

ORIGINAL

EX PARTE OR LATE FILED

July 30, 2002

REDACTED -- FOR PUBLIC INSPECTION

BY HAND

Marlene H. Dortch
Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, SW
Washington, DC 20054

RECEIVED

JUL 30 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: **Ex Parte** - Consolidated Application of EchoStar Communications Corporation, Hughes Electronics Corporation, and General Motors Corporation for Authority to Transfer of Control (CS Docket No. 01-348)

Ms. Dortch:

EchoStar Communications ("EchoStar"), Hughes Electronics Corporation ("Hughes") and General Motors Corporation ("GM") (collectively, the "Applicants"), hereby submit the attached financial models in support of their Application for Authority to Transfer of Control and June 12, 2002 presentation with respect to consumer satellite-based broadband service.

In an effort to provide the Commission with a detailed assessment of the Applicants' abilities to provide satellite-based broadband service to consumers both absent and with the merger, the Applicants attach three economic models and a summary of the findings and assumptions upon which each model is based. The summary of the findings and assumptions underlying each model is attached at Tab A. The first model, attached at Tab B, analyzes the ability of the combined companies to provide consumer satellite-based broadband service. The second model, attached at Tab C, analyzes the ability of Hughes to provide satellite-based broadband service to consumers as a separate company. The third model, attached at Tab D, analyzes the ability of EchoStar to provide consumer satellite-based broadband service as a separate company.

No. of Copies rec'd at
List ABCDE

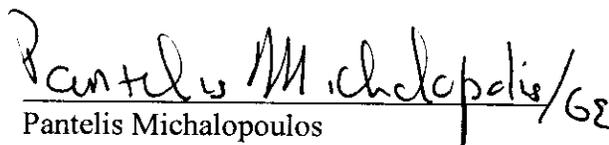
The economic models attached at Tabs B, C and D to this filing, and certain portions of the summary attached at Tab A, are highly confidential and are submitted pursuant to the Commission's Second Protective Order in this proceeding. The public version of this filing has been redacted accordingly. An original and one copy of the public version of this filing and one copy of the confidential version of this filing are being filed with the Commission. If you have any questions concerning this filing, please contact the undersigned.

Respectfully submitted,



Gary M. Epstein
James H. Barker
Matthew L. Reece
Latham & Watkins
555 11th Street, N.W.
Suite 1000
Washington, D.C. 20009
(202) 637-2200

*Counsel for General Motors Corporation
and Hughes Electronics Corporation*



Pantelis Michalopoulos
Carlos Nalda
Rhonda M. Bolton
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 429-6494

*Counsel for EchoStar Communications
Corporation*

Attachments

cc: Marcia Glauberman
Linda Seneca

REDACTED -- FOR PUBLIC INSPECTION

BROADBAND MODELS

Introduction

In order to provide further support for certain of the points made by representatives of each of EchoStar Communications Corporation ("EchoStar") and Hughes Electronics Corporation ("Hughes") with respect to satellite-based broadband service to consumers, the parties provide the attached financial models.

Attached as Tab 1 is the business model ("New EchoStar Broadband Model") for the consumer satellite broadband service of the combined company ("New EchoStar"). Attached as Tab 2 is the business model ("Hughes Broadband Model") for a consumer satellite broadband service for Hughes on a standalone basis, and Tab 3 is a possible model for a start-up consumer broadband service for EchoStar on a standalone basis, using "bent pipe" satellites ("EchoStar Broadband Model"). These models represent the best estimate of the parties at this time. Further refinements in the analysis of the New EchoStar Broadband Model will be made in the ordinary course of the ongoing merger transition/implementation planning process, but neither EchoStar nor Hughes anticipates any material changes in the amounts included in the models or in the underlying assumptions.

Background

As part of the pre-merger transition process, teams from EchoStar and Hughes have, among other things, analyzed the effect of the merger on the consumer satellite broadband service which New EchoStar could offer, including cost and revenue effects. Each company has also independently evaluated consumer satellite broadband services offerings which each could separately provide without the merger. The attached models arise from that work.

Compared to present Ku-band satellite broadband service, cable and DSL typically offer higher speeds at lower initial and monthly service fees. Because of this competitive disadvantage, EchoStar has ceased marketing the Ku-band service provided by StarBand. Although Hughes has continued to offer its DIRECWAY Ku-band service, it is unlikely this service would continue to be offered to consumers if the merger does not occur.

Accordingly, each of the attached models assumes that a Ka-band satellite broadband service would need to be initiated, as discussed further below.

Explanation of Basic Model Mechanics

Each of the attached models has been prepared based on the experience of Hughes and EchoStar in developing and offering satellite broadband service, including actual revenue and cost data for their Ku-band services and detailed projections for Hughes' SPACEWAY offering.

All of the models assume an average monthly broadband service fee of [REDACTED] per month, with the price for basic broadband service eventually declining to [REDACTED] per month, when bundled with video service. On average, broadband-only subscribers will pay an additional [REDACTED] per month. New EchoStar will offer subscribers everywhere in the United States the same price for the same service.

The models include some video revenues associated with the broadband business. Video revenues from new subscribers who take the bundle of broadband and MVPD service are included, as these subscribers would not take video service but-for the broadband offering. To be conservative, the models do not include video revenues from subscribers who would have left the video service for a competitor's broadband bundle but -for the satellite broadband offering.

Each of the attached models includes a discounted cash flow analysis of the respective consumer satellite broadband businesses, together with the peak negative cash flow (i.e., the required cash investment). The models are for the period from 2003-2009 (i.e., five years after launch of the respective Ka-band service). Assumptions regarding the MVPD businesses of each of New EchoStar, DIRECTV and EchoStar are also consistent with those used in the Synergies Model.

As with the Synergies Model, the effects of population growth, inflation, interest costs, depreciation and taxes are excluded in the models.

New EchoStar Broadband Model

The model reflects a [REDACTED] dollar investment in SAC and other outlays to implement the New EchoStar Broadband Model. The maximum negative cash is approximately [REDACTED] and the net present value (using the same discount rate, [REDACTED] and terminal multiple, [REDACTED], as the Synergies Model) is approximately [REDACTED].

While the New EchoStar Broadband Model is generally consistent with the Synergies Model with regard to the assumptions relating to MVPD subscribers and related matters (ARPU, margin on video service, etc.), the following elements are different:

1. Actual costs/margins for Ku-band satellite service are used rather than assumed costs and margin.

2. For the Ka-band service, the space segment costs are assumed to be [REDACTED] per subscriber per month. With respect to the additional Ka-band satellite and related facilities which would be required to reach 5 million subscribers, the required capital expenditures are shown as incurred in 2005, 2006 and 2007.
3. Other operating costs for the satellite broadband service (customer care, network operations, general and administrative, etc.) are based on the Hughes Broadband Model assumptions.
4. Subscriber acquisition costs (SAC) are modified from the Synergies Model based on further analysis of anticipated hardware costs for Ka-band Customer Premises Equipment (CPE) and consumer pricing.
5. Assumptions regarding broadband subscriber churn are modified to reflect the actual experience of Hughes with its Ku-band DIRECWAY subscribers.

Hughes Broadband Model

The model reflects over a [REDACTED] dollar investment in SAC and other outlays to implement the Hughes Broadband Model. The peak negative cash is approximately [REDACTED] and the net present value (using the same discount rate and terminal multiple as the Synergies Model) is [REDACTED]. Notably, if either company were separately evaluating an investment of this magnitude and risk, it is likely that each would separately assign a lower terminal multiple and higher discount rate, which would make the negative net present value for the standalone model even greater. The Hughes Broadband Model differs from the New EchoStar Broadband Model principally in the following respects:

1. The expected consumer Ku-band satellite broadband subscribers at year-end 2002 are included as part of the subscriber base.
2. Subscriber growth is slower, as the DIRECTV MVPD subscriber base is much smaller than the merged company's would be, and this base is a critical source of broadband customers. In addition, CPE costs are higher due to lower volumes, thereby resulting in lower demand for the service.
3. No additional satellites, beyond those required for the SPACEWAY enterprise service, would be launched, due to both orbital restrictions and insufficient customer demand.
4. Subscriber acquisition costs and sales and marketing costs per subscriber would be higher, due primarily to the loss of benefits of scale efficiencies arising from the merger.

EchoStar Broadband Model

The model reflects a [REDACTED] dollar investment in SAC and other outlays to implement the EchoStar Broadband Model. The peak negative cash is approximately [REDACTED] and the net present value (using the same discount rate and terminal multiple as the Synergies Model) is [REDACTED]. Again, if either company were separately evaluating an investment of this magnitude and risk, it is likely that each would separately assign a lower terminal multiple and higher discount rate, which would make the negative net present value for the standalone model even greater.

The EchoStar Broadband Model differs from the New EchoStar Broadband Model principally in the following respects:

1. No Ku-band subscribers are included, as EchoStar has never offered Ku-band service, and ceased acting as a retailer for StarBand's service.
2. Subscriber growth is slower, as the EchoStar MVPD subscriber base is much smaller than the merged company's would be, and this base is a critical source of broadband customers. In addition, CPE costs are higher due to lower volumes, thereby resulting in lower demand for the service.
3. EchoStar would incur capital expenditures for [REDACTED] Ka-band satellites and related infrastructure in 2003-2004 and 2006-2007.
4. Subscriber acquisition costs and sales and marketing costs per subscriber would be higher, due primarily to the loss of benefits of scale efficiencies arising from the merger.

ATTACHMENT B

**REDACTED IN ITS
ENTIRETY SUBJECT TO
SECOND PROTECTIVE
ORDER**



C

ATTACHMENT C

**REDACTED IN ITS
ENTIRETY SUBJECT TO
SECOND PROTECTIVE
ORDER**



ATTACHMENT D

**REDACTED IN ITS
ENTIRETY SUBJECT TO
SECOND PROTECTIVE
ORDER**