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the call sign of any FOX-affiliated station(s) carried, including non-O&O stations. Accordingly, these reports indicate both those systems in the DMA that currently retransmit the O&O signal as well as those that do not currently do so. Although it has no definitive records, News Corp. believes that those systems that do not currently retransmit an O&O signal have not done so at any time since January 2000.

The Production also includes documents numbered NCFCC 04108-04117, which are similar records prepared from Nielsen data that indicate the MVPD systems that operate in the Houston, Washington, DC, and Minneapolis DMAs that carried the non-FOX-affiliated O&O in that market as of the date indicated. These are the only responsive records available to News Corp. for the non-FOX-affiliated O&Os. To the best of News Corp.'s knowledge after due inquiry, WWOR, KTHX and KUTP are carried by all cable systems in the New York, Houston, and Phoenix DMAs, respectively.

1) state whether the station is carried under a retransmission agreement or a must-carry election,

In the latest cycle, all of the O&Os elected retransmission consent for all MVPD systems in their respective DMAs, with the following exceptions:

KTXH	elected must-carry for all cable systems
WUTB	elected must-carry for all systems operated by Easton Cable, Clearview Cable, and Bay Country Cable
WDCA	elected must-carry for all systems operated by Burnt Cabins Cable TV, Fannettsburg Cable, Kuhn Communications, Pansy Landes TV Corp., Rifkin Acquisition Partners/Cablevision Communications, and Valley Cable Systems, Inc.; CT&R Cable's Petersburg, WV system; and Adelphia systems in Winchester and Westmoreland, VA, and Walnut Grove, MD
WPWR	elected must-carry for all systems operated by Compton Cable TV, Full Choice Communications, Grand Ridge Cable TV, Hart Electric, Heartland Cable TV, Housing Authority of Cook County, Manhattan Cable/Krause Electronics Systems, McNabb Cable & Satellite, Western Cable, and DIRECTV (in 2001)

2) if the station is carried under a retransmission agreement, state the term and expiration date of the retransmission agreement,

See Schedule II.3.a(2-3) to this narrative for the requested information. This schedule has been compiled from the retransmission consent agreements themselves, which are also being provided to the Commission as part of the Production. For those MVPDs with

REDACTED – FOR PUBLIC INSPECTION

which News Corp. has finalized a retransmission consent agreement for the current election cycle (*i.e.*, covering 2003-2005), the schedule provides information with respect to such agreements only. For those MVPDs that carry an O&O signal pursuant to a rolling extension of an agreement from the prior election cycle (*e.g.*, covering 1999-2002) while negotiations in this cycle are ongoing, the schedule provides information with respect to both the underlying contract from the prior cycle as well as any extension(s) thereof.

- 3) *if the station is carried under a retransmission agreement, indicate whether the contract was combined, bundled, or negotiated concurrently with the contract for rights to other video programming in which News Corporation has financial interest (if so, identify the video programming with which the retransmission rights were combined, bundled or negotiated concurrently),***

See Schedule II.3.a(2-3) to this narrative for the requested information. This schedule is based on the best information available to News Corp. after due inquiry. For those MVPDs with which News Corp. has finalized a retransmission consent agreement for the current election cycle (*i.e.*, covering 2003-2005), information on programming combined, bundled, or negotiated concurrently with the contract is based on the information from concluded agreements. For those MVPDs that carry an O&O signal pursuant to a rolling extension of an agreement from the prior election cycle (*e.g.*, covering 1999-2002), News Corp. has listed the video programming that it believes the MVPD has agreed to carry subject to successful negotiation of a long form retransmission consent agreement.

Please note, however, that programming carriage negotiations can encompass a wide range of issues. For example, Fox and an MVPD will frequently discuss cable network carriage and retransmission consent in the same negotiation. Through the course of such negotiations, the relationships among discrete issues – and thus the relationships among different provisions within and among contracts – can be difficult to specify and memorialize. With these limitations in mind, Schedule II.3.a(2-3) nonetheless attempts to respond to this request as accurately as possible.

- 4) *identify the periods of time since January 2000, if any, that the broadcast station was not retransmitted by the MVPD,***

To the best of News Corp.'s knowledge and belief after due inquiry, there is only one such period of time, which is described in Schedule II.3.a(4) to this narrative.

- 5) *provide a copy of the retransmission consent contract.***

The Production includes copies of retransmission consent contracts, numbered NCFCC07961-11923. To the extent a long-form contract has been executed for the most recent election cycle (*i.e.*, covering 2003-2005), those materials have been provided. To

the extent negotiations for the current cycle are ongoing, the documents granting a rolling extension of retransmission consent have been provided along with materials reflecting the underlying agreement being extended from the prior election cycle (e.g., 1999-2002).

- b. the MVPD systems serving the DMA that do not currently retransmit the broadcast station, and for each state the periods of time since January 2000 that the broadcast signal was retransmitted,***

The Production includes documents numbered NCFCC 07088 -07646, which are records prepared from Nielsen data that indicate the MVPD systems that operate in each DMA with a FOX-affiliated O&O. For each such MVPD system, these reports provide (among other things) the location of the system, the number of subscribers of each system, and the call sign of any FOX-affiliated station(s) carried, including non-O&O stations. Accordingly, these reports indicate both those systems that currently retransmit the O&O signal as well as those that do not currently do so. Although it has no definitive records, News Corp. believes that those systems that do not currently retransmit an O&O signal have not done so at any time since January 2000.

For information related to MVPDs that do not carry non-FOX affiliated O&Os, please see schedule II.3.b. This schedule contains information for WDCA in Washington, DC; WFTC/KFTC in Minneapolis; WUTB in Baltimore; KDFI in Dallas-Ft. Worth; and KCOP in Los Angeles. This information was also prepared from Nielsen Data.

- c. total revenue received by the station broken down into the following categories:***
- 1) retransmission fees,***
 - 2) advertising revenue,***
 - 3) other sources of revenue (with a description).***

See Schedule II.3.c to this narrative for the requested information. The category of “other revenues” consists of barter revenues, production revenues, rental income, profit participation in programs, and other miscellaneous non-advertising revenue.

REQUEST II.4

Describe any ownership interest News Corporation currently has in Liberty Media and any agreement News Corporation has to acquire an interest in Liberty Media.

News Corp. has no ownership interest in Liberty Media, and there are no agreements for News Corp. to acquire an interest in Liberty Media.

REQUEST II.5

Identify all sports teams, leagues, and organizations with which News Corporation has a contract granting distribution rights in the U.S. but is currently not distributing, and for each state:

- a. the official name of the team, league, or organization, the sport played, and its home venue,*
- b. the term of the contract that grants the right to distribute the sports programming in the US,*
- c. the percentage of total game events entitled to be distributed under the agreement and the percentage for which the distribution rights are exclusive to video programming channels in which News Corporation has an interest,*
- d. plans to begin distributing game events in the US.*

To the best of News Corp.'s information and belief after due inquiry, Schedule II.5 to this narrative provides a summary of responsive information.

REQUEST II.6

Describe in detail any plans or proposals the company has considered for changing the programming packages and prices of any DirecTV MVPD service following the acquisition. Produce all documents relating to such plans or proposals.

News Corp. has considered no plans or proposals for changing the programming packages or prices of any DIRECTV MVPD service following consummation of the proposed transaction.

REQUEST II.7

Provide all plans, analyses, assessments or considerations of plans to modify, terminate or enter into new exclusive programming distribution arrangements.

To the extent such documents exist, they are included in the Production. To the extent this Request seeks information related to programming networks controlled by Cablevision or Gemstar, News Corp. will defer to those parties and direct the Commission to their submissions for responsive documents.

REQUEST II.8

Produce all documents describing the profit margins, average total costs, variable costs, and prices of video programming and MVPD services used in section III.A.2. of General Motors Corporation, Hughes Electronics Corporation, and The News Corporation Limited Opposition to Petitions to Deny and Reply Comments, News Corporation's Partial Acquisition of DIRECTV: Economic Analysis of Vertical Foreclosure Claims, July 1, 2003 ("Charles River Analysis").

Based on consultation with Charles River Associates, Inc. ("CRA"), documents NCFCC 03406-3408 of the Production are the materials provided to CRA by News Corp. that contain the responsive information used in section III.A.2 of the Charles River Analysis. These materials also include information that was the basis for conclusions drawn in other sections of the report that carry over into the analysis in section III.A.2. To the extent that Hughes provided additional materials used by CRA in that section, News Corp. directs the Commission to the response of Hughes Electronics Corporation to Request III.5.

REQUEST II.9

Identify separately for each electronic program guide and interactive program guide product offered or sold by News Corporation for each quarter from June 30, 2000, to the present:

- a. the number of MVPD providers carrying the product,*
- b. the number of MVPD subscribers with access to the product,*
- c. the name of all competing electronic and interactive programming guide product and for each, provide:*
 - 1) the number of subscribers to MVPD providers carrying the product,*
 - 2) the number of MVPD subscribers with access to the product,*
 - 3) identify any ownership interests such competing provider has in any MVPD or video programming provider.*

NDS Group plc ("NDS"), in which News Corp. holds a 79% equity interest, has recently begun to offer an interactive program guide ("IPG") product in the United States. NDS will enter into a patent licensing agreement with Gemstar for this IPG. NDS only offers this product in conjunction with its conditional access technology, rather than on a stand-alone basis. To date, NDS has entered into agreements to provide its IPG product to only two MVPDs: (1) a single RCN system in the Chicago area; and (2) the DBS system planned by a Cablevision subsidiary, R/L DBS. In neither case has the IPG product yet gone into operation, so no MVPD is currently carrying the product and no subscriber currently has access to it.

News Corp. also has an interest in other electronic program guide ("EPG") and IPG products through Gemstar. The Commission has issued a Discovery Request to Gemstar

that includes a question virtually identical to this one.¹² News Corp. will defer to Gemstar and direct the Commission to Gemstar's response for additional information responsive to this request.

REQUEST II.10

Identify separately for each electronic program guide and interactive program guide product offered or sold by News Corporation:

- d. The MVPD systems that currently distribute the products, and as each identify:*
- 1) the geographic areas in which the product is provided to subscribers,*
 - 2) the date when the product was first carried,*
 - 3) all periods of time in which the right to carry the product lapsed,*
 - 4) the date of expiration of the contract under which the product is distributed,*
 - 5) the number of MVPD subscribers,*
 - 6) the number of MVPD subscribers who have access to the product,*
 - 7) total revenues received by the News Corporation in exchange for distribution of the product and total revenue should be further categorized by subscription fees, launch fees, advertising revenue, and other sources of revenue (with a brief description),*
 - 8) the quantity and percentage of advertising made available for sale by the MVPD provider.*

As explained in response to Request II.9 above, NDS only recently began offering an IPG product in the United States, which will be the subject of a patent licensing agreement with Gemstar. That IPG has not yet been carried by any MVPD or become available to any MVPD subscribers. NDS has received no revenue in exchange for distribution of its IPG product. The IPG product offered by NDS will not carry advertising.

News Corp. also has an interest in other electronic program guides or interactive program guides through Gemstar. The Commission has issued a Discovery Request to Gemstar that includes a question virtually identical to this one.¹³ News Corp. will defer to Gemstar and direct the Commission to Gemstar's response for additional information responsive to this request.

¹² See Request to Gemstar at Request 4.

¹³ *Id.* at Request 5.

REQUEST II.11

Identify separately for each granted, pending, or licensed patent used in an electronic program guide or interactive program guide product sold, or under development, by News Corporation:

- a. the owner,***
- b. all known licensees,***
- c. the status and expiration date of the patent,***
- d. the products that use the patent,***
- e. a description of any litigation, past or present, involving the patent, including a description of the outcome or current status of the litigation.***

News Corp. does not have any such granted, pending, or licensed patents. However, NDS will enter into a patent licensing agreement with Gemstar in connection with the IPG product it has recently begun offering in the United States.

News Corp. also holds an interest in other electronic program guides or interactive program guides through Gemstar. The Commission has issued a Discovery Request to Gemstar that includes a question virtually identical to this one.¹⁴ News Corp. will defer to Gemstar and direct the Commission to Gemstar's response for additional materials responsive to this request.

REQUEST II.12

Provide all surveys, studies, analyses, and other documents regarding consumer usage and attitudes toward electronic and interactive program guides and substitution between these products and alternatives, including but not limited to, newspaper, magazine, and Internet-based program schedules and information.

News Corp. is producing documents responsive to this request in the Production. In addition, the Commission has issued a Discovery Request to Gemstar that includes a request virtually identical to this one.¹⁵ To the extent that additional responsive documents are controlled by Gemstar, News Corp. will defer to Gemstar and direct the Commission to Gemstar's response.

¹⁴ *Id.* at Request 6.

¹⁵ *Id.* at Request 7.

REQUEST II.13

Provide all marketing surveys and studies conducted by or contracted for by News Corporation, including:

- a. Analyses, assessments, or considerations of marketing strategies, including pricing, promotions, programming, advertising, and customer targeting strategies (including targeting of the customers of a competing DBS supplier, customers of cable operators, customers of other MVPDs, and customers who have never subscribed to either DBS or cable services).*
- b. All analyses, assessments, or considerations of the most desirable customers, and sales and marketing strategies to acquire and retain them.*
- c. Assessments of the extent to which consumers explore both the available cable and DBS options when choosing an MVPD service.*
- d. Analyses, assessments, or considerations of MVPD competitors, including an assessment of their strengths and weaknesses.*

News Corp. is producing documents responsive to this request in the Production.

REQUEST II.14

Provide all econometric analyses conducted by or contracted for by News Corporation, including, but not limited to:

- a. Estimates of the demand function for MVPD services.*
- b. Estimates of the own price elasticity of demand for DirecTV's DBS service.*
- c. Estimates of the cross-price elasticity of demand between DirecTV's DBS service and competing MVPD providers.*

News Corp. has found no documents responsive to this request thus far. News Corp. continues to search records, and will produce any documents responsive to this request in future Productions.

****Notes to News Corporation Information Requests II.15 Through II.21****

Requests II.15 through II.21 seek detailed descriptions and additional quantification of the public interest benefits arising from this transaction. Some of those benefits, such as potential cost savings and economies of scale, are quantifiable, and this information is set forth below. Indeed, based on a level of quantification nearly identical to that presented here, the Commission approved the *AT&T/Comcast* transaction, finding that it would

likely “result in synergies and efficiencies resulting in significant cost savings” and that “the merged entity is likely to accelerate the deployment of broadband services.”¹⁶

However, as the parties discussed in their Application, the most significant public interest benefits arising from the transaction are intangible, and therefore largely not susceptible to detailed description and quantification in advance. Unlike the case presented in the proposed *EchoStar/Hughes* proceeding, for example, this is not a horizontal transaction involving a combination of overlapping assets that creates obvious opportunities for quantifiable streamlining initiatives. Rather, it is a vertical transaction in which some of the most important assets that News Corp. will bring to Hughes are its vision, energy, and expertise. While these are not easily quantified, they are nonetheless very real, transaction-specific, and verifiable – and properly the subject of the Commission’s predictive judgment.

The Commission has implicitly recognized that, in transactions that do not involve combinations of a substantial number of similar assets, it is difficult to quantify public interest benefits. Thus, for example, the Commission found in *AT&T/MediaOne* – based only on the applicants’ “narrative description” – that MediaOne would “gain access to AT&T’s established telephony brand name, reputation, expertise and telecommunications facilities” and, as a result, “post-merger MediaOne [would be] likely to achieve greater local telephony penetration and [would] be able to provide new services more effectively.”¹⁷

Similarly, the Applicants in this proceeding have described the manner in which News Corp.’s expertise, spirit of innovation, and willingness to challenge established incumbents will make DIRECTV a better competitor and ultimately redound to the benefit of all MVPD subscribers.¹⁸ As a result of the proposed transaction, Hughes will be controlled by a company that:

- knows the satellite television business as well as anybody in the world;
- has for years sought to enter the U.S. satellite television business (rather than seeking to exit, like Hughes’ current owner) and therefore will be more willing to commit the energy and financial resources required to make DIRECTV a better competitor;

¹⁶ *Comcast Corp., AT&T Corp. and AT&T Comcast Corp.*, 17 FCC Red. 23246, 23316 (2002) (“*AT&T/Comcast*”).

¹⁷ *MediaOne Group, Inc. and AT&T Corp.*, 15 FCC Rcd. 9816, 9886 (2000) (“*AT&T/MediaOne*”).

¹⁸ *See, e.g.*, Consolidated Application for Authority to Transfer Control at 16-44 (filed May 2, 2003); Opposition to Petitions to Deny and Reply Comments at 77-86 (filed July 1, 2003).

- understands by virtue of its history as a television broadcaster the importance of local-into-local and HDTV service, and is thus more willing to prioritize such service than DIRECTV's current owner; and
- has for more than two decades energized U.S. markets previously thought to be closed to competition.

Such benefits, while intangible, are nonetheless cognizable in the Commission's public interest analysis.¹⁹ Moreover, they are particularly difficult to achieve in any manner other than an integration of the two firms.²⁰

In terms of benefits that *can* be quantified, News Corp. has estimated that this transaction will generate approximately \$610 million to \$765 million in cost savings and increased operating earnings. In Requests II.15 through II.21, the Commission asks how these savings and earnings will be used to benefit consumers. Rather than repeating the same answer for each question, News Corp. will address this issue here.

News Corp. anticipates that much of the additional savings and earnings generated by this transaction will be invested in research, development, and marketing initiatives designed to make DIRECTV a better MVPD competitor. This, of course, benefits DIRECTV's customers, who get a better, more innovative product for their money. It will also, however, benefit the customers of DIRECTV's MVPD rivals, because those rivals will be compelled to offer better products themselves in response to News Corp.'s initiatives. Such a "reinvestment" strategy is entirely consistent with DIRECTV's position as (at best) the second place competitor in every cabled MVPD market. Any failure to reinvest savings or increased earnings would cede a competitive advantage to rival MVPDs, including incumbent cable operators with much greater market shares as well as a DBS competitor (EchoStar) that is the fastest growing MVPD in the country. This would be an irrational strategy for any competitor, and particularly for an insurgent such as DIRECTV.

¹⁹ Moreover, such considerations outweigh the hodgepodge of public interest harms that some commenters have alleged will arise from the transaction. *See, e.g., EchoStar Communications Corp., General Motors Corp. and Hughes Electronics Corp.*, 17 FCC Rcd. 20559, 20631 (2002) ("*EchoStar/Hughes*") (describing a "sliding-scale" approach to transfer analyses).

²⁰ *See* Lexecon, Inc., "Economic Analysis of the News Corporation/DIRECTV Transaction," at p. 5 and n.4 (attached as Exhibit A to Applicants' Opposition to Petitions to Deny and Reply Comments).

REQUEST II.15

Provide a detailed explanation of how News Corporation's track record in programming and DTH services will generate benefits for consumers and estimate the size of the consumer benefits.

- a. Provide all plans, studies, analyses and other documents that address this claimed benefit.***
- b. To the extent that analyses and/or studies have been prepared, provide the data used in the analysis or study and an explanation of the methodology used to drive the estimated benefit.***

News Corp. has cited its track record in programming and DTH services not merely for its own sake, but as evidence of the vision, energy and drive that the Commission can expect News Corp. to bring to Hughes.

As described in the Application, from its founding of the FOX broadcast network to its launch of the Fox News Channel and Fox Sports Net, News Corp. has never been afraid to take on entrenched incumbents – often against great odds, and invariably in the face of great skepticism. By the same token, News Corp.'s overseas DTH services have consistently led the field in bringing innovative and valuable services to their customers. For example, News Corp. was willing to undertake the expensive conversion of the BSKyB platform from analog to digital technology – and as a result, BSKyB is able to offer its customers many more channels of programming as well as cutting-edge features such as interactive television.

DIRECTV is now controlled by a company that, while a world-renowned automobile manufacturer, does not want to be in the satellite television business. News Corp., by contrast, has been trying to enter the U.S. satellite television market for the better part of two decades. And News Corp.'s track record demonstrates that it will bring new energy, and a new focus, to Hughes – making it an even stronger competitor.²¹

More specifically, this transaction will bring News Corp.'s worldwide DTH and media expertise – expertise that GM lacks – to Hughes. As described in more detail below, News Corp. will be able to use this experience in a number of ways:

- By applying its “best practices” to Hughes, it will be able to reduce Hughes’ costs significantly. (See response to Request II.17.)
- Also through application of the lessons learned with other DTH systems, it will be able to improve the customer service experience – thus attracting new subscribers and reducing churn. (See response to Request II.21.)

²¹ Again, this will benefit both DIRECTV's customers as well as customers of DIRECTV'S MVPD rivals, as those rivals are forced to improve their service in response to DIRECTV's improved service.

- By taking advantage of its experience overseas, it will be able to more easily introduce a host of innovative products and services, including an enhanced level of interactive television capabilities. (See response to Requests II.18 and II.19.)
- By integrating DIRECTV into its other affiliated DTH platforms, News Corp. will be able to spread the cost of developing new technologies and accelerate the deployment of any resulting products and services. (See response to Request II.18.)

These are just a few examples. News Corp. intends to bring the benefit of its DTH experience to every aspect of Hughes' management and the company's interface with consumers. Thus, a substantial portion of the benefits of this transaction will be directly attributable to News Corp.'s track record.

REQUEST II.16

Provide a detailed explanation of how the transaction will increase “the amount of local-into-local, high definition television (“HDTV”), and broadband services Hughes provides to American consumers” and estimate the size of the consumer benefits.

- a. Provide an explanation as to why these benefits could only be achieved as a result of the proposed transaction.*
- b. Provide all plans, studies, analyses and other documents that address this claimed benefit.*
- c. To the extent that analyses and/or studies have been prepared, provide the data used in the analysis or study and an explanation of the methodology used to derive the estimated benefit.*

As discussed above, the proposed transaction is primarily a vertical combination of complementary (rather than duplicative) assets. News Corp. thus brings no additional DBS or broadband capacity and relatively few redundant facilities to contribute to Hughes' efforts on local-into-local, HDTV, or broadband services.

As noted in Applicants' Reply, however, rolling out these services is not merely a question of capacity and facilities. Rather, it is also a question of the ability to make financial commitments and the will to take strategic risks. In both of these areas, News Corp. brings assets to the table that, it is confident, will result in faster deployment than would be the case if DIRECTV remains under current management.

First, DIRECTV's post-transaction capital structure will no longer be subject to competing (and often incompatible) capital requirements of GM's automotive business,

and thus Hughes will be much better able to obtain financing as it sees fit to develop and deploy these and other services. A detailed description of this improved capital structure is included in the response to Request II.20. As a result of the proposed transaction, DIRECTV will have a greater *ability* to roll out these three services than it would in the absence of this transaction. In order for Hughes to benefit from this improved capital structure, it needs billions in funding to finance its split-off from GM – funding that will be provided by News Corp.'s strategic investment.

Second, and just as importantly, News Corp.'s track record demonstrates its commitment to local-into-local and HDTV. As described in the Application, News Corp. was the *first* proponent of local-into-local service, and in fact conceived and designed a technological vehicle – a DBS spot beam satellite – to accomplish the previously unheard of concept as part of its ASkyB venture. News Corp. continues to believe, as it did with ASkyB, that DIRECTV will achieve its full potential as an MVPD only if all potential subscribers have access to their local channels – just as they enjoy with cable service today. Moreover, News Corp. is a U.S. broadcaster, and accordingly understands as well as anyone the importance of local-into-local and HDTV.²² In other words, News Corp. is demonstrably more *willing* to prioritize local-into-local and HDTV service than is GM.

With this in mind, News Corp. and Hughes are exploring a range of potential strategies to ensure that such services are available as ubiquitously and efficiently as possible, including the following:

- Incorporating digital terrestrial television tuners into DIRECTV set-top boxes. This would allow the seamless integration of local and HDTV services for DIRECTV subscribers in more markets nationwide.
- Using some of the Ka-band satellite capacity on the SPACEWAY system to provide local-into-local and HDTV services.
- Seeking out and partnering with the optimal blend of satellite and terrestrial broadband providers, including those using emerging technologies such as marrying Wi-Fi and Broadband over Power Line technologies..

Hughes could, of course, theoretically engage in these strategies now. But it has not done so. And the reality is that Hughes' current owner has shown little interest in them. News Corp., by contrast, will pursue these strategies aggressively – a change in approach that can occur only by virtue of this transaction.

²² As News Corp. recently informed the Commission, the FOX broadcasting network has decided to begin transmitting some of its prime time programming in 720P HDTV format, with a goal of transmitting 50% of its prime time schedule in 720P by the 2004/2005 television season. See letter from Peter Chernin to W. Kenneth Ferree at p. 2 (dated June 24, 2003).

It is difficult to estimate the size of the consumer benefits that will arise from increased availability of local-into-local, HDTV, and broadband services that News Corp. will drive. However, available evidence strongly suggests that these are services that consumers value very highly. For example, in DMAs where DIRECTV offers local-into-local, a large majority of new DIRECTV subscribers choose to purchase a package of local channels. Growth in high-speed Internet services has also been impressive, as over 17 million lines have been installed over the past three years – representing a more than seven-fold increase.²³ News Corp. believes that offering American consumers a new source for these services will result in enormous consumer benefits from increased innovation and competition.

Finally, some of the Applicants' commercial rivals seek greater specificity on the rollout dates for these services. Some have even called for News Corp. to give a date certain by which, if this transaction is approved, it will provide local-into-local service into certain (or all) DMAs. Others seek similar information with respect to HDTV carriage. Such calls are inappropriate, for at least two reasons. First, the Commission does not typically sit in judgment of merger applicants' business plans when it considers transfer applications. Thus, in *AT&T/MediaOne*, the Commission approved the transaction without requiring the parties to submit a "post-merger deployment plan" for the provision of local telephony and other new services to compare against pre-merger plans.²⁴

Second, the Applicants have been extremely careful not to overpromise with respect to these services – especially local-into-local service. News Corp. has publicly stated that it will increase the number of DMAs in which DIRECTV offers local-into-local service, and has the track record to back up these statements. But as the Commission has recognized, it is "difficult to predict" when the pace of technological improvements will make deployment of these types of services practical.²⁵ There are a number of technical, economic, and other variables governing *exactly how many* markets will be served and in exactly what way.²⁶ Promises about local-into-local, HDTV, and broadband that later prove overly optimistic serve no one. News Corp. therefore has refrained from committing to specific rollout schedules. However, it remains committed to moving as

²³ See *High-Speed Services for Internet Access: Status as of December 31, 2002*, Report, at Table 1 (WCB, rel. June 2003), available at http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/hspd0603.pdf.

²⁴ See *AT&T/MediaOne*, 15 FCC Rcd. at 9883-84.

²⁵ See *EchoStar/Hughes*, 17 FCC Rcd. at 20594-95.

²⁶ For example, some of the solutions being considered will require a new set-top box design; others will require emerging satellite and broadband technologies. Development and deployment timelines may vary significantly, depending upon the strategy ultimately adopted. Moreover, News Corp. cannot begin the process of implementing these new strategies before the transaction is approved and consummated.

quickly as technological developments and financial considerations will allow – and has a track record that lends credence to this commitment.

Plans, analyses, and studies responsive to this request, including underlying data (if any), are included in the Production.

REQUEST II.17

Provide a detailed description and estimate of the cost savings and other operating efficiencies expected to be realized as a result of the transaction and a separate estimate of the consumer benefits that will result from such efficiencies. Provide an explanation of what portion of these savings could not possibly be achieved absent the transaction and what portion of those savings will flow through to consumers.

- a. Provide all plans, studies, analyses and other documents that address to this claimed benefit.*
- b. To the extent that analyses and /or studies have been prepared, provide the data used in the analysis or study and an explanation of the methodology used to derive the estimated benefit.*

Applicants have estimated that, by reducing DIRECTV's annual overhead and other expenses, News Corp. could generate cost savings in the range of \$65 million to \$135 million annually.

For example, News Corp. believes that DIRECTV can lower customer service costs from their present levels by \$40 million to \$80 million annually over a period of time. While DIRECTV has independently announced cost savings initiatives designed to reduce customer service costs, News Corp. believes that significant *additional* cost reductions can be realized.

News Corp. also believes it will be able to help Hughes lower its general and administrative expenses by roughly \$40 million to \$80 million per year. News Corp. expects to be able to reduce these costs based upon its experience in successfully building and managing what is generally considered to be one of the most successful satellite television operations in the world (BSkyB), and thus to achieve levels more closely approximating the low cost provider in the U.S. market (EchoStar). Moreover, News

²⁷ The customer satisfaction aspects of this "in house" strategy are discussed in the response to Request II.21.

Corp. will be able to help Hughes lower its expenses for satellite and other transmission facilities and services by drawing on its experience with other DTH systems and rationalize operational areas that overlap with News Corp.'s subsidiaries – with potential savings of between \$7 million and \$15 million annually.²⁸

News Corp. has also described preliminary discussions on achieving further cost savings through the combination of duplicative distribution facilities.

Plans, analyses, and studies responsive to this request, including underlying data (if any), are included in the Production.

REQUEST II.18

Provide a detailed description and explanation of the economies of scope and scale that will be created by the transaction and an explanation of why the transaction will reduce the risks of innovation and provide an estimate of the benefits consumers will enjoy as a result of these claimed benefits.

- a. Explain why these benefits could not possibly be achieved absent the proposed transaction.***
- b. Provide all plans, studies, and analyses and other documents that address to this claimed benefit.***

28 Again, DIRECTV could theoretically achieve some of these savings on its own. It has not done so, however. News Corp. bases its estimates of potential cost savings in large part on its experience with other DTH operations around the world – experience that GM does not have. These benefits, then, are fairly attributed to the transaction.

29 While not strictly a cost reduction, there is a related benefit of combining distribution facilities. By interconnecting the three remaining facilities with fiber optic cable, News Corp. can also achieve an increase in reliability or reduction in business interruption. That is, if certain elements of any one facility were damaged due to natural disaster, mechanical failure, terrorism, etc, those capabilities could be drawn from the other two.

- c. To the extent that analyses and/or studies have been prepared, provide the data used in the analysis or study and an explanation of the methodology used to derive the estimated benefit.*

Applicants have described the possibility of achieving significant economies of scope and scale in a number of areas.

First, DIRECTV's set-top boxes ("STBs") can be incorporated into the STB platform used by other News Corp. DTH affiliates. At present, DIRECTV does not exercise tight control over the design of its STBs; it specifies the functionality for its STBs, but each manufacturer is free to pursue its own designs to achieve that functionality. By contrast, News Corp. specifies the design of its STBs in much greater detail. Thus, although a number of manufacturers may produce STBs, they will all use the same basic components specified by News Corp. Of particular relevance in this regard is the fact that computer chip manufacturers have recently begun producing chips capable of operating with both the European DTH standard and with DIRECTV's proprietary standard. Simply by developing a single chip specification to be used over a number of DTH platforms worldwide, News Corp. will enable STB manufacturers to minimize their development costs and maximize component purchasing power, therefore lowering the final price to DTH operators affiliated with News Corp. – including DIRECTV. News Corp. estimates that, by incorporating DIRECTV's STBs into this common design philosophy, it will reduce DIRECTV's costs by approximately \$60 million annually within two years.³⁰ (This can also be translated to a cost savings of at least \$10 on each additional STB shipped within two years.) Because News Corp. has interests in a number of DTH operators worldwide, it is especially well positioned to drive and capture this benefit.

Second, by combining DIRECTV's subscriber base with that of News Corp.'s other DTH affiliates, News Corp. will be able to more efficiently defray the enormous research and development costs associated with bringing new services and features to market. By pursuing common technology standards across their platforms, News Corp. and Hughes will be able to more efficiently explore next generation technologies such as Advanced Video Codec, Advanced Audio Codec, 8PSK, and Turbo Coding. Moreover, by increasing the potential market for any new innovation from approximately 11.5 million DIRECTV subscribers in the U.S. to over 23 million News Corp./DIRECTV subscribers worldwide, the proposed transaction will change the financial calculus in a way that will

³⁰ News Corp. derives this estimate from the combination of higher volumes using a common hardware design, advances in technology applicable to common standards and manufacturing processes, broader negotiation of software and royalties, and tighter control over the set top box procurement and distribution process. These savings will benefit both the customers purchasing new boxes (price and performance), as well as reducing the subsidies required by the operators. Moreover, this will be possible without swapping out set top boxes, because of advances in semiconductor technology, which allows support for the technologies used by DIRECTV and by News Corp. platforms abroad using the same components.

make innovation more attractive and affordable, both for News Corp. and for independent software and hardware developers. Moreover, because the STBs will operate from a common platform, it will be easier to implement new advances throughout all News Corp. affiliated systems. The predictable result will be more innovation available to more consumers more quickly than would otherwise be the case.

Plans, analyses, and studies responsive to this request, including underlying data (if any), are included in the Production.

REQUEST II.19

Provide a detailed explanation of why the transaction will result in the introduction of new or enhanced capabilities to the DIRECTV platform, and why this will increase subscriber growth and reduce churn. Provide an estimate of the consumer benefits that will result from these claimed improvements to the DIRECTV platform.

- a. Explain why these benefits could not possibly be achieved absent the proposed transaction.***
- b. Provide all plans, studies, analyses and other documents that address to this claimed benefit.***
- c. To the extent that analyses and/or studies have been prepared, provide the data used in the analysis or study and an explanation of the methodology used to derive the estimated benefit.***

As described in the Application, News Corp. believes that customer satisfaction increases proportionately with increases in the number and quality of innovative DTH products and services. This increased satisfaction translates directly both to increased subscriber growth and to reduced “churn.” As a recent MVPD survey concluded,

Satisfaction is both a key predictor of churn and a reliable gauge that pinpoints areas where operators should focus their attention. The two keys to reducing churn rates are improving customer satisfaction and increasing the perceived value of the service. . . . Furthermore, customer education and communication is an essential part of increasing the perceived value of a cable or satellite service.³¹

News Corp. believes this proposition is self-evident.

News Corp. has described in response to other interrogatories a number of new or enhanced capabilities that will greatly increase customer satisfaction (such as increased local-into-local, HDTV, broadband, and new STB technologies). Each of these will

³¹ Innovista Research, “Market Snapshot” (August 26, 2002) (available at www.cabletoday.com/snapshot/archive/snap082602.asp).

make the DIRECTV product more attractive to new customers and more likely to retain existing customers. One capability, however, merits additional discussion here.

BSkyB has successfully launched an advanced interactive television (“ITV”) service in the United Kingdom. More recently, Sky Brazil has introduced similar capabilities. This ITV service combines traditional video programming with interactive functionalities, such as the ability to engage in banking and advanced home shopping, or to choose from among multiple camera angles during the broadcast of sporting events, or to choose among multiple segments being broadcast simultaneously on a news channel.

BSkyB’s launch of ITV was not easy. It required: (1) BskyB’s customers to be aware of and excited about the capabilities of the system; (2) vendors to be aware of the ways in which their products and services can be offered over an ITV system, and the advantages of doing so; and (3) BskyB to enter into agreements with vendors, market ITV to subscribers, and create back-office systems to clear the resulting transactions. BskyB was nonetheless successful, and now provides access to over six million subscribers, a majority of whom has used ITV capabilities.

News Corp.’s ITV experience can be brought to DIRECTV only through consummation of this transaction. If News Corp. can replicate BskyB’s ITV success with DIRECTV and thereby create a sufficiently attractive new service that customers choose to use the ITV capabilities, DIRECTV will enjoy increased revenues.

Of course, these increases will only be realized if News Corp. and DIRECTV create a compelling enough ITV offering to attract consumers to use them. News Corp. believes that its experience with BskyB will enable it to achieve this goal.

Plans, analyses, and studies responsive to this request, including underlying data (if any), are included in the Production.

REQUEST II.20

Provide a detailed explanation of why the transaction will improve Hughes' capital structure and access to capital markets and provide an estimate of the benefits consumers will derive from such improved capital structure and access to capital markets.

- a. Explain why these benefits could not possibly be achieved absent the proposed transaction.***
- b. Provide all plans, studies, analyses and other documents that address to this claimed benefit.***
- c. To the extent that analyses and/or studies have been prepared, provide the data used in the analysis or study and an explanation of the methodology used to derive the estimated benefit.***

Applicants have described several ways in which Hughes is limited by its current capital structure. Each would be materially improved by this transaction.

First, GM has obligations, objectives, and goals apart from – and, in some cases inconsistent with – funding a DBS business. GM has made clear that it will not itself provide funding for the continued development of DIRECTV's DBS business, including initiatives for improved local-into-local, HDTV, and consumer broadband services. News Corp., by contrast, very much wants to be in the satellite DTH business, and its corporate goals are far more consistent with aggressive participation in this business than are GM's.

Second, because GM Class H common stock is not an asset-based stock (but rather is a GM tracking stock), Hughes does not now have direct access to the equity markets.³³ By funding the split-off of Hughes into an independent company with its own asset-based stock, this transaction will enable Hughes to access the equity markets directly on a stand-alone basis, whenever and in whatever manner it decides is required or advantageous for its own strategic initiatives. Improved access to capital will increase Hughes' ability to develop and offer all of the innovative services discussed in this Response, and will allow Hughes to otherwise improve its products and services.

Because the proposed transaction will enable GM to address the funding needs of its legacy pension plans, News Corp.'s investment is the key that will unlock Hughes' potential in a way that GM could not do on its own.³⁴ Thus, this is a benefit that could not be achieved absent the proposed transaction.

33 Hughes has access to the public debt markets, which is not in and of itself an adequate substitute.

34 The Communications Act provides that, in considering applications for transfer of control, "the Commission may not consider whether the public interest, convenience, and necessity might be served by the transfer, assignment, or disposal of the permit or license to a person other than the proposed transferee

Plans, analyses, and studies responsive to this request, including underlying data (if any), are included in the Production.

REQUEST II.21

Provide a detailed description and explanation of any other benefits the parties claim will result from the transaction and an explanation of why those benefits could not possibly be achieved absent the transaction and provide an estimate of the benefits consumers are likely to enjoy as a result of each of these claimed benefits.

The Applicants have described the “benefits of customer satisfaction” – which can be quantified through increased subscribership and decreased churn. Some of these benefits result from the new products and services discussed in News Corp.’s earlier responses (see Requests II.18-II.19).

Also crucial to customer satisfaction, however, is customer service. Here, News Corp.’s overseas DTH distributors have developed a set of “best practices” to improve the overall attractiveness of their services.

Reflecting this approach to customer service, BSkyB’s churn rate is roughly half of DIRECTV’s. News Corp. intends to implement strategies designed to bring DIRECTV’s rate more in line with BSkyB’s rate. And if churn can be reduced by even one percent per year (less than one *ninth* of the current difference in churn between BSkyB and DIRECTV), DIRECTV’s earnings will increase by \$33 million per year.

or assignee.” 47 U.S.C. § 310(d). In other words, the Commission may only analyze whether the proposed transfer produces public interest benefits as compared with the status quo. It may not speculate on whether another hypothetical transaction could produce even greater public interest benefits.

REDACTED – FOR PUBLIC INSPECTION

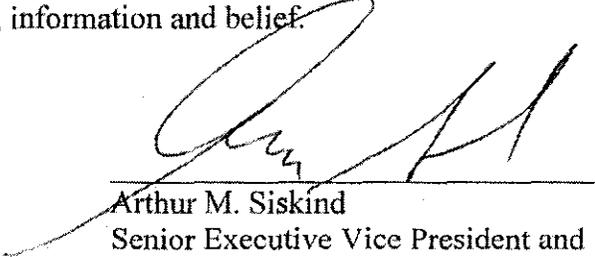
DECLARATION OF ARTHUR M. SISKIND

I, Arthur M. Siskind, hereby declare as follows:

1. I am Senior Executive Vice President and Group General Counsel of The News Corporation Limited (“News Corp.”). As such, I am familiar with the operations of News Corp., its programming businesses, and its proposed investment in Hughes Electronics Corporation.

2. I have reviewed the foregoing responses to questions posed by the Federal Communications Commission. The facts set forth therein are true and correct to the best of my knowledge, information and belief.

I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information and belief.



Arthur M. Siskind
Senior Executive Vice President and
Group General Counsel

July 28, 2003

EXHIBIT A

INDEX TO SCHEDULES SUPPLEMENTING THE
RESPONSE OF THE NEWS CORPORATION LIMITED

Schedule	Description
II.1.a(1)i	Location of MVPDs That Distribute Fox News Channel
II.1.a(1)ii	Location of MVPDs That Distribute Fox Cable Networks and Date First Carried
II.1.a(1)iii	DBS Carriage of Regional Sports Nets By Zip Code
II.1.a(2-4)	MVPD First Carriage and Contract Expiration for Fox News Channel
II.1.a(2)iii	Supplemental Information re Date MVPDs First Carried Newest Networks
II.1.a(3)	“Lapses” in MVPD Carriage Rights
II.1.a(4)ii	MVPD Contract Expiration for Fox Cable Networks And List of Contracts With Cooperatives, etc.
II.1.a(5)i	Subscriber Data by MVPD for Fox Cable Networks
II.1.a(5)ii	Subscriber Data by DBS Operator for Fox Regional Sports Nets
II.1.a(6)i	Total Revenue Data by MVPD for Fox News Channel
II.1.a(6)ii 2001	Total Revenue Data by MVPD for Fox Cable Networks 2001
II.1.a(6)ii 2002	Total Revenue Data by MVPD for Fox Cable Networks 2002
II.1.a(6)ii 2003	Total Revenue Data by MVPD for Fox Cable Networks 2003
II.1.b	Total Revenue Data By Cable Network
II.1.ci	Viewer Rating and Share Data for Fox News Channel
II.1.cii	Viewer Rating and Share Data for Fox Cable Networks
II.2(a-b)	Network Launch and Development Data
II.2.c	Total MVPD Subscribers by Network
II.2.d(1-4)	Sports Contract Data
II.2.d(5)	Total Games Available Data
II.3.a(2-3)	Retransmission Consent Agreement Data
II.3.a(4)	“Lapse” in MVPD Retransmission Consent Rights
II.3(b)	“Non-carriage” of non-Fox O&O Stations
II.3.c	Total Revenue Data by O&O Station
II.5	Unused Sports Rights