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Senior Vice President

January 24, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Hughes Communications Galaxy, Inc.
Semi-Annual DBS Progress Report
FCC File Nos. DBS-84-02/88-07-MP,
DBS-84-02/88-07-MP/EXT, DBS-91-02MP/MINOR

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Dear Mr. Caton:

This letter constitutes the semi-annual report of Hughes Communications Galaxy, Inc. ("HCG") on its Direct Broadcast Satellite ("DBS") system.*

Background

In its last semi-annual report, filed on July 22, 1993, HCG confirmed that it had met all of the construction progress milestones set forth in Amendment 3 to its spacecraft construction contract with Hughes Aircraft Company ("HAC") for its DBS-1 and DBS-2 satellites, and reported on the continuing progress on actual construction of the satellites.** In

*/ This report is filed pursuant to the terms of the Radio Station Construction Permit and Launch Authorization granted to HCG on January 22, 1985 (Mimeo No. 2085, released January 24, 1985), as modified in Continental et al., 4 FCC Rcd. 6592 (1989), Advanced Communications Corp., 6 FCC Rcd. 2269 (1991), and United States Satellite Broadcasting Company, Inc., 7 FCC Rcd. 7247 (1992), and as further modified in Hughes Communications Galaxy, Inc., DA 93-1342, adopted November 5, 1993, released November 15, 1993).

**/ Amendment 3 was filed with the Commission on July 15, 1991 in connection with HCG's Minor Modification Application, which was granted last year. See United States Satellite Broadcasting Company, Inc., supra.

Mr. William F. Caton
January 24, 1994
Page 2

addition, HCG confirmed that it had made scheduled payments to HAC totalling over \$157 million for the DBS spacecraft.

In October of 1992, the Commission granted HCG's first Minor Modification Application.^{***} Under the modified construction permit, HCG was authorized to provide full-CONUS, fully digital transmission service from 101°W.L. using two HS 601 spacecraft employing dual-mode 120/240-watt transponders (which HCG intends to operate in the 16-transponder/120-watt mode). The first of these two satellites includes a five-transponder payload for the United States Satellite Broadcasting Company, Inc. ("USSB") DBS system. HCG was also authorized to provide half-CONUS service from 157°W.L. using one spacecraft employing dual-mode 60/120-watt transponders (which HCG intends to operate in the 32-transponder/60-watt mode).

Pursuant to Amendment 3 to HCG's construction contract with HAC, the delivery of HCG's first spacecraft ("DBS-1", to be located at 101°W.L.) to the launch site was scheduled to occur in December 1993. As described below, DBS-1 was delivered on schedule and successfully launched. Delivery of the second spacecraft ("DBS-2," to be collocated at 101° W.L.) is scheduled to occur in March 1994, and delivery of the third spacecraft ("DBS-3", to be located at 157°W.L.) is scheduled to occur in July 1994.

Progress Report

HCG hereby reports that it has met the construction milestones specified in Amendment 3 to its contract with HAC for its DBS-1 and DBS-2 satellites, and actual construction of the DBS-2 satellite is continuing. Specifically, construction of the DBS-1 was completed as scheduled, and the satellite has been launched successfully. With respect to DBS-2, range, payload, and initial integrated system testing have been completed, and spacecraft thermal vacuum testing is underway.

In addition, HCG has made all required payments to HAC in accordance with the schedule set forth in Amendment 3. To date, HCG has made payments totalling over \$188.5 million for the DBS spacecraft.

In November of 1993, the Commission granted HCG's second Minor Modification Application. HCG's construction permit and launch authorization were further modified to allow HCG (a)

^{***}/ Id.

Mr. William F. Caton
January 24, 1994
Page 3

to operate its satellites with the orbital positions reversed with regard to signal polarization, in order to enhance the efficiency of HCG and USSB subscribers' antennas; and (b) to operate its system with the maximum antenna gain increased by 1.5 dB relative to that specified in HCG's construction permit. The Commission also modified HCG's authorization to specify explicitly the use of a digital signal.****/

On December 17, 1993, pursuant to HCG's launch contract with Arianespace, DBS-1 was launched successfully. The satellite currently is being checked and tested. Beginning in April, 1994, DBS-1 will deliver approximately 75 to 80 channels of video programming for both HCG's affiliate, DirecTv, Inc. ("DirecTv") and USSB. As reported previously, HCG has also entered into a contract with Arianespace for the launch of DBS-2, which provides for a launch date well within HCG's December 1994 deadline for bringing its system into operation.****/

Significant progress continues to be made by DirecTv in the implementation of its business plan to provide the nation's first DBS video service over HCG's satellites. Construction of the broadcast center facility at Castle Rock, Colorado has been completed, and full occupancy of the facility began as scheduled in September, 1993. Pre-production of the subscriber terminal units has begun and will ramp-up to full production over the next several months. On January 5, 1994, DirecTv announced retail distribution agreements with Sears Merchandising Group and Circuit City which allow them to market DirecTv programming

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See Hughes Communications Galaxy, Inc., FCC Rcd. (Video Services Division), DA 93-1342, adopted November 5, 1993, released November 15, 1993).

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HCG has begun constructing DBS-3, the DBS satellite to be located at 157° W.L. HCG also is awaiting approval for its pending application, submitted on August 9, 1993, to construct a ground spare for the DBS-1 and DBS-2 satellites. As reported in its previous semi-annual report, HCG is still reevaluating its plans for DBS-3. Depending on business needs, HCG may request permission to use the DBS-3 work in progress toward construction of the ground spare, assuming the latter is approved. In any event, however, none of these anticipated changes will in any way prevented HCG from initiating operation of its DBS system by December 7, 1994. See Advanced Communications Corp., supra, 6 FCC Rcd. at 2274.

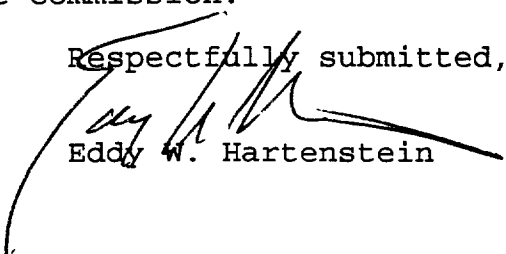
Mr. William F. Caton
January 24, 1994
Page 4

beginning in Spring 1994. In addition, on October 18, 1993, DirecTv entered into an agreement with Sony Corporation to supply subscriber terminal units.

DirecTv also has continued to enter into programming carriage agreements to provide quality subscription and pay-per-view video programming to the public. To date, DirecTv's programming includes: The Cartoon Network, CMT: Country Music Television, CNN, CNN International, Courtroom Television Network, C-SPAN and C-SPAN 2, The Discovery Channel, The Disney Channel, ENCORE, ESPN, E! Entertainment Television, The Family Channel, The Golf Channel, Headline News, The Learning Channel, Physicians Television Network, Playboy TV, The Sci-Fi Channel, TNN: The Nashville Network, TBS Superstation, The Travel Channel, Turner Classic Movies, Turner Network Television (TNT), USA Network, The Weather Channel, and two Canadian services -- Newsworld International and Northstar. DirecTv also has pay-per-view agreements with Paramount Pictures, Sony Pictures Entertainment (which includes Columbia/TriStar releases), Turner Broadcasting (for titles from the Turner/MGM film library), and Universal Pay Television, Inc. DirecTv is continuing its negotiations with vendors of other programming, including movies, sports and traditional "cable" services.

Given the progress HCG continues to make on construction of the spacecraft, and the other developments described herein, HCG continues to project that its DBS system will be in operation well in advance of the December 7, 1994 deadline established by the Commission.

Respectfully submitted,



Eddy W. Hartenstein