

February 7th, 2002

Reference: Proceeding 01-348

Sir:

From a review of the filed records concerning the proposed Echostar/Hughes merger, I see that the FCC is requesting from Echostar the following:

INITIAL INFORMATION AND DOCUMENT REQUEST
FEBRUARY 4, 2002

Found at:

<http://www.fcc.gov/csb/echoditv/1infoatt.doc>

I believe the Commission is taking a step in the proper direction in the examination of Echostar's financial records, especially in view of the revelation that Arthur Anderson LLP, represents Echostar as their accounting firm. I would like to point out a few observations that could very well aid the Commission in it's search for accurate financial documents from Echostar and it's accounting firm partner.

The Commission should add to the list, or be cognizant that Echostar claims that they lose money on sale of their satellite receivers, which can arbitrarily cost a retailer or customer anywhere from \$199, \$249, or \$299 each (or even more on the customer's credit card in the event of a charge back), depending on the color coding program Echostar has engaged against their retailers. The Commission should note that the components of a receiver can be had for under \$40 and if millions of receivers are ordered (as in the case of millions of Echostar customers), that \$40 manufacturing price can be lowered. A good source of information about an accurate appraisal value of the cost of manufacturing a satellite receiver is (search "satellite receiver"):

<http://www.made-in-china.com/>

This is significant because much of Echostar's accounting practices are centered on these arbitrarily priced receivers which amazingly enough, never depreciates. In fact, the Department of Defense should check into Echostar's electronics since they manufacture the ONLY electronic equipment in the entire universe that allegedly never depreciates in value.

At any rate, Echostar arbitrarily prices its equipment, charges the retailer the full price for that equipment, then reimburses him about 14-21 days after the system is installed and activated. Of course, Echostar earns interest on all that money their retailers have paid for the inflated equipment but not yet reimbursed for, which is called the "float". A conservative estimate of the "float" would be: 20,000 retailers times \$10,000 (a conservative estimate of 3 weeks' worth of averaged installs of all retailers, large and small) would total in the neighborhood of \$200,000,000. This is a tidy sum to earn interest on and remains a fairly constant amount since new receivers are ordered, paid for and activated to replace those receivers ready poised to exit the money pipeline.

In the event that a customer defaults on their agreement to maintain their service for a year, Echostar then charges back the customer AND the retailer for the costs of the equipment and installation (labor that the retailer paid to an

installer). Then the equipment is repossessed and redeployed, since the equipment allegedly never depreciates in value or quality.

I am certain that Echostar has the records to show the Commission how all these receivers are being sold at a loss. They showed the Congress and their stockholders the same set of books to get this far in their merger bid. And nobody from either group appears to be concerned about these numbers or Echostar's accounting procedures. I might add that Echostar also doesn't want the public or the commission to know that their own retailers often find it necessary to put their own addendums in customer contracts to protect their interests in the event of a charge back, further exposing the consumer to an even greater degree of financial responsibility for these arbitrarily priced receivers. This is an item that Echostar will have great difficulty quantifying, simply because they do not want to know or care what their retailers do in the event of a charge back—their stated position is that "retailers need to share the loss" since they signed a contract agreeing to charge backs.

The bottom line is that DirectTV does not find it necessary to employ such creative bookkeeping tactics, so why should the public at large be held hostage by a company that does? Any company seeking monopoly status in the DBS market and the satellite spectrum should clearly demonstrate that they are above the "deliberate indifference" standard attorneys must often employ to show impropriety of any sort simply because where there is greater potential for abuse, there will be greater abuse. Always.

Thank you for your attention to this matter,

S.A. Connor