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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BY HAND

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

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

Ms. Dortch:

EchoStar Communications ("EchoStar"), Hughes Electronics Corporation ("Hughes") and General Motors Corporation ("GM") (collectively, the "Applicants"), at the request of the Commission, hereby provide additional information in support of their May 16, 2002, presentation on DBS Spectrum/Capacity Issues.

As the Applicants have stated throughout this proceeding, it is not feasible for either EchoStar or DIRECTV on a stand-alone basis to provide local-into-local service to more than the largest markets in the U.S. The combined entity, on the other hand, will be able to expand local channel service to all 210 Designated Market Areas ("DMAs") in the country.

In an effort to provide the Commission with a detailed assessment of the Applicants' abilities to provide local-into-local service both absent and with the merger, the Applicants attach three economic models. The first model analyzes the ability of EchoStar to provide local channels as a separate company. The second model analyzes the ability of DIRECTV to provide local channels as a separate company. The third model analyzes the ability of the combined company to provide local-into-local service. For each model, a summary of the findings and the assumptions upon which the model is based is attached as Attachments A through C. The underlying models are attached on one CD-Rom in three separate folders entitled: "EchoStar," "DIRECTV" and "New EchoStar."

The merger model demonstrates that it is feasible for New EchoStar to offer local-into-local service to each and every DMA in the nation. Specifically, the model evaluates three New EchoStar decisions: whether it would be in New EchoStar's economic interest to build an additional spot beam satellite (New EchoStar 1) for the purpose of expanding service from DMA

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#151 to DMA #210; whether having built that satellite New EchoStar would find it in its interest to expand service from DMA #191 to DMA # 200; and whether New EchoStar would find it in its interest to expand service from DMA # 201 to DMA #210.

The conclusion drawn from this modeling exercise is that it would be in New EchoStar's interest to provide local-into-local service to all 210 DMAs in the nation. Specifically:

- New EchoStar would find it in its economic interest to build New EchoStar 1;
- New EchoStar would similarly find it in its economic interest to expand local service from DMA #191 to DMA #200; and
- While expansion of local service from DMA #201 to DMA #210 would yield a modestly negative net present value, serving those markets would become "cash flow" positive in 2009 (the year after the model window). More importantly, though, the modest short-term losses incurred from serving DMA #201 to DMA #210 would be easily outweighed by the enormous benefits – e.g., national marketing – from providing local-into-local service to every DMA in the country.

Therefore, the model leaves no doubt that New EchoStar will provide local-into-local service to all 210 DMAs. Consumers in the less populated DMAs will finally be able to receive both the national programming and their local news and community programming from a single satellite provider. One measure of the vast benefit for consumers from this expansion of local-into-local service is provided by historical experience: lower cable prices. In the comparatively few DMAs that enjoy the benefits of satellite local-into-local today, Drs. Willig and Joskow have found that the introduction of local-into-local service has lowered the average cable expanded basic price by roughly \$1.03 per month in the first year and \$1.57 per month in the second year.

The attachments to this filing are highly confidential and are submitted pursuant to the Commission's Second Protective Order in this proceeding. This public version of the filing has been redacted accordingly. An original and one copy of this letter and one copy of the confidential version of this letter are being filed with the Commission. If you have any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

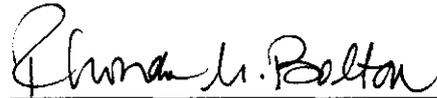


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A



DESCRIPTION AND ASSUMPTIONS OF ILLUSTRATIVE ECHOSTAR LOCAL-INTO-LOCAL MODEL OF SERVING MARKETS #51-80.

Primary and Significant Costs of Local Service

Satellite Costs: To serve markets #51 through #80, EchoStar would have to launch an additional spot-beam satellite. A new spot-beam satellite costs \$300 million to build, launch, and insure. The costs of the satellite are spread over two years.

Opportunity Costs: The opportunity cost of local service is the forgone revenue from the next best use of the spectrum. This opportunity cost assumption is based on EchoStar's business judgment and several analyses, [

]

Switching programming from national content to local service would become progressively more costly as EchoStar attempted to serve additional markets. That is, it is more costly to EchoStar's business to remove [] than to remove []. Such a conclusion is consistent with the 2001 Beta Research survey of DBS customers. [

[

].

]

To be conservative, the model assumes that the value of a frequency is roughly one-half what the above-noted analyses suggest. That is, the above-noted analyses suggest that the marginal frequency could be valued at []. But the model assumes that the value of the marginal three frequencies is an average of [] per year – and that value increases with inflation.

To serve markets #51 to 80, EchoStar would have to [

]

Infrastructure Costs: To provide local service to a market, EchoStar needs to purchase a variety of telecommunications equipment (including, but not limited to, racks, power/supply, and other miscellaneous telecommunications gear). The costs of such equipment do not generally vary by market. The model assumes that equipment costs are [] per market. In addition, encoders and related equipment are needed to prepare a signal for backhaul to EchoStar's uplink facility. Encoders and related equipment cost an estimated [] *per video channel*. If markets have, on average, seven channels, encoders and related equipment cost [] per market. It is thus assumed that it costs [] per market in additional infrastructure costs.

Backhaul and Other Ongoing Costs: EchoStar needs to pay to backhaul signals to its uplink facility. It also needs to pay for rent, utilities, and management of the collection facility. As with the synergies model, this model assumes backhaul and other ongoing costs represent [] per market per month. These costs are assumed to grow with inflation (see inflation rate assumption).

Inflation Rate: The assumed inflation rate is based on forecasts from the Congressional Budget Office (2002).

Primary and Significant Benefits of Local Service

There are three primary benefits of local-into-local service: (1) the revenue from existing subscribers “taking” local-into-local service; (2) the additional revenue produced from new subscribers joining EchoStar once it offers local-into-local service; and (3) the reduced churn among EchoStar’s existing subscriber base when it offers a higher quality product. The model assumes that local service is rolled out to markets #51 to 80 in year three.

Television Households: According to Nielsen Media Research estimates for television seasons 2001-2002, which started on September 17, 2001, there were 13.6 million television households in markets #51 to 80. The model assumes a growth rate of 1.3 percent per year, which is based on the historical growth rate of nationwide television households. Such an assumption is consistent with the data presented in the *Eighth Annual Competition Report*, Appendix C, Table C-1.

EchoStar Total Subscriber Base: The forecasts of EchoStar’s aggregate subscriber base are based on the consensus forecasts of Wall Street analysts. It is assumed that EchoStar’s total subscriber base grows at the same rate in 2008 as it is expected to grow from 2003 to 2007.

EchoStar Subscriber Base in Markets #51-80. As of February 2002, EchoStar had [] subscribers in markets #51 to 80. The model assumes that the baseline growth rate for these markets is identical to the overall growth rate of EchoStar’s subscriber base.

“Take” of Local Service from Existing Subscribers

Penetration of Existing Subscribers. As with the synergies model, it is assumed that [] percent of EchoStar’s existing subscribers “take” local service.

Number of Subscribers Upgrading to Local Service. As with the synergies model, it is assumed that [] percent of the subscribers that decide to upgrade do so in the first year. The remaining [] percent upgrade in the second year.

Average Subscribers from Upgrading to Local. This row estimates the average number of subscribers upgrading to local service at the mid-point of each year.

Price Per Month for Local Service. It is assumed that EchoStar charges \$5.99 per month for local service.

Revenue from Existing Base. This line equals the average number of subscribers upgrading to local service times \$5.99 times 12 (to convert it into an annual number).

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Local Margin on Existing Base. []

EBITDA from Providing Local Service to Existing Base. This row multiplies the “revenue from existing base” row by the margin on local service [].

“Lift” from Local Service

Subscriber “Lift” from Local Service. After the introduction of local service, EchoStar has experienced a significant increase in subscriber growth. EchoStar has estimated that the historical lift associated with the introduction of local service equals [] percent of TV households in the market (e.g., from a [] percent penetration rate to a [] percent penetration rate). The model assumes that [] percentage points of the lift occurs in the first year of service, another [] percentage points of lift in the second year of service, and the final [] percentage points of lift in the third year.

Average Subscribers from Lift. This row estimates the number of subscribers obtained through offering local service at the mid-point of each year.

Net Incremental Subscriber Additions. This row estimates the number of net new subscribers added each year.

ARPU Per Month. The forecasts of EchoStar’s ARPU per month are based on the consensus forecasts of Wall Street analysts through 2007. It starts at [] in 2003 and rises to [] in 2007. The model assumes that EchoStar’s ARPU per month in 2008 is equal to [].

Pre-Marketing Margin. The forecasts of EchoStar’s pre-marketing margin are based on the synergies model.

Pre-Marketing Cash Flow Impact (Mid-Year Convention). This row represents the average subscribers from lift multiplied by ARPU per month multiplied by 12 (to put the number into an annual value) multiplied by the pre-marketing margin.

EBITDA From Selling Local Service to New Subscribers. This row equals the average subscribers from lift multiplied by the revenue from local service (\$5.99 per month) multiplied by the margin on local service [] multiplied by 12 (to put the number into an annual value).

Revenue from Local Service. This row equals “EBITDA from Providing Local Service to Existing Subscribers” plus “EBITDA from Selling Local Service to New Subscribers.”

Monthly Churn. Since a portion of new subscribers churn, the analysis must account for the loss of these subscribers. The forecasts of EchoStar’s monthly churn are based on the

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consensus forecasts of Wall Street analysts through 2007. The model assumes that EchoStar's churn rate in 2008 is equal to its churn rate in 2007.

Churn on Incremental Subscribers. This row equals the churn rate multiplied by the average number of subscribers from lift multiplied by 12 (to put the number into an annual value).

Gross Number of Local Subscribers. This row equals the "net incremental subscriber additions" plus the number of incremental subscribers who churn.

SAC. The forecasts of EchoStar's SAC are based on the consensus forecasts of Wall Street analysts through 2006. It starts at [] in 2003 and falls to [] in 2006. The model assumes that EchoStar's SAC in 2007 and 2008 [].

SAC Expense Per Incremental Subscriber. This row equals the gross number of local subscribers multiplied by the subscriber acquisition costs.

EBITDA from Subscriber Lift. This row equals the "revenue from local service" plus the "SAC expense per incremental subscriber."

Reduced Churn from Local Service

Reduction in Churn. The model assumes that the introduction of local service will have a long-run impact of reducing EchoStar's monthly churn rate by [] percentage points.

Percent of Churn Reduction Achieved. The model assumes that reduction in churn is achieved [].

Total Cumulative Subscribers. This row equals the expected number of EchoStar subscribers in markets #51 to 80, including the subscribers obtained via "lift."

Subscribers Maintained from Local Service. This row equals the reduction in churn multiplied by the total cumulative subscribers in these markets.

Cumulative Churn Subscribers. This row equals the cumulative number of subscribers maintained through lower churn.

Average Churn Subscribers. This row equals the number of subscribers maintained at the mid-point of each year.

Net EBITDA Impact of Reduced Churn. This row equals the average churn subscribers multiplied by ARPU per month multiplied by the pre-marketing margin multiplied by 12 (to put the number into an annual value).

Net Benefits of Local Service

Discount Rate. The model presents the net benefits of local service in present value terms assuming [] and a terminal value of [] in 2008.

Terminal Value. The model presents the net benefits of local service in present value terms assuming [] and a discount rate of [].

PRESENTATION OF MODELS REGARDING DIRECTV'S LOCAL CHANNEL SERVICE USING THE DIRECTV 4S AND 7S SPOTBEAM SATELLITES

Background

DIRECTV currently provides local channel service in 47 Designated Market Areas (“DMAs”) with the goal of providing local channel service in 51 DMAs by the end of 2002. DIRECTV is in the process of achieving this goal by supplementing on a temporary basis the capability of its DIRECTV 4S spot-beam satellite, which is capable of serving 41 DMAs, with full-CONUS capacity on the DIRECTV 5 satellite.

[REDACTED]¹

[REDACTED] While DIRECTV 7S is technically capable of providing service on its four spot-beam frequencies to 62 additional DMAs (*i.e.*, a total of 103 total DMAs when considered together with the spot beam capability of DIRECTV 4S), the funding and business case for DIRECTV 7S was predicated on DIRECTV expanding local channels to 29 additional DMAs, or up to a total of 70 DMAs.

The DIRECTV 7S spacecraft currently is under construction with an expected launch date of Q3-Q4 2003.

Market Selection Criteria

The selection of the DMAs in which DIRECTV provides local channel service is not merely a question of technical capability; it is fundamentally a question of weighing the economic costs, benefits and expected returns of devoting finite DBS channel capacity to enable the satellite retransmission of the signals of local broadcast television stations located in particular DMAs. The decisionmaking process also takes into account the cost of capital and prevailing market conditions. In particular, when DIRECTV determines the DMAs in which local channels should be added, DIRECTV's analysis includes the following factors and considerations:

[REDACTED]

Presentation of Financial Models

Purpose

The purpose of the financial models is to calculate the net present value (“NPV”) of DIRECTV offering local channels versus DIRECTV not offering local channels in an individual DMA. [REDACTED] By design, opportunity costs are not included in the calculations in the models.

¹ [REDACTED]

Assumptions

The models combine market specific data as they relate to television households (TVHH) and customer information such as subscribers and average sales volumes, along with common assumptions applied to all DMAs, *i.e.*, sales growth once local channels are introduced; churn; revenue per subscriber; operating expenses; capital expenditures; terminal value; and investment hurdle rates. The models include a sheet called Standard Assumptions, which provides more detail as to the specific assumptions used.

In terms of sales volume, a [REDACTED] historical sales volume is utilized for each market as the baseline gross additions that would occur without local channels being offered by DIRECTV. Once local channels are offered, a percentage increase is applied to this baseline level of gross subscriber additions, with the difference being the benefit, or “lift,” the market receives as a result of launching local channel service. Once local channels are offered, assumptions are made as to:

- The percentage of existing customers who upgrade to the local channel service
- The percentage sell-in of local channel service to baseline customers DIRECTV would have acquired regardless if local channels were offered
- The percentage of growth customers, or lift, who buy the local channel package

These assumptions are based upon DIRECTV’s historical experience and business judgment in connection with the company’s launch of local channel service. From these assumptions, incremental revenue and expenses are calculated based on the Standard Assumptions sheet, which ultimately generates a “before” and “after” p&l from which a NPV can be calculated.

Other Considerations

While the financial model is based on assumptions that have been developed by the key DIRECTV management team members, it is important to note other market conditions and factors that over time could change the outcome of how many markets DIRECTV ultimately would serve with local channels. For example:

- [REDACTED] DIRECTV will be collecting market information as the year progresses.
- In conjunction with the previous point, subscriber acquisition costs (“SAC”) could be affected if it were determined that additional funding is needed to support acquiring customers for the local service offering. In addition, the growth assumptions could be too high if DIRECTV determined it could not afford to incur additional SAC.
[REDACTED]
- The local channel package rate of [REDACTED]. It is difficult to determine at this point in time how packaging this service with other DIRECTV programming will impact this implied revenue stream. DIRECTV currently offers local channels

bundled in a package of programming services that is \$2 less than if a subscriber purchased both services a la carte. The application of this discount could materially affect the NPV analysis in the models.

- Baseline sales volumes and growth assumptions are assumed to continue at the same levels as the [REDACTED] historical average for the entire ten-year period of the financial model. [REDACTED]
- Specific market conditions may be different from the standard assumptions used in the financial models.

Conclusions

[REDACTED]:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]²
- [REDACTED]

[REDACTED]:

- [REDACTED]

[REDACTED]:

- [REDACTED]

Model Mechanics

There are four files in total that are attached. [REDACTED]

The file names are as follows:

1. 3 freq #1
2. 3 freq #2
3. 62 Markets #1
4. 62 Markets #2

²[REDACTED]

It is important to note that in order to consolidate any changes to the analysis, both companion files must be open, *e.g.*, 62 Markets #1 and 62 Markets #2. This allows for any changes in the assumptions to roll through all markets and update into the Summary sheet in the #1 file. The only linkage in the two files other than the Summary sheet is in the Standard Assumptions sheet in the #2 file. The growth rate and cost of capital in the #2 file refer to the input from the #1 file. This helps facilitate the sensitivity analysis described in the Matrix sheet below. If there are changes to any other assumptions it must be entered into the Standard Assumptions sheet in both the #1 and #2 files.

The models are comprised of the following:

- A Summary sheet that references individual market information and consolidates it onto one spreadsheet. This is helpful as “what if” scenarios are run to quickly recap the results. Make sure both #1 and #2 files are open. The #1 file consolidates information from both files in the Summary sheet.
- The Matrix sheet is hardcoded (not calculated) and is meant to sensitize two key variables: 1) growth rate once local channels are offered and 2) investment hurdle rates. The Matrix depicts how many individual markets have positive NPVs depending on the combination of the two variables within the grid. The Matrix sheet only exists in the #1 files.
- The Standard Assumption sheet provides one input area for common assumptions used across each market. As mentioned above, the #2 file only references growth rate and cost of capital from the #1 file. If any other assumptions are changed it must be made to both files.
- The next three sheets (72001 cust info, 2001, 2000) are essentially the databases that provide the market specific customer information.

The remaining sheets are market specific, and calculate the cash flows if local channels are and are not offered. The net difference in these cash flows, along with a terminal value, are then utilized to calculate the NPV of providing local channels.

DESCRIPTION AND ASSUMPTIONS OF NEW ECHOSTAR LOCAL-INTO-LOCAL MODELS EVALUATING WHETHER IT WOULD BE IN NEW ECHOSTAR'S INTEREST TO PROVIDE LOCAL-INTO-LOCAL SERVICE TO EVERY DMA IN THE COUNTRY

Primary and Significant Costs of Local Service

Introduction and Conclusions: To serve DMAs #151 to #210, New EchoStar would have to launch an additional spot-beam satellite (New EchoStar 1). A new spot-beam satellite costs \$300 million to build, launch, and insure, which would be incurred over two years. A model has therefore been developed to evaluate whether New EchoStar would find it in its interest to build that additional satellite to expand local service beyond DMA #150. Two additional models have also been developed to evaluate whether, having built that satellite, New EchoStar would expand local service from DMA #191 to DMA #200 and from DMA #201 to DMA #210. As with the synergies model, the costs of the satellite are spread over two years. Since the decision to build another spot beam satellite will have to be made to determine whether to go beyond DMA #150, the costs of that satellite are assumed to be sunk for the models analyzing DMAs #191 to #200 and DMAs #201 to #210.

The conclusion from these models is that it will be in New EchoStar's interest to provide local-into-local service to all the nation's 210 DMAs, specifically:

- New EchoStar would find it in its economic interest to build New EchoStar 1;
- New EchoStar would similarly find it in its economic interest to expand local service from DMA #191 to DMA #200; and
- While expansion of local service from DMA #201 to DMA #210 would yield a modestly negative net present value, serving those markets would become "cash flow" positive in 2009 (the year after the model window). More importantly, though, the modest short-term losses incurred from serving DMA #201 to DMA #210 would be easily outweighed by the enormous benefits – e.g., national marketing – from providing local-into-local service to every DMA in the country.

Primary and Significant Costs of Local Service

Satellite Costs: *See above*

Opportunity Costs: The opportunity cost of local service is the forgone revenue from the next best use of the spectrum. New EchoStar will have to [

] Based on the business judgment of the companies, the models assume, in light of the spectrum freed up by the merger, that each of these marginal frequencies is valued at], which is roughly consistent with the implied values of a marginal

frequency in the synergies model.¹ The opportunity costs associated with serving markets #151 to #210 are thus between [] per year – and that value increases with inflation.

Infrastructure Costs: To provide local service to a market, New EchoStar will need to purchase a variety of telecommunications equipment (including, but not limited to, racks, power/supply, and other miscellaneous telecommunications gear). The costs of such equipment do not generally vary by market. Such equipment costs [] per market. In addition, encoders and related equipment are needed to prepare a signal for backhaul to New EchoStar’s uplink facility. Encoders and related equipment cost an estimated [] *per video channel*. If markets #151 to #210 have, on average, five channels, encoders and related equipment cost [] per market. The models thus assume that it costs [] per market in additional infrastructure costs, which is consistent with the synergies model.

Backhaul and Other Ongoing Costs: As with the synergies model, the models assume that backhauling signals to New EchoStar’s uplink facilities, along with rent, utilities, and management of the collection facility, will cost roughly [] per month per market.

Inflation Rate: The assumed inflation rate is based on forecasts from the Congressional Budget Office (2002).

Primary and Significant Benefits of Local Service

There are three primary benefits of local-into-local service: (1) the revenue from existing subscribers “taking” local-into-local service; (2) the additional revenue produced from new subscribers joining EchoStar once it offers local-into-local service; and (3) the reduced churn among EchoStar’s existing subscriber base when it offers a higher quality product. The models assume that local service will be rolled out to markets #150 to #210 starting in 2005.

Television Households: According to Nielsen Media Research estimates for television seasons 2001-2002, which started on September 17, 2001, there were 4.7 million television households in markets #151 to #210. (In markets #191 to #200, there were roughly 540,000 television households and in markets #201 to #210, there were roughly 250,000 television households.) The models assume a growth rate of 1.3 percent per year, which is based on the historical growth rate of nationwide television households. Such an assumption is consistent with the data presented in the *Eighth Annual Competition Report*, Appendix C, Table C-1.

New EchoStar Total Subscriber Base: The forecasts of New EchoStar’s aggregate subscriber base are based on the synergies model (excluding local service) through 2007.

¹ For example, according to the synergies model, the *average* annual net benefits per frequency obtained from HDTV and specialty content in 2005 through 2007 is between []. Since HDTV and specialty content is likely associated with diminishing returns, the model assumes that the *marginal* net benefit per frequency is roughly [] per year.

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For 2008, the models conservatively assume that New EchoStar's subscriber base [].

New EchoStar Subscriber Base. The models incorporate the number of existing EchoStar and DIRECTV subscribers in the relevant market groups. The models assume that the baseline growth rate for these markets is identical to the overall growth rate of New EchoStar's subscriber base.

"Take" of Local Service from Existing Subscribers

Penetration of Existing Subscribers. As with the synergies model, it is assumed that [] percent of New EchoStar's existing subscribers "take" local service.

Number of Subscribers Upgrading to Local Service. It is assumed that [] percent of the subscribers that decide to upgrade do so in the first year. The remaining [] percent upgrade in the second year.

Average Subscribers Upgrading to Local. This row estimates the average number of subscribers upgrading to local service at the mid-point of each year.

Price Per Month for Local Service. New EchoStar charges \$5.99 per month for local service.

Revenue from Existing Base. This line equals the average number of subscribers upgrading to local service times \$5.99 times 12 (to convert it into an annual number).

Local Margin on Existing Base. As with the synergies model, it is assumed that the margin on local service is [] percent.

EBITDA from Providing Local Service to Existing Base. This row multiplies the "revenue from existing base" row by the margin on local service [].

"Lift" from Local Service

Subscriber "Lift" from Local Service. The synergies model projects that after the introduction of local service New EchoStar will experience a significant increase in subscriber growth. New EchoStar projects that the lift will equal [] percent of TV households in the market. The models assume that [] percentage points of the lift occurs in the first year of service, another [] percentage points of lift in the second year of service, and the final [] percentage points of lift in the third year.

Average Subscribers from Lift. This row estimates the number of subscribers obtained through offering local service at the mid-point of each year.

Net Incremental Subscriber Additions. This row estimates the number of net new subscribers added each year.

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ARPU Per Month. The forecasts of ARPU per month are based on the consensus forecasts of Wall Street analysts for DIRECTV and EchoStar through 2007. It starts at [] in 2003 and rises to [] in 2007. The models assume that New EchoStar's ARPU per month in 2008 is equal to [].

Pre-Marketing Margin. This row is based on the synergies model estimates of the pre-marketing margin post-merger.

Pre-Marketing Cash Flow Impact (Mid-Year Convention). This row represents the average subscribers from lift multiplied by ARPU per month multiplied by 12 (to put the number into an annual value) multiplied by the pre-marketing margin.

EBITDA From Selling Local Service to New Subscribers. This row equals the average subscribers from lift multiplied by the revenue from local service (\$5.99 per month) multiplied by the margin on local service [] multiplied by 12 (to put the number into an annual value).

Revenue from Local Service. This row equals "EBITDA from Providing Local Service to Existing Subscribers" plus "EBITDA from Selling Local Service to New Subscribers."

Monthly Churn. Since a portion of new subscribers churn, the analysis must account for the loss of these subscribers. The forecasts of New EchoStar's monthly churn are based on the consensus forecasts of Wall Street analysts for EchoStar and DIRECTV through 2007. The models assume that New EchoStar's churn rate in 2008 [].

Churn on Incremental Subscribers. This row equals the churn rate multiplied by the average number of subscribers from lift multiplied by 12 (to put the number into an annual value).

Gross Number of Local Subscribers. This row equals the "net incremental subscriber additions" plus the number of incremental subscribers who churn.

SAC. The model assumes that SAC in the base year is equal to the blended SAC amount of each company. According to the synergies model, in 2002, DIRECTV had [] of DBS subscribers, while EchoStar had []. Thus, the model blends DIRECTV's SAC of [] with EchoStar's SAC of [] to develop a blended SAC for New EchoStar of []. The model then assumes, like the synergies model, that the merger produces a [] reduction in SAC, which is generated over [] years.

SAC Expense Per Incremental Subscriber. This row equals the gross number of local subscribers multiplied by the subscriber acquisition costs.

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EBITDA from Subscriber Lift. This row equals the “revenue from local service” plus the “SAC expense per incremental subscriber.”

Reduced Churn from Local Service.

Reduction in Churn. Like the synergies model, the model assumes that the introduction of local service will have a long-run impact of reducing EchoStar’s monthly churn rate by [] percentage points.

Percent of Churn Reduction Achieved. The models assume that reduction in churn is achieved over [].

Total Cumulative Subscribers. This row equals the expected number of EchoStar subscribers, including the subscribers obtained via “lift.”

Subscribers Maintained from Local Service. This row equals the reduction in churn multiplied by the total cumulative subscribers in these markets.

Cumulative Churn Subscribers. This row equals the cumulative number of subscribers maintained through lower churn.

Average Churn Subscribers. This row equals the number of subscribers maintained at the mid-point of each year.

Net EBITDA Impact of Reduced Churn. This row equals the average churn subscribers multiplied by ARPU per month multiplied by the pre-marketing margin multiplied by 12 (to put the number into an annual value).

Net Benefits of Local Service

Discount Rate. The models present the net benefits of local service in present value terms assuming [] and a terminal value of [] in 2008.

Terminal Value. The models present the net benefits of local service in present value terms assuming [] and a discount rate of [].