing.[2]

On August 19, 1996, Final Analysis filed an Amendment to update its pending Application to reflect changed financial circumstances and its current financial posture. Final Analysis has unquestionably demonstrated that it is qualified under existing FCC standards to be a Commission licensee.

Despite this clear showing, on September 4, 1996, Leo One filed a Motion to Dismiss Final Analysis's Amendment, arguing that the Commission should not even consider it because its acceptance could undermine the integrity of the FCC's processing rules. Further, Leo One argued that the Amendment did not show that Final Analysis was financially qualified. Subsequently, on September 12, 1996, the Commission placed Final Analysis's Amendment on Public Notice and invited comment.[3] Leo One and CTA were the only two parties that commented on Final Analysis's Amendment, filing Petitions to Deny on October 16, 1996. In these Petitions, Leo One just restates its prior views and CTA merely echoes Leo One. As demonstrated below, the Petitions border on the frivolous.

First, in asserting that Final Analysis's Amendment should be dismissed as a per se violation of the processing rules applicable to this proceeding, Leo One and CTA simply misstate Commission rules and precedent. Petitioners would have the Commission hold that parties have no right to amend their applications after a cut-off date. This is despite the fact that precedent and the Commission's rules and policies state the opposite. Petitioners' argument that Final Analysis's Amendment does not demonstrate financial qualifications is no

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[2] Public Notice, Report No. DS-1484, DA 94-1323 (November 25, 1994).

[3] Public Notice, Report No. SPB-58, File No. 151-SAT-AMEND-96 (September 12, 1996).

more accurate. The Amendment makes clear that Final Analysis has over $3 million in liquid assets and an additional $2.5 million in investor commitments to meet $855,000 in remaining costs.

Petitioners' views seem to be based on a confusion between their private interests in having fewer competitors and the public's interest in having multiple suppliers of services. As demonstrated in detail below, the Petitions should be summarily denied.

II. Final Analysis's Amendment Complies with Applicable Processing Rules

As a general matter, Section 25.116 of the Commission's Rules,[4] permits an applicant to file minor amendments[5] at any time up until the point that the application is "designated for hearing, a public notice is issued stating that a substantive disposition of the application is to be considered at a forthcoming Commission meeting, or a final order disposing of the matter is adopted by the Commission." In fact, applicants are *required* to amend their pending applications in the event that the application is no longer "substantially accurate and complete in all significant respects."[6] Nothing in the Little Leo Order[7] modified these rules.

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[4] 47 C.F.R. § 25.116.

[5] If the application is amended by a "major" amendment after the cut-off date, it generally will be treated as a newly filed application. Section 25.116(b) lists circumstances in which an amendment will be deemed "major." 47 C.F.R. § 25.116(b)(1)-(b)(4). Here, Final Analysis' Amendment does not fall into any of the categories specified in the Rules. Accordingly, contrary to CTA's contention, acceptance of the Amendment would not be "tantamount to re-opening the processing round." CTA Petition at 2.

[6] 47 C.F.R. § 1.65(a).

[7] In the Matter of Amendment of the Commission's Rules to Establish Rules and Policies Pertaining to a Non-Voice, Non-Geostationary Mobile-Satellite Service ("Little Leo Order"), 8 FCC Rcd 8450, 8457 (1993).

Petitioners point to the fact that the initial Public Notice establishing the cut-off date for the filing of second round applications specified that applications failing to satisfy the financial requirements "as of the cut-off date will be dismissed as unacceptable for filing."[8] However, to have the import that Petitioners imply, this routine statement would have to override the Commission's duly adopted rules concerning permissive and mandatory amendments. Clearly this is not the case. In fact, in inviting NVNG MSS applications, the Commission has expressly noted that amendments, other than those occasioned by obligations imposed after the cut-off date, would be "treated under existing regulations."[9] Thus, while the language cited by Petitioners in the Public Notice enabled the Commission to retain discretion to dismiss deficient applications, it did nothing to modify effective rules regarding amendments. As Final Analysis's Application remains on file and has been neither dismissed, designated for hearing or otherwise acted upon by the Commission, it unquestionably may be amended without reopening the processing round. The Commission has consistently indicated that it is the qualifications of the applicant, at the time the Commission acts on the application that is relevant.[10] Any other interpretation would be an unprecedented and unlawful infringement of Final Analysis's rights as an applicant and would

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[8] Public Notice, DA 94-1011, Report No. DS-1459 (September 16, 1994)

[9] Little Leo Order at para. 26.

[10] For example, in the first NVNG MSS processing round, the Commission ruled that these financial qualifications must be satisfied "*prior to the grant* of a license" [emphasis added]. In the Matter of the Application of Starsys Global Positioning, Inc. For Authority to Construct, Launch and Operate a Satellite System in the Non-Voice, Non-Geostationary Mobile Satellite Service, 11 FCC Fcd 1237, 1240 (1995) ("Starsys Order"). Similarly, in the Big Leo proceeding, the Commission concluded that the relevant time of determination of financial qualifications was "at the time the Commission acts on the application." In the Matter of Amendment of the Commission's Rules to Establish Rules and Policies Pertaining to a Mobile Satellite Service in the 1610-1625.5/2483.5-2500 MHz Frequency Bands, 9 FCC Rcd 5936, 5950 (1994).

extremely prejudicial to Final Analysis. Specifically, in this second round, Final Analysis cannot fairly be deprived of the right to amend under the exact same rules and policies which were relied upon in the first NVNG MSS round to grant applications on the basis of amended financial qualifications. [11]

III. Final Analysis Has Demonstrated Its Financial Qualifications

A. Final Analysis's Cost Estimates are Valid

In its Amendment Final Analysis provides an update on the expenditures made toward the estimated costs of construction and operation of two satellites for the first year of commercial operation. Contrary to Petitioners' characterization,[12] Final Analysis has not revised its original cost estimates. Rather, Final Analysis has provided current information on progress toward meeting its cost requirements, as well as updated information on its commercial arrangements and financial circumstances.

Final Analysis has been extremely active over the past two years in launching and operating an experimental system and preparing for commercial operations once licensed.[13]

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[11] See, e.g., Starsys Order (granting a first round Little Leo application amended after the cut off date to reflect modified financial qualifications resulting from the acquisition of Starsys by GE). See also In the Matter of Application of Orbital Communications Corporation for Authority to Construct, Launch and Operate a Satellite System in the Non-Voice, Non-Geostationary Mobile Satellite Service, 9 FCC Rcd 6476 (1994) (granting a first round Little Leo application amended after the cut off date to reflect a revised construction budget and updated financials).

[12] E.g., Leo One Petition at 5; CTA Petition at 3.

[13] Final Analysis has designed and manufactured two experimental satellites; became the first American company to launch a satellite from Russia; struck strategic alliances with such important aerospace enterprises as Space Dynamics Laboratory in Utah and NASA's Center for Space Power, and pioneered ways of carrying U.S. government payloads on commercial satellites; received a waiver under Section 319(d) of the Communications Act, as amended, to construct commercial satellites at its own risk (File No. 144-SAT-WAIV-96); secured reliable launch capability for its entire proposed commercial constellation; put in place a

(continued...)

Final Analysis is the only second round (unlicensed) applicant with these achievements. This is not the picture of an unqualified applicant, but rather of a company fully capable of and committed to commercial implementation of its proposed satellite system. As a result, Final Analysis's financial circumstances have changed dramatically over the past two years, and the company felt compelled to amend its application pursuant to Section 1.65 of the Commission's rules.

Petitioners' arguments against Final Analysis's Amendment are wholly spurious. First, Leo One claims that there is no evidence that Final Analysis has a launch services arrangement with Polyot. In its Amendment, Final Analysis details its relationship with Polyot and explains the arrangement it has with the Russian company. Polyot is providing launch services in connection with both Final Analysis's two experimental satellites as well as for the entire Final Analysis commercial consortium. In return, Polyot gains the right to be Final Analysis's national service provider in Russia and the CIS countries. This relationship is verified by a letter submitted by Dr. Alexander Ilyin of the Polyot Design Bureau and provided as Attachment A to the Amendment.[14]

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[13](...continued)
ground station capable of controlling and operating its entire proposed constellation; performed all research and development on its advanced data communication satellites; completed all research and development for its remote terminals; completed detailed market assessments; and signed up ten countries for an "Awareness Program" consisting of real world application demonstrations and technical tests to be conducted over a soon to be launched experimental satellite. Final Analysis has been a visible representative of the Little Leo industry in international meetings such as the recent International Telecommunications Union World Telecommunications Policy Forum ("ITU WTPF-96") on Global Mobile Personal Communications by Satellite and in preparations for the upcoming WRC-97.

[14] Leo One also claims that Section 25.140 of the Commission's Rules, 47 C.F.R.§ 25.140 requires Final Analysis to submit copies of its agreements with Polyot to the Commission. That rule applies to financing arrangements and not to arrangements such as the one at issue here. Nonetheless, if the Commission is concerned, Final Analysis would be willing to file its agreement with Polyot under seal for in camera review.

Next, Leo One claims that there is no documentation that Polyot is a reliable satellite launch company, and casts the vaguest of aspersions on Polyot's capabilities "given the current state of the Russian space industry...."[15] This is despite the fact that Polyot has one of the most reliable launch records in entire world.[16]

Leo One also questions Final Analysis's expenditure of $2,378,245 for spacecraft construction because it does not appear on the FAI and FACS financial statements. In apparent desperation, Leo One also raises the contention that "there is no demonstration that satellite parts actually have been procured or that FAI is a satellite manufacturer."[17]

In fact, all of the expenses already incurred for spacecraft construction are reflected in Final Analysis's consolidated financial report in the item labeled "Satellite under Construction."[18] Further, Appendix A to this Opposition details the expenditures that have been made toward construction of the first two spacecraft and the specific dollar amounts required to obtain all remaining components. Additionally, attached as Appendix B hereto is a letter from Space Dynamics Laboratory (SDL) in Utah, which is a facility utilized by Final

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[15] Leo One Petition at 6. However, for a recent article on Russian space launch expertise, see "Russian Rockets Get Lift in U.S. From Cautious and Clever Design," New York Times p. C1, October 29, 1996.

[16] A brochure from Polyot is attached as Appendix G hereto. Founded in 1941, Polyot is world-renowned in the aerospace and communications satellite industry for high quality, reliability and performance. Polyot developed and manufactures the Cosmos launch vehicle, which is the most reliable launch vehicle in its class. There have been over 700 Cosmos launches. Of the 231 Cosmos launches made between January 1, 1986 and September 1, 1995, 229 were successful (a 99.1% success rate). Of these launches, 140 were sub-orbital and 88 were into orbital trajectories. The 88 orbital launches placed 104 satellites into orbit with up to eight (8) satellites being launched on one vehicle.

[17] Leo One Petition at 6.

[18] Leo One unnecessarily has made a large issue out of the fact that Final Analysis did not file the consolidated FAI and FACS financials with its Amendment. To put any concerns to rest, the consolidated financial statements are attached hereto as Appendix E.

Analysis in connection with its satellite production and development. In the letter, Mr. Allan Steed, President of SDL, acknowledges Final Analysis's activities as a satellite manufacturer, and its procurement of substantial spares and inventory that will be useful in the construction of commercial satellites. Also attached hereto as Appendix C is a letter from Dr. Fred Best, Director of the NASA Center for Space Power (CSP). CSP has supported Final Analysis in its development of its experimental satellite system, and in that capacity verifies Final Analysis's capabilities and activities as a satellite manufacturer. Final Analysis's revised estimate for construction is not a "bold claim," but rather a statement of reality.

Leo One also questions the reduction of remote terminal and ground station costs to zero. However, Final Analysis's prototype remote terminal has been completed and has already been placed in service in demonstrations.[19] With respect to the ground station, a letter from Altair Aerospace, attached as Appendix D hereto, explains that company has already supplied to Final Analysis a ground system capable of performing the day-to-day command, control, orbit analysis and data management necessary for Final Analysis's full commercial constellation.

Finally, Leo One claims that there is no support for a cost reduction from $361,845 to $135,000 for the satellite operations or for a reduction from $474,275 to $110,000 for business operations, product services and administration. However, as explained in Final Analysis's Amendment,[20] these reductions reflect the fact that Final Analysis has already purchased certain office equipment and hired personnel necessary for these functions.

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[19] Prototype remote terminals were, in fact, used in messaging demonstrations with a simulated satellite radio terminal at the ITU WTPF-96 in Geneva, October 21-23, 1996.

[20] Amendment, p. 4.

Contrary to Leo One's expectations, a significant portion of these costs represent salary expenditures, and never would show up in property and equipment accounts.

B. Final Analysis has the Requisite Financial Resources

Leo One's alleged "close analysis" of Final Analysis's financial statements has not prevented it from reaching erroneous conclusions. Specifically, in questioning Final Analysis's accounting of its liquid assets, Leo One wrongly dismisses out of hand the $2,640,000 listed as receivables as of December 31, 1995. As confirmed by the statement of Nader Modanlo, President of Final Analysis, provided as Attachment E to the Amendment, and the letter from Ernst & Young LLP provided as Attachment D to the Amendment, this amount included receivables of $2,000,000 actually received from an unaffiliated third party[21] in two cash installments in 1996 and $615,000 for the sale of FACS non-voting stock actually received in January and February of 1996. Ernst & Young LLP also confirmed that an additional $500,000 was actually received in cash as a result of the issuance of preferred shares in 1996. Also, Leo One conveniently fails to mention the commitment letters by Dr. Schettino and Mr. Cook, provided as Attachment F to the Amendment. Thus, Petitioners ignore the plain fact that Final Analysis has cash in excess of $3 million, with commitments for additional capital investments of at least $2.5 million, totaling liquid assets well in excess of the $855,000 in remaining costs required to be covered for the launch and operation of its first two satellites. Leo One has raised no credible arguments that these transactions and amounts should not be recognized.[22]

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[21] See also the letter from Ernst & Young LLP dated October 30, 1996, provided as Appendix F hereto.

[22] Petitioners' focus on operating revenues is misplaced. Final Analysis is not a "company in trouble" as CTA alleges in its Petition at 5. Rather it is a new, entrepreneurial (continued...)

Thus, there are no real issues remaining about Final Analysis's qualifications. Final Analysis has taken all the steps necessary to be able to begin operations as quickly as possible once a license is granted. It intends to be a vibrant competitor in the marketplace. It is there, and not before the FCC, that the parties should compete.

IV. Conclusion

For the reasons stated, Final Analysis respectfully requests the Commission to deny Leo One's Motion to Dismiss as well as the Petitions to Deny filed by Leo One and CTA and accept Final Analysis's Amendment to the above captioned application.

Respectfully submitted,

FINAL ANALYSIS COMMUNICATION SERVICES, INC.

By: _____

Philip V. Permut
Aileen A. Pisciotta
KELLEY DRYE & WARREN, LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
(202) 955-9600

Its Attorneys

October 30, 1996

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[22](...continued)
enterprise that meets all FCC financial qualifications for the construction, launch and operation of a new satellite system.

CERTIFICATE OF SERVICE

I, Wanda Borrero-Turner, a legal secretary at Kelley Drye & Warren LLP, hereby certify that on this 30th day of October, 1996, true copies of the foregoing "Opposition to Motion to Dismiss and Petitions to Deny" will be sent via first-class U.S. mail, postage prepaid, to:

*Chairman Reed E. Hundt
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

*Commissioner James H. Quello
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, D.C. 20554

*Commissioner Rachelle B. Chong
Federal Communications Commission
1919 M Street, N.W.
Room 844
Washington, D.C. 20554

*Commissioner Susan Ness
Federal Communications Commission
1919 M Street, N.W.
Room 832
Washington, D.C. 20554

*Donald H. Gips, Chief
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 830
Washington, D.C. 20554

*Thomas S. Tycz, Chief
Satellite & Radiocommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 811
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*Cecily C. Holiday, Deputy Chief
Satellite & Radiocommunications Division
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Wanda Borrero-Turner

Wanda Borrero-Turner

* Via hand delivery

ITEMIZATION OF SPACECRAFT COMPONENT EXPENDITURES

Spacecraft Components	% Completed for the Two Commercial Satellite	$ Required to Complete
Structure: Design & Fabrication	100%	
Solar Panels	100%	
Main Processor and Memory	65%	$ 95,000
Receivers and Transmitters (Radios)	90%	$ 35,000
Gravity Gradient System	100%	
Magnetic Torquers	100%	
Magnetometers	20%	$ 15,000
Antennas	100%	
Cabling & Connectors	80%	$ 15,000
Batteries & Power Conditioning Unit	50%	$ 55,000
Signal Conditioning Unit	40%	$ 40,000
GPS	45%	$ 20,000
Software	100%	
Documentation	100%	
Integration	0%	$140,000
Testing (Environmental)	0%	$195,000

Space Dynamics Laboratory • Corporate Headquarters
Utah State University Research Foundation, UMC 9710
1695 North Research Park Way
North Logan, Utah 84341-1947
Phone (801) 755-4040 Fax (801) 755-4043

October 18, 1996

Donald H. Gips, Chief
Internal Bureau
Federal Communications Commission
2000 M Street N. W., Room 830
Washington, D. C. 205

Dear Mr. Gips:

Subject: Recommendation for Commercial License for Final Analysis Communication Services

Space Dynamics Laboratory (SDL) is a not-for-profit corporation owned by Utah State University. We have extensive aerospace products development expertise spanning over four decades. We have been involved in development of hundreds of space projects under the contracts from NASA, the U.S. Department of Defense, the Air Force, and various non-governmental organizations. I have enclosed brochures describing SDL. As you can see SDL has an excellent reputation in the space industry.

SDL has worked closely with Final Analysis since 1993 on a day-to-day basis. Under agreement with SDL, Final Analysis occupies space in SDL facilities and may obtain, as agreed on each project, access to SDL resources to support satellite development and production, including pre-flight satellite integration and testing. Final Analysis has already installed their Master Ground Station in our facilities. Under the same agreement basis, Final Analysis has access to over 200 highly qualified engineers, technicians, scientists and managers. In addition to being able to use SDL equipment and facilities, Final Analysis also has access to SDL's parts and materials inventory and machine shop. Our relationship has been very successful and professional, and we expect it to continue well into the next century. Our current support agreement with Final Analysis extends to May 1, 2002.

Since entering into this arrangement, SDL and Final Analysis have cooperated on the development telecommunications and space products, including FAISAT-1 and FAISAT-2V. SDL has observed first hand Final Analysis's activities in connection with the implementation of the FAISAT system. SDL has been impressed with Final Analysis's ability to manufacture low cost satellites and to manage such activities, including all aspects of design, procurement of parts, and satellite construction, assembly, and testing. We are also aware that Final Analysis has procured substantial spares and inventory that can be used in the manufacture of additional commercial satellites.

I understand that a copy of this letter will be included in papers filed in a proceeding pending before the Federal Communications Commission concerning Final Analysis's application for a license for a commercial satellite system.

I would be glad to answer any questions you may have on this subject.

Sincerely,

Allan Steed
President and CEO

cc Michael H. Ahan
Bruce R. Peterson

CSP
CENTER for SPACE POWER

A NASA Center for the Commercial Development of Space

223 WERC
College Station,
Texas 77843-3118

409/845-8768
Fax 409/847-8857

October 24, 1996

Donald H. Gips, Chief
International Bureau
Federal Communication Commission
2000 M Street, N.W., Room 830
Washington, DC 20554

Re: Final Analysis Communication Services

Dear Mr. Gips:

The NASA Center for Space Power (CSP), a division of the Texas Engineering Experiment Station at Texas A&M University, is chartered by NASA to support the commercial development of space. In this capacity the CSP entered into a Memorandum of Agreement with Final Analysis in 1994 to, among other things, provide technical assistance and research and development services for the FAISAT system. Implementation of this agreement has involved the close interaction of our organization in the design and construction activities of the FAISAT system, including the development and launch of FAISAT-1 and the upcoming launch of FAISAT-2V.

Throughout our relationship, the CSP has been impressed with Final Analysis' innovation as a satellite manufacturer. We especially note Final Analysis' pioneering development of a unique, frequency-agile flight radio which, to the best of our knowledge, has not been implemented by anyone else thus far. This technology, and other unique communication advances employed by Final Analysis, demonstrates FAI's aggressive application of space technology to win and service a major new commercial market.

With a strong relationship in place, and with confidence in the ability of Final Analysis to proceed, we are in the process of extending our formal agreement with Final Analysis for the next ten years. The CSP is committed to supporting Final Analysis in developing the FAISAT system, and we are hopeful of a favorable license ruling by the FCC for this innovative aerospace company.

I understand that the information in this letter will be considered by the Federal Communications Commission in connection with Final Analysis' pending application for license for a commercial satellite system.

Sincerely,

Frederick R. Best

Dr. Frederick R. Best
Director

Texas Engineering Experiment Station, The Texas A&M University System

ALTAIR AEROSPACE CORPORATION

Donald H. Gips, Chief
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 830
Washington, DC 20554

October 25, 1996

Dear Mr. Gips:

Subject: Final Analysis Communications Service

Having won a rigorous competitive bidding process, Altair Aerospace Corporation has supplied Final Analysis, Inc, with a satellite ground system that is not only capable of supporting the forthcoming launch of FAISAT-2v, but also provides the software, capacity and functionality to meet all operational requirements for the entire proposed commercial FAISAT constellation.

The Altair ground system makes use of ground-breaking technology and provides state-of-the-art capabilities for command and control of the Final Analysis satellites, orbit propagation and planning, RF station control, and data processing and distribution. Multiple workstations have been provided and delivered for satellite integration and test at Final Analysis' manufacturing facility, for the Mission Operations Room at their new expanded Lanham facility, and for three additional remote ground station sites currently being deployed.

Altair Aerospace and its team members, Computer Sciences Corporation (CSC) and Autometric, Inc, are committed to supporting Final Analysis in the development and operation of the FAISAT system. CSC, a company with a reputation in the space industry second to none, will be providing expertise in the design of network control systems based upon experience acquired during the past 20 years at NASA's Goddard Space Flight Center. Autometric, Inc, was founded in the early 1980s as a space imaging company. Its Space Technology and Applications Division will take part in the Final Analysis program with its sophisticated orbital analysis tool, Omni, and its business management software that will interface with the network control center to assist in customer usage analysis and billing requirements.

4201 Northview Drive, Suite 300, Bowie, MD 20716 Tel (301) 805-8300/1-800-7-ALTAIR, Fax (301) 805-8122

The team of Final Analysis, Inc, Altair Aerospace, Computer Sciences Corporation and Autometric, Inc, comprises a combination of capabilities representing innovative, modern technology at its best, working together to bring the potential of space to commercial industry.

This letter is respectfully submitted in support of Final Analysis' pending application for a license for its commercial satellite system.

Sincerely,
Altair Aerospace Corporation

Bryant G. Cruse
President

[redacted]

Consolidated Financial Statements

Final Analysis, Inc.

Year ended December 31, 1995
with Report of Independent Auditors

ERNST & YOUNG LLP

Final Analysis, Inc.

Consolidated Financial Statements

Year ended December 31, 1995

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Audited Financial Statements

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ERNST & YOUNG LLP

Fairfax Square, Tower II
8075 Leesburg Pike
Vienna, Virginia 22182

Phone: 703 903 5000

Report of Independent Auditors

Board of Directors
Final Analysis, Inc.

We have audited the accompanying consolidated balance sheet of Final Analysis, Inc. as of December 31, 1995, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Final Analysis, Inc. at December 31, 1995, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

May 31, 1996

Final Analysis, Inc.

Consolidated Balance Sheet

December 31, 1995

Assets	
Current assets:	
Cash and cash equivalents	$ 482,526
Receivables *(Note 4)*	2,640,400
Satellite under construction *(Note 5)*	7,427,510
Deposits	6,099
Total current assets	10,556,535
Property and equipment, at cost	
Communication equipment	39,907
Computer equipment	79,794
Office furniture and fixtures	36,474
	156,175
Less: Accumulated depreciation	(74,460)
	81,715
Other assets:	
FCC license application fee *(Note 6)*	247,970
Amounts due from related parties	68,843
Total assets	$ 10,955,063
Liabilities and stockholders' equity	
Current liabilities:	
Accounts payable and accrued expenses	533,321
Deferred tax liability *(Note 8)*	1,672,409
Total current liabilities	2,205,730
Minority interest	1,292,982
Stockholders' equity	
Common stock, $1 par value—100 shares authorized; 100 shares issued and outstanding	100
Additional capital	4,294,600
Retained earnings	3,161,651
Total stockholders' equity	7,456,351
Total liabilities and stockholders' equity	$ 10,955,063

See accompanying notes to consolidated financial statements.

Final Analysis, Inc.

Consolidated Statement of Income

For the Year Ended December 31, 1995

Revenues, net *(Note 7)*	$ 4,033,089
General and administrative expenses	713,583
Professional fees	276,219
Advertising and marketing	267,933
Rent expense	93,009
Depreciation expense	23,915
Interest expense, net	72,108
Minority interest in net loss of consolidated subsidiary	(232,673)
Income before provision for income taxes	2,818,995
Provision for income taxes *(Note 8)*	(697,778)
Net income	$ 2,121,217

See accompanying notes to consolidated financial statements.

Final Analysis, Inc.

Consolidated Statement of Changes in Stockholders' Equity

For the Year Ended December 31, 1995

	Common Stock		Additional	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at December 31, 1994 *(as restated - Note 3)*	100	$100	$1,590,217	$1,040,434	$2,630,751
Equity generated from issuance of stock by subsidiary *(Note 9)*	–	–	2,704,383	–	2,704,383
Net income			–	2,121,217	2,121,217
Balance at December 31, 1995	100	$100	$4,294,600	$3,161,651	$7,456,351

See accompanying notes to consolidated financial statements.

Final Analysis, Inc.

Consolidated Statement of Changes in Stockholders' Equity

For the Year Ended December 31, 1995

	Common Stock		Additional	Retained	
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Balance at December 31, 1994 *(as restated - Note 3)*	100	$100	$1,590,217	$1,040,434	$2,630,751
Equity generated from issuance of stock by subsidiary *(Note 9)*	–	–	2,704,383	–	2,704,383
Net income			–	2,121,217	2,121,217
Balance at December 31, 1995	100	$100	$4,294,600	$3,161,651	$7,456,351

See accompanying notes to consolidated financial statements.

Final Analysis, Inc.

Consolidated Statement of Cash Flows

For the Year Ended December 31, 1995

Operating activities	
Net income	$ 2,121,217
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	23,915
Deferred taxes	697,778
Minority interest in net loss of subsidiary	(232,673)
Changes in assets and liabilities:	
Accounts receivable, net	1,455,604
Amounts due from related parties	(68,843)
Accounts payable and accrued liabilities	(75,934)
Satellite under construction	(6,901,879)
Net cash used in operating activities	(2,980,815)
Investing activities—Purchase of property and equipment, net	(49,316)
Financing activities:	
Repayment of line of credit	(233,950)
Proceeds from issuance of stock by subsidiary, net	3,712,500
Net cash provided by financing activities	3,478,550
Net increase in cash and cash equivalents	448,419
Cash and cash equivalents at beginning of year	34,107
Cash and cash equivalents at end of year	$ 482,526
Non-cash transactions:	
Revenue from Polyot transaction	$ 2,200,000
Government grant revenue	$ 1,800,000

See accompanying notes to consolidated financial statements.

1. Description of Business

Final Analysis, Inc. (the Company) is incorporated under the laws of the State of Maryland. The primary business of the Company is aerospace engineering amd services, providing design, development of small satellites and launch services. During 1995, the Company's primary focus was to perform as a contractor for the construction of a low earth orbit (LEO) satellite on behalf of its subsidiary. The Company also supplies supervision, design and engineering support for reactivating and upgrading satellite ground receiving stations for the United States government and various foreign countries.

The Company owns 68.2% of Final Analysis Communications Services (FACS), a subsidiary formed to build, launch and operate a worldwide, low earth orbit (LEO) satellite-based, digital telecommunications system. FACS is in the development stage and has no revenues from its planned principal operations.

Since inception, the Company and FACS have incurred costs in excess of $15 million to fund development, construction and launch of its two experimental satellites. This includes approximately $8.0 million for research and development spent on the first experimental satellite.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its controlled subsidiary. All significant intercompany transactions have been eliminated in consolidation.

Accounting Records

The Company's records are maintained on the basis of cash receipts and disbursements. The accompanying financial statements have been prepared on the accrual basis, and thus reflect accounts receivable and liabilities that are not recorded in the accounting records.

2. Summary of Significant Accounting Policies (continued)

Government Grant Revenue

Government grants received in the form of services and technical assistance are valued at fair value, and recorded as revenue in the period received.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful life of the asset.

Income Taxes

The provision for income taxes is determined based on pretax accounting income utilizing the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws expected to be in effect when these differences reverse.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

3. Restatement of Prior Year Balances

In connection with a Company plan to raise additional equity financing for the deployment of the full satellite constellation, the Company has restated its prior year financial statements as follows:

	Common Stock		Additional	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at December 31, 1994, as previously reported	100	$675,100	$6,785,171	$1,320,429	$8,780,700
(a) Adjustment to experimentation for satellite constellation			(5,979,504)		(5,979,504)
(b) Adjustment to accounts receivable and accounts payable balances				(267,907)	(267,907)
(c) Adjustment to record minority interest in net assets of subsidiary		(675,000)	629,850	(12,088)	(57,238)
(d) Adjustment for shares issued by subsidiary at December 31, 1994			154,700		154,700
Balance at December 31, 1994, as restated	100	$ 100	$1,590,217	$1.040,434	$2,630,751

(a) The Company previously capitalized the estimated fair value of its first experimental satellite (FAISAT-1) at a value of $8,000,000. Due to subsequent events, the Company has expensed the nonrecoverable satellite experimentation costs. The adjustment is presented net of $457,900 deferred tax.

(b) Represents adjustment to the Company's prior year financial statements for a non-recoverable receivable balance as of December 31, 1994, and certain adjustments to accounts payable balances. The adjustment is presented net of $164,201 deferred tax.

(c) Represents the recordation of the minority interest in FACS, previously unrecorded.

(d) Represents the recordation of common stock issued by FACS in December 31, 1994, previously unrecorded.

4. Receivables

Receivables include a $2,000,000 recovery of prior year costs in connection with the Company's satellite constellation project and a $615,000 receivable from the sale of common stock during 1995 by the Company's subsidiary, paid for in January and February of 1996.

5. Satellite Under Construction

Balance as of December 31, 1995 is comprised of:

Satellite hardware and engineering costs	$1,999,480
Advance payments for launch services and spacecraft components	1,428,030
Launch services and spacecraft components *(Note 7)*	2,200,000
Engineering services provided by CSP *(Note 7)*	1,800,000
	$7,427,510

6. FCC License Application Fee

During 1994, the Company paid $247,970 to the Federal Communications Commission as an application fee to become a licensed operator of low orbit satellite systems. Pending spectrum availability, the Company expects to receive its license upon demonstration of its financial and technical capabilities to build and operate its planned satellite system. Upon approval, the Company will amortize the license fee over the anticipated 10 year life of the license.

7. Revenues, net

Revenues for the year ended December 31, 1995 include engineering and launch vehicle analysis services sold to Polyot Design Bureau ("Polyot") , a Russian space organization, at an agreed value of $2,200,000. The services were sold to Polyot in parallel with launch services and spacecraft components to be received at a later date. (See Note 5.) Polyot is currently the sole provider of launch services and is a subcontractor for certain spacecraft components.

Revenues also include an $1,800,000 government grant from the Center for Space Power (CSP), a National Aeronautical and Space Administration (NASA) center for the commercial development of space, which provided for engineering services and assistance in the construction of the Company's experimental satellite. See Note 5.

During 1995, the Company focused on the development of its subsidiary, which has a need for a capital infusion as a separate entity. Management of the parent company intends to pursue engineering and other projects in the future, to generate additional revenues for the parent company.

8. Income Taxes

The provision for federal and state income taxes for the year ended December 31, 1995 consists of the following:

	Current	Deferred	Total
Federal	$ –	$ 624,327	$ 624,327
State	–	73,451	73,451
	$ –	$ 697,778	$ 697,778

8. Income Taxes (continued)

Deferred tax assets and liabilities are comprised of the following at December 31, 1995:

Deferred tax assets:	
Net operating loss carryforward	$ 444,347
Accrued expenses	69,663
Total deferred tax assets	261,054
Valuation allowance	(444,347)
	69,663
Deferred tax liabilities:	
Income taxable in future periods	1,082,012
Deferred gain	660,060
Total deferred tax liabilities	1,742,072
Net deferred tax liability	$ 1,672,409

The companies have net operating loss carryforwards for federal and state income tax purposes of approximately $1,170,000 which expire in 2009 and 2010. An initial valuation allowance of $444,347 was provided in 1995 due to uncertainty in the utilization of the companies' net operating loss carryforwards.

The provision for income taxes for the year ended December 31, 1995 differs from the provision calculated at the statutory rate primarily due to government grant revenue which is not subject to tax, and an increase to the valuation allowance.

9. Issuance of stock by subsidiary

During 1995, FACS sold stock to unaffiliated shareholders at a premium in excess of the relative book value per share. FAI's investment in the subsidiary has been increased to reflect its increased interest in the net assets of FACS, and the Company has recorded a corresponding increase to additional capital.

10. Operating Leases

The Company leases its corporate headquarters under a lease term ending on January 31, 1999. The annual lease amounts to $79,152 per annum, adjusted annually for inflation.

In addition, the Company leases office and laboratory space in Logan, Utah on a month-to-month basis. The annual lease amount is $11,693.

Minimum payments under non-cancelable operating leases over the next five years, and in aggregate, are as follows:

1996	$99,955
1997	102,394
1998	104,886
1999	25,882
	333,117

Total lease expense for the year ended December 31, 1995 amounted to $113,329.

11. Other Information

The Company is in the process of negotiating an agreement with NASA-CSP whereby the Company may become subject to some type and amount of payment for service that CSP provides in the future.

The Company has entered into an agreement to provide additional capacity in the satellite (FAISAT-2V) to a third party, in exchange for an earlier entry into the market under the third party's FCC license. Notification has been provided to the FCC.

The Company has entered into a long-term partnership with Polyot under which Polyot will provide launch services for the entire 26 satellite constellation.

ERNST & YOUNG LLP

Mr. Nader Modanlo
President
Final Analysis, Inc.
7500 Greenway Center
Greenbelt, Maryland
20770-3522

October 30, 1996

Dear Mr. Modanlo:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of Final Analysis, Inc. ("FAI" or the "Company") for the year ended December 31, 1995, and have issued our report thereon dated May 31, 1996.

Our audit procedures included the following:

1. We agreed the receivable balance of $2,000,000 reported in Note 4 to consolidated financial statements to bank statements showing cash receipts of such amount in March and July of 1996.

2. We agreed the amount reported in Note 7 as revenue from engineering and launch vehicle analysis services ($2,200,000) to (i) a signed contract between FAI and Polyot Design Bureau, a Russian space organization and (ii) a confirmation letter received from Polyot confirming the value of the contract. As provided in the contract, these services were sold to Polyot in exchange for launch services and spacecraft components to be received from Polyot in 1996 and 1997.

3. We agreed the value of the government grant from the Center for Space Power (CSP) ($1,800,000) reported in Note 7 of the consolidated financial statements, to a letter dated May 21, 1996 provided to us by officials of the Center for Space Power (CSP). This letter states, in part, that (i) CSP estimated the value of services and support provided to FAI during 1994 and 1995 to be $2.0 million, and (ii) 90% of this amount (or $1,800,000) related to services provided to FAI during the year ended December 31, 1995.

We have not performed any audit procedures on financial statements of FAI for periods subsequent to December 31, 1995. This letter is for the internal use of FAI management and should not be copied or distributed to third parties without our prior consent.

Yours truly,

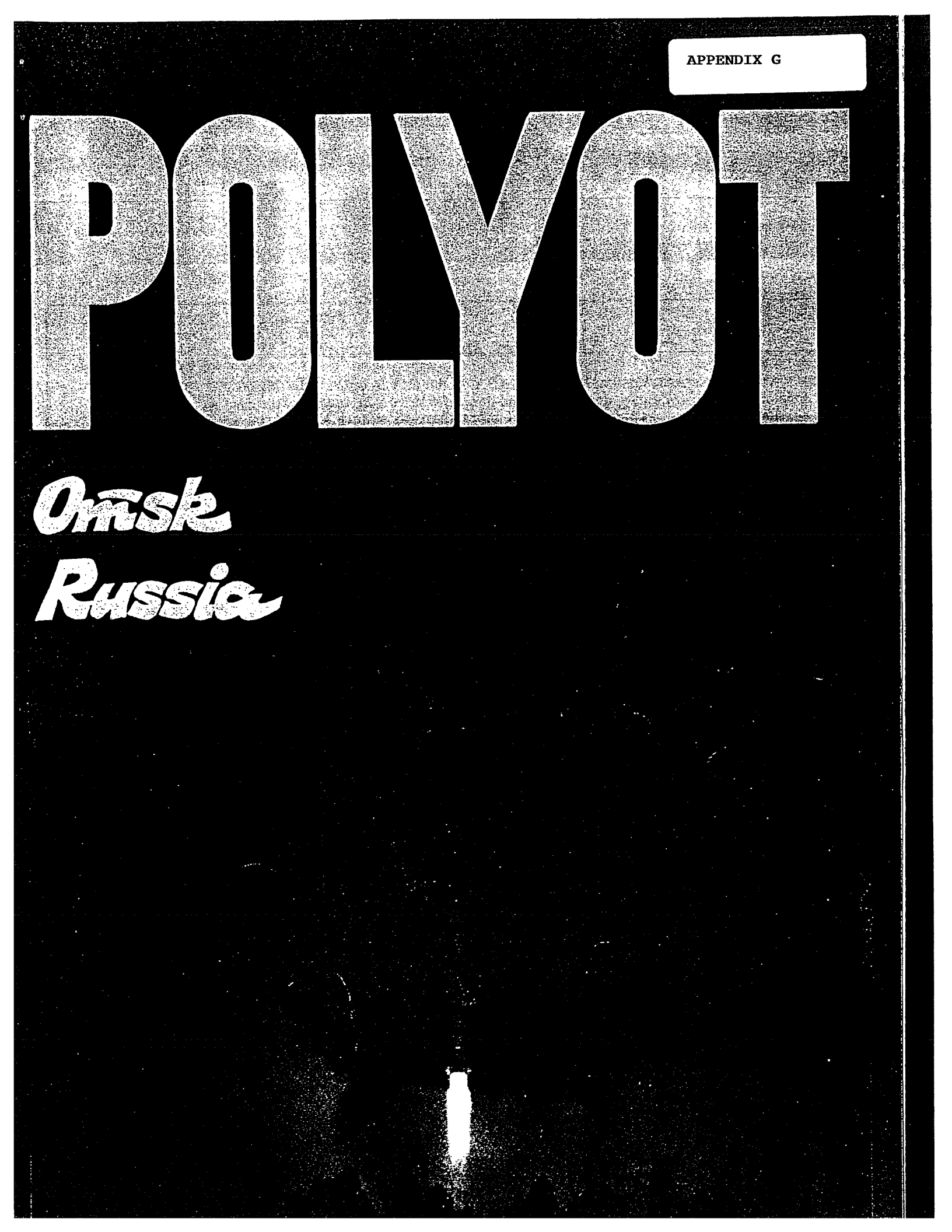
John Glass
Senior manager

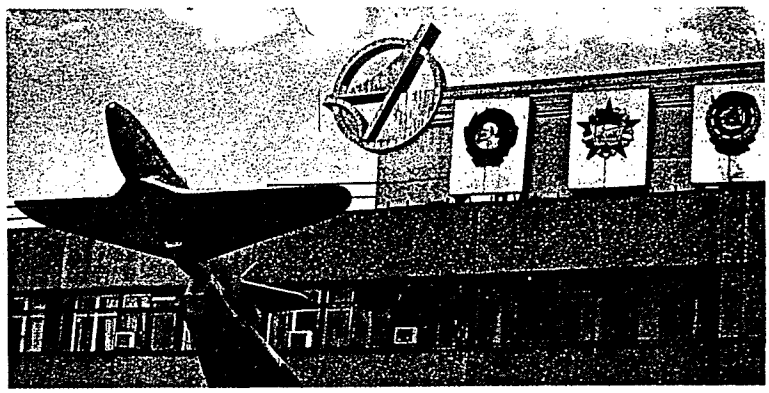
cc: Bob Kopecko

APPENDIX G

POLYOT

Omsk Russia





AERO-SPACE ASSOCIATION POLYOT

Aero-Space Association POLYOT (ASA POLYOT) is one of the biggest rocket — space industry developers and manufacturers in the world.

The enterprise occupies the area of more than 15 square kilometers.

The ASA POLYOT is based on the enterprise founded in 1941.

During World War II and in post-war years POLYOT had been manufacturing TU-2, IL-28, TU-104 airplanes and other aviation, rocket and space production.

The Experimental Design Bureau, Research and Development TechnologicalInstitute, Industrial Enterprises Design Institute, Engineer Training Institute, Aviation Technical School are situated on POLYOT territory.

The experimental Design Bureau have been in rocket-space field for more than 30 years. It was founded as EDB Department № 1 under M.K. Yangel.

POLYOT participated in implementing of more than 40 international programs under the egis of INTERCOSMOS, bilateral agreements (including the injection of Indian satellites Ariabhata, Bhaskara-1, Bhaskara-2, French satellite Snow-3), and home research in the field of space development.

The Main Assembly Plant manufacturing resources allow simultanious assembling of several spacecrafts, launch vehicles, high power rocket engines, airplanes, manufacturing a substantial amount of other goods and equipment. ASA POLYOT has its own airfield and airplanes, including IL-76, AN-32, AN-12, AN-26 and other types.

ROCKET-SPACE SYSTEMS BY ASA POLYOT

Low-orbit spacecrafts for Naval Fleet Navigation System CICADA Cosmos-1000 (The US TRANSIT System analogue).

Spacecrafts for COSPAS-SARSAT search — and — rescue system.

High — orbit spacecrafts for navigation system GLONASS (The US NAVSTAR System analogue).

Rocket — space complex MIR-2 for upper — atmosphere and space physics research for the benefit of Academy of Sciences of the USSR and INTERCOSMOS organization.

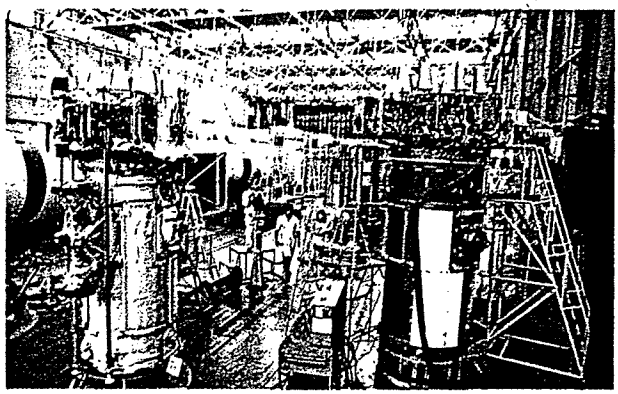
Launch vehicles COSMOS type.

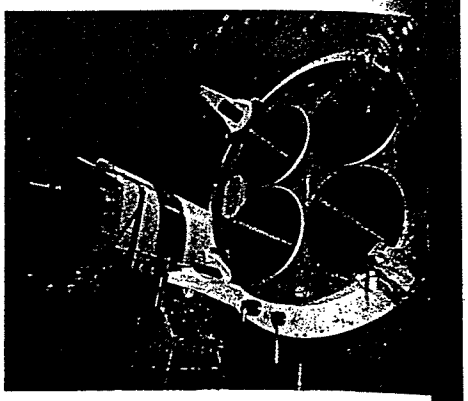
Launch vehicle ENERGIA power plants, etc.

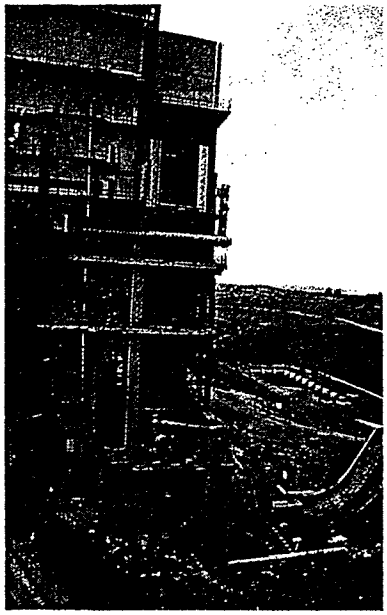
At present POLYOT is developing and manufacturing navigation and communication satellites for commercial use in the USSR and Russia, and in international projects as well.

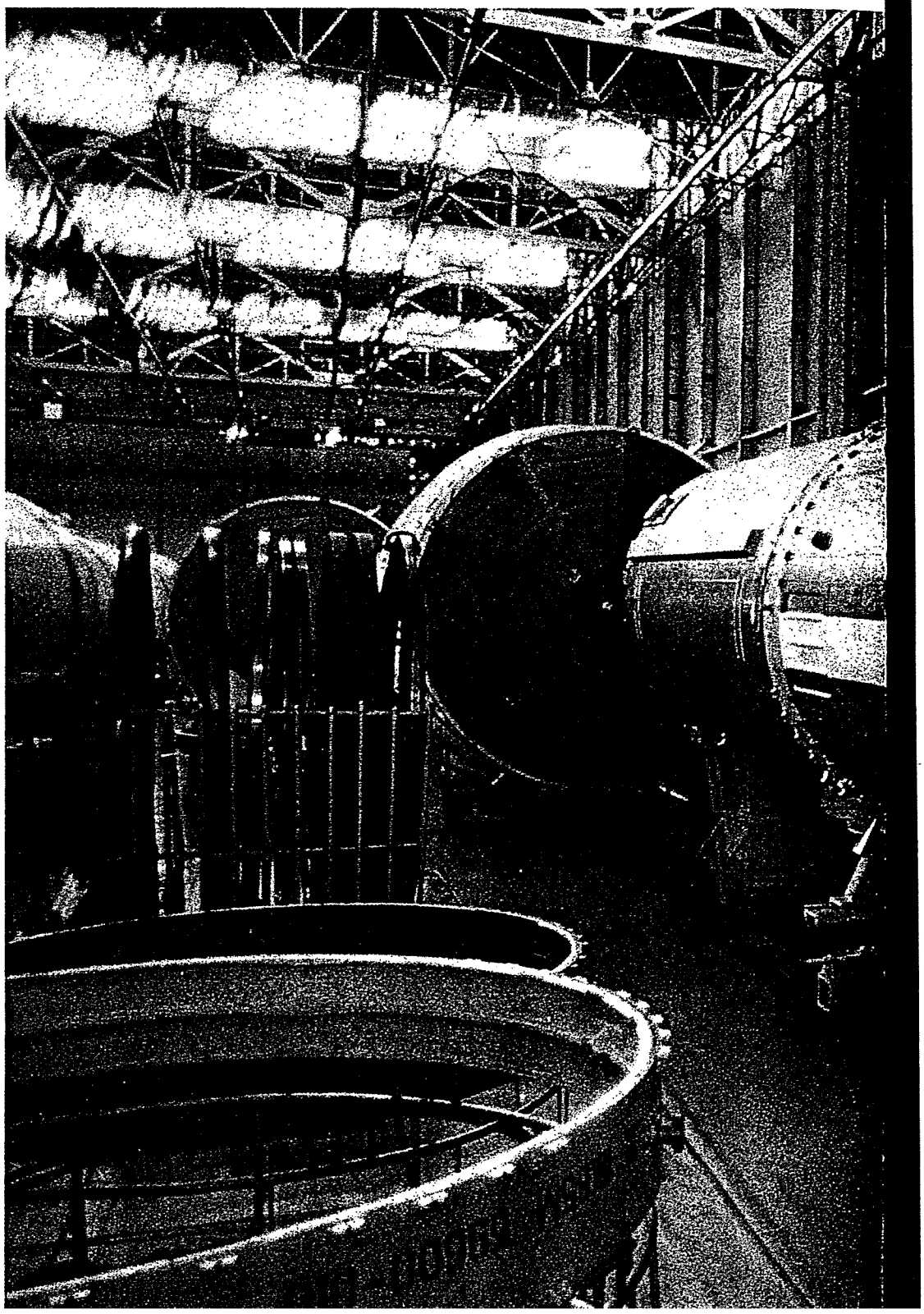
Russia

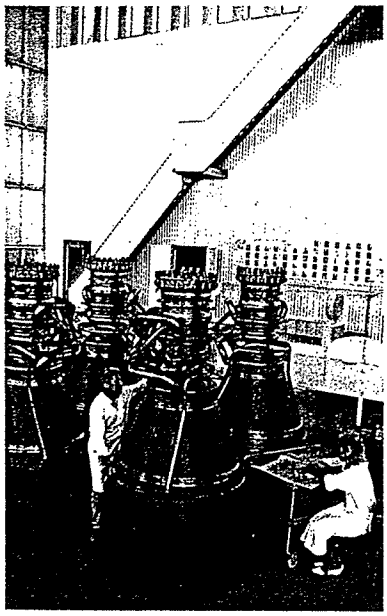
Omsk



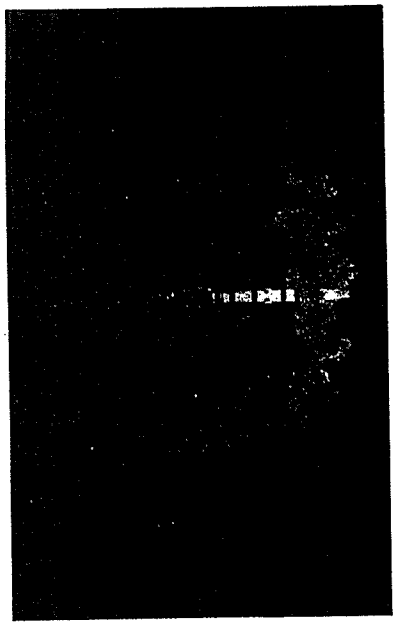


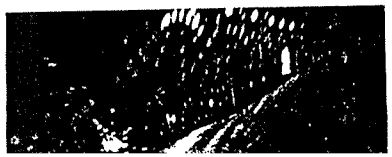


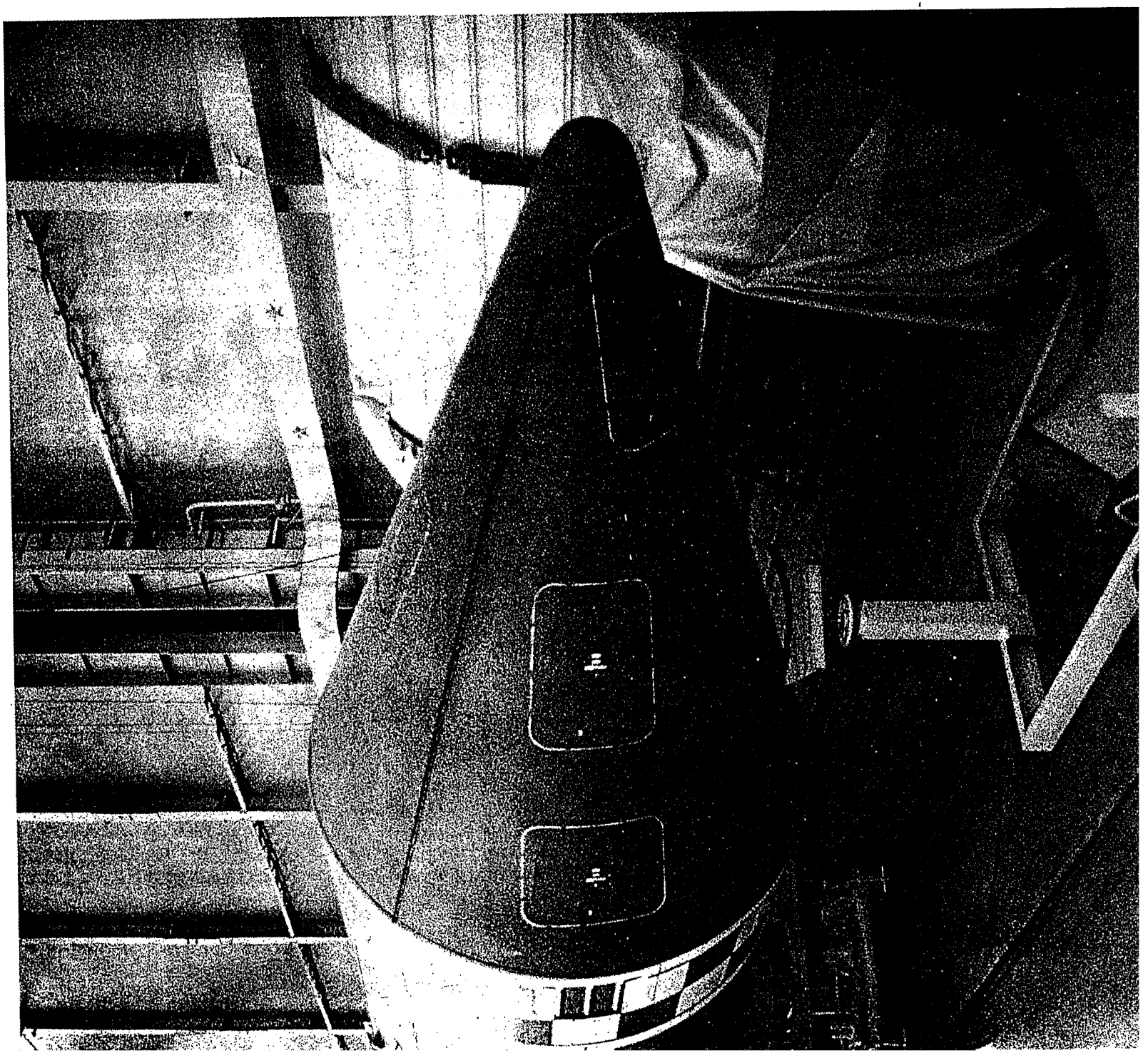




DAIVAT







LAUNCH VEHICLE COSMOS

THE MAIN TECHNICAL SPECIFICATIONS

● Launch vehicle Cosmos is a liquid-propellant two-stage rocket about 35 meters long about 2 meters in diameter.

● Mating surface with SC is 1060 mm in diameter, has 8 guide pins and 4 system separating pushers.

● At the injection stage SC is protected by nose fairing which is released at the altitude of 75—76 km with launch vehicle velocity 2560-2570 meters per second.

Ballistic characteristics

The injection is carried out according to two-impulse scheme with double turn-on of second stage propulsion system (PS). The second stage PS ensures putting SC into orbit with given parameters.

Orbital inclination angles can be choosen from the following range: 51°, 66°, 69°, 74°, 83°.

As a subject to the special agreement SC can be put into synchrosolar orbit (98°).

Orbit type	Range of altitude (km)	SC Mass (kg)
Near-earth	400 800 1000 1600	1300 1100 800 600
Elliptic	H_p = 200-300 H_a = 2000	1000

Customer SC requirements

● SC mass should fit the limits indicated in table.

● Mass tolerance should be no more than 1,5%; inertial characteristics tolerance should not exceed 5%.

● The SC mass eccentricity along lateral axes Y and Z should not exceed 7 mm, or radius should be no more than 10 mm.

● SC mass center distance relatively to mating surface should not exceed: for 1000 kg mass — 1300 mm, for 1500 kg mass — 900 mm.

SC OPERATING CHARACTERISTICS REQUIREMENTS

Natural frequency of any type in SC should not be less than 10 Hz. All construction elements should have resonance frequency no less than 25 Hz.

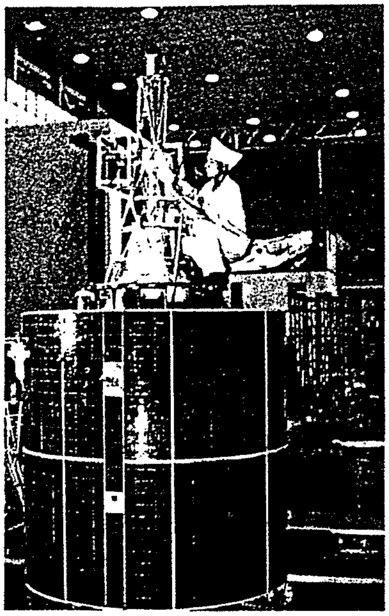
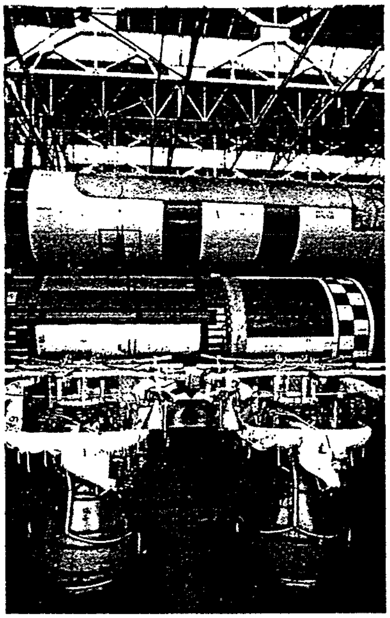
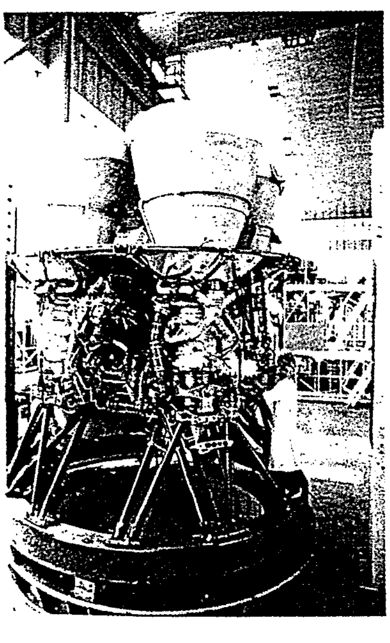
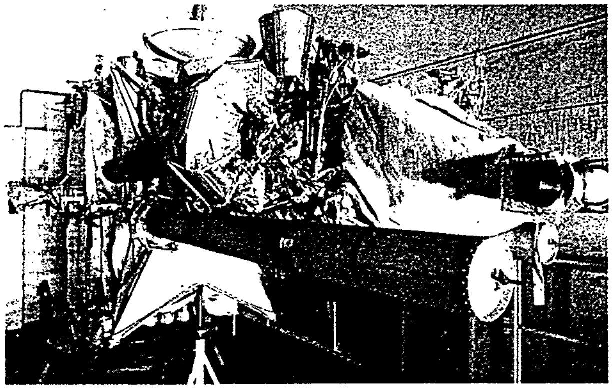
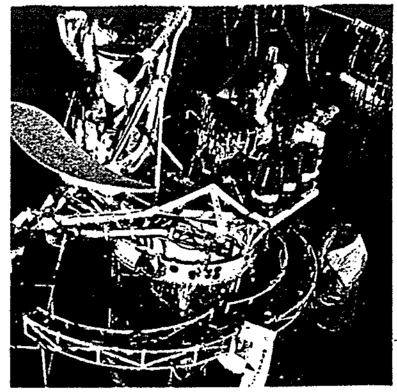
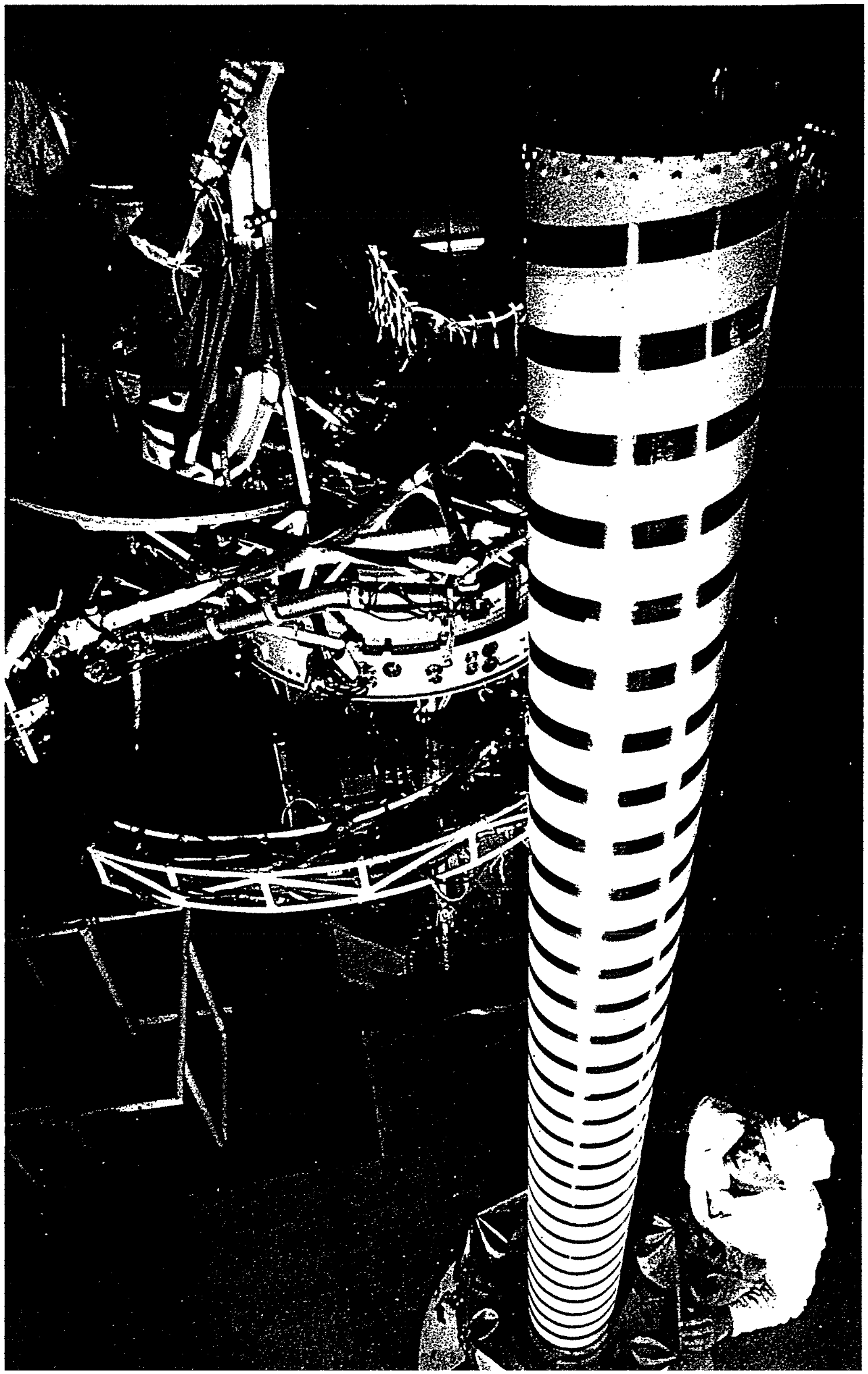
Mechanical effects on SC:

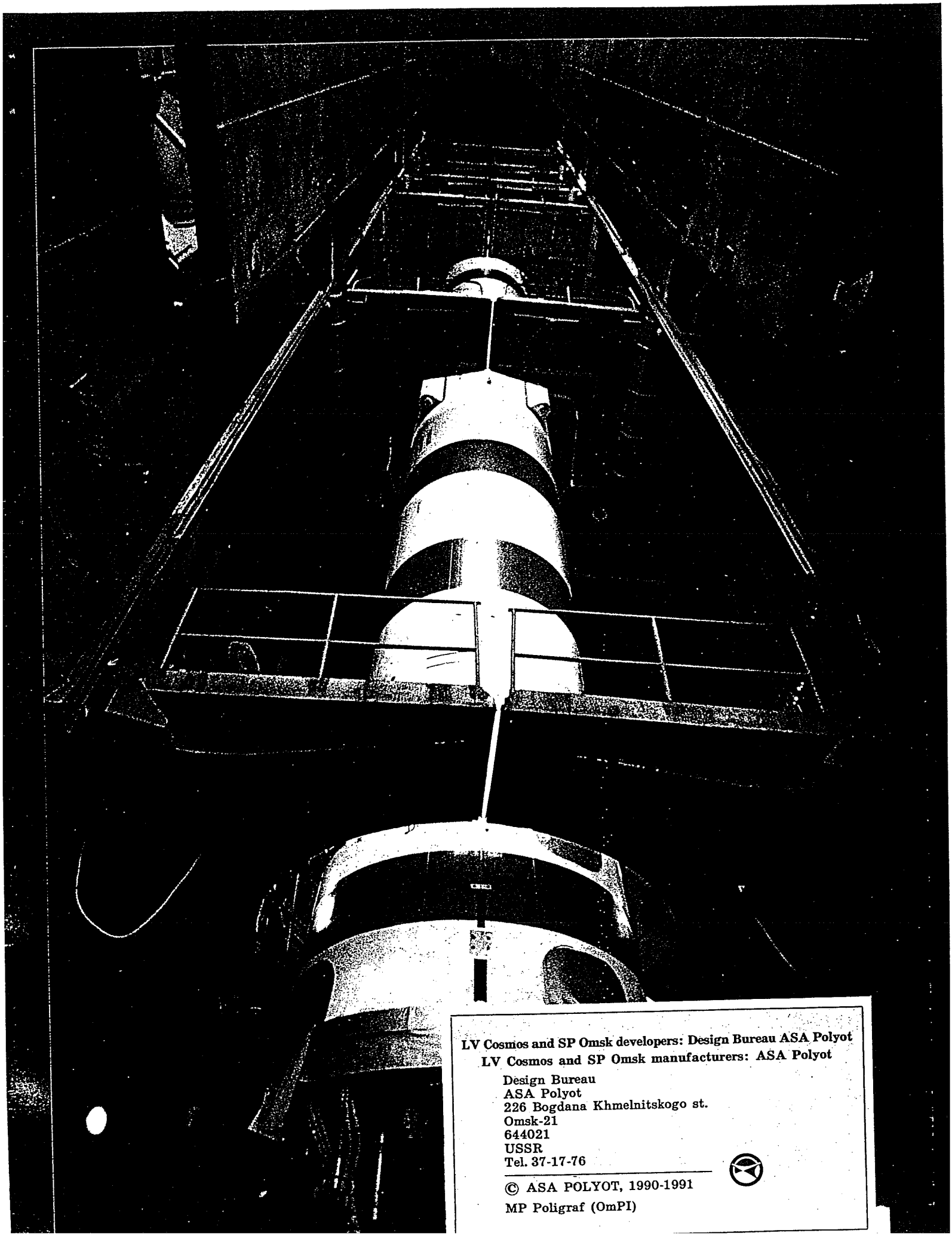
● Longtitudinal g-load — from 1 to 10 units during the period up to 10 minutes.
● Lateral g-load — no more than 1,5 units.
● Vibration acceleration:
sinusoidal range 5-2500 Hz with acceleration from 0,5 to 10,0 units, with linear frequency rise;
wide-band range 20-2000 Hz with average spectral density 0,06 units/Hz in three directions, up to 15 minutes.
● Acoustic loads up to 140 Db in the range of 150-10000 Hz
● Impact loads — acceleration up to 40 units, duration 3-6 ms, 3 impacts.

Temperature effects:

● During land testing and storage — from +5 to +35 °C.

● During injection — nose fairing cone heating (inner surface) during 60 sec. up to 180-200 °C.



LV Cosmos and SP Omsk developers: Design Bureau ASA Polyot
LV Cosmos and SP Omsk manufacturers: ASA Polyot

Design Bureau
ASA Polyot
226 Bogdana Khmelnitskogo st.
Omsk-21
644021
USSR
Tel. 37-17-76

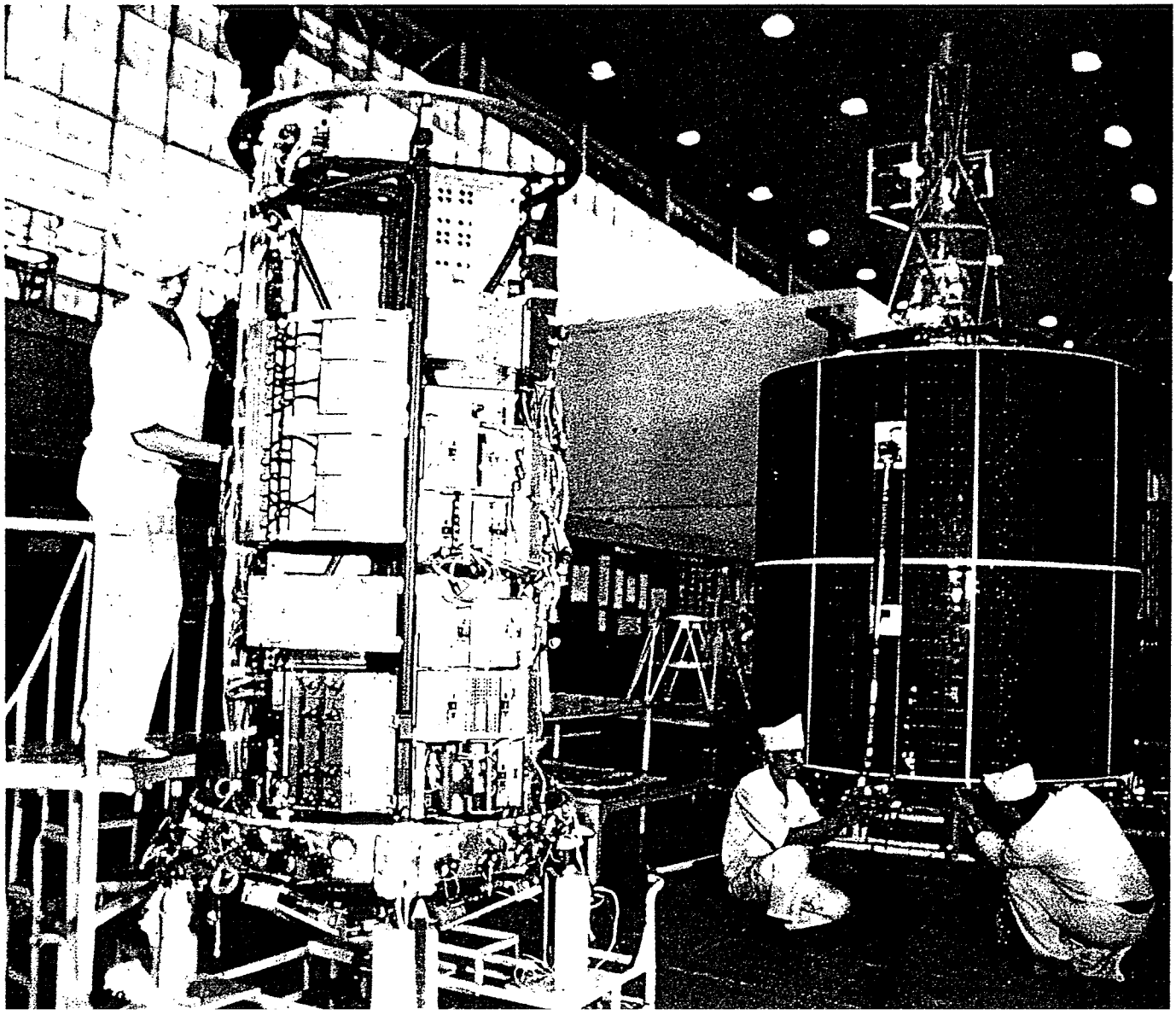
MP Poligraf (OmPI)

SPACE PLATFORM OMSK

- The working load equipment can be mounted in SP Omsk:
  in the form of cylinder, up to 860 mm in diameter and 550 mm in height;
  mass up to 200 kg;
  power consumption: up to 200 W average daily and 400 W momentary, voltage 27 V DC.
- SP Omsk provides stabilization along one or three axes (according to customer's choice) with accuracy no worse than 1 degree.
- Temperature range — from +5 to +35 °C (passive thermal control) Existence period is no less than 5 years.

SR Omsk is equipped with:

- Information equipment for data transmission to land stations in IRIG standard:
  telemetric data — up to 250 kbit/sec;
  scientific data — up to 1000 kbit/sec.
- Radio command link for digital information from land stations:
  commands — up to 64;
  programs — up to 1 kbit/sec.
- The equipment provides high accuracy distance, velocity and angular coordinates measuring.
- SP mass (purpose-dependent) is up to 600 kg.



Affidavit of Nader Modanlo

I, Nader Modanlo, am President of Final Analysis, Inc. have read the "Opposition to Motion to Dismiss and Petitions to Deny". The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.