Hughes Electronics Corporation Response to
FCC Initial Request for Information dated February 4, 2002

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Dishnetwork to Become Market Leader If Merger is Completed,
According to Solomon-Wolff Associates; New Survey Findings Show Continued Growth in Use of Satellite TV

11/06/2001
Business Wire

MOUNTAIN LAKES, N.J.--(BUSINESS WIRE)--Nov. 6, 2001--Solomon-Wolff Associates, an independent New Jersey-based market research firm released findings from its latest semi-annual national on-line survey of consumer communications services, conducted in July 2001.

The research indicates that the two satellite TV providers, when combined, will have a market share greater than any cable TV company. DirecTV (NYSE:GMH) has a share of 14 percent while Dishnetwork (NASDAQ:DISH) has nine percent share. The combined market share of 23 percent will exceed the 18 percent calculated for AT&T Cable, the Cable TV service provider with the largest market share.(1)

"The use of premium TV service, overall, has not shown much growth over the past three years, so it appears that Satellite TV has taken customers directly from cable, rather than expanding the market," said S. Joey Wolff, partner, Solomon-Wolff Associates. " DirecTV and Dishnetwork together now account for almost one out of four consumer households, and their shares grow every time we conduct a new study. Some traditional cable TV companies have shown growth, but this seems to be due to acquisitions rather than by gaining users who have not used a premium TV service before."

23.65
32.40

8.75

In the latest study, 29 percent of satellite television customers reported they were completely satisfied with their service, as compared to only 17 percent of cable customers. This suggests that satellite will continue to be the main growth area among premium TV services.

"While satisfaction has generally declined for a number of communications services over the past three years, satisfaction with premium TV services has actually increased," said Wolff. "Dishnetwork has the highest satisfaction level of all premium TV services, and Cablevision has the highest satisfaction level among Cable TV companies."

The semi-annual survey was conducted through Solomon-Wolff's web site, consumerviews.com in July, 2001. A random sample of 5314 participants from Solomon-Wolff's online database of more than 250,000 Internet users completed the survey. The sample of Internet users was asked questions related to usage, spending and satisfaction for local and long distance telephone service, wireless service, cable/satellite TV , paging, ISPs, wireless internet, computer and internet usage. Solomon-Wolff conducts the survey twice a year to track trends in personal communications services. For detailed information on Solomon-Wolff's research study, contact Joey Wolff at (973) 263-1409 or e-mail at SJWolff@consumerviews.com.

GM Follows Zero-Percent Financing With a Zero-Tax Sale of DirecTV

Allan Sloan

11/06/2001
The Washington Post
FINAL
Page E03

Zero is a big number at General Motors these days. No, I'm not talking about GM's zero-interest car loans, the marketing breakthrough that the rest of the industry followed, sending October auto sales to record levels. Rather, I'm talking about the amount of taxes -- zero -- that GM and its shareholders will pay on their multibillion-dollar gains from selling GM's satellite - broadcasting business.

This is the kind of deal that shows why the finance and tax staffs are GM's biggest moneymakers, hot October auto sales notwithstanding. The case in point is the $22 billion deal announced last week, in which EchoStar would in effect buy Hughes Electronics , the GM subsidiary that owns DirecTV . If the transaction goes through as planned, it will be a grand finale, capping several brilliant tax-avoiding deals that GM has done with Hughes's stock and assets. If you value this deal using EchoStar 's closing price on Friday, GM and its common shareholders will have realized around $30 billion, tax-free, from GM's $5 billion purchase of Hughes in 1985. Holders of GM's H stock, which has an economic interest in Hughes but no ownership stake, will have realized an additional $18 billion. The total gain: about $40 billion after taxes. More than GM has earned by making cars and trucks since it bought Hughes. (I'm using slightly massaged GM numbers for this math. You can find details of those deals, as well as a breakdown of how GM extracts cash in the EchoStar sale, at www.washingtonpost.com/business.)

Had GM just sold DirecTV for $22 billion and distributed the after-tax proceeds to its shareholders, the company and its holders would have forked over more than $5 billion to the Internal Revenue Service. But by shuffling lots of papers and creating a bizarre corporate structure with three classes of common stock having different voting powers, the IRS gets nothing.

"This is the first time someone has used three classes of stock to avoid the ire of the IRS," says an impressed Robert Willens, Lehman Brothers' tax expert. "The tax books were stacked as high as the corned beef in the Carnegie Deli," quips EchoStar general counsel David Moskowitz. It's all perfectly legal, part of the eternal struggle between tax collectors and corporate-tax mavens.

This deal is what's known in the tax trade as a reverse Morris Trust. To give you the simple version, GM is splitting itself into two fully separate companies -- GM and Hughes -- and selling Hughes to EchoStar in return for EchoStar stock. Because GM, which has a one-third economic stake in Hughes, is hungry for cash, it has set up a complicated structure to let it emerge with about $6 billion of cash and retired debt. Holders of GM's Class H stock will have an ownership stake in a bigger company, as opposed to the somewhat vague "letter stock" they currently hold. And EchoStar founder Charles Ergen will retain voting control of the new, bigger EchoStar even though his ownership stake will drop to about 18 percent from its current 50 percent. Pretty slick.

Here's the deal. EchoStar 's public shareholders will get A stock, with one vote per share; chief executive Ergen will get B stock, with 10 votes per share; Hughes shareholders will get C stock, with between three and four votes a share, the number depending on things so complicated they make my teeth hurt.

The point of all this stuff? To get the Morris Trust tax break. To qualify, Hughes holders must have both a majority of the shares in the new, bigger EchoStar and a majority of the voting power as well. With this three-tier structure, Ergen will have about 38 percent of the voting power. That's more than enough to control the company, because the other shares will be held by thousands of shareholders.

In one of those wonderful ironies, GM is leaping through all these hoops to meet the requirements of legislation that Congress passed in 1997 to close the Morris Trust loophole. The reason for the legislation? In 1997, GM had found a way around the previous requirements and managed to sell Hughes's defense business to Raytheon for $9.5 billion in cash and stock, tax-free. Staying a step ahead of the tax man is complicated work.

This is the third sizable Morris Trust deal to emerge since August, when the IRS finally published guidelines about what it takes to meet the standards of the 1997 legislation. (The others are Plum Creek's purchase of Georgia Pacific's timberlands and -- giggle -- the J.M. Smucker jelly company's buying Jif peanut butter.) Watch for more Morrises, and for Congress to try to close the loophole again. And for GM to find more ways to get to its favorite number: zero.

Follow-Up: In 1998, I criticized Times Mirror Co.'s tax-dodging $2 billion "non-sale sales" of two subsidiaries. Turns out the deals failed the IRS smell test. Last month the IRS chief counsel's office issued a directive instructing its auditors to challenge these deals, disallow them, and penalize the companies and promoters who did them. Score one for the taxpayers' forces of good.

ECHOSTAR -HUGHES MERGER FACES TOUGH ANTITRUST REVIEW

11/05/2001
Warren's Cable Regulation Monitor

Reserved.

There's 50-50 chance DirecTV - EchoStar merger will be blocked by antitrust regulators, said former Justice Dept. Antitrust Div. Chief Don Baker. Baker, who worked as staffer 1966-1975, was appointed antitrust chief by President Ford in 1976, now is partner in Baker & Miller antitrust law firm. "Clearly there are a couple of different issues," Baker told us. He and other attorneys said EchoStar faced uphill regulatory battle, but they said hiring of antitrust lawyer David Boies should help. Former DoJ telecom legal expert Don Russell now is top EchoStar lawyer.

EchoStar finished first in Hughes- DirecTV sweepstakes Oct. 28 when Rupert Murdoch's News Corp. pulled out after 18 months of negotiations. EchoStar won bidding with offer of $26 billion cash and stock to create media conglomerate with 16.7 million subscribers and 80% of satellite TV audience. Boards of GM and EchoStar approved deal. Hughes shareholders are expected to approve it in 4-6 months, EchoStar CEO Charles Ergen said. He will be named CEO of new EchoStar company, which is combined EchoStar -Hughes entity. It will use DirecTV brand name, he said. GM said it expected transaction to close in 2nd half of 2002. Transition team will consist of Hughes CEO Jack Shaw, DirecTV Chmn. Eddy Hartenstein, Ergen and EchoStar Pres. Michael Dugan.

Meanwhile, FCC Chmn. Powell named interagency team to review EchoStar - DirecTV merger Nov. 1 as companies began regulatory process with SEC filing that outlined parameters of deal and laid groundwork for what's expected to be rigorous antitrust review. FCC Cable Bureau Chief and future head of Media Bureau Kenneth Ferree will head Commission group that also includes: Senior Counsel James Bird; FCC Chief Economist David Sappington; Cable Bureau Assoc. Chief Barbara Espin; Deputy Chief of Office of Engineering & Technology Julius Knapp; JoAnn Lucanik of International Bureau Satellite Div.; Royce Sherlock, deputy chief, Cable Bureau; Donald Stockdale, economist, Office of Plans & Policy; Douglas Webbink, economist, International Bureau. Powell said he tried to include experts on issues involved and he was "confident" that review would be "thorough, fair and timely." He said he expected transaction to be "rigorously scrutinized" by FCC and team to "expedite" review process.

Hughes shareholders will hold 53% of merged company's shares to keep transaction tax-free. EchoStar will control 4 of 9 board seats and 36% of stock. GM retains 11%. Five of board members will be independent directors. Companies plan to continue to operate independently until transaction closes. EchoStar also promised to pay $600 million breakup fee and purchase Hughes subsidiary PanAmSat if deal fell through. PanAmSat is worth estimated $2.77 billion. Pegasus Communications remains wild card in transaction and some say it could block deal. Deal also is backed by $5.5 billion in bridge financing, including $2.75 billion that EchoStar has secured from Deutsche Bank and another $2.75 billion from GM backed by EchoStar stock from trust owned by Ergen, while company seeks additional financing from capital markets before closing.

Deal means there would be only one major DBS provider in U.S., which has caused concern on Capitol Hill, where at least 10 lawmakers have expressed serious reservations about supporting merger. News Corp., runner-up in Hughes sweepstakes, is expected to lobby hard against deal, some experts said. "Murdoch probably doesn't want to make any arguments that they are separate markets, but that kind of statement may come back to bite him" in other deals, Baker said: "It's going to be interesting how he deals with that problem."

DoJ, rather than FTC, is likely to handle antitrust review, lawyers and analysts we talked to said. They said definition of merged companies' market was key to whether deal was approved. They said that if satellite industry were viewed as just one multichannel video competitor in market that included cable, review should go smoothly, but if regulators determined satellite market was separate entity, then it probably would be killed. "There will be naysayers, but I'm confident there will be no regulatory problem," Ergen said.

Baker said he believed satellite TV was distinct market. He said concerns about rural markets would play heavily in any decision, especially if prices were likely to go up 10%-20%. However, he said he expected EchoStar to argue that new digital cable was "going to be terrific" for consumers and it now was on same playing field as DBS , although he didn't agree.

EchoStar "is going to have a tough sell" with regulators, predicted satellite attorney Philip Spector, who also represents News Corp.: "In many parts of the country, there are only one cable and 2 satellite providers." Deal would reduce that to one DBS and one cable operator, he said: "You don't have to be an expert in antitrust regulation to see this might create a problem." Spector also believed issue was "going to be decided" at DoJ: "FTC handles cable things. If you recall, the last major satellite issue involving News Corp. transfer of license to PrimeStar was handled by DoJ."

Ergen told analysts he was willing to sign agreement with govt. to put lid on price increases for subscribers in rural areas. He said EchoStar might drop opposition to sharing airways with competing TV and Internet services, as well as antitrust lawsuit against DirecTV . "We are going to work with regulators to eliminate their concerns," Ergen said: "I don't see a lot of changes in rural America. If it isn't good for consumers across the board, then it doesn't make sense." He said 2 companies were working on 4-year plan to integrate resources and technology. He expects to cut $4.5 billion from combined companies' annual operating costs after 2 years. "We can reduce the programming costs and hopefully pass that on to consumers in the form of lower prices," Ergen said.

EchoStar acquisition faces "risky antitrust review," Legg Mason said, predicting Justice would block deal because it would reduce DBS content providers to U.S. homes to only one. Said Legg Mason analyst Blair Levin: "We are skeptical the DoJ or FCC would be able to craft a workable remedy [approving merger] that retains the benefits that a competitive marketplace would have on pricing, programming and service quality." Even if combination were blocked by govt., Levin said, EchoStar would be "in an excellent position to benefit... by having a weaker competitor during the period of government review" and it "likely wouldn't be significantly harmed by a government rejection." GM is taking "an extraordinary gamble" because DirectTV services "are likely to continue to deteriorate during the merger review process [with] a major risk that the government will turn down the bid," he said.

NCTA spokesman said, "A merged company would have 17 million-plus subscribers and would be larger than any cable company. It's difficult to predict how antitrust authorities will view a combination of the 2 largest satellite companies." Speaking on condition of anonymity, cable industry official predicted Hughes and DirecTV would "try to run this as an anticable exercise" and make cable industry out to be "boogeyman." Asked if industry leaders were worried, official acknowledged satellite was "a formidable competitor" but said industry executives believed that, in long run, they had better vehicle to deliver multichannel video, voice, data.

Speaking at FCC forum on ownership policies and competition, Mark Cooper of Consumer Federation of America predicted merger would be approved in spite of fact that rural subscribers would be left without choices. However, Bruce Owen of Economists Inc. said deal could better serve rural communities because merged company would have to offer those customers same deals as in cities where competition was fierce. NAB Pres. Edward Fritts said EchoStar -Hughes merger would "create the world's largest monopoly video delivery system" and regulators should review proposal with "a high level of scrutiny."

Justice Dept. antitrust official told us clearance process wouldn't start until parties filed Hart-Scott-Rodino application. DoJ and FTC will decide which agency will review deal based on which "has most experience," official said. That most likely will be DoJ because it has handled most satellite issues, including PrimeStar deal, official said. Deputies representing agencies will make determination but no meetings have taken place yet, he said. Official said there was no statutory deadline for application: "They can file it any time after receiving the letter of intent... Sometimes the companies want to come in and talk to us before they make their filings." Official said DoJ or FTC had 30 days to ask for additional information to review before making decision. Official agreed with EchoStar that entire process would take 4-6 months.

Deal received mixed reviews from Hill leaders. House Commerce Committee Chmn. Tauzin (R-La.) spokesman Ken Johnson said: "We certainly will be taking a look at it from a competitive perspective. Obviously our big concern is the impact of having just one satellite company providing multichannel programming. The question we have to answer is how do we define competition in today's evolving marketplace?" Johnson said Tauzin and committee would assess importance of competition within satellite industry and between satellite and cable industries. He said decision would rest on whether to "leave consumers with better choices or more choices." decision that also would take into account future of broadband deployment.

Committee member Rep. Boucher (D-Va.) expressed support for merger, which he said was "best way" to fulfill potential of that satellite industry segment. He predicted regulatory agencies responsible for reviewing transaction would "recognize the procompetitive synergies and public interest benefits that attend this acquisition." Boucher also said more markets would receive local-into-local service as result of transaction: "By combining the DirecTV assets with EchoStar 's satellite operations, the merger will produce a stronger multichannel video programming distributor that can compete more vigorously with cable companies and accelerate the delivery of broadband services to rural markets. The combination will enable a rationalization of satellite capacity, which will facilitate the uplink of more local TV stations across the nation."

House Telecom Subcommittee ranking Democrat Markey (Mass.) agreed with Boucher's contention that transaction could end "duplicativeness" in use of satellite frequencies and could provide extra space that could be used for local-into-local signals, staffer said. However, there's no guarantee that new entity would commit space for local-into-local purposes, aide said, and Markey also remained skeptical of assertions that deal would be easily approved by antitrust regulators. Markey suggested that transaction be placed under "utmost scrutiny that any regulator can give," staffer said.

Senate Commerce Committee Chmn. Hollings (D-S.C.) said he was "troubled" by prospect of 2 of largest satellite providers' becoming one company: "That kind of consolidation would leave consumers with few if any choices. Our committee will continue to look into this and other consolidation matters." Aide to ranking committee Republican McCain (Ariz.) said McCain was "looking at it," but had no further comment. Communications Subcommittee ranking Republican Burns (Mont.) hadn't yet issued statement, but staffer said he would comment on situation by Tues. morning. Senate Judiciary Antitrust Subcommittee leaders hadn't commented by our Mon. deadline. Senate staffer said problems with Senate phone system Mon. afternoon were preventing some members from communicating with media on issue.

Proposed DirecTV - EchoStar merger "needs to be seriously scrutinized," Senate Communications Subcommittee ranking Republican Sen. Burns (Mont.) said. If approved by antitrust regulators, deal would reduce number of major DBS providers to one from 2, factor that Burns said should be weighed heavily in reviews by Dept. of Justice and FCC : "I can say first hand that in rural states like Montana, we don't have many choices when it comes to [TV] service providers. In areas not served by cable, DBS provides the only multichannel [TV] access for most customers. This merger could stifle competition and drive up prices by limiting choices even further."

Murdoch said he was "surprised GM did not share his vision and enthusiasm" for "one-of-a-kind" global company. He said choice of EchoStar "means there will be no choice" for DBS consumers in

U.S. Foreign satellite analyst said EchoStar -Hughes merger was "going to leave News Corp. with no obvious entry into the U.S. market. It's a big blow."

Some analysts believed transaction could help Northpoint in its efforts to provide broadband services to rural areas. "This merger caps a long history of anticompetitive conduct by the satellite industry and demonstrates their failure to provide competitive choices for rural Americans," Northpoint CEO Sophia Collier said. FCC "couldn't have foreseen that the free spectrum" it gave to DBS industry "would come to be controlled by a single monopolist," she said.

Pegasus Expects Exclusive Rural Sales Rights

11/05/2001
Satellite News

Pegasus Communications Corp. [PGTV] Chairman and CEO Mark Pagon warned Thursday evening that his company's exclusive pact to sell DirecTV Inc. services in rural areas must be honored by EchoStar Communications Corp. [DISH] if the proposed combination of EchoStar and DirecTV proceeds.

Pagon said that if EchoStar 's proposed acquisition of DirecTV gains required regulatory and shareholder approvals, Pegasus should retain its rights to provide high-powered DirecTV satellite television services in the same markets it does now. However, EchoStar officials noted that their company and Pegasus would continue to compete in rural markets once the acquisition of DirecTV is completed.

Without question, a battle is brewing.
The powder keg was set Sunday, Oct. 28, when EchoStar 's offer to buy DirecTV and the rest of Hughes Electronics Corp. was accepted by General Motors [GM]. Since the combined company would retain the DirecTV brand name to market its services, Pagon said his company would remain the exclusive provider of DirecTV services in the rural markets it now serves.

"We expect the combined company will honor our rights," Pagan said. "The burden is really on EchoStar and Hughes to lay our their plans for their platform. We're anxious to understand the scope of the transaction and what they are proposing to do."

Pagon also made clear during his company's third quarter earnings conference call Thursday that he does not expect Pegasus to be subject to any marketplace limitations that EchoStar or Hughes may accept to win regulatory approval of their transaction. That is an important point, since EchoStar Chairman and CEO Charlie Ergen said during a conference call with analysts Monday that he would be open to establishing a national pricing structure to ensure rural competitors do not pay more for services than urban subscribers do.

"People definitely want more choice for broadband and local channels at the right prices," Ergen said. "I think you do that by nationwide pricing. When you put the synergies together, we are taking about passing those savings along to consumers. Most of my consumers want lower prices rather than more programming."

Pagon's view is that Pegasus is "not a party" to the merger and that any consent decree between EchoStar and the Justice Department would not affect his company.

A merger between EchoStar and Hughes also would make it possible to offer broadband services and local network signals in rural America that otherwise may not be feasible, Ergen said.

The EchoStar - DirecTV deal valued at more than $20 billion includes only the owned and operated subscribers, said Judianne Atencio, EchoStar 's director of communications. "It does not include subscribers of the NRTC [National Rural Telecommunications Cooperative] and its affiliates." Pegasus is one of the largest NRTC affiliates.

EchoStar and DirecTV would combine to become the nation's second-largest pay television platform to cable TV with more than 16.7 million subscribers, including 1.8 million subscribers served by Pegasus and other NRTC affiliates.

On the financial side, Pegasus reported Thursday that it boosted net revenues from satellite TV services during third quarter 2001 by $47.2 million, or 30 percent, to hit $206.8 million. Restrained spending helped to cut subscriber acquisition costs $23.2 million, or 42 percent, to $31.9 million in the latest third quarter, Pegasus officials said.

Further progress was achieved by trimming subscriber acquisition costs per gross subscriber addition to $310 in the third quarter of 2001, compared to $440 during the same period of 2000.

EchoStar - DirecTV Deal Puts Other Units In Limbo

11/05/2001
Satellite News

EchoStar Communications Corp. [DISH] Chairman and CEO Charlie Ergen talked extensively about the synergies that would be created by combining his company with DirecTV Inc., but he scarcely mentioned other parts of Hughes Electronics Corp. [GMH] that he also is acquiring in the deal announced last week.

Ergen's plans for satellite services giant PanAmSat Corp. [SPOT] and VSAT leader Hughes Network Systems are uncertain. If regulators and shareholders approve EchoStar 's purchase of Hughes, PanAmSat most likely would be sold off, predicted Mickey Alpert, a satellite consultant who heads Alpert &

Associates.

Eutelsat and Intelsat are cited as candidates likely to acquire all or part of PanAmSat, one of the world's largest commercial satellite operators. PanAmSat officials, however, declined comment on whether the company's sale could be a result from the EchoStar -Hughes deal.

HNS briefly entered the spotlight during the Oct. 29 conference call announcing EchoStar 's proposed acquisition of Hughes. Ergen talked about the value of the planned HNS satellite broadband service, Spaceway. That development-stage venture of HNS could be kept, but the rest of the company might be sold, Alpert suggested.

Spaceway would give Ergen a vehicle to expand the scope of EchoStar beyond satellite TV to include next-generation, high-speed Internet access. Spaceway is intended to provide broadband-on-demand for businesses, small office/home office users and consumers.

EchoStar also has stakes in StarBand and WildBlue, a pair of two-way broadband services aimed at consumers. Last July, EchoStar struck a deal to gain a controlling interest in StarBand. However, StarBand has failed to meet early subscriber projections and has run short of money. EchoStar stepped in when StarBand, backed by fierce HNS competitor Gilat Satellite Networks, fell into financial straits after its planned initial public stock offering was withdrawn due to slim market interest.

StarBand is a direct competitor to HNS' two-way broadband service called DirecWay. It remains unclear whether Ergen will want to keep his interest in the two competing systems.

Spaceway Vice President and General Manager Michael Cook believe that the ties between HNS and DirecWay are an integral part of his project.

"Spaceway is a fundamental part of the HNS business and in many ways can't be distinguished from the rest of the HNS business," Cook said. "Spaceway is the next generation of services of what is offered by DirecWay."

HNS would be a provider of Spaceway terminals and the HNS distribution channels that have been developed to sell DirecWay services also could be used, Cook said.

The boards at Hughes and GM previously approved a $1.4 billion investment in the Spaceway system to complete its development and deliver the initial spacecraft into orbit. By contrast, Spaceway has cash-strapped satellite broadband rivals that are scrambling for financing (see story, p. 7 of this issue).

"We don't need to seek strategic investment to fulfill our business plan," Cook said. Spaceway has the funding to launch a regional service for North America, but would need additional financing and partners to extend its next-generation satellite broadband service to Europe and Asia.

"The developments of this week don't impact our plans at all," Cook said. "The implication of this week is that it looks like we will be plowing ahead in the context of a larger business and a larger customer base. The new company [EchoStar] and management believe that Spaceway can be an important part of their plans to service customers in the future."

EchoStar 's backing of broadband systems also includes WildBlue, a service now under development that would serve the consumer market at prices comparable to terrestrial services.

S.G. Cowen satellite analysts issued a report last Friday suggesting EchoStar 's acquisition of Hughes would put the "future of consumer broadband provider WildBlue into question," since EchoStar is a backer of that system and others.

Clearly, many questions have been raised by EchoStar 's proposed acquisition of Hughes and few answers have emerged. Virtually all the satellite broadband systems, especially those backed by EchoStar , will be affected.

Financially, EchoStar may need to scale back its commitments in the broadband arena. It may also have to sell PanAmSat for a return of between $3 billion to $5 billion, analysts said. One reason is that the price of buying Hughes will be enormous.

The deal is valued at $26.5 billion, including about $2 billion of Hughes debt, estimated Marc Nabi, a satellite analyst with Merrill Lynch. Hughes shareholders would receive 0.73 shares of EchoStar 's stock valued at $18.45, or a 20 percent premium over Hughes stock's closing price of $15.35 on Oct. 26, he said.

GM's board members chose EchoStar 's sweetened offer late Sunday, Oct. 28, after News Corp. [NWS] withdrew its proposal to acquire Hughes after nearly 18 months of discussions. A combination of EchoStar and DirecTV , the satellite TV subsidiary of Hughes, would unite the only two U.S. satellite TV providers into one company.

A merger also holds the ironic twist that EchoStar , the second-ranked provider, would buy DirecTV , its larger competitor. The two companies combine to serve 16.7 million subscribers. The National Rural Telecommunications Cooperative (NRTC), through its affiliation with Pegasus Communications [PGTV] and others, has 1.8 million subscribers and the remaining 14.9 million customers would belong to the combined company.

Northpoint Approaches FCC on DBS Merger

SkyReport 11/6/01

Northpoint Technology, the Washington, D.C.,-based company that wants DBS spectrum on a shared basis for its controversial wireless technology, is working the Federal Communications Commission about the proposed EchoStar/DirecTV merger.

Last week, attorneys for Northpoint contacted Ken Ferree, chief of the FCC's Cable Services Bureau, about the $25.8 billion merger and Northpoint's effort to acquire licenses for its wireless technology, according to a filing at the commission.

In the FCC filing, Northpoint's attorneys said the company's ability to offer video programming and broadband access via its wireless offering "is particularly important in light of the planned merger between DBS operators DirecTV and EchoStar, which will reduce the service options available - especially to consumers in rural areas."

The filing also touched on the spectrum auction issue. Northpoint reiterated its stand that a competitive bidding process "would cause unnecessary and harmful delay in providing service."

Satellite interests have been vigorously fighting Northpoint and the wireless spectrum-sharing effort at the FCC. They are concerned wireless technology that shares DBS spectrum will interfere with satellite signals.

DBS Merger Frets Small Ops

Ted Hearn
Multichannel News
11/5/2001 6:00:00 PM

Small cable operators fear that the proposed merger between EchoStar Communications Corp. and DirecTV Inc. will drive up their program-acquisition costs and make them less competitive against the direct-broadcast satellite giant.

Matt Polka, president of the American Cable Association, predicted that if the DBS merger goes through and the new company can cut its programming costs, program networks will look to small cable operators to make up the revenue.

EchoStar chairman and CEO Charlie Ergen 'himself announced that the new company expects to save $600 million to $700 million in annual programming costs. That's a lot of annual revenue for programmers to lose, especially now that advertising revenues are way, way down,' Polka said in a column to be published in the upcoming issue of the ACA's magazine.

Polka added: 'I wonder where the programmers will try to make up this difference? Dare I say on the backs of the customers of competitors, like independent cable?'

Last Monday, EchoStar and DirecTV's parent, Hughes Electronics Corp., agreed to merge in a deal valued at $25.8 billion. The new company, with 16.7 million subscribers, would become the nation's largest distributor of multichannel-video programming.

In the column, Polka promised that the ACA would be 'very active' in Washington, D.C., when regulators and Congress start to review the deal.

The association -- which represents 900 operators with 7.5 million subscribers -- was active during the Federal Communications Commission's review of America Online Inc.'s merger with Time Warner Inc.

Prior to FCC approval, the companies agreed not to link the sale of their cable networks to small-MSO carriage of AOL's high-speed Internet-access service.

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U.S. Multichannel Industry Subscriber Projections

	1997A	1998A	1999A	2000A	2001E	2002E	2003E	2004E	2005E	2006E	2007E
U.S. Households	101,386	102,448	103,738	104,968	106,225	107,500	108,790	110,095	111,416	112,753	114,107
- % Change Year-to-Year	1.2%	1.0%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
U.S. TV Households	98,000	99,600	100,802	102,011	103,235	104,474	105,728	106,997	108,281	109,580	109,580
- % Change Year-to-Year	1.1%	1.6%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	0.0%
- % of U.S. Households	96.7%	97.2%	97.2%	97.2%	97.2%	97.2%	97.2%	97.2%	97.2%	97.2%	96.0%
Homes Passed by Cable	94,600	98,000	101,400	103,200	104,438	105,692	106,960	108,243	109,542	110,857	112,187
- % Change Year-to-Year	1.0%	3.6%	5.6%	1.8%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
- % of U.S. Households	93.3%	93.7%	97.7%	98.3%	98.3%	98.3%	98.3%	98.3%	98.3%	98.3%	98.3%
Cable Subscribers	64,600	66,100	67,300	68,500	69,185	69,738	70,157	70,438	70,578	70,649	70,649
- % Change Year-to-Year	2.0%	2.0%	1.8%	1.8%	1.0%	0.8%	0.6%	0.4%	0.2%	0.1%	0.0%
- % of Homes Passed by Cable	68.5%	66.9%	66.4%	66.4%	66.2%	66.0%	65.6%	65.1%	64.4%	63.7%	63.0%
Net Additions	1,300	1,300	1,200	1,200	685	553	418	281	141	71	0
DBS Subscribers	6,287	8,694	11,446	14,781	17,531	20,161	22,378	24,280	25,980	27,539	28,917
- % Change Year-to-Year	48.0%	38.3%	31.7%	29.1%	18.6%	15.0%	11.0%	8.5%	7.0%	6.0%	5.0%
- % of U.S. TV Households	6.4%	8.7%	11.4%	14.5%	17.0%	19.3%	21.2%	22.7%	24.0%	25.1%	26.4%
DBS Subscriber Net Additions	2,038	2,407	2,752	3,335	2,750	2,630	2,218	1,902	1,700	1,559	1,378
Multichannel Subscribers											
Cable	64,600	66,100	67,300	68,500	69,185	69,738	70,157	70,438	70,578	70,649	70,649
DBS	6,287	8,894	11,446	14,781	17,531	20,161	22,378	24,280	25,980	27,539	28,917
C-Band	2,114	1,921	1,648	1,196	800	500	350	250	150	75	50
SMATV	1100	1,000	1,450	1,500	1,425	1,354	1,286	1,222	1,161	1,103	1,048
MMDS	1,050	950	800	600	250	200	150	100	50	0	0
Overbuilders/Other	100	200	400	550	750	900	1,050	1,200	1,350	1,450	1,500
Total Multichannel Subscribers	75,461	78,865	83,044	87,127	89,941	92,853	95,371	97,490	99,269	100,816	102,163
- % Change Year-to-Year	4.3%	4.5%	5.3%	4.9%	3.2%	3.2%	2.7%	2.2%	1.8%	1.6%	1.3%
- % of U.S. TV Households	77.0%	79.2%	82.4%	85.4%	87.1%	88.9%	90.2%	91.1%	91.7%	92.0%	93.2%
Total Multichannel Net Additions	3,118	3,414	4,179	4,083	2,814	2,912	2,518	2,118	1,779	1,546	1,348
Market Share of Total Multichannel Subscribers											
Cable	85.6%	83.8%	81.0%	78.6%	76.9%	75.1%	73.6%	72.3%	71.1%	70.1%	69.2%
DBS	8.3%	11.0%	13.8%	17.0%	19.5%	21.7%	23.5%	24.9%	26.2%	27.3%	28.3%
C-Band	2.8%	2.4%	2.0%	1.4%	0.9%	0.5%	0.4%	0.3%	0.2%	0.1%	0.0%
SMATV	1.5%	1.3%	1.7%	1.7%	1.6%	1.5%	1.3%	1.3%	1.2%	1.1%	1.0%
MMDS	1.4%	1.2%	1.0%	0.7%	0.3%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%
Other	0.1%	0.3%	0.5%	0.6%	0.8%	1.0%	1.1%	1.2%	1.4%	1.4%	1.5%

Source: Deutsche Banc Alex. Brown estimates and company information

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DESK NOTES

SUISSE CREDIT SUISSE FIRST BOSTON CORPORATION

Americas **U.S./Telecommunications Services/Satellite** **November 17, 1999**

BUY

LARGE CAP

Hughes

GMH

Reiterating Buy After Two Days On The Road With DirecTV

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- CSFB sponsored a two-day non-deal roadshow for Hughes/DirecTV on November 15-16.
- During the meetings, investor attention focused primarily on pending local-into-local legislation and the potential impact such a law would have on DirecTV.
- Eddy Hartenstein indicated that "local into local" legislation should almost certainly become law this year.
- The DirecTV president also provided insight into expected trends in sub growth, per sub revenues and acquisition costs. DirecTV's NRTC dilemma was frequently discussed as well, with Hartenstein consistently downplaying a potential acquisition of Pegasus.

Price 11/16/99[1]	Target 12 Month	Dividend	Yield	Mkt. Value (Millions)		52-Week Price Range
USD 81	$100	$0	None	$35,260		$88-33
	Annual EPS	Prev. EPS	Abs. P/E	Rel. P/E	EV/ EBITDA	EBITDA/ Share
12/00E	($1.25)		NA	NA		$1.80
12/99E	(0.83)		NA	NA		1.11
12/98A	0.68		NA	NA		1.76
	March	June	September	December		FY End
1999E	$0.10A	($0.23)A	$(0.13)A	($0.56)		Dec
1998A	0.11	0.14	0.11	0.32		

ROIC (12/99E)	2%	Total Debt (9/99)	$1.9 bil	Book Value/Share (9/99)	$27.00
WACC (9/99)	12%	Debt/Total Capital (9/99)	14%	Common Shares	429 mil
EP Trend[2]	Positive	Est. 5-Yr. EPS Growth		Est. 5-Yr. Div. Growth	

[1]On 11/16/99 DJIA closed at 10,932 and S&P 500 at 1420.
[2]Economic profit trend.

Hughes is a satellite conglomerate. DirecTV is the leading DBS operator in the US. HSC is the number one commercial manufacturer of satellites. Hughes participates in the FSS arena through its 81% ownership position in PanAmSat. HNS is the fourth operating unit focusing primarily on satellite based networking.

Investment Summary

CSFB sponsored a two-day non-deal road show for Hughes/DirecTV on November 15-16. Investor attention focused primarily on pending local-into-local legislation and the potential impact such a law would have on DirecTV.

Eddy Hartenstein, president of DirecTV, also provided insight into the following areas:

- At roughly $500, the average per subscriber acquisition cost could be close to a peak level. Hartenstein strongly hinted that this metric could begin to trend downward in the second half of 2000, which we believe would have very positive implications for both the economics of the DirecTV business and the valuation assigned to the entity.
- The average monthly revenue DirecTV generates from each household should continue to rise. In 2000, local programming services could provide a $1.50 boost from the current $58 level. Longer term, new premium tier services, interactive data applications, and rate increases should also push monthly revenues steadily higher.
- Hartenstein reiterated his expectation for the DirecTV subscriber base to reach 9.5-10.0 million by the end of 2000. Our 2000 estimate for DirecTV subscribers is currently 9.5 million.
- SBC and Bell Atlantic should each secure 100,000 new DirecTV subscribers in 2000; our assumptions are considerably more conservative.
- While acknowledging the strategic value of Pegasus to the DirecTV effort, Hartenstein downplayed a potential acquisition, citing valuation. Hartenstein maintains that provisions within the DirecTV/NRTC contract leave Pegasus with little terminal value. Pegasus and its increasing shareholder base obviously have a sharply different opinion.

Local-Into-Local Legislation

As widely reported, final approval of proposed "local-into-local" legislation has been slowed by a jurisdictional dispute surrounding a $1.25 billion loan provision designed to help non-profit organizations deliver local network programming in markets not served by DBS operators. Specifically, Senate Banking Committee Chairman Phil Gramm threatened to veto the bill because his committee was not consulted on the loan provision.

Despite the controversy, Eddy Hartenstein indicated that "local into local" legislation should almost certainly become law this year. Hartenstein believes the jurisdictional issue will likely be resolved by removing the loan guarantee from the bill. Various media outlets, however, have reported that strong opposition to Senator Gramm has emerged in the Senate, which could allow the bill to win approval without removing the loan provision. We question Senator Gramm's efforts to derail the legislation given that his home state of Texas holds close to 1.2 million satellite TV subscribers.

ISPs have also raised issue with a provision that would prevent them from carrying local television stations. This dispute, however, does not appear to be a threat to the bill.

Local-Into-Local Services

DirecTV intends to offer local channel services in the 24 largest US markets, covering approximately 50% of television households. It appears that local programming would be introduced in New York and Los Angeles almost immediately after President Clinton signed the bill into law. If the legislative process concludes favorably this week, Hartenstein suggested that DirecTV could rollout local network services in an additional 6 markets before Christmas, with the remaining 16 targeted regions "lit up" before the end of January 2000.

The local programming will be offered on a subscription basis, with the monthly fee expected to total $5.99. In an effort to harvest incremental revenues from the existing customer base, DirecTV plans to provide three weeks of free local programming in the targeted cities. During this trial period, DirecTV will move aggressively to secure subscriptions to the local programming service.

DirecTV's internal analysis suggests that roughly 50% of the households offered local channels will subscribe to the service, which would add approximately $1.50 to the consolidated monthly RPU. This potential uptick in revenues is not included in our model. Additionally, the company has indicated that net subscriber additions should experience a minimum 15% lift in cities where local channels are offered.

Interestingly, DirecTV's customer service representatives are already receiving 1 call per hour about local programming services. While the early interest may suggest considerable pent up demand, we believe it also highlights the risk of a sharp rise in customer inquiries, which could result in a deterioration in customer service quality if call center capacity is not sufficient.

In our view, the future success of DirecTV and the DBS industry depends heavily on the ability to maintain a high level of customer care, particularly as local network services are introduced. Consistent with this outlook, DirecTV has added approximately 1,000 customer service representatives in the past month, bringing the total to approximately 3,500, which should increase to roughly 4,100 by January 2000.

Capital costs associated with the rollout of local services in the top 25 markets should equal $100-150 million, consisting largely of upgrades to the uplink centers in Los Angeles and Castle Rock. Retransmission expenses should range between $0.00 – $0.15 per subscriber per month. DirecTV expects backhaul costs associated with the local programming to average $100,000 per channel annually.

To satisfy the must-carry stipulation, DirecTV intends to position a spot beam satellite at 101 WL. DirecTV suggested this new satellite, currently under development, would enable the provision of must carry compliant, local channel services in the 40 largest television markets, representing close to 66% of US households. Alternatively, the incremental capacity could be allocated to advanced data and Internet-related applications if such services yield a higher return on invested capital than the incremental local programming. We believe the DBS industry will attempt to delay or eliminate the must carry provision through court action.

Valuation: Sum of the Parts

Table 1
Hughes Valuation
$ in millions

	Estimated Value Contribution	Value Per GMH Share
Cash	158	0.37
PanAmSat[1]	4,833	11.24
DIRECTV	35,076	81.57
HSC	2,000	4.65
HNS	1,270	2.95
Emerging Services		
GLA[1]	600	1.40
DTVJ[1]	250	0.58
Broadband	385	0.90
Other	250	0.58
Debt	1,929	4.49
Consolidated GMH	**42,893**	**100**

[1] value contribution equals estimated value * GMH ownership % .

Source: CSFB estimates.

Table 2
Segment Revenue, EBITDA, and EBIT Projections, 1997-2003E
$ in millions, except per share data

	1997	1998	1999E*	2000E	2001E	2002E	2003E
Net Revenues							
DTH	1,277	1,816	3,802	5,303	6,680	8,358	10,139
DIRECTV	1,105	1,604	3,434	4,874	5,933	7,257	8,624
Other	102	71	70	0	0	0	0
Galaxy LA	70	141	299	429	747	1,102	1,515
PanAmSat	537	656	684	773	933	1,096	1,224
Space and Comm.	2,290	2,432	1,792	1,648	1,882	2,070	2,277
Network Systems	998	1,060	1,053	1,283	1,631	1,870	2,129
Other	26	0	0	0	0	0	0
TOTAL	5,128	5,964	7,331	9,008	11,126	13,395	15,770
EBITDA							
DTH	(161)	(126)	3	71	532	1,419	2,448
DIRECTV	(61)	(15)	140	205	587	1,351	2,209
Other	7	0	(26)	0	0	0	0
Galaxy LA	(107)	(111)	(110)	(135)	(55)	69	239
PanAmSat	438	553	618	698	798	928	1,048
Space and Comm.	266	296	(10)	228	253	298	325
Network Systems	106	53	98	(4)	5	107	252
Broadband	0	0	(55)	(70)	(91)	(80)	(70)
Other	(33)	(17)	(0)	0	0	0	0
EBITDA, gross	615	758	654	923	1,498	2,672	4,003
ELIMINATIONS & Other	(5)	(55)	(188)	(150)	(100)	(100)	(80)
EBITDA, net	610	704	466	773	1,398	2,572	3,923
EBIT							
DTH	(255)	(228)	(323)	(424)	27	924	1,961
DIRECTV	(137)	(100)	(126)	(190)	202	976	1,844
Other	(0)	(2)	(26)	0	0	0	0
Galaxy LA	(117)	(126)	(170)	(235)	(175)	(51)	117
PanAmSat	296	318	338	373	441	553	672
Space and Comm.	226	246	(68)	158	177	219	241
Network Systems	74	11	47	(62)	(57)	42	185
Broadband	0	0	(60)	(80)	(106)	(150)	(160)
Other	(30)	(23)	(9)	(15)	0	0	0
EBIT, gross	312	325	(75)	(51)	482	1,589	2,898
ELIMINATIONS	(5)	(55)	(188)	(150)	(100)	(100)	(80)
EBIT, net	306	270	(263)	(201)	382	1,489	2,818

* 1999 includes pretax charge of $81.0 million and $11.0 million incurred by HSC and HNS related to a contract termination.
1999 includes estimated pretax charge of $178 million at HSC related to increased development costs and schedule delays.

Table 3
Consolidated Income Statement Projections, 1997-2003E
$ in millions, except per share data

	1997*	1998	1999E**	2000E	2001E	2002E	2003E
Revenue	5,439	6,491	8,310	10,004	11,862	14,119	16,508
Intercompany Eliminations	310	527	978	996	736	724	738
Net Revenues	5,128	5,964	7,331	9,008	11,126	13,395	15,770
Cost of Products Sold	2,493	2,627	2,596	2,702	3,338	4,019	4,731
Gross Profit	2,635	3,337	4,736	6,305	7,789	9,377	11,039
Broadcast Programming & Other	912	1,176	1,978	2,702	3,338	4,019	3,942
SG&A	1,120	1,457	2,292	2,830	3,053	2,786	3,174
EBITDA	603	704	466	773	1,398	2,572	3,923
Dep. & Amt.	296	434	729	974	1,015	1,083	1,104
EBIT	306	270	(263)	(201)	382	1,489	2,818
Interest Income	33	112	22	10	10	10	10
Interest Expense	91	18	141	300	250	200	100
Other Income (expense), net	391	(153)	(41)	(230)	(150)	(50)	25
EBT	639	212	(423)	(721)	(8)	1,249	2,753
Income Taxes	237	(45)	(98)	(288)	0	491	1,093
After-tax Income	403	256	(325)	(432)	(8)	758	1,660
Minority Interest	25	24	29	(10)	(63)	(117)	(150)
Discontinued Operations, net	64	0	0	0	0	0	0
Extraordinary Item, net	(21)	(9)	0	0	0	0	0
Preferred Dividends	0	0	51	95	94	46	0
Net Income	471	272	(347)	(537)	(165)	595	1,510
Earnings Per Share	1.18	0.68	(0.83)	(1.25)	(0.38)	1.35	3.36
EBITDA/Share	1.51	1.76	1.11	1.80	3.25	5.84	8.72
Shares	400	400	418	430	430	440	450
Margin Analysis	427						
Revenues	100%	100%	100%	100%	100%	100%	100%
Gross Profit	51%	56%	65%	70%	70%	70%	70%
Broadcast Programming & Other	18%	20%	27%	30%	30%	30%	25%
SG&A	22%	24%	31%	31%	27%	21%	20%
EBITDA	12%	12%	6%	9%	13%	19%	25%
EBIT	6%	5%	-4%	-2%	3%	11%	18%
EBT	12%	4%	-6%	-8%	0%	9%	17%
Income Taxes	37%	NA	23%	40%	40%	40%	40%
Net Income	9%	5%	-5%	-6%	-1%	4%	10%
Growth							
Revenues	28%	16%	23%	23%	24%	20%	18%
Gross Profit	44%	27%	42%	33%	24%	20%	18%
Broadcast Programming & Other	44%	29%	68%	37%	24%	20%	-2%
SG&A	42%	30%	57%	23%	8%	-9%	14%
EBITDA	49%	17%	-34%	66%	81%	84%	53%
EBIT	46%	-12%	NA	NA	NA	289%	39%
Net Income	157%	NA	NA	NA	NA	-461%	154%

* Other income includes a $480 million pre-tax gain ($318.3 million after-tax) recognized in the May 1997 PanAmSat merger.
** EBITDA and EBIT reflect a pretax charge of $92.0 million related to APMT contract termination.
EBITDA and EBIT reflect estimated 2Q99 pretax charge of $178 million at HSC related to increased development costs and schedule delays.
EPS excludes a pretax gain of $154.6 million related to the settlement of the Williams patent infringement case
EPS excludes a pretax charge of $92.0 million related to APMT contract termination
EPS reflects estimated 2Q99 pretax charge of $178 million at HSC related to increased development costs and schedule delays.

Table 4
DirecTV Subscriber, Churn, Acquisition/Sub Costs, Rev/Sub/Month Projections, 1997–2003E
$ in millions, except per-month data: subscriber figures in thousands

	1997	1998	1999E*	2000E	2001E	2002E	2003E
Beginning – subs.							
DTV – HP	2,300	3,301	4,458	6,660	9,384	11,439	13,155
DTV – MP (TSATA)	0	0	0	1,399	79	0	0
	2,300	3,301	4,458	8,059	9,463	11,439	13,155
Adds – net							
DTV – HP							
core network	1,001	1,157	1,628	1,650	1,844	1,556	1,407
TSATA network	0	0	84	96	96	96	92
TSATA conversion	0	0	460	924	55	0	0
RBOC	0	0	30	54	60	64	64
Total DTV HP	1,001	1,157	2,202	2,724	2,055	1,716	1,563
DTV – MP (TSATA)	0	0	(926)	(1,320)	(79)	0	0
	1,001	1,157	1,276	1,404	1,976	1,716	1,563
Ending subs.							
DTV – HP	3,301	4,458	6,660	9,384	11,439	13,155	14,718
DTV – MP (TSATA)	0	0	1,399	79	0	0	0
	3,301	4,458	8,059	9,463	11,439	13,155	14,718
Wtd. Avg. Subs.							
DTV – HP	2,033	2,872	4,006	5,963	7,807	9,335	10,788
Advanced Services	0	0	0	47	156	934	1,942
% of DTV HP sub. base	0%	0%	0%	1%	2%	10%	18%
Lease	0	0	99	670	1,113	1,139	1,139
NRTC	567	805	1,134	1,700	2,148	2,654	2,993
DTV – MP (TSATA)	0	0	1,876	838	47	0	0
Total	2,600	3,677	7,016	8,501	10,003	11,990	13,781
Churn rate	12%	13%	17%	18%	18%	18%	18%
Churn	312	477	964	1,466	1,994	2,329	2,616
Gross sub. adds	1,313	1,634	2,810	3,451	4,005	4,045	4,179
Acq. cost/sub. – cons.							
Mkt./Adv.	0.142	0.112	0.085	0.084	0.070	0.069	0.057
Manf./Dealer Incentives	0.253	0.315	0.429	0.477	0.469	0.431	0.393
TSATA – conv.	0.000	0.000	0.430	0.430	0.430	0.000	0.000
	0.395	0.427	0.514	0.561	0.539	0.500	0.450
Acquisition costs – cons.							
Mkt./Adv.	145	140	181	216	220	220	190
Manf./Dealer Incentives	260	393	765	1,171	1,421	1,319	1,242
TSATA – conv.	0	0	0	0	0	0	0
	405	533	946	1,387	1,641	1,539	1,432
Rev./sub./month							
DTV HP – video	44	45	52	59	61	62	53
DTV – advanced services	0	0	0	5	5	5	3
NRTC	5	5	5	5	5	5	5
DTV – MP (TSATA)	0	0	46	46	46	NA	NA
Lease	0	0	9	9	9	9	9

* DTV HP sub additions originating from the core network in 1999 includes approximately 145,000 former USSB only subscribers. Excluding former USSB only subscribers, the DTV core distribution network should add approximately 1.42 million subscribers in 1999

Table 5
DirecTV Income Statement Projections, 1997–2003E
$ in millions, except per share data

	1997	1998	1999E	2000E	2001E	2002E	2003E
Revenue							
DTV – HP	1,071	1,556	2,544	4,153	5,651	6,925	8,142
Advanced Services	0	0	0	3	9	56	186
NRTC	34	48	68	102	129	159	180
TSATA – MP	0	0	685	463	26	0	0
TSATA – lease	0	0	137	154	118	116	116
	1,105	1,604	3,434	4,874	5,933	7,257	8,624
Service Costs							
Programming -- video	498	716	1,596	2,330	2,725	3,255	3,745
Advanced Services	0	0	0	1	2	10	34
Cust. Svc. & Billing	111	168	274	392	454	554	651
	609	884	1,870	2,722	3,179	3,809	4,396
Gross Profit	497	721	1,564	2,152	2,754	3,448	4,227
Sub. Acquisition Costs							
Mkt./Adv.	145	140	181	216	220	220	190
Manf. & Dealer Incentives	260	393	765	1,171	1,421	1,319	1,242
	405	533	946	1,387	1,641	1,539	1,432
Adv -- other	5	10	19	20	5	5	5
Business Operations	85	100	300	340	324	347	366
Broadcast Operations	45	63	122	160	168	176	185
Other	17	30	37	40	30	30	30
EBITDA	**(61)**	**(15)**	**140**	**205**	**587**	**1,351**	**2,209**
Depreciation	76	85	215	320	310	300	290
Amortizatoin	0	0	51	75	75	75	75
EBIT	(137)	(100)	(126)	(190)	202	976	1,844
Interest Exp., net	0	0	40	80	80	80	80
Other	0	0	0	0	0	0	0
EBT	(137)	(100)	(166)	(270)	122	896	1,764
Inc. Taxes -- pro forma (40%)	(52)	(38)	(67)	(108)	49	358	706
Net Income	(85)	(62)	(100)	(162)	73	537	1,058
EBITDA/share	(0.15)	(0.04)	0.33	0.48	1.36	3.14	5.14
EPS	(0.21)	(0.16)	(0.24)	(0.38)	0.17	1.25	2.46
Shares used in per share calculation	400	400	418	430	430	430	430

Table 6
DirecTV NOPAT, Invested Capital, and ROIC,1997-2003E
$ in millions

	1997	1998	1999E	2000E	2001E	2002E	2003E
NOPAT							
Revenues	1,105	1,604	3,434	4,874	5,933	7,257	8,624
EBITDA	(61)	(15)	140	205	587	1,351	2,209
EBITDA %	-5%	-1%	4%	4%	10%	19%	26%
Depreciation	76	85	266	395	385	375	365
EBIT	(137)	(100)	(126)	(190)	202	976	1,844
EBIT %	-12%	-6%	-4%	-4%	3%	13%	21%
Goodwill Amortization	0	0	51	75	75	75	75
NOPBT	(137)	(100)	(75)	(115)	277	1,051	1,919
Cash Operating Taxes	0	0	0	0	0	210	384
NOPAT	(137)	(100)	(75)	(115)	277	841	1,535
NOPAT %	-12%	-6%	-2%	-2%	5%	12%	18%
Invested Capital							
Segment Assets	1,409	1,521	5,085	4,955	4,725	4,381	4,051
PPE			2,153	2,023	1,793	1,449	1,119
Goodwill			2,932	2,932	2,932	2,932	2,932
Capitalized TSATA conversion costs			153	318	362	281	199
Capital Expenditures	100	197	246	100	110	113	117
Other	0	0	3,585	165	45	(82)	(82)
Depreciation	76	85	266	395	385	375	365
Incremental Investment	24	112	3,564	(130)	(230)	(343)	(330)
AVERAGE INVESTED CAPITAL	NA	1,465	3,303	5,020	4,840	4,553	4,216
RETURN ON INVESTED CAPITAL							
ROIC	NA	NA	-2%	-2%	6%	18%	36%
Change In ROIC	NA	NA	NA	0%	8%	13%	18%
WACC	11%	11%	11%	11%	11%	11%	11%
ECONOMIC PROFIT (EP)							
Economic Profit ($)	NA	NA	(429)	(652)	(241)	354	1,084
Economic Profit (%)	NA	NA	-13%	-13%	-5%	8%	26%

Table 7
Latin America DBS Subscriber Projections, 1997–2003E
data in thousands

	1997	1998E	1999E	2000E	2001E	2002E	2003E
Potential LA Pay TV Market							
LA TV Households	75.0	76.6	78.1	79.4	80.6	81.9	83.1
Addressable Households	49.5	52.1	53.1	54.1	55.2	56.5	57.7
New Pay TV Households	NA	4.2	3.01	5.0	5.0	5.2	5.5
Pay TV Households	10.0	14.2	17.2	22.2	27.3	32.4	37.9
Addressable Households -- % of TV	66%	68%	68%	68%	69%	69%	69%
Pay TV Households -- % of TV Hous	13%	19%	22%	28%	34%	40%	46%
Total Cable Homes							
Yr. End Penetration of Pay TV Househol	95.7%	92.3%	90.1%	86.6%	82.6%	79.5%	76.7%
Beginning Cable Subs.	6.0	9.5	13.1	15.5	19.3	22.5	25.8
New Cable Subs.	3.5	3.5	2.4	3.8	3.2	3.3	3.3
Ending Cable Subs.	9.5	13.1	15.5	19.3	22.5	25.8	29.1
Growth of Cable Subs.	59.1%	37.1%	18.4%	24.3%	16.8%	14.5%	12.9%
Total LA Direct-to-Home Subscribers							
Yr. End Penetration of Potential Sites	4.3%	7.7%	9.9%	13.4%	17.4%	20.5%	23.3%
Beginning DTH Subs.	0.0	0.4	1.1	1.7	3.0	4.8	6.7
New DTH Subs.	0.4	0.7	0.6	1.3	1.8	1.9	2.2
Ending DTH Subs	**0.4**	**1.1**	**1.7**	**3.0**	**4.8**	**6.7**	**8.8**
Growth of Ending DTH Subs	NA	NA	56%	75.0%	60.0%	40.0%	32.5%
DTH % of Incremental Pay TV Subs.	12.1%	15.7%	20.2%	25.3%	35.5%	36.8%	39.4%
GLA Subscribers							
Beginning GLA Subs.	0.05	0.30	0.48	0.76	1.37	2.26	3.21
New GLA Subs. -- gross	0.28	0.25	0.39	0.75	1.15	1.33	1.65
Churn Rate (%)	11.4%	16.8%	19.1%	16.0%	16.0%	16.0%	17.0%
Churn	0.03	0.06	0.11	0.14	0.25	0.38	0.56
New GLA Subs. -- net	0.25	0.18	0.27	0.61	0.89	0.95	1.08
Ending GLA Subs.	0.30	0.48	0.7587	1.37	2.26	3.21	4.29
Average GLA Subs.	0.18	0.37	0.60	0.88	1.59	2.36	3.32
GLA Subs. -- growth	NA	61%	57%	81%	65%	42%	34%
Percentage of Ending DTH Subs.	70%	44%	45%	46%	48%	48%	49%
Percentage of New DTH Subs.	58%	28%	45%	48%	50%	50%	50%

Table 8
GLA Income Statement Projections: 1997–2003E
$ in thousands, except per share data

	1997	1998	1999E	2000E	2001E	2002E	2003E
Programming	17.76	17.76	17.76	17.76	17.76	17.76	17.76
Satellite Transponder Fee	3.54	3.54	3.54	3.54	3.54	3.54	3.54
GLA Share of LOC rev./sub. – net *	10.35	10.35	9.32	11.69	13.09	14.49	14.49
Consolidated Revenue Per Sub.	31.65	31.65	30.62	32.99	34.39	35.79	35.79
Programming	39	79	128	188	339	502	707
Satellite Transponder Fee	8	16	25	37	68	100	141
GLA Share of LOC rev./sub. -- net *	23	46	67	124	250	410	577
Surfin	0	0	78	80	90	90	90
Consolidated Revenues	70	141	299	429	747	1,102	1,515
Programming	25	68	121	171	288	441	591
Space Segment	70	70	72	73	77	79	81
Gross Profit	(25)	3	106	184	382	582	843
Acquisition Costs	52	49	89	184	286	345	428
Average Acquisition Cost per Sub.	*185*	*201*	*230*	*245*	*250*	*260*	*260*
Business Operations	30	36	80	92	97	100	105
Broadcast Operations	0	26	39	40	48	60	63
Other	0	2	7	2	6	8	9
Total G&A	30	64	126	134	151	168	177
EBITDA	(107)	(111)	(110)	(135)	(55)	69	239
Depreciation & Amortization	10	16	60	100	120	120	122
EBIT	(117)	(126)	(170)	(235)	(175)	(51)	117
Interest Exp., net	0	0	0	0	0	0	0
EBT	(117)	(126)	(170)	(235)	(175)	(51)	117
Income Taxes -- pro forma (13% of rev.)	9	18	39	56	97	143	197
Net Income	(126)	(144)	(209)	(290)	(272)	(195)	(80)
EBITDA/share	(0.27)	(0.28)	(0.26)	(0.31)	(0.13)	0.16	0.56
EPS	(0.32)	(0.36)	(0.50)	(0.68)	(0.63)	(0.45)	(0.19)
Shares used in per share calculation	400	400	418	430	430	430	430

* Equals 60-70% * (monthly fee received by local operating company (LOC) - programming fee - satellite transponder fee).

Table 9
PanAmSat Satellite Revenue Forecast, 1998-2000E
$ in millions

	Mar-98	Jun-98	Sep-98	Dec-98	1998	Mar-99	Jun-99	Sep-99	Dec-99	1999	Mar-00	Jun-00	Sep-00	Dec-00	2000
PanAmSat Fleet															
OPERATIONAL															
PAS-1	17	17	17	17	68	17	17	17	17	68	11	11	7	5	35
PAS-2	22	22	22	22	87	22	22	22	22	88	22	22	22	22	88
PAS-3	22	22	22	22	87	22	22	22	22	88	22	22	22	22	88
PAS-4	16	16	16	16	65	16	15	11	11	53	12	17	17	15	60
PAS-5	18	18	19	23	77	19	18	18	18	74	18	18	18	18	74
PAS-6	0	2	2	1	5	0	0	0	0	0	0	0	0	0	2
PAS-6B	0	0	0	0	0	1	8	8	8	25	9	9	9	9	35
PAS-7	0	0	0	0	0	1	2	2	3	7	6	7	8	9	29
PAS-8	0	0	0	0	0	0	1	1	2	4	5	5	6	7	23
PROJECTED															
PAS 1R	0	0	0	0	0	0	0	0	0	0	0	0	8	12	20
PAS-9	0	0	0	0	0	0	0	0	0	0	0	0	4	7	11
PAS-10	0	0	0	0	0	0	0	0	0	0	0	0	0	7	7
TOTAL PANAMSAT REV.	**94**	**97**	**97**	**102**	**390**	**98**	**105**	**102**	**103**	**409**	**105**	**112**	**122**	**133**	**472**
TOTAL TRANSP. (avg.)	176	198	194	190	190	237	300	300	300	284	300	300	432	492	381
UTILIZATION RATE (avg.)	74%	69%	71%	75%	72%	59%	56%	55%	55%	56%	60%	63%	49%	46%	53%
TRANSP. IN SERVICE (avg.)	131	137	137	143	137	140	169	165	166	160	180	188	211	234	203
REVENUES PER TRANSP.	2.9	2.8	2.8	2.8	2.8	2.8	2.5	2.5	2.5	2.6	2.3	2.4	2.3	2.3	2.3
Galaxy Fleet															
Operational															
Galaxy I-R	5	5	5	5	21	5	5	5	5	22	5	5	5	6	22
Galaxy III-R	18	18	19	19	74	20	20	20	20	80	20	20	20	20	80
Galaxy IV	9	5	0	0	13	0	0	0	0	0	0	0	0	0	0
Galaxy V	3	3	3	3	13	3	3	3	3	13	3	3	3	3	13
Galaxy VI	8	8	8	9	33	9	9	9	9	35	9	1	1	1	12
Galaxy VII	20	20	20	20	81	21	21	21	21	82	21	8	8	8	46
Galaxy VIII-I	0	4	7	9	20	9	9	9	9	38	9	9	9	11	39
Galaxy IX	7	7	7	7	29	8	8	8	8	31	8	8	8	8	31
SBS-4	1	1	1	1	4	0	0	0	0	0	0	0	0	0	0
SBS-5	3	3	1	2	8	2	2	2	2	8	0	0	0	0	0
SBS-6	2	1	1	1	6	1	1	1	1	4	0	0	0	0	0
PROJECTED															
Galaxy X-R	0	0	0	0	0	0	0	0	0	0	0	9	10	12	32
Galaxy XI	0	0	0	0	0	0	0	0	0	0	5	15	17	18	55
Galaxy III-C	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Galaxy IVR	0	0	0	0	0	0	0	0	0	0	0	10	11	13	34
SBS 6R/Galaxy VR	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL GALAXY REV.	**77**	**77**	**73**	**76**	**303**	**78**	**78**	**78**	**78**	**313**	**80**	**90**	**93**	**100**	**363**
TOTAL TRANSP. (avg.)	225	224	211	211	217	211	211	211	211	211	210	359	359	359	322
UTILIZATION RATE (avg.)	91%	89%	87%	91%	89%	92%	92%	92%	92%	92%	93%	60%	62%	65%	67%
TRANSP. IN SERVICE (avg.)	204	200	182	191	194	194	195	194	194	194	196	214	222	233	216
REVENUES PER TRANSP.	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.5	1.6	1.6	1.5	1.7	1.7	1.7	1.7
CONSOLIDATED REVENUES															
Operating Lease	171	174	170	178	693	177	184	181	181	722	185	201	215	232	834
TRANSP. (avg.)	401	422	405	401	407	448	511	511	511	495	510	659	791	851	703
UTILIZATION RATE (avg.)	84%	[illegible]	[illegible]	83%	81%	75%	[illegible]	70%	[illegible]	72%	74%	61%	55%	55%	60%
TRANSP. IN SERVICE (avg.)	335	337	320	334	331	335	363	359	360	354	376	402	433	467	419
REVENUES PER TRANSP.	2.0	2.1	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Sales & sales-type leases	11	6	7	7	31	[illegible]	6	6	6	23	6	6	6	6	25
Satellite services & other	11	11	7	12	43	11	11	24	10	56	10	10	10	10	40
TOTAL	193	191	187	196.6	767	194	200.4	211	197	802	202	218	231	249	899

Table 10
PanAmSat Income Statement, 1998–2000E
$ in millions, except per share data

	1998*					1999E**					2000E				
	Mar-98	Jun-98	Sep-98	Dec-98	Total	Mar-99	Jun-99	Sep-99	Dec-99	Total	Mar-00	Jun-00	Sep-00	Dec-00	Total
Oper. Lease	171	174	170	178	693	176	184	181	181	722	185	201	215	232	834
Sales & Sales-Type	11	6	7	7	31	6	6	6	6	23	6	6	6	6	25
Other (TT&C)	11	11	9	12	43	11	11	24	10	56	10	10	10	10	40
Total Revenue	193	191	187	197	767	194	200	211	197	802	202	218	231	249	899
Cost of Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Leaseback Exp.	14	12	11	11	47	8	8	0	0	15	0	0	0	0	0
Direct Oper.	22	31	24	19	97	25	26	26	28	106	28	30	32	35	126
SGA Costs	14	14	14	28	70	15	16	16	17	62	18	18	20	19	76
EBITDA	143	134	138	138	553	146	151	169	152	618	155	169	179	194	698
Dep. & Amt.	58	61	59	57	235	68	68	71	73	280	76	81	86	81	325
EBIT	85	74	78	82	318	78	82	98	79	338	79	87	93	114	373
Interest Exp., net	22	24	24	27	98	24	28	30	26	109	28	29	30	33	120
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBT	63	49	54	54	221	54	54	68	53	229	51	58	63	81	253
Income Taxes	27	21	25	23	96	23	24	34	24	105	23	26	28	36	114
After-tax Income	35	28	30	32	125	30	31	34	28	123	28	32	35	44	139
Net Income	35	28	30	32	125	30	31	34	28	123	28	32	35	44	139
EPS	0.24	0.19	0.20	0.21	0.83	0.20	0.20	0.23	0.19	0.82	0.19	0.21	0.23	0.30	0.93
EBITDA/Share	0.96	0.90	0.92	0.92	3.70	0.98	1.01	1.13	1.01	4.13	1.04	1.12	1.20	1.30	4.65
Shs. Outstanding	149	150	150	150	150	150	149	149.6	150	150	150	150	150	150	150
MARGIN ANALYSIS															
Net Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Oper. Lease	89%	91%	91%	91%	90%	91%	92%	86%	92%	90%	92%	93%	93%	93%	93%
Sales & Sales-Type	6%	3%	4%	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Leaseback Exp.	7%	6%	6%	5%	5%	4%	4%	0%	0%	2%	0%	0%	0%	0%	0%
Direct Oper	12%	16%	13%	10%	13%	13%	13%	12%	14%	13%	14%	14%	14%	14%	14%
SGA Costs	7%	7%	7%	14%	9%	8%	8%	8%	8%	8%	9%	8%	9%	8%	8%
EBITDA	74%	70%	74%	70%	72%	75%	75%	80%	77%	77%	77%	76%	78%	78%	78%
Dep. & Amt.	30%	32%	32%	29%	31%	35%	34%	34%	37%	35%	38%	37%	37%	32%	36%
EBIT	44%	38%	42%	41%	41%	40%	41%	47%	40%	42%	39%	40%	40%	46%	41%
EBT	32%	26%	29%	28%	29%	28%	27%	32%	27%	29%	25%	27%	27%	32%	28%
Tax Rate	44%	44%	45%	42%	44%	44%	43%	50%	46%	46%	45%	45%	45%	45%	45%
Net Income	18%	15%	16%	16%	16%	16%	15%	16%	14%	15%	14%	15%	15%	18%	15%
GROWTH															
Net Sales	-4%	3%	10%	-1%	1%	0%	5%	13%	0%	4%	4%	9%	10%	26%	12%
Oper. Lease	6%	0%	6%	-5%	1%	3%	6%	6%	2%	4%	5%	10%	19%	28%	16%
Sales & Sales-Type	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Direct Operating	15%	67%	23%	-4%	24%	13%	-15%	7%	47%	10%	12%	[illegible]	24%	23%	19%
SGA Costs	7%	23%	1%	32%	34%	3%	10%	14%	-41%	-11%	25%	13%	25%	17%	21%
EBITDA	4%	[illegible]	13%	-6%	[illegible]	2%	12%	23%	[illegible]	12%	[illegible]	[illegible]	[illegible]	29%	13%
Dep. & Amt.	25%	10%	[illegible]	2%	[illegible]	17%	12%	3%	22%	19%	13%	[illegible]	22%	10%	16%
EBIT	-7%	-18%	5%	-12%	-8%	-8%	12%	25%	-4%	6%	[illegible]	[illegible]	[illegible]	45%	10%
Net Income	47%	14%	4%	38%	27%	-14%	10%	14%	-10%	[illegible]	[illegible]	[illegible]	[illegible]	56%	13%

* Figures include $6.3 million provision for loss on Galaxy IV
** Figures include receipt of $15 million News Corp. termination payment in 3Q99

Table 10
PanAmSat NOPAT, Invested Capital, and ROIC, 1997–2003E
$ in millions

	1997	1998	1999E	2000E	2001E	2002E	2003E
NOPAT							
Cash Revenues	630	767	802	899	1,037	1,205	1,360
EBITDA	444	553	618	698	798	928	1,048
EBITDA %	70%	72%	77%	78%	77%	77%	77%
Depreciation + Amortization	139	235	280	325	357	374	376
EBIT	294	318	338	373	441	553	672
EBIT %	47%	41%	42%	41%	43%	46%	49%
Goodwill Amortization	47	65	62	62	62	62	62
NOPBT	341	383	400	435	504	616	734
Cash Operating Taxes	(48)	86	(39)	(61)	20	172	281
NOPAT	389	297	439	496	484	444	453
NOPAT %	62%	39%	55%	55%	47%	37%	33%
INVESTED CAPITAL							
Working Capital (net)	137	61	63	65	66	68	70
Net PPE	2,506	2,895	3,574	3,795	3,895	3,700	3,476
Satellites Under Dev.	1,039	1,089	1,194	492	686	574	433
Operational Satellites	1,320	1,631	2,219	3,153	3,068	3,000	2,927
Other	147	175	161	149	140	127	116
Goodwill	2,498	2,433	2,371	2,309	2,246	2,184	2,121
Accumulated Amortization	78	143	205	268	330	393	455
Investment In Sales Type Leases	325	173	143	113	83	53	23
Deferred Charges & Other	68	50	50	52	55	58	61
Total Fixed Assets	5,475	5,695	6,344	6,537	6,609	6,388	6,137
INVESTED CAPITAL	5,611	5,755	6,406	6,601	6,676	6,456	6,207
AVERAGE INVESTED CAPITAL	3,419	5,683	6,081	6,504	6,638	6,566	6,332
Change In Invested Capital	NA	144	651	195	74	(220)	(249)
Capital Expenditures	593	679	515	483	394	118	89
Satellites	NA	659	505	473	384	113	84
Other	NA	20	10	10	10	5	5
Early Buyout of Sale Leaseback Agreements	0	156	369	0	0	0	0
Depreciation – satellites	92	138	181	241	275	294	297
Depreciation – other	10	24	24	22	20	18	16
Amortization	47	65	62	62	62	62	62
Satellite Service ($)	450	440	400	1,175	190	225	225
RETURN ON INVESTED CAPITAL							
ROIC	11%	5%	7%	8%	7%	7%	7%
Change In ROIC	NA	NA	2%	0%	0%	-1%	0%
Weighted Average Cost of Capital	10%	10%	10%	10%	10%	10%	10%
ECONOMIC PROFIT (EP)							
Economic Profit ($)	68	(281)	(79)	(165)	(191)	(224)	(191)
Economic Profit (%)	1%	-5%	-3%	-3%	-3%	-3%	-3%

Table 11
HSC Income Statement Projections, 1987-2003E
$ in millions, except per share data

	1997	1998	1999E*	2000E	2001E	2002E	2003E
Revenues	2,492	2,831	2,243	2,108	2,214	2,435	2,679
Expenses	2,226	2,536	1,993	1,880	1,961	2,137	2,353
EBITDA	266	296	249	228	253	298	325
Dep. & Amt.	39	49	58	70	76	79	84
EBIT	226	246	191	158	177	219	241
Interest Exp., net	0	0	0	0	0	0	0
Other	0	0	259	0	0	0	0
EBT	226	246	(68)	158	177	219	241
Income Taxes – pro forma (40%)	86	94	(26)	63	71	88	96
Net Income	140	153	(42)	95	106	131	145
EBITDA/share	0.66	0.74	0.60	0.53	0.59	0.68	0.72
EPS	0.35	0.38	(0.10)	0.22	0.25	0.30	0.32
Shares	400	400	418	430	430	440	450
Margin Analysis							
Revenues	100%	100%	100%	100%	100%	100%	100%
Operating Expenses	89%	90%	89%	89%	89%	88%	88%
EBITDA	11%	10%	11%	11%	11%	12%	12%
Dep. & Amt.	2%	2%	3%	3%	3%	3%	3%
EBIT	9%	9%	9%	8%	8%	9%	9%
EBT	9%	9%	-3%	8%	8%	9%	9%
Income Taxes	38%	38%	38%	40%	40%	40%	40%
Net Income	6%	5%	-2%	5%	5%	5%	5%
Growth							
Revenues	NA	14%	-21%	-6%	5%	10%	10%
Operating Expenses	NA	14%	-21%	-6%	4%	9%	10%
EBITDA	NA	11%	-16%	-8%	11%	18%	9%
Dep. & Amt.	NA	25%	18%	21%	8%	4%	7%
EBIT	NA	9%	-22%	-17%	12%	24%	10%
Net Income	NA	9%	NA	NA	12%	24%	10%

* 1Q99 includes a pretax charge of $81.0 million related to APMT contract termination.

2Q99 includes estimated pretax charge of $178 million stemming from increased development costs and schedule delays.

Table 18
HSC NOPAT, Invested Capital, and ROIC, 1997–2003E
$ in millions

	1997	1998	1999E	2000E	2001E	2002E	2003E
NOPAT							
Revenues	2,492	2,831	2,243	2,108	2,214	2,435	2,679
EBITDA	266	296	199	228	253	298	325
EBITDA %	11%	10%	9%	11%	11%	12%	12%
Depreciation + Amortization	39	49	58	70	76	79	84
EBIT	226	246	141	158	177	219	241
EBIT %	9%	9%	6%	8%	8%	9%	9%
NOPBT	226	246	141	158	177	219	241
Cash Operating Taxes	86	74	(26)	8	26	33	43
NOPAT	140	173	167	150	151	186	198
NOPAT %	6%	6%	7%	7%	7%	8%	7%
INVESTED CAPITAL							
Working Capital (net)	367	404	374	376	403	464	505
WORKING CAPITAL TURNS	6.80	7.00	6.00	5.60	5.50	5.25	5.30
GROWTH	NA	10%	-8%	1%	7%	15%	9%
Total Fixed Assets	385	480	582	642	686	717	743
PP&E	335	385	477	527	561	582	598
OTHER LT ASSETS	50	95	105	115	125	135	145
INVESTED CAPITAL	751	885	956	1,018	1,089	1,181	1,249
AVERAGE INVESTED CAP.	670	818	920	987	1,054	1,135	1,215
Change In Invested Capital	164	134	71	62	70	93	67
Capital Expenditures	114	145	160	130	120	110	110
PP&E		100	150	120	110	100	100
OTHER LT ASSETS		45	10	10	10	10	10
Depreciation	39	49	58	70	76	79	84
RETURN ON INVESTED CAPITAL							
ROIC	21%	21%	18%	15%	14%	16%	16%
Change In ROIC	NA	NA	-3%	-3%	-1%	2%	0%

Table 19
HNS Income Statement Projections, 1997-2003E
$ in millions, except per share data

	1997	1998	1999E	2000E	2001E	2002E	2003E
Revenues							
Satellite Networks	595	625	745	835	960	1,075	1,204
Broadcast Products	72	210	531	664	763	820	882
Wireless Networks	296	192	158	166	179	196	215
Other	48	50	29	29	29	29	29
Total Revenues	1,011	1,077	1,463	1,693	1,931	2,120	2,329
Cost of Sales	703	757	946	1,100	1,255	1,378	1,514
Gross Profit	308	320	517	593	676	742	815
Operating Expenses	202	267	408	596	670	635	563
EBITDA	106	53	109	(4)	5	107	252
Dep. & Amt.	32	42	50	58	62	65	67
EBIT							
Satellite Networks	94	88	82	100	115	129	144
Broadcast Products	(33)	(23)	35	(144)	(165)	(88)	38
Wireless Networks	10	(52)	(24)	(8)	4	6	8
Other	4	(1)	(35)	(10)	(10)	(5)	(5)
Total EBIT	74	11	58	(62)	(57)	42	185
Other	0	0	(11)	0	0	0	0
EBT	0	0	47	(62)	(57)	42	185
Income Taxes -- pro forma (40%)	30	4	19	(25)	(23)	17	74
Net Income	45	7	39	(37)	(34)	25	111
EBITDA/share	0.27	0.13	0.26	(0.01)	0.01	0.24	0.56
EPS	0.11	0.02	0.09	(0.09)	(0.08)	0.06	0.25
Shares used in per share calculation	400	400	418	430	430	440	450
Margin Analysis							
Revenues							
Satellite Networks	59%	58%	51%	49%	50%	51%	52%
Broadcast Products	7%	20%	36%	39%	40%	39%	38%
Wireless Networks	29%	18%	11%	10%	9%	9%	9%
Other	5%	5%	2%	2%	1%	1%	1%
Gross Profit	30%	30%	35%	35%	35%	35%	35%
Operating Expenses	20%	25%	28%	35%	35%	30%	24%
EBITDA	11%	5%	7%	0%	0%	5%	11%
EBIT							
Satellite Networks	16%	14%	11%	12%	12%	12%	12%
Broadcast Products	-46%	-11%	7%	-22%	-22%	-11%	4%
Wireless Networks	3%	-27%	-15%	-5%	2%	3%	4%
Other	8%	-3%	-123%	0%	0%	0%	0%
Total EBIT	7%	1%	4%	-4%	-3%	2%	8%
Net Income	4%	1%	3%	-2%	-2%	1%	5%
Growth							
Revenues							
Satellite Networks	17%	5%	19%	12%	15%	12%	12%
Broadcast Products	-4%	192%	153%	25%	15%	8%	8%
Wireless Networks	-32%	-35%	-18%	5%	8%	10%	9%
Other	NA	NA	-42%	0%	0%	0%	0%
Total Revenues	-6%	6%	36%	16%	14%	10%	10%
EBITDA	-22%	-50%	107%	-104%	-239%	1859%	135%
EBIT	-31%	-85%	436%	-206%	-9%	-174%	341%

1Q99 includes a pretax charge of $11.0 million related to APMT contract termination.

Table 20
HNS NOPAT, Invested Capital, and ROIC, 1997–2003E
$ in millions

	1997	1998	1999E	2000E	2001E	2002E	2003E
NOPAT							
Revenues	1,011	1,077	1,463	1,693	1,931	2,120	2,329
EBITDA	106	53	109	(4)	5	107	252
EBITDA %	11%	5%	7%	0%	0%	5%	11%
Depreciation + Amortization	32	42	50	58	62	65	67
EBIT	74	11	58	(62)	(57)	42	185
EBIT %	7%	1%	4%	-4%	-3%	2%	8%
NOPBT	81	18	66	(54)	(49)	50	192
Cash Operating Taxes	30	4	19	(25)	(23)	17	74
NOPAT	51	13	47	(30)	(26)	33	118
NOPAT %	5%	1%	3%	-2%	-1%	2%	5%
INVESTED CAPITAL							
Working Capital (net)	338	359	395	418	443	470	498
WORKING CAPITAL TURNS	2.99	3.00	3.71	4.05	4.36	4.51	4.68
GROWTH	*NA*	*6%*	*10%*	*6%*	*6%*	*6%*	*6%*
Total Fixed Assets	493	401	423	443	463	481	496
PP&E	167	175	188	202	218	230	240
OTHER LT ASSETS	226	226	236	241	246	251	256
PATENTS	100	100	100	100	100	100	100
INVESTED CAPITAL	735	759	818	861	907	951	994
AVERAGE INVESTED CAP.	670	747	789	839	884	929	972
Change In Invested Capital	192	24	58	43	46	44	43
Capital Expenditures	114	40	65	70	75	75	75
PP&E		40	55	65	70	70	70
OTHER LT ASSETS		0	10	5	5	5	5
Depreciation	25	32	43	51	54	58	60
Amortization	7	7	8	8	8	8	8
Depreciation & Amortization	32	39	50	58	62	65	67
RETURN ON INVESTED CAPITAL							
ROIC	8%	2%	6%	-4%	-3%	4%	12%
Change In ROIC	NA	NA	4%	-10%	1%	7%	9%

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1 212 325 2000

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Boston	1 617 556 5500	Philadelphia	1 215 851 1000
Buenos Aires	1 541 394 3100	Portland, ME	1 207 780 6210
Chicago	1 312 750 3000	San Francisco	1 415 836 7600
Houston	1 713 220 6700	São Paulo	55 11 822 4862
Mexico City	1 525 202 6000	Toronto	1 416 352 4500

Europe

One Cabot Square
London E14 4QJ, England
44 171 888 8888

Amsterdam	31 20 575 4444	Paris	33 1 40 76 8888
Budapest	36 1 202 2188	Prague	42 2 248 10937
Frankfurt	49 69 75380	Vienna	43 1 512 3023
Geneva	41 22 707 0130	Warsaw	48 22 695 0050
Madrid	34 1 532 0303	Zug	41 41 726 1020
Milan	39 2 7702 1	Zurich	41 1 335 7711
Moscow	7 501 967 8200		

Asia Pacific

Three Exchange Square
8 Connaught Place
Central, Hong Kong
852 2101 6000

Auckland	64 9 302 5500	Shanghai	86 21 6219 0808
Beijing	86 10 6410 6611	Singapore	65 538 6322
Melbourne	61 3 9 280 1666	Sydney	61 2 9394 4400
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DIRECTV®

A YEAR OF SUCCESS

A SELECTION OF
DIRECTV & PROGRAMMER CAMPAIGNS

'98

W E L C O M E   T O   D I R E C T V

Welcome!

We're delighted that you could join us here today. Since many of you were already planning to attend the Western Show, this seemed like a great opportunity to get together.

First, we would like to say thanks for your support in helping us grow the DIRECTV business this past year. As it stands, we will end 1998 with approximately 4.5 million customers and we couldn't do it without your strong product and continued marketing support.

Tonight, we thought it would be fun to share a few highlights from 1998 and some thoughts on where we see the business going in 1999. As you can see from the examples in this program guide, the marketing partnerships we have formed are a valuable asset and we look forward to building upon our joint successes in the new year. We hope that you will take this guide back with you and share it with your associates.

On behalf of everyone at DIRECTV, thanks for coming and for helping to make DIRECTV the country's leading digital television service.

With Best Regards,

Eddy Hartenstein
President

1998 – WHAT A YEAR

NFL SUNDAY TICKET™

OBJECTIVE

A retail acquisition campaign promoting DIRECTV as the exclusive mini-dish provider of NFL SUNDAY TICKET.

OFFER

$200 of free programming to first-time customers who purchased a DIRECTV System and subscribed to Total Choice® PLATINUM and 1998 NFL SUNDAY TICKET.

TIMING

Timed to take advantage of NFL pre-season excitement, the promotion ran from August 5 through October 11.

TACTICS

DIRECTV recruited star NFL talent John Elway, Brett Favre, Jerry Rice and Troy Aikman for a $12+ million national print and broadcast television advertising campaign that was integrated into retail point-of-sale materials, as well as DIRECTV monthly bill inserts, *SEE* guide, *ON* magazine and on-air promotion.

RESULTS

New customer subscriptions exceeded internal forecasts by approximately 40%.

A special thanks to our NFL partners: Tola Murphy-Baran, Phil Summers, Michelle Berry

In-store POS including counter cards with offer tear pads, dish bursts, shelf danglers, table tents, buttons, schedules and programming tear pads.

Sampling of national print advertising.

One of 26,000 large retail standees for in-store high-traffic areas.

Sampling of national print advertising.

Toon Disney watch, DIRECTV programming certificates and in-store POS including counter card, dish burst, shelf dangler, TV topper and offer tear pad with programming information.

Toon Disney

OBJECTIVE

A national retail acquisition campaign to heighten awareness of Toon Disney on DIRECTV®

OFFER

A special limited-edition Toon Disney watch and over $50 of free programming to first-time customers who purchased a DIRECTV System and subscribed to Total Choice® PLATINUM programming — $125 total value.

TIMING

Timed to coincide with summer vacation family viewing, the campaign ran from June 18 through July 22.

TACTICS

A $4+ million national print media campaign coupled with weekly circular and print advertising by retailer accounts created over 500 million impressions.

RESULTS

New customer subscriptions exceeded goals by 22%.

A special thanks to our
Toon Disney partners:
Doug Miller, Adam Sanderson,
Heidi Kassal, Judi Lopez,
Allison Conley

Platinum Presents

OBJECTIVE

To educate our customers about DIRECTV® programming packages and to highlight the sponsoring programmer — which generates network awareness and encourages tune-in.

OFFERS

Platinum Presents highlights an auto-entry sweepstakes with the participating programmer, and features behind-the-scenes network coverage.

TIMING

Each 1/2-hour show runs 24 hours a day, seven days a week, on four channels for an entire month.

TACTICS

Sponsoring programmer is highlighted in the show, and receives an advertising page in our monthly billstuffer and *SEE* guide, plus a DIRECTV website banner.

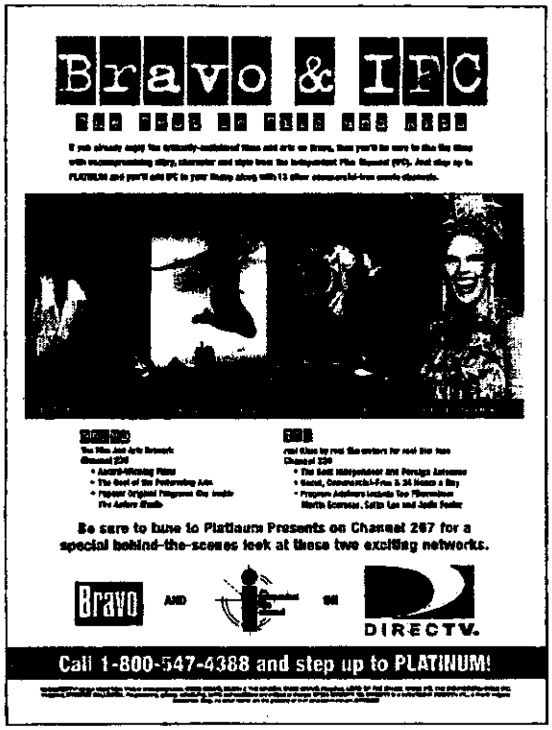
RESULTS

The on-air show attracts a 35% tune-in rate and an average viewing length of over 12 minutes. This means that almost 1.5 million customers are watching, and 3/4 of them tune in to the show two or more times per month.

June TBS Superstation *SEE* guide & DIRECTV billstuffer ad.

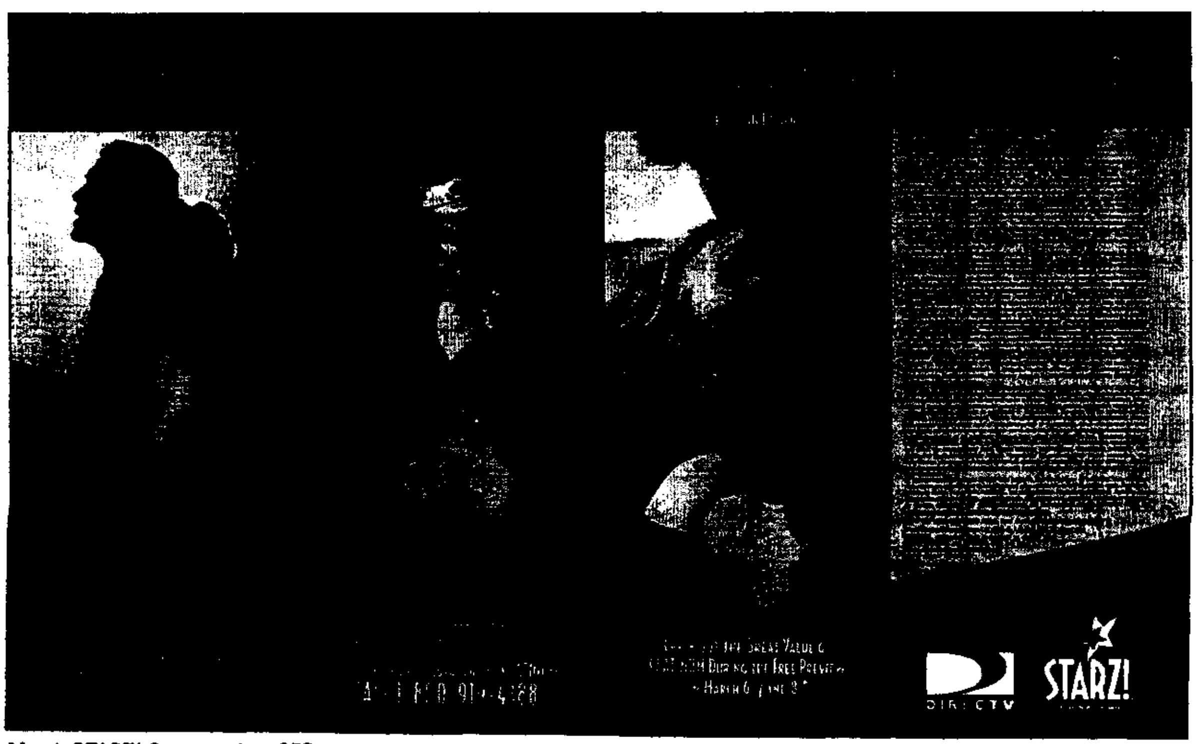
[illegible] PLATINUM PRESENTS 1998 SPONSORS

PROGRAMMER	NAMES		MONTH
MTV Networks	Tony Dunaif	Meg Lowe	January
MuchMusic	Helen Perin		February
Encore	Berto Guzman	Desiree Pintus	March
Independent Film Channel	Joe Cantwell	Deborah Benson	April
The Golf Channel	Nicci Fry		May
TBS Superstation	Coleman Breland	Heather Baldino	June
USA Networks	Cara Conte		July
Disney Channel	Adam Sanderson	Judi Lopez	August
FOX Sports Net	Kevin Smith	Justin Hibbs	September
Encore	Berto Guzman	Desiree Pintus	October
Food Network	Pam Treacy	Tricia Melton	November
MuchMusic	Helen Perin	Scott Perlmutter	December



April Bravo/Independent Film Channel *SEE* guide & DIRECTV billstuffer ad.

November Food Network *SEE* guide & DIRECTV billstuffer ad.



March STARZ! Sweepstakes *SEE* guide & DIRECTV billstuffer ad.

NATIONAL RETAILER-SPECIFIC PROMOTIONS

USA Network/RadioShack

OBJECTIVE
Drive traffic to RadioShack to purchase DIRECTV® and create tune-in messages for the USA Network "Sunday Night Heat" lineup.

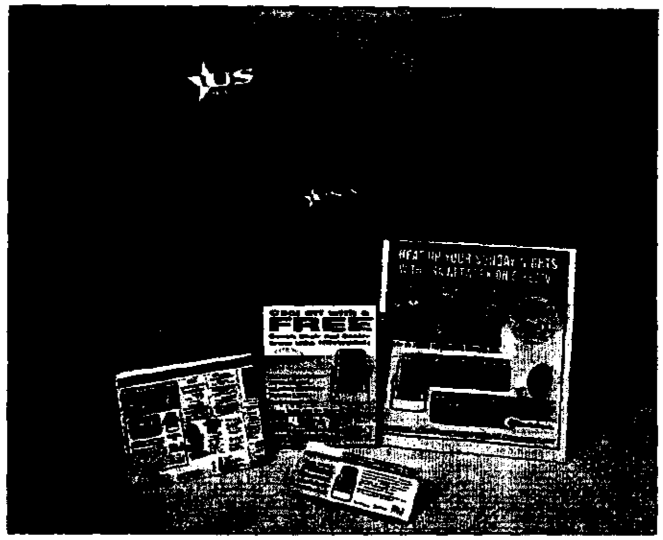
OFFER
USA Network beach chair and cooler with purchase — $50+ value.

TIMING
July 2 through August 1, 1998.

TACTICS
USA Today and RadioShack circular ads plus RadioShack direct mail generated over 50 million impressions, and POS materials were displayed in nearly all 6,500 RadioShack locations.

RESULTS
DIRECTV System sales increased 82% during promotion.

A special thanks to our USA Network partners:
Peter Ruben, Cara Conte



USA Network beach chair, cooler, *USA Today* ad and in-store POS counter card with gift certificate.

Six Cartoon Network videos with carrying case and in-store POS counter card with gift certificate.

Cartoon Network/Kmart

OBJECTIVE
Drive traffic to Kmart to purchase DIRECTV® and create awareness of a new Cartoon Network series — "The Powerpuff Girls."

OFFER
A set of six original Cartoon Network animated videos and keepsake carrying case created and packaged exclusively for DIRECTV and available with purchase — $100 value.

TIMING
Timed to take advantage of the holiday selling season, promotion runs from November 15 through December 31, 1998.

TACTICS
Two half-page ads in *USA Today* plus ads in three separate Kmart circulars will generate over 263 million impressions, and POS materials are currently being displayed in over 2,000 store locations.

A special thanks to our Cartoon Network partners:
Coleman Breland, Heather Baldino, Juliet Jatcko

NATIONAL RETAILER-SPECIFIC PROMOTIONS

Nickelodeon/Kmart

OBJECTIVE
Drive traffic to Kmart to purchase DIRECTV® and create awareness of Nickelodeon family programming.

OFFER
Free pair of Nickelodeon in-line skates and safety gear with purchase — $80 value.

TIMING
Timed to take advantage of back-to-school excitement, campaign ran from September 18 through October 3, 1998.

TACTICS
USA Today ads plus Kmart Sunday circulars generated over 90 million impressions, and POS materials were displayed in over 2,000 Kmart locations.

RESULTS
DIRECTV System sales increased 16% over previous month during promotion.

A special thanks to our Nickelodeon partners:
Christine Sheehan, Tony Dunaif, Meg Lowe,
Gabby Goodman

Nickelodeon in-line skates, *USA Today* ad, Kmart circular ad and in-store POS shelf talker with gift certificate.

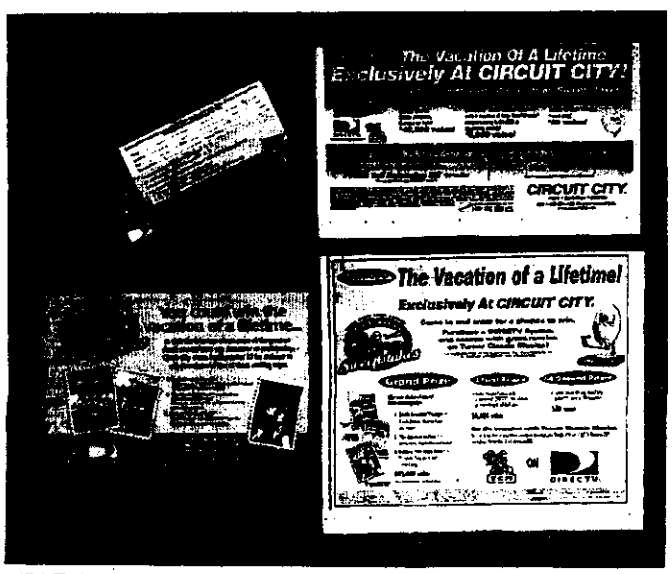
TCM/Circuit City

OBJECTIVE
Drive traffic to Circuit City to purchase DIRECTV® and promote TCM special features "Movies from Around the World."

OFFER
Exclusive "On Location" sweepstakes included the chance to win a trip to South America, Europe or the Orient to highlight titles from Turner Classic Movies library — *Now Voyager*, *An American in Paris* and *The Good Earth.*

TIMING
Timed to coincide with the TCM showing of "Movies from Around the World," promotion ran from October 23 through November 13, 1998.

TACTICS
Three *USA Today* ads plus a Circuit City Sunday insert generated 50 million impressions, and POS included posters and 30-second TCM promotional spots running throughout the promotion on in-store monitors in over 600 Circuit City locations.



USA Today ads and in-store POS including TCM sweepstakes entry form.

A special thanks to our TCM partners: Coleman Breland, Heather Baldino, Juliet Jatcko

REGIONAL RETAILER-SPECIFIC PROMOTIONS

ESPN/Multi-Regional

OBJECTIVE

Drive traffic to three separate retailers in three select markets to purchase DIRECTV,® promote the $79 ESPN FULL COURT College Basketball Early Bird price point and highlight the ESPN family of seven networks.

OFFERS

Nobody Beats the Wiz and ABC Warehouse customers entered to win an all-expense-paid trip for four to Disney World and Disney's Wide World of Sports in Orlando, Florida.

Now Audio Video customers received a free Pro Player Reversible Jacket with purchase.

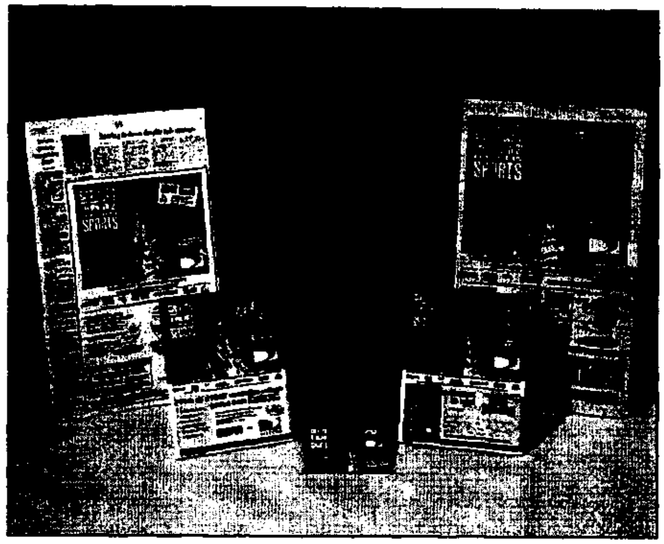
TIMING

Timed to advertise the $79 ESPN FULL COURT College Basketball Early Bird price point, promotion ran from October 25 through November 21, 1998.

TACTICS

Print ads, heavy radio advertising, bill inserts and in-store POS materials were displayed in over 70 store locations.

A special thanks to our ESPN partners:
Madeline Berger, Nicky Mussenden, Skip Desjardin, E.J. Conlin, Barbara Waters



Pro Player jacket, print ads, bill insert and POS counter cards with gift certificates.

Print ad and in-store POS counter card with gift certificate.

THE GOLF CHANNEL®

The Golf Channel/Paul Rosa's

OBJECTIVE

Drive traffic to Paul Rosa's in Buffalo, New York, to purchase DIRECTV® and introduce a new Golf Channel full-length documentary on Arnold Palmer.

OFFER

A $50 gift certificate to the Springbrook Pro Shop plus a free self-installation kit valued at $50 or a $100-off professional installation with purchase.

TIMING

October 4 through October 28, 1998.

TACTICS

Print ads, in-store training and POS at five store locations, plus a sales incentive program.

A special thanks to our Golf Channel partners:
James Bates, Nicci Fry, Paula Hersh

REGIONAL RETAILER-SPECIFIC PROMOTIONS

The Weather Channel/the good guys!

OBJECTIVE

Drive traffic to the good guys! to purchase DIRECTV® and leverage full-time carriage of The Weather Channel in the Southern California market.

OFFER

$99 installation with purchase. Weather Channel T-shirts, DIRECTV duffel bags and several DIRECTV Systems were given away as promotional prizing.

TIMING

July 1 through July 31, 1998.

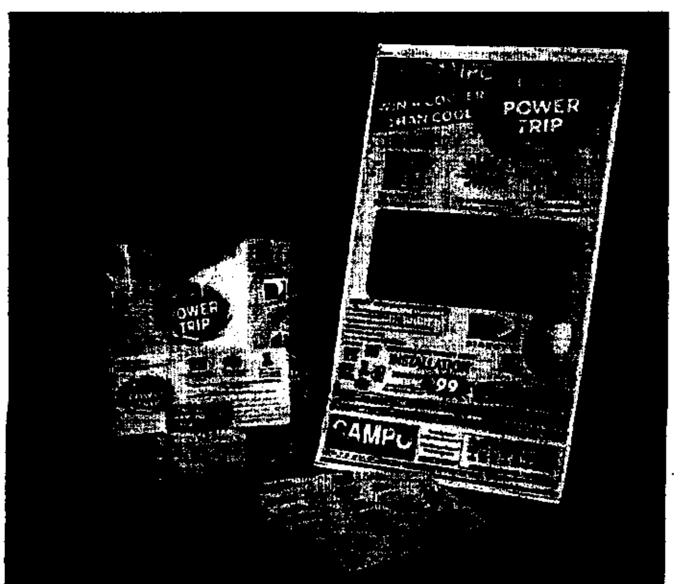
TACTICS

Print advertising in three Los Angeles County newspapers generated nearly six million impressions; a 200-spot radio promotion with three stations gave away premium items; over 200 bus signs generated over 18 million impressions; and POS materials were displayed in over 20 store locations.

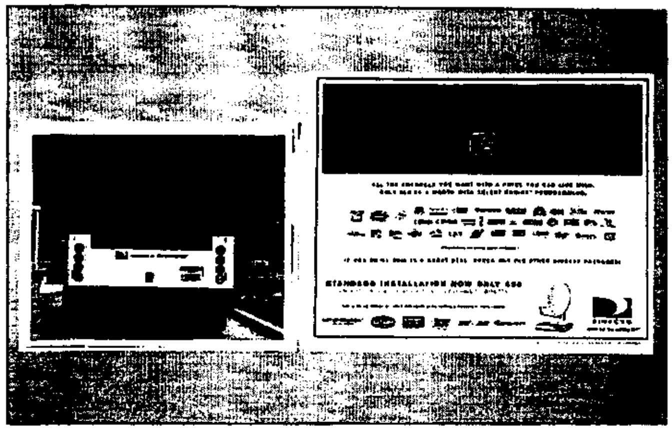
RESULTS

DIRECTV System sales increased 26% during promotion.

A special thanks to our Weather Channel partner:
Bill Fogarty



In-store POS counter card with entry form and print ad.



Bus tail-light poster and print ad.

MTV Networks/Multi-Regional

OBJECTIVE

Drive traffic to retail in four separate markets simultaneously to purchase DIRECTV® and promote MTV, VH1 and Nickelodeon networks.

OFFER

Tops Appliance City, Campo, Sun TV and Sound Advice all participated in the "MTV Power Trip" sweepstakes offering three winners a choice of a trip to the MTV Video Awards, a trip to Nickelodeon Studios or a trip to the VH1 Fashion Awards — $15,000 total prize value.

In addition, DIRECTV and MTV supported all offers with a $99 professional installation and/or a free self-installation kit, a $99 second receiver and a free off-air antenna.

TIMING

July 12 through August 1, 1998.

TACTICS

Print ads and heavy radio advertising, POS materials in over 100 store locations plus a sales incentive program and training.

RESULTS

DIRECTV System sales increased an average of 20% during promotion.

A special thanks to our MTV partners:
Christine Sheehan, Tony Dunaif, Meg Lowe, Lori Raimondo, Todd Schoen, Gabby Goodman, Jean Butcher

DIRECTV Exclusive Sweepstakes

OBJECTIVE

Generate excitement and awareness for DIRECT TICKET® movies.

OFFERS & TIMING

Auto-entry for chance to win with PPV movie order. Alternate entry with postcard. See individual sweepstakes prizes and timing listed below.

TACTICS

One or more of the following — on-air spots, DIRECTV billstuffer, *USA Today* ad, *SEE* guide advertising and website posting.

RESULTS

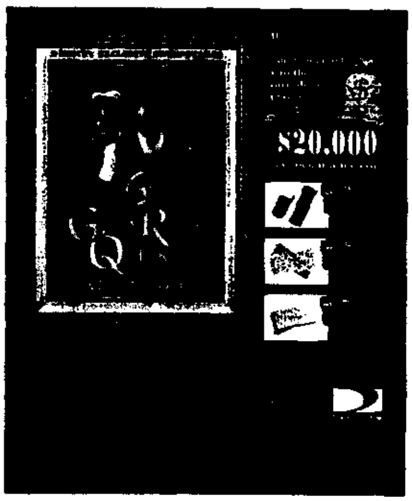
Average sweepstakes participation is estimated at a half-million auto-entries.

December 1997 DIRECTV billstuffer ad spread.

New Line Cinema/Austin Powers "Groovy Movie" Sweepstakes

- December 1997 promotion
- Exclusive Grand Prize: The 1968 Jaguar shown in the film — $22,000 value

A special thanks to our New Line Cinema partners: David Spiegelman, Christine Manna



July 1998 *SEE* guide ad.

Universal Studios/For Richer or Poorer "Get Rich Quick" Sweepstakes

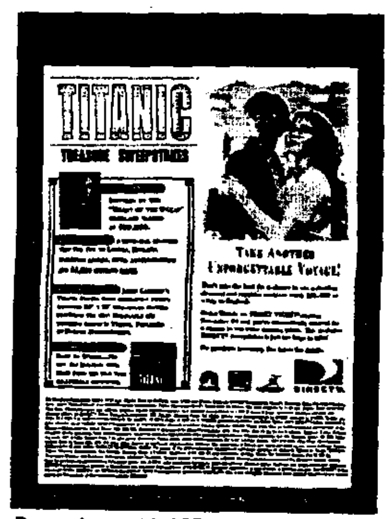
- July 1998 promotion
- Exclusive Grand Prize: $20,000 in cash

A special thanks to our Universal Studios partner: Holly Leff-Pressman

Paramount/"Titanic Treasure" Sweepstakes

- November/December 1998 promotion
- Exclusive Grand Prize: $25,000 Sapphire and Diamond Necklace inspired by the "Heart of the Ocean"

A special thanks to our Paramount partners: Stephanie Morton, Tanya Lach, Dawn Bursteen

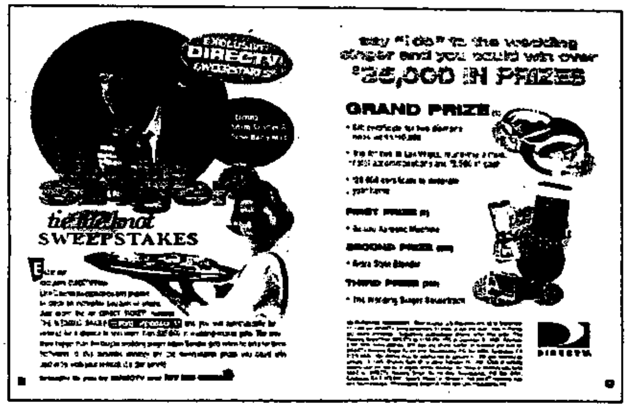


December 1998 *SEE* guide ad.

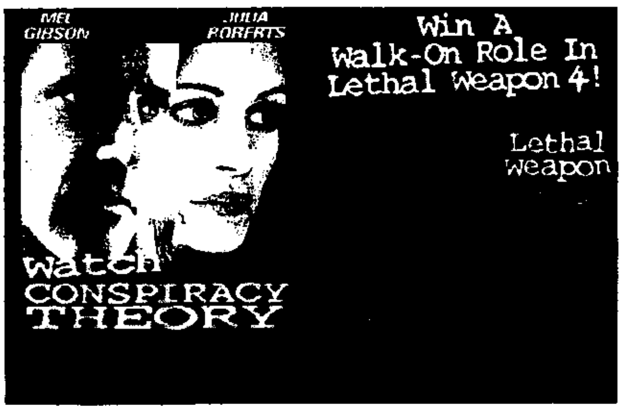
New Line Cinema/The Wedding Singer "Tie the Knot" Sweepstakes

- September 1998 promotion
- Exclusive Grand Prize: $10,000 certificate for his & hers diamond rings, trip for two to Las Vegas, including airfare, hotel and $2,500 cash, and a $20,000 gift certificate to decorate your home — total value $35,000.

A special thanks to our New Line Cinema partners:
David Spiegelman, Christine Manna



September 1998 DIRECTV billstuffer ad spread.



March 1998 DIRECTV billstuffer ad spread.

Warner Bros./Conspiracy Theory/Lethal Weapon 4 Sweepstakes with Mail-In Entry

- February/March 1998 promotion
- Exclusive Grand Prize: Win a walk-on role in *Lethal Weapon 4* plus a private screening in your local theater.

A special thanks to our Warner Bros. partners:
Christine Williams Labrecque, Pamela Shapiro-Schloss, Ernie Johnston

Lethal Weapon 4/Circuit City Retail Promotion

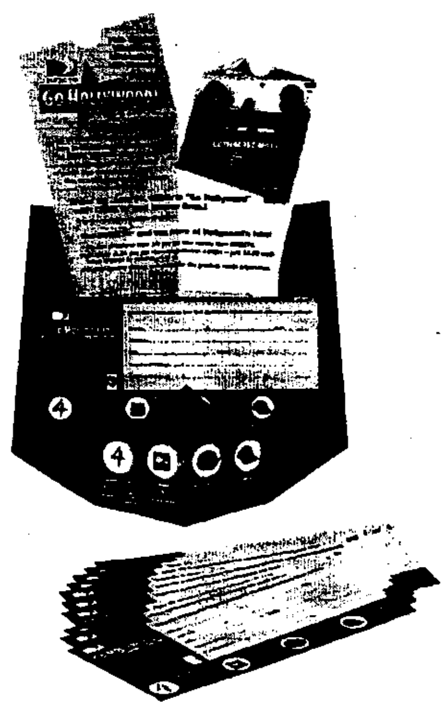
OBJECTIVE
Drive traffic to Circuit City to purchase DIRECTV®, generate awareness for the upcoming theatrical release of *Lethal Weapon 4* and promote Warner Bros. pay per view movies on DIRECTV.

OFFER
Exclusive "Go Hollywood!" Sweepstakes gave winner a trip for two to the L.A. premiere of *Lethal Weapon 4*, including airfare, hotel, passes and a post-premiere party invitation — $5,000 total prize value.

TIMING
May 23 through June 14, 1998.

TACTICS
Print and Circuit City circular ads that generated 126 million impressions, 10-city radio promotion with on-air *Lethal Weapon 4* prizing and POS in the 600 store locations.

RESULTS
DIRECTV System sales increased 81% during promotion.


In-store POS counter card with entry forms.

Exclusive Event — Shania Twain in Concert

The concert was used as part of a Current Customer and a National Retail marketing campaign.

Current Customer Campaign

OBJECTIVE

To reinforce programming differentiation and increase customer loyalty and retention.

OFFER

Shania Twain's world premiere concert was broadcast live, exclusively and free to current DIRECTV® customers.

TIMING

Live concert on September 12, 1998, with replays through the end of the month.

TACTICS

DIRECTV billstuffer, *SEE* guide and *ON* magazine advertising and a 24-hour Shania Twain promotional channel (special thanks to CMT for video bios).

National Retail Campaign

OBJECTIVE

Drive traffic to Best Buy to purchase DIRECTV® and promote concert.

OFFER

$100 worth of Best Buy coupons and a set of CDs.

TIMING

August 3 through September 12, 1998.

TACTICS

National advertising in *People, Entertainment Weekly, Rolling Stone* and *USA Today*, plus Best Buy circular ads generating over 33 million impressions, over 300 Westwood One syndicated radio broadcasts and POS materials displayed in over 300 Best Buy store locations.

RESULTS

DIRECTV System sales increased 194% during promotion.

Shania Twain.

In-store standee.

Exclusive Event — Shania Twain in Concert

Bar poster, print ad, *SEE* magazine ad and VIP pass.

OBJECTIVE
To reinforce programming differentiation, increase customer loyalty and add new bar and restaurant locations.

OFFER
Shania Twain's world premiere concert was broadcast live, exclusively and free to over 100 select commercial bar and restaurant customers.

TACTICS
Local radio promotions, on-site marketing kits to country western bars and live satellite uplinks that enabled the bar promotion to be incorporated into the live show.

RESULTS
The radio/bar promotion resulted in many new commercial accounts for DIRECTV.

Additional Commercial Marketing Strategy

More and more commercial establishments have found the value of offering DIRECTV sports subscriptions like NFL SUNDAY TICKET™, NBA LEAGUE PASS, MLB EXTRA INNINGS℠, NHL® CENTER ICE®, ESPN FULL COURT and ESPN GamePlan to their customers. Special events like wrestling packages from the WWF and WCW plus major professional boxing events pack in the crowds at local watering holes. To enhance the atmosphere in bars and restaurants, Music Choice℠ offers diverse tunes for every taste with 40 commercial-free audio channels by music format. DIRECTV Commercial is expanding business by exploring strategic partnerships that can help us take advantage of the tremendous growth opportunity in this market.

A SPECIAL THANKS

For supporting our annual

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January 5, 1999

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IFC
Lifetime
MTV Networks
MuchMusic
NFL Enterprises
NHL
Playboy TV
Pollack Ginsberg Productions
Scripps Network
Turner Home Satellite
USA Networks
The Weather Channel

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Eric Winter	Manager, Marketing Publications	310-964-4200

DIRECTV

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Hughes

Company Update

Rating: STRONG BUY
(Moderate Risk)

- ☐ February DirecTV sub additions are strong; raising sub estimates for the quarter.
- ☐ Lowering 1Q99 EPS estimates from $0.11 to $0.08 to account for higher sub additions.
- ☐ Reiterate Strong Buy and $58 12-month price target.

Todd B. Ernst (212) 778-1449
Dan Thomasson (212) 778-8272

GMH (48)—NYSE

March 12, 1999

	Earnings Per Share Fiscal Year Ending			P/E	Ind.		Shares O/S	52-Week
	12/98	12/99E	12/00E	12/99E	Div.	Yield	(Mil.)	Range
New	**$0.41**	**$0.61**	**$1.09**	**NM**	**—**	**—**	**399.9**	**58-30**
Old		0.64						

DJIA: 9897.40

S&P 500: 1297.65

PSI Aerospace & Defense Index: 1177.02

Priced as of the close, March 11, 1999.

Note: We calculate market-cap-weighted performance for the index shown on a total-return basis from 1979. Most Prudential Securities Incorporated indexes (for about 200 industries in 12 economic sectors) are also segmented by small-, mid-, and large-cap stocks. For more information regarding these indexes and their composition please contact your Prudential Securities representative.

DirecTV Subscriber Adds Are Strong In February; An Early Look At DirecTV With Primestar; Reiterate Strong Buy

Hughes Electronics, based in El Segundo, CA, is a $6 billion (in 1998 revenues) vertically integrated company that manufactures satellites, ground station equipment, and terrestrial wireless networking products for government and commercial customers. The company also provides commercial space services such as transponder leasing through its PanAmSat affiliate and satellite-based home entertainment programming under the DirecTV brand.

- ☐ We are adjusting our first-quarter estimate from $0.11 to $0.08 to reflect higher than expected DirecTV subscriber growth leading to increased sub acquisition costs. Higher sub growth should drive increased long-term value for GMH shareholders.
- ☐ Uncertainty surrounds closure of the Primestar transaction, though we still expect the separate Tempo transaction to close.
- ☐ Our 12 month target price is $58, based on a sum-of-the-parts valuation.

Based on newly released subscriber numbers, we have boosted our first quarter 1999 subscriber estimate which, in turn, has caused us to adjust our EPS projections. However, we point out that in our view, current earnings are not overly helpful in assessing the operating performance of DirecTV—subscriber growth is key, in our view. We have lowered our estimate from $0.11 to $0.08 for the quarter. For all of 1999, we are lowering our EPS estimate from $0,64 to $0.61, though we are keeping our 2000 estimate at $1.09. Please note that these numbers include the USSB transaction, the closure of which we feel is imminent, but not the Primestar transaction, the outcome of which is still uncertain.

We Continue To Like The Hughes Story. We are recommending that clients acquire Hughes shares as we believe there could be 25% upside in the shares over the next twelve months. Our optimism is based on the following:

- *Growth*—we expect 10%-12% revenue growth in 1999 and 40%-50% EPS growth driven in large part by the company's position in the rapid growth space services business.
- *Competitive Position*—Hughes is the leading Geosynchronous satellite manufacturer, and is the largest commercial fixed space services provider, has leading share of the U.S. direct to home television programming market, and the largest ground station (VSAT) provider. A strong market position in growth markets bodes well for price appreciation, in our view.
- *Visibility*—Hughes's satellite manufacturing segment has a 39 satellite backlog (including AMPT satellites) valued at nearly $4 billion. Hughes space services [PanAmSat (SPOT—37 3/4, rated Strong Buy)] has a $6.3 billion backlog.
- *Diversification*—Hughes participates in a wide range of space business segments from hardware to service, reducing overall market risk.

DirecTV Reports Strong February Subscriber Numbers. We have adjusted our first quarter projections due predominantly to Hughes' *success* in acquiring new DirecTV subscribers to date. In February 1999, DirecTV added approximately 93,000 subs versus 71,000 in 1998. Year to date, DirecTV has added 184,000 subs. Our original first quarter projection was 225,000 subs, an amount which we are now confident DirecTV will greatly exceed, given the latest sub report and the fact that DirecTV is implementing an aggressive, new marketing campaign beginning in mid-March. As a result, we have raised our 1999 first quarter estimate to 285,000 subs (this compared to 227,000 actual subs in 1998). The increased projection, in turn, results in nearly $25 million of additional subscriber acquisition cost ($425 per sub), which is partially offset by an upward revision in satellite manufacturing operating profit and expected interest income. The net result is a $0.03 hit to EPS for the first quarter. While the increase in sub estimates increases sub acquisition costs and lowers net income, we view this is a positive for Hughes because each sub is valued at about $2,300 and only costs the company $425 to acquire, suggesting that each additional sub adds considerable value to the DirecTV franchise.

A key point here is that the DBS industry continues to add subscribers at a phenomenal rate. In our view, continued growth further reinforces the value of DirecTV bolstering its competitive position by acquiring Primestar and, more importantly, we think, the Tempo high-powered orbital assets. A more competitive DirecTV in the rapidly growing DBS market improves Hughes overall growth prospects, which is and has been one of the main reasons why we like GMH stock. Upon the consummation of the Tempo transaction, DirecTV should be well positioned (with up to 370 channels) to compete in a "two horse race" with Echostar's (DISH—60, not rated) newly increased capacity (up to 500 channels). The Tempo assets should also afford Hughes the capacity needed to provide local-to-local programming in select markets, if it becomes legal and economical to do so, though the company still maintains that an off-air antenna is the preferable means to acquire a local signal. Local-to-local capacity, we think, will be of increasing value in 1999 as Congress mulls over the idea of allowing DBS to provide local programming, which is illegal at this time.

Hughes has also indicated that Galaxy Latin America (GLA), its Latin and South American satellite programming business, is on-track to greatly exceed 1998 first quarter subscriber growth, due mainly to changes (particularly in marketing) the company has made to its Mexico franchise, which it now fully owns. Accordingly, we have increased our sub acquisition estimate for the first quarter, raising our estimate to 65,000 subs from 55,000 subs (compared to 38,000 new subs in first quarter 1998). This change did not have a material affect on EPS.

The Competition Is Fierce. Of concern, Echostar added 103,000 subs in the February (on top of 100,000 in January), outdoing Hughes for the second consecutive month. Echostar has been aggressively (and successfully) marketing its services, offering free equipment (via a rebate) in exchange for a one year service commitment. This is of concern because such success may force Hughes to more aggressively market DirecTV, which potentially could lead to an increase in the sub acquisition costs—though we have not factored an increase into our model. However, we feel that DirecTV's new marketing program will likely close the gap between the two companies in early second quarter 1999. Of note, Echostar's strong subscriber additions in the past two quarters may be a benefit to Hughes in that it may obviate any regulatory concerns over the DBS industry competitive environment as Hughes attempts to acquire Primestar and the Tempo assets.

Primestar Transaction Less Certain. The Primestar tender offer for outstanding bonds was extended to March 15, 1999 after the initial offer period expired without yielding the necessary majority of bondholders to approving the company's sale to DirecTV. *If DirecTV is unable to close the transaction by the end of April, it will have the option to walk away, which is a very real risk.* The acquisition process is complicated by the fact that Charlie Ergen, CEO of Echostar, DirecTV's primary satellite programming challenger, has obtained over 10% ownership of outstanding Primestar bonds (it takes 90% or more of bondholders to approve a deal). We believe this is a tactic to delay DirecTV's acquisition of Primestar, allowing Echostar more time and opportunity to poach Primestar subs before they can be converted to DirecTV. To this end, Echostar has initiated a marketing campaign designed to attract Primestar subs, offering them free installation and hardware if subs sign up for a year of service. It is not yet clear the extent to which Echostar has been successful in penetrating the Primestar sub base.

However, the Tempo part of the transaction (i.e., high power orbital slots and satellites) is separate and independent of the Primestar bondholder issue. We still expect this transaction to close shortly after mid-year 1999. The FCC comment period (where it hears arguments regarding the potential affects of a proposed acquisition on the industry's competitive environment) is now open, but will expire on April 2 after which it will likely take three to six months for the government to reply with a decision (Echostar has lodged a complaint to preclude DirecTV from acquiring the high power slots to which DirecTV may rebut).

Valuation. Our 12-month target price for Hughes is $58. We arrived at this price using a sum-of-the-parts valuation. We valued DirecTV using a $2,300 per sub value (pre-Primestar) in 2000. For the other businesses, we have used enterprise value to 2000 EBITDA multiples: 11 times for Satellite Services, 8.5 times EV/EBITDA for satellite systems, and 7.5 times EV/EBITDA for Hughes Network Systems. See Appendix 3 for further details.

A Pro Forma DirecTV/USSB/Primestar—Let's Take A Look At The Numbers. As we have mentioned in our previous notes, we believe that the combination of DirecTV, USSB (USSB—16 5/8, not rated) and Primestar will yield a powerful multi-channel competitor. After reviewing the terms of the transactions and making assumptions about the DirecTV subscriber addition and Primestar sub conversion rates, we were able to produce a detailed pro forma model of a post-closing DirecTV environment.

Our EPS Estimates Likely Will Come Down Once We Include Primestar. Keep in mind that we are *not* changing our EPS estimates of $0.61 for 1999E and $1.09 for 2000E at this time. These estimates include the USSB transaction, which we feel is imminent, but do not include Primestar, of which we are optimistic—although less certain—of closing.

If we were to include Primestar in our model, our EPS estimates likely would fall to $0.56 in 1999 and $1.03 in 2000. Below, we outline our assumptions regarding DirecTV new sub additions and the conversion rate for Primestar subscribers. Based on the aforementioned assumptions and assuming the transactions close by the beginning of third quarter 1999, we arrived at a total revenue of $3.1 billion for 1999 and $4.3 billion for 2000 based on an end of year sub count 6.2 million and 7.9 million subscribers, respectively. In this environment, operating profits total $47.1 million and $314.5 million in 1999 and 2000, respectively. We have assumed that converted Primestar subs generate a $43 average revenue per user (ARPU) and that new DirecTV subs adds generated a $54 ARPU (we have assumed National Rural Telecommunications Cooperative (NRTC) subs have a $3.50 ARPU). See Appendixes 5, 6, and 7 for the comparison of DirecTV/USSB with and without Primestar.

Appendix 1. Hughes Electronics—Sales And Earnings Projections, 1996-2000E

(Dollars in millions)

Revenue	**1996**	**1997**	**1998**	**1999E**	**2000E**
Direct-To-Home	$621	$1,277	$1,816	$2,733	$3,712
% Change	*n/a*	*106%*	*42%*	*50%*	*36%*
Satellite Services	$483	$630	$767	$1,058	$1,292
%Change	*n/a*	*30%*	*22%*	*38%*	*22%*
Satellite Systems	$2,056	$2,492	$2,831	$2,900	$3,120
% Change	*n/a*	*21%*	*14%*	*2%*	*8%*
Network Systems	$1,070	$1,011	$1,077	$1,150	$1,210
% Change	*n/a*	*-5%*	*6%*	*7%*	*5%*
Eliminations & Allocations	($221)	($282)	($527)	($785)	($940)
Total Revenue	**$4,009**	**$5,128**	**$5,964**	**$7,056**	**$8,393**
% Change	*n/a*	*28%*	*16%*	*18%*	*19%*
Operating Profits					
Direct-To Home	($320)	($255)	($224)	($101)	$174
% Change	*n/a*	*-20%*	*-12%*	*-55%*	*-272%*
Satellite Services	$242	$294	$318	$461	$633
% Change	*n/a*	*21%*	*8%*	*45%*	*37%*
Satellite Systems	$183	$226	$246	$258	$275
% Change	*n/a*	*23%*	*9%*	*5%*	*7%*
Network Systems	$108	$74	$11	$70	$77
% Change	*n/a*	*-31%*	*-85%*	*542%*	*10%*
HCI/Broadband	n/a	($20)	($25)	($50)	($50)
Eliminations, Allocations & Other	($4)	($16)	($56)	($125)	($134)
Operating Profit	**$210**	**$304**	**$271**	**$513**	**$975**
% Change	*n/a*	*13%*	*-23%*	*60%*	*60%*
Oper. Margin (%)	**5.2%**	**5.9%**	**4.5%**	**7.3%**	**11.6%**
Hughes Amort. of GM Purchase	($21)	($21)	($21)	($21)	($21)
Interest Exp.	($43)	($91)	($18)	($83)	($133)
Interest Income	$7	$33	$112	$78	$12
Other Income	($51)	($99)	($153)	($155)	($125)
Pretax Income	**$101**	**$126**	**$191**	**$332**	**$707**
Pretax Margin (%)	2.5%	2.5%	3.2%	4.7%	8.4%
Income Tax	$65	$63	$74	$126	$269
Tax Rate (%)	64.1%	49.8%	38.7%	38.0%	38.0%
Minority Interest	$53	$25	$24	$22	$3
Add Back GM Amortization	$21	$21	$21	$21	$21
Net Income before Disc. Ops.	**$110**	**$109**	**$163**	**$250**	**$462**
Discontinued Ops.	**($7)**	**$1**	**$0**	**$0**	**$0**
Earnings Before Nonrecurring	**$103**	**$110**	**$163**	**$250**	**$462**
% Change	*n/a*	*7%*	*47%*	*54%*	*85%*
After Tax Nonrecurring	$81	$361	$0	$0	$0
Net Income	**$183**	**$471**	**$163**	**$250**	**$462**
% Change	*n/a*	*157%*	*-65%*	*54%*	*85%*
Fully Diluted EPS b/f Nonrecurring	**$0.26**	**$0.28**	**$0.41**	**$0.61**	**$1.09**
% Change	*n/a*	*7%*	*47%*	*49%*	*80%*
Nonrecurring Per Share	$0.20	$0.90	$0.29	$0.00	$0.00
Fully Diluted Reported EPS	**$0.46**	**$1.18**	**$0.70**	**$0.61**	**$1.09**
% Change	*n/a*	*157%*	*-41%*	*-13%*	*80%*
Shares (Millions)	399.9	399.9	399.9	411.3	422.7

Source: Company data; Prudential Securities estimates.

Appendix 2. Hughes Electronics Cash Flow Analysis, 1996-2000E

(Dollars in millions)

Operations:	1996	1997	1998	1999E	2000E
Net Income	$163	$451	$163	$250	$462
Depr. & Amort.	$195	$246	$367	$410	$425
Amort. of Goodwill PAS	$0	$50	$67	$67	$67
Gains on Sale of Assets	($120)	($490)	($14)	$0	$0
Deferred Tax	$92	$286	$153	$200	$200
Change in Working Cap.	$55	($506)	$125	($50)	($200)
All Other	($37)	($46)	($104)	($100)	($100)
From Cont. Operations	$346	($9)	$756	$777	$854
Discontinued Operations	($8)	($16)	$0.0	$0.0	$0.0
Cash From Operations	**$338**	**($24)**	**$756**	**$777**	**$854**
Capex	($262)	($251)	($311)	($600)	($545)
Increase in Satellites [2]	($192)	($634)	($1,100)	($1,160)	($300)
Free Cash Flow	**($115)**	**($909)**	**($655)**	**($983)**	**$9**
From Other Investing					
Investment in companies	($32)	($1,637)	($1,240)	($800)	($350)
Other	$404	$290	$399	$0	$0
Cash From Other Investing	**$372**	**($1,347)**	**($841)**	**($800)**	**($350)**
Financing					
Debt	$0	($503)	$141	$1,000	$0
Contibutions from Parent	($280)	$1,124	($205)	$0	$0
Capital Proceeds from Hughes	$0	$4,393	$0	$0	$0
Cash From Financing	**($280)**	**$5,014**	**($64)**	**$1,000**	**$0**
Change In Cash	($23)	$2,758	($1,560)	($783)	($341)
Cash & Cash Equivalents	**($15)**	**$2,743**	**$1,183**	**$400**	**$59**
Capitalization					
Long-Term Debt	$0	$638	$935	$1,935	$1,935
Shareholders' Equity	$2,492	$8,312	$8,382	$8,632	$9,094
Total Capitalization	**$2,492**	**$8,949**	**$9,317**	**$10,566**	**$11,029**
T. Debt/T. Capital	0.0%	7.1%	10.0%	18.3%	17.5%
Total Assets	$4,416	$12,763	$13,435	$14,250	$14,800
Goodwill	$468	$2,955	$3,552	$3,485	$3,418
Return on Average Equity	n/a	8.3%	1.9%	2.9%	5.2%
Return on Average Total Assets	n/a	3.5%	2.1%	3.7%	6.7%
Operating ROA[1]	n/a	3.4%	2.9%	4.9%	8.8%
Asset Turnover	n/a	0.60	0.46	0.51	0.58
Financial Leverage	n/a	20.0	14.4	7.4	7.6
Free Cash per Share	($0.29)	($2.27)	($1.64)	($2.39)	$0.02
% Change	*n/a*	*692.6%*	*-28.0%*	*46.0%*	*-100.9%*
EBITDA	$404	$600	$705	$990	$1,467
% Change	*n/a*	*48.5%*	*17.4%*	*40.5%*	*48.1%*
EBITDA per share	$1.01	$1.50	$1.76	$2.41	$3.47
% Change	n/a	49%	17%	37%	44%

[1] EBIT (1-tax rate)/(Total Debt+Total Equity)

[2] Includes excerise early buyout options for PanAmSat in 1998 and 1999

Source: Company data; Prudential Securities estimates.

Appendix 3. A Blended Multiple Implies That GMH Shares Will Appreciate Substantially

(Dollars in millions)

	1999E	2000E
Direct to Home		
DirecTV[1]	$7,396	$10,294
NRTC Subs	$263	$357
Galaxy Latin America[2]	$623	$999
Direct To Home Valuation	**$8,282**	**$11,650**
Satellite Services		
PanAmSat Op. Income	$461	$633
Depreciation & Amortization	$298	$352
EBITDA	$759	$985
Assumed Multiple	11.0	11.0
Satellite Services Valuation	$8,351	$10,840
Hughes %	81%	81%
Satellite Services Valuation	**$6,765**	**$8,780**
Satellite Manufacturing		
Operating Income	$258	$275
Depreciation & Amortization	$53	$65
EBITDA	$311	$340
Assumed Multiple	8.5	8.5
Satellite Manufacturing Valuation	**$2,644**	**$2,890**
Hughes Network Services		
Operating Income	$70	$77
Depreciation & Amortization	$45	$50
EBITDA	$115	$127
Assumed Multiple	7.5	7.5
Hughes Network Services Valuation	**$863**	**$953**
Total Enterprise Value	**$18,552**	**$24,273**
Less:		
Total Hughes Debt	($935)	($1,802)
Plus:		
Cash	$1,183	$560
Investments	$190	$228
Target Market Value	**$18,991**	**$23,258**
Shares Outstanding (Primary, millions)	411.3	422.7
	$46	**$55**
Discount	**-5%**	**-5%**
Target Price	$49	$58

Source: Company data; Prudential Securities estimates.

Appendix 4. Hughes Electronics Segment Overview

Principal Business	Products/Projects	Geographic Markets Served	Major Competitors	Primary Customer Base	1998 Sales ($ Mil.)	1998 Oper. Margin
Direct-To-Home					**$1,816**	**-12.3%**
DirecTV	n/a	United States	Echostar, Primestar Cable Companies	U.S. consumers, MDUs, Bars, Restaurants	$1,671	n/a
Galaxy Latin America	n/a	Latin America South America	Sky	Consumers	$145	n/a
DirecTV Japan	n/a	Japan	SkyPerfecTV	Consumers	n/a	n/a
Satellite Services					**$767**	**41.5%**
PanAmSat	Transponder Leasing	Global	Loral Skynet, Loral Orion, Loral SatMex, Intelsat, GE Americom	Multinational Corps. Broadcasters, Telcos	$767	41.5%
Satellite Manufacturing					**$2,831**	**8.7%**
Satellite Manufacturing	Commercial GEO, Gov't, and Scientific Satellites	Global	Loral, Lockheed Martin, Boeing, Matra Marconi	DBS Providers, Transponder Leasing, GEO/MEO Wireless Voice, Telcos	$2,831	8.7%
Hughes Network Systems					**$1,150**	**1.0%**
Private Networks	VSAT, DirecPC, Consulting Services	Global	Gilat, GE Americom Loral Orion, Loral Skynet	Retailers, Multinational Corps., Broadcasters	$630	
Wireless Telecom	Wireless Infrastructure, Handsets, Mobile Equip.	Global	Lucent, California Microwave	Wireless Telcos, Large Corporations	$200	
Networking	Switches, Network Mgt. Equipment	Global	Lucent, Cisco	Large Corporations	$210	

Source: Company data, Prudential Securities estimates.

Prudential Securities

Appendix 5. DirecTV/USSB U.S. Quarterly Subscriber Acquisition and Financial Performance

	1Q99E	2Q99E	3Q99E	4Q99E	1999E	1Q00E	2Q00E	3Q00E	4Q00E	2000E
Gross DirecTV	432	432	486	576	1925	401	427	504	604	1937
Net DirecTV Sub Adds	285	275	320	400	1280	225	230	300	390	1145
Net Total Subs	4,743	5,018	5,338	5,738	5,738	5,963	6,193	6,493	6,883	6,883
Average Subs	4,601	4,881	5,178	5,538	5,098	5,651	6,078	6,343	6,688	6,311
% NRTC Subs	21%	22%	22%	22%	22%	22%	22%	22%	22%	22%
%DirecTV Subs	79%	78%	78%	78%	78%	78%	78%	78%	78%	78%
NRTC Subs	966	1,074	1,139	1,218	1,218	1,243	1,337	1,395	1,471	1,471
Direct Subs	3,634	3,807	4,039	4,320	4,320	4,407	4,741	4,948	5,217	5,217
Royalty Per Sub-NRTC	$3.5	$3.5	$3.5	$3.5	$3.5	$4.0	$4.0	$4.0	$4.0	$4.0
ARPU	$46	$46	$55	$55	$50.3	$55	$55	$55	$55	$55.0
DirecTV Revenues	$496,095	$519,627	$666,409	$712,741	$2,394,871	$727,219	$782,239	$816,344	$860,746	$3,186,548
NRTC Revenues	$10,144	$11,274	$11,961	$12,793	$46,172	$14,917	$16,046	$16,746	$17,656	$65,365
Total Revenues	**$506,239**	**$530,901**	**$678,370**	**$725,533**	**$2,441,043**	**$742,137**	**$798,285**	**$833,090**	**$878,402**	**$3,251,913**
Sub Acq. Cost/Sub	$425	$425	$465	$465	$445	$465	$465	$465	$465	$465
Total Sub Acq Costs	$145,082	$143,049	$176,125	$208,971	$673,227	$145,499	$154,793	$182,935	$219,168	$702,394
Programming Costs	$223,243	$233,832	$299,884	$320,733	$1,077,692	$327,249	$352,007	$367,355	$387,336	$1,433,946
Customer Care Costs	$49,609	$51,963	$66,641	$71,274	$239,487	$72,722	$78,224	$81,634	$86,075	$318,655
Broadcast Ops	$24,805	$25,981	$29,988	$32,073	$112,848	$36,361	$35,201	$35,103	$37,012	$143,677
Business Operations	$19,844	$20,785	$26,656	$28,510	$95,795	$29,089	$31,290	$32,654	$34,430	$127,462
Bad Accounts/Other	$17,363	$18,187	$23,324	$24,946	$83,820	$25,453	$27,378	$28,572	$30,126	$111,529
Depreciation/Amortization	$25,000	$25,000	$38,200	$38,200	$126,400	$38,200	$38,200	$38,200	$38,200	$152,800
Total Direct Operating Profit	($8,851)	$830	$5,590	($11,967)	($14,398)	$52,648	$65,146	$49,892	$28,399	$196,085
Total NRTC Operating Profit	$10,144	$11,274	$11,961	$12,793	$46,172	$14,917	$16,046	$16,746	$17,656	$65,365
Net Operating Profit	**$1,293**	**$12,104**	**$17,551**	**$826**	**$31,774**	**$67,565**	**$81,192**	**$66,637**	**$46,055**	**$261,450**
Net Operating Profit Margin	**0.3%**	**2.3%**	**2.6%**	**0.1%**	**1.3%**	**9.1%**	**10.2%**	**8.0%**	**5.2%**	**8.0%**
EBITDA	**$26,293**	**$37,104**	**$55,751**	**$39,026**	**$158,174**	**$105,765**	**$119,392**	**$104,837**	**$84,255**	**$414,250**
Total Sub Acq Costs	29.2%	27.5%	26.4%	29.3%	28.1%	20.0%	19.8%	22.4%	25.5%	22.0%
Programming Costs	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Customer Care Costs	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Broadcast Ops	5.0%	5.0%	4.5%	4.5%	4.5%	5.0%	4.5%	4.3%	4.3%	4.5%
Business Operations	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Bad Accounts/Other	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Depreciation	5.0%	4.8%	5.7%	5.4%	5.3%	5.3%	4.9%	4.7%	4.4%	4.8%
DirecTV Operating Margins	-1.8%	0.2%	0.8%	-1.7%	-0.6%	7.2%	8.3%	6.1%	3.3%	6.2%

Source: Company reports, Prudential Securities estimates.

Prudential Securities

Appendix 6. Pro Forma DirecTV U.S. Quarterly Subscriber Acquisition and Financial Performance

Revenues (thousands)	1Q99E	2Q99E	3Q99E	4Q99E	1999E	1Q00E	2Q00E	3Q00E	4Q00E	2000E
DIRECTV/USSB:										
Gross DirecTV	432	432	546	618	2027	478	513	598	675	2264
Net DirecTV Sub Adds	285	275	380	440	1380	300	310	385	450	1445
Net Total Subs	4,743	5,018	5,398	5,838	5,838	6,138	6,448	6,833	7,283	7,283
Average Subs	4,601	4,881	5,208	5,618	5,148	5,768	6,293	6,641	7,058	6,561
% Avg. NRTC Subs	21%	21%	21%	21%	21%	21%	21%	21%	21%	22%
% Avg. DirecTV Subs	79%	79%	79%	79%	79%	79%	79%	79%	79%	78%
Average NRTC Subs	966	1,025	1,094	1,180	1,081	1,211	1,322	1,395	1,482	1,443
Average Direct Subs	3,634	3,856	4,114	4,438	4,067	4,557	4,971	5,246	5,576	5,117
Royalty Per Sub NRTC	$3.5	$3.5	$3.5	$3.5		$3.5	$3.5	$3.5	$3.5	
ARPU	$46	$46	$54	$54		$54	$54	$54	$54	
DirecTV Revenues	$496,095	$526,289	$666,520	$718,992	$2,407,895	$738,189	$805,378	$849,851	$903,283	$3,296,701
NRTC Revenues	$10,144	$10,762	$11,484	$12,388	$44,777	$12,718	$13,876	$14,642	$15,563	$56,800
DirecTV/USSB Revenues	$506,239	$537,050	$678,003	$731,379	$2,452,672	$750,907	$819,254	$864,493	$918,846	$3,353,501
PRIMESTAR:										
Calculated Gross Primestar Sub Adds (000)			0	0	0	0	0	0	0	0
Net Primestar Sub Adds (000)			0	0	0	0	0	0	0	0
Net Total Subs (000)			2,085	1,719	1,719	1,375	1,080	848	653	653
Average Subs (000)			2,085	1,902	2,199	1,547	1,228	964	750	1,122
Conversion rate			2.5%	3.2%	2.9%	4.0%	4.5%	4.5%	5.0%	4.5%
Monthly Churn			2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
ARPU (w/o box rental)			$43	$43	$43	$43	$43	$43	$43	$43
Total Programming Revenues			265,860	242,491	508,352	197,232	156,510	122,892	95,684	572,317
Total Box Rental Revenues			62,555	57,057	119,612	46,407	36,826	28,916	22,514	134,663
Installation Revenues			0	0	0	0	0	0	0	0
Primestar Revenues			$328,416	$299,548	$627,964	$243,639	$193,336	$151,807	$118,197	$706,980
CONVERTED SUBS:										
Gross Primestar Conversion Subs (000)			185.0	200.2	385.2	206.2	185.7	145.8	127.2	664.8
Cumulative *Net* total converted subs			185.0	374.1	374.1	557.9	710.1	818.6	904.0	904.0
Average Cumulative *Net* converted subs			92.5	279.6	187.1	466.0	634.0	764.3	861.3	639.1
NRTC %			21%	21%	21%	21%	21%	21%	21%	22%
DirecTV%			79%	79%	79%	79%	79%	79%	79%	78%
NRTC conversion revenue			$204	$616	$820	$1,028	$1,398	$1,685	$1,899	$6,010
DirecTV conversion revenue			$9,319	$28,160	$37,478	$46,938	$63,858	$76,967	$86,753	$274,536
Monthly churn			2.0%	2.0%	2.0%	2.0%	2.0%	1.8%	1.7%	1.9%
Total Revenue	$506,239	$537,050	$1,015,942	$1,059,703	$3,118,934	$1,042,512	$1,077,846	$1,094,973	$1,125,696	$4,341,026

Source: Company data, Prudential Securities estimates.

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Appendix 7. Pro Forma DirecTV U.S. Quarterly Subscriber Acquisition and Operating Expenses

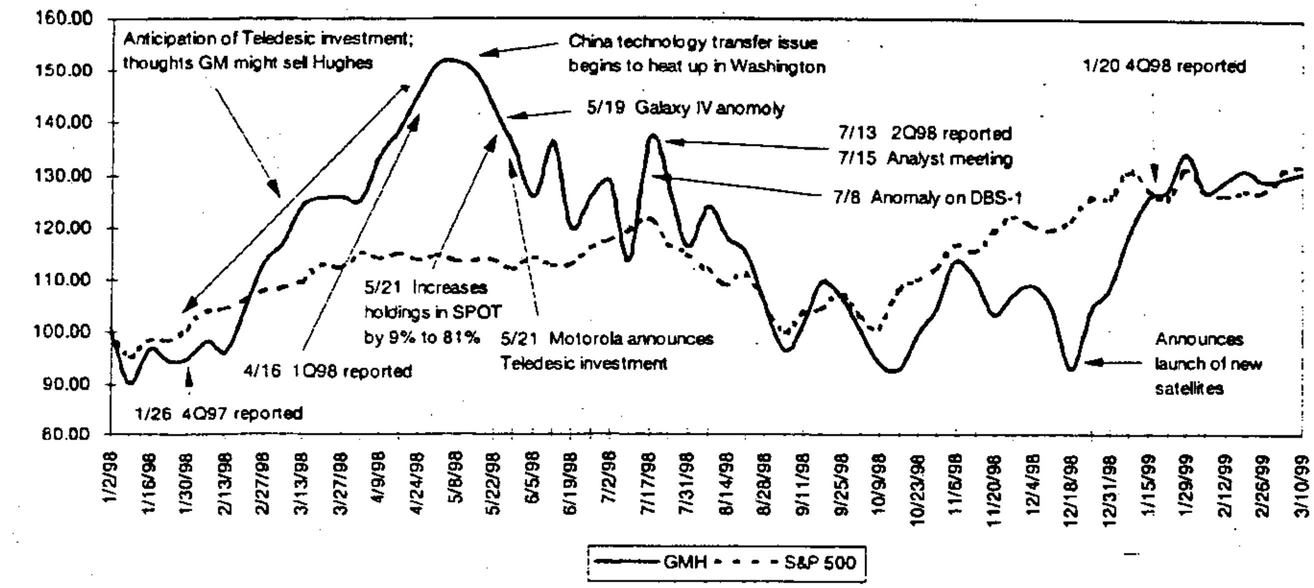
Expenses

(thousands, except per-sub numbers)	1Q99E	2Q99E	3Q99E	4Q99E	1999E	1Q00E	2Q00E	3Q00E	4Q00E	2000E
DirecTV acquisition cost per sub	$425	$425	$465	$465	$465	$465	$465	$465	$465	$465
Primestar conversion cost per sub	n/a	n/a	$425	$425	$400	$425	$425	$425	$425	$400
DirecTV sub acq cost	145,082	144,883	200,424	227,072	717,460	175,643	188,287	219,596	248,141	831,666
Primestar conv, cost (not incl NRTC)[1]	n/a	n/a	23,120	25,012	48,132	25,769	23,198	18,215	15,891	83,073
Total Sub Acq Costs	$145,082	$144,883	$223,544	$252,084	$765,592	$201,411	$211,484	$237,811	$264,032	$914,739
Programming Costs	$223,243	$236,830	$423,764	$445,339	$1,329,176	$442,061	$459,975	$468,129	$484,058	$1,854,223
Customer Care Costs	$49,609	$52,629	$95,518	$101,304	$299,061	$97,982	$99,444	$102,515	$106,658	$406,600
Broadcast Ops	$24,805	$26,314	$52,402	$54,332	$157,853	$48,399	$49,266	$49,460	$50,346	$197,471
Business Operations	$19,844	$21,052	$37,668	$39,586	$118,149	$35,603	$37,003	$37,740	$38,912	$149,259
Bad Accounts	$17,363	$18,420	$39,839	$41,404	$117,026	$36,796	$37,383	$37,488	$38,045	$149,712
Depreciation	$25,000	$25,000	$125,000	$110,000	$285,000	$105,000	$98,000	$85,000	$72,500	$360,500
Total expenses	$504,946	$525,127	$997,735	$1,044,049	$3,071,857	$967,253	$992,556	$1,018,143	$1,054,551	$4,032,503
Total Direct Operating Profit	($8,851)	$1,161	$6,519	$2,651	$2,300	$61,513	$70,016	$60,502	$53,682	$251,723
Total NRTC Operating Profit	$10,144	$10,762	$11,688	$13,004	$45,597	$13,746	$15,274	$16,328	$17,462	$62,810
Total Operating Profit	$1,293	$11,923	$18,207	$15,655	$47,077	$75,259	$85,290	$76,829	$71,144	$314,533
Programming Costs	44.1%	44.1%	41.7%	42.0%	42.6%	42.4%	42.7%	42.8%	43.0%	42.7%
Customer Care Costs	9.8%	9.8%	9.4%	9.6%	9.6%	9.4%	9.2%	9.4%	9.5%	9.4%
Broadcast Ops	4.9%	4.9%	5.2%	5.1%	5.1%	4.6%	4.6%	4.5%	4.5%	4.5%
Business Operations	3.9%	3.9%	3.7%	3.7%	3.8%	3.4%	3.4%	3.4%	3.5%	3.4%
Bad Accounts	3.4%	3.4%	3.9%	3.9%	3.8%	3.5%	3.5%	3.4%	3.4%	3.4%
Depreciation	4.9%	4.7%	12.3%	10.4%	9.1%	10.1%	9.1%	7.8%	6.4%	8.3%

[1] Assumes no agreement with NRTC and 75% of conversion costs are capitalized

Source: Company data, Prudential Securities estimates.

Appendix 8. GMH Has Had A Wild Ride Since The Beginning Of 1998



Source: Company reports, Prudential Securities estimates.

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