HUGHES ELECTRONICS CORP
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[LOGO] HUGHES

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HUGHES REPORTS FIRST QUARTER 2003 RESULTS; INCREASES FULL-YEAR HUGHES AND DIRECTV U.S REVENUE, EBITDA AND OPERATING PROFIT GUIDANCE DUE TO STRONG DIRECTV U.S. FINANCIAL PERFORMANCE

DIRECTV U.S. Revenues Increase over 16% to $1.71 Billion;

DIRECTV U.S. EBITDA More than Doubles to Record $230 Million and Operating Profit Increases to $106 Million;

DIRECTV U.S. Attains Higher than Expected Net New Owned and Operated Subscriber Additions of 275,000; Increases Full Year Guidance

El Segundo, Calif., April 14, 2003 Hughes Electronics Corporation (HUGHES), a world-leading provider of digital television entertainment, broadband satellite networks and services, and global video and data broadcasting, today reported that first quarter 2003 revenues increased 10.0% to $2,227.3 million, compared with $2,024.8 million in the first quarter of 2002. EBITDA[1] for the quarter was $305.0 million and EBITDA margin[1] was 13.7%, compared with the first quarter of 2002 EBITDA of $164.5 million and EBITDA margin of 8.1%. Operating profit for the first quarter of 2003 was $41.9 million compared with an operating loss of $87.7 million in the first quarter of 2002.

An outstanding first quarter performance by DIRECTV U.S. drove HUGHES strong first quarter revenue and EBITDA growth, said Jack A. Shaw, HUGHES president and chief executive officer. The DIRECTV U.S. performance is a direct result of our profitable growth strategy that focuses on attracting long-term, high quality subscribers who provide us with exceptional financial returns.

Shaw added, DIRECTV U.S. better-than-expected quarterly performance for both subscribers and average monthly revenue per subscriber drove revenues up by over 16% to more than $1.7 billion. In addition, DIRECTV U.S. EBITDA more than doubled in the quarter to $230 million an all-time record as a result of the strong revenue growth along with a sharp increase in operating margins due in part to our ongoing efforts to improve our cost structure. Shaw continued, Also contributing to DIRECTV U.S. strong financial performance was a monthly customer churn rate of only 1.5% during the quarter, representing the lowest level attained in a first quarter in four years.

Shaw finished, The first quarter was very significant for HUGHES in many ways. First, due to strong operating results across the company, HUGHES reached an important milestone in the first quarter: operating profit of nearly $42 million the first time we have generated operating profit in a quarter in over four years. Next, because of DIRECTV U.S. strong performance in the first quarter, we are increasing HUGHES and DIRECTV U.S. full year 2003 guidance for both revenue and EBITDA, and we are also raising our DIRECTV U.S. full year subscriber guidance. In addition, last week, GM and HUGHES announced their intentions to split-off HUGHES into an asset-based security that will be 34% owned by News Corp. The combination of HUGHES improving outlook along with the planned News Corp. transaction will provide GMH shareholders with considerable potential for value creation.

Also impacting the EBITDA comparison were several one-time items in the first quarter of 2002. HUGHES recorded a $95 million one-time gain in last year s first quarter based on the favorable resolution of a lawsuit filed against the U.S. government on March 22, 1991. The lawsuit was based upon the National Aeronautics and Space Administration s (NASA) breach of contract to launch ten satellites on the Space Shuttle. Also impacting the 2002 first quarter was a charge of $83 million to provide for losses associated with a contractual dispute with General Electric Capital Corporation (GECC). Of this amount, $56 million was recorded as a charge to Selling, general and administrative expenses, and the remaining $27 million was recorded as Interest expense (see the Direct-To-Home Broadcast segment for more details). In addition, DIRECTV Latin America (DLA) recognized an EBITDA loss of approximately $32 million in the first quarter of 2002 due to the devaluation of the Argentinean peso.

****HUGHES believes EBITDA is a measure of performance used by some investors, equity analysts and others to make informed investment decisions. HUGHES management uses EBITDA to evaluate the operating performance of HUGHES and its business segments, as a measure of performance for incentive compensation purposes, and for other purposes discussed in footnote 1, below. HUGHES reconciles this non-GAAP measure to operating profit in the schedule below titled Non-GAAP Financial Reconciliation Schedule.****

Operating profit for the first quarter of 2003 improved to $41.9 million compared with an operating loss of $87.7 million in the first quarter of 2002 primarily due to the DIRECTV U.S. operational improvements and the first quarter 2002 items that impacted EBITDA discussed above.

HUGHES had a first quarter 2003 net loss of $50.9 million compared to a net loss of $837.7 million in the same period of 2002. The improvement was primarily due to a first quarter 2002 charge associated with HUGHES adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. As a result of the completion of the required transitional impairment tests, HUGHES wrote-down $557 million of goodwill related to DIRECTV Latin America, $108 million of goodwill related to DIRECTV Broadband, Inc (DIRECTV Broadband) and $16 million of goodwill associated with a Hughes Network Systems (HNS) equity investment in the first quarter of 2002. In accordance with SFAS No. 142, these charges were recorded as Cumulative effect of accounting change, net of taxes. Also impacting the quarter was the improved operating profit, a lower income tax benefit in the first quarter of 2003 due primarily to the lower pre-tax loss, and a $29 million charge in the first quarter of 2002 related to a loan guarantee for an HNS affiliate in India. In addition, DIRECTV Broadband, now accounted for as a discontinued operation, had lower net losses in the first quarter of 2003 due to its shutdown on February 28, 2003.

SEGMENT FINANCIAL REVIEW: FIRST QUARTER 2003

Direct-To-Home Broadcast

First quarter 2003 revenues for the segment increased 13.3% to $1,847.9 million from $1,630.4 million in the first quarter of 2002. The segment had EBITDA of $211.3 million compared with negative EBITDA of $20.9 million in the first quarter of 2002. Operating profit for the segment was $38.3 million in the first quarter of 2003 compared to an operating loss of $164.0 million in the same period of 2002. Included in the segment s 2002 EBITDA and operating loss is a charge of $56 million to provide for losses related to a contractual dispute with GECC associated with an agreement consummated in July

1995 whereby GECC agreed to establish and manage a credit program for consumers who purchased DIRECTV® programming and related hardware.

Also, on February 28, 2003, HUGHES completed the shutdown of the DIRECTV DSL™ service. DIRECTV Broadband is now accounted for as a discontinued operation in the consolidated financial statements and its revenues, operating costs and expenses, and non-operating results are no longer included in the Direct-To-Home Broadcast segment for the periods presented.

United States[2]: Excluding subscribers in the National Rural Telecommunications Cooperative (NRTC) territories, DIRECTV added 701,000 gross subscribers and, after accounting for churn, 275,000 net subscribers in the quarter. DIRECTV owned and operated subscribers totaled 9.77 million as of March 31, 2003, 11% more than the 8.79 million cumulative subscribers as of March 31, 2002. For the first quarter of 2003, the total number of subscribers in NRTC territories fell by 30,000, reducing the total number of NRTC subscribers as of March 31, 2003, to 1.65 million. As a result, the DIRECTV platform ended the quarter with 11.42 million total subscribers.

DIRECTV reported quarterly revenues of $1,708.1 million, an increase of over 16% from last year s first quarter revenues of $1,465.8 million. The increase was primarily due to continued strong subscriber growth as well as increased average monthly revenue per subscriber (ARPU). ARPU increased $2.40 to $59.10 in the quarter primarily due to increased customer purchases of local channel and premium programming packages, as well as additional fees from the increased number of customers that have multiple set-top receivers.

EBITDA for the first quarter of 2003 more than doubled to a record $230.4 million compared to EBITDA of $93.7 million in last year s first quarter. This increase was due to the additional gross profit gained from DIRECTV s increased revenue, an improved mix of higher-margin revenues primarily related to increased sales of local channel packages and fees from customers that have multiple set-top receivers, and the favorable impact resulting from continued cost reductions.

Operating profit in the quarter increased to $106.0 million compared to an operating profit of $8.6 million in the first quarter of 2002. The improved operating profit was primarily due to the reasons discussed above for the change in EBITDA partially offset by increased depreciation and amortization related to the launch of DIRECTV 5 in May of 2002, and additional infrastructure expenditures made during the last year.

Latin America: On March 18, 2003 DIRECTV Latin America, LLC announced that in order to aggressively address the company s financial and operational challenges, it had filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The filing applies only to DIRECTV Latin America, LLC, a U.S. company, and does not include any of its operating companies in Latin America and the Caribbean. DIRECTV Latin America, LLC and its operating companies are continuing regular operations.

The DIRECTV service in Latin America lost 54,000 net subscribers in the first quarter of 2003 primarily due to the economic turmoil following the general strike in Venezuela. The total number of DIRECTV subscribers in Latin America as of March 31, 2003, was approximately 1,528,000 compared to about 1,642,000 as of March 31, 2002, representing a decline of approximately 7%.

Revenues for DIRECTV Latin America declined to $140 million in the quarter from $165 million in the first quarter of 2002 mostly due to the devaluation of the Venezuelan and Brazilian currencies over the last year, as well as the lower average number of subscribers.

DIRECTV Latin America recorded negative EBITDA of $22 million in the quarter compared to negative EBITDA of $61 million in the same period of 2002. The lower EBITDA loss was primarily due to the $32 million loss related to the devaluation of the Argentinean peso in 2002 and aggressive cost cutting over the past year, partially offset by the lower gross profit related to the lower revenues.

Operating loss in the quarter was $71 million compared to operating loss of $119 million in the first quarter of 2002. The lower operating loss was due to the reasons discussed above for the change in EBITDA and decreased depreciation expense.

Satellite Services

PanAmSat Corporation (PanAmSat), which is approximately 81%-owned by HUGHES, generated first quarter 2003 revenues of $199.8 million compared with $207.1 million in the same period of the prior year. The decrease was primarily due to a termination fee received in 2002 associated with one of the company s video customers and lower occasional-use revenues during the first quarter of 2003. These declines were partially offset by increased network services revenue and PanAmSat s new G2 Satellite Solutions division, which was formed after the acquisition of Hughes Global Services on March 7, 2003.

EBITDA for the quarter was $148.6 million and EBITDA margin was 74.4%, compared with first quarter 2002 EBITDA of $151.1 million and EBITDA margin of 73.0%. The EBITDA margin improvement was principally due to the company s continued focus on operational efficiencies and lower bad debt expense partially offset by the termination fee received in 2002. The decrease in EBITDA was primarily due to the termination fee received in 2002. Also impacting the change in EBITDA and EBITDA margin were several significant items recorded in the first quarter of 2002 including a $40 million gain in relation to the settlement of the PAS-7 insurance claim, net facilities restructuring and severance charges of $13 million, and a $19 million loss on the conversion of sales-type leases to operating leases.

PanAmSat generated operating profit of $76.3 million in the first quarter of 2003 compared with operating profit of $57.1 million in the same period of 2002. The improved operating profit was due to reduced satellite depreciation expense which was partially offset by the EBITDA changes discussed above.

As of March 31, 2003, PanAmSat had contracts for satellite services representing future payments (backlog) of approximately $5.46 billion compared to approximately $5.55 billion at the end of the fourth quarter of 2002.

Network Systems

HNS generated first quarter 2003 revenues of $247.4 million compared with $242.8 million in the first quarter of 2002. The increase was principally due to higher sales of DIRECTV® receiver systems and revenues from the larger DIRECWAY residential and small office/home office (SOHO)

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subscriber base, partially offset by lower sales in the carrier segment due to the substantial completion of the Thuraya Satellite Telecommunications Company and Inmarsat Ltd. contracts. HNS shipped 629,000 DIRECTV receiver systems in the first quarter of 2003 compared to 430,000 units in the same period last year. Additionally, as of March 31, 2003, DIRECWAY had approximately 152,000 subscribers in North America compared to 111,000 one year ago, an increase of approximately 37%.

HNS reported negative EBITDA of $22.2 million compared to negative EBITDA of $30.5 million in the first quarter of 2002. Operating loss in the quarter was $39.8 million compared to an operating loss of $48.5 million in the first quarter of 2002. The improvement in EBITDA and operating loss was primarily attributable to a lower loss in the Consumer DIRECWAY business due to improved efficiencies associated with the larger subscriber base and a $6 million charge related to headcount reductions recorded in 2002.

BALANCE SHEET

From December 31, 2002 to March 31, 2003, the company s consolidated cash balance increased $1,833.6 million to $2,962.2 million and total debt increased $1,897.0 million to $5,014.8 million. These changes resulted in an increase in net debt of $63.4 million to $2,052.6 million. Net debt is defined as the difference between the consolidated cash balance and the consolidated debt balance of HUGHES.

In the first quarter of 2003, DIRECTV U.S. completed several financing transactions. On February 28, DIRECTV U.S. closed a $1.4 billion senior notes offering. The $1.4 billion senior notes were offered in a Rule 144A / Regulation S private placement and bear interest at an 8.375 percent annual rate, payable semi-annually. The notes will mature on March 15, 2013 and are callable on or after March 15, 2008. The notes are guaranteed by all of DIRECTV U.S. domestic subsidiaries. On March 6, DIRECTV U.S. closed senior secured credit facilities totaling $1.675 billion. The facilities consist of a $250 million five-year revolving credit facility, a $375 million five-year Term A loan and a $1.05 billion seven-year Term B loan. The Term A loan includes a $200 million delayed draw component. The facilities are secured by substantially all of DIRECTV U.S. assets and are guaranteed by all of DIRECTV U.S. domestic subsidiaries. Approximately $2.56 billion of the proceeds from the financing, after transaction fees, were paid to HUGHES in a distribution that was used to repay $506 million of outstanding short-term debt, and is expected to fund HUGHES business plan through projected cash flow breakeven and for HUGHES other corporate purposes.

Hughes Electronics Corporation is a unit of General Motors Corporation. The earnings of HUGHES are used to calculate the earnings attributable to the General Motors Class H common stock (NYSE:GMH).

A live webcast of HUGHES first quarter 2003 earnings call will be available on the company s website at www.hughes.com. The call will begin at 2:00 p.m. ET, today. The dial in number for the call is (913) 981-5572. The webcast will be archived on the Investor Relations portion of the HUGHES website and a replay of the call will be available (dial in number: 719-457-0820, code: 644679) beginning at 8:00 a.m. ET on Tuesday, April 15 through Sunday, April 20, at 1:00 a.m. ET.

HUGHES FINANCIAL GUIDANCE

	Second Quarter 2003	Prior Full Year 2003	Revised Full Year 2003
HUGHES			
Revenues	$2.25 2.3B	$9.3 9.5B	$9.5 9.6B
EBITDA	$250 300M	~$1.1B	$1.15 1.2B
Operating Profit/(Loss)	$(25) 25M	~$0.0B	$50 100M
Cash Requirements[a]	N/A	$(200) (300)M	~$(200)M
DIRECTV U.S.			
Revenues	~$1,750M	~$7.1B	~$7.3B
EBITDA	~$225M	$800 850M	~$900M
Operating Profit	~$95M	$275 325M	~$375M
Net Subscriber Adds[b]	N/A	750 800K	800 850K
DIRECTV Latin America			
Revenues	$125 150M[c]	$550 600M	No Change[c]
EBITDA	$(30) (50)M[c]	$(50) (75)M	No Change[c]
Operating Loss	$(80) (100)M[c]	$(250) (275)M	No Change[c]
Hughes Network Systems			
Revenues	$250 275M	$1.1 1.2B	No Change
EBITDA	$(10) (20)M	Breakeven	No Change
Operating Loss	$(30) (40)M	$(65) (75)M	No Change
PanAmSat			
Revenues	$200 212M[d]	$790 820M	$800 840M[d]
New Outright Sales and Sales- Type Leases	None[d]	None	None[d]
EBITDA	$145 155M[d]	$580 600M	No Change[d]
Operating Profit	$65 85M[d]	$250 300M	No Change[d]

a Defined as cash flows from operating activities less cash flows from investing activities excluding any potential payments for the Boeing purchase price adjustment

b Excludes subscribers in NRTC territories

c Excludes the impact of any bankruptcy related charges or the impact of the announced transaction with News Corp.

d Includes Hughes Global Services, which was formerly included in HUGHES consolidated guidance

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NON-GAAP FINANCIAL RECONCILIATION SCHEDULE*

	First Quarter 2003 Actual	First Quarter 2002 Actual	Second Quarter 2003 Guidance	Prior Full Year 2003 Guidance	Revised Full Year 2003 Guidance
HUGHES					
Operating Profit/(Loss)	$41.9M	$(87.7)M	$(25) 25M	~$0.0B	$50 100M
Plus: Depreciation & Amortization	$263.1M	$252.2M	~$275M	~$1.1B	~$1.1B
EBITDA	$305.0M	$164.5M	$250 300M	~$1.1B	$1.15 1.2B
DIRECTV U.S.					
Operating Profit	$106.0M	$8.6M	~$95M	$275 325M	~$375M
Plus: Depreciation & Amortization	$124.4M	$85.1M	~$130M	~$525M	~$525M
EBITDA	$230.4M	$93.7M	~$225M	$800 850M	~$900M
DIRECTV Latin America					
Operating Loss	$(71)M	$(119)M	$(80) (100)M	$(250) (275)M	No Change
Plus: Depreciation & Amortization	$49M	$58 M	~$50M	~$200M	No Change
EBITDA	$(22)M	$(61)M	$(30) (50)M	$(50) (75)M	No Change
Hughes Network Systems					
Operating Loss	$(39.8)M	$(48.5)M	$(30) (40)M	$(65) (75)M	No Change
Plus: Depreciation & Amortization	$17.6M	$18.0M	~$20M	$65 75M	No Change
EBITDA	$(22.2)M	$(30.5)M	$(10) (20)M	~$0	No Change
PanAmSat					
Operating Profit	$76.3M	$57.1M	$65 85M	$250 300M	No Change
Plus: Depreciation & Amortization	$72.3M	$94.0M	$80 70M	$330 300M	No Change
EBITDA	$148.6M	$151.1M	$145 155M	$580 600M	No Change

* Additional DIRECTV U.S. non-GAAP financial reconciliation is included with the DIRECTV U.S. stand-alone financial statements included in this earnings release.

(1) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is defined as operating profit (loss) plus depreciation and amortization. EBITDA margin is calculated by dividing EBITDA by total revenues. EBITDA is not presented as an alternative measure of operating results or cash flow from operations, as determined in accordance with accounting principles generally accepted in the United States of America. HUGHES management uses EBITDA to evaluate the operating performance of HUGHES and its business segments, to allocate resources and capital to its business segments, and as a measure of performance for incentive compensation purposes. HUGHES believes EBITDA is a measure of performance used by some investors, equity analysts and others to make informed investment decisions. EBITDA is used as an analytical indicator of income generated to service debt and fund capital expenditures. In addition, multiples of current or projected EBITDA are used to estimate current or prospective enterprise value. HUGHES management believes that EBITDA is a common measure used to compare HUGHES operating performance and enterprise value to other communications, entertainment and media service providers. EBITDA does not give effect to cash used for interest payments related to debt service requirements. As a result, EBITDA does not reflect funds available for investment in the business of HUGHES, dividends or other discretionary uses. EBITDA and EBITDA margin as presented herein may not be comparable to similarly titled measures reported by other companies.

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(2) The discussion of financial results for DIRECTV U.S. reflects amounts included in the stand-alone financial statements of DIRECTV Holdings, LLC that are included later in this earnings release. In accordance with generally accepted accounting principles, certain items in the stand-alone financial statements of DIRECTV Holdings, LLC are required to be accounted for differently than in the financial results reported by HUGHES in Selected Segment Data pursuant to Statement of Financial Accounting Standards No. 131. For example, the DIRECTV U.S. EBITDA and operating profit results include approximately $3 million and $4 million of pension expense in the first quarter of 2002 and 2003, respectively, which HUGHES includes in Eliminations and Other for segment reporting purposes.

In connection with the proposed transactions announced on April 9, 2003, General Motors Corporation (GM), Hughes Electronics Corporation (Hughes) and The News Corporation Limited (News) intend to file relevant materials with the Securities and Exchange Commission (SEC), including one or more registration statement(s) that contain a prospectus and proxy/consent solicitation statement. Because those documents will contain important information, holders of GM $1-2/3 common stock and GM Class H common stock are urged to read them, if and when they become available. When filed with the SEC, they will be available for free (along with any other documents and reports filed by GM, Hughes or News with the SEC) at the SEC s website, www.sec.gov, and GM stockholders will receive information at an appropriate time on how to obtain transaction-related documents for free from GM. Such documents are not currently available.

GM and its directors and executive officers and Hughes and certain of its executive officers may be deemed to be participants in the solicitation of proxies or consents from the holders of GM $1-2/3 common stock and GM Class H common stock in connection with the proposed transactions. Information regarding the participants and their interest in the solicitation was filed pursuant to Rule 425 with the SEC by each of GM and Hughes on April 10, 2003. Investors may obtain additional information regarding the interests of such participants by reading the prospectus and proxy/consent solicitation statement if and when it becomes available.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Materials included in this document contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause actual results to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. The factors that could cause actual results of GM, Hughes and News to differ materially, many of which are beyond the control of GM, Hughes or News include, but are not limited to, the following: (1) operating costs, customer loss and business disruption, including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers, may be greater than expected following the transaction; (2) the regulatory approvals required for the transaction may not be obtained on the terms expected or on the anticipated schedule; (3) the effects of legislative and regulatory changes; (4) an inability to retain necessary authorizations from the FCC; (5) an increase in competition from cable as a result of digital cable or otherwise, direct broadcast satellite, other satellite system operators, and other providers of subscription television services; (6) the introduction of new technologies and competitors into the subscription television business; (7) changes in labor, programming, equipment and capital costs; (8) future acquisitions, strategic partnerships and divestitures; (9) general business and economic conditions; and (10) other risks described from time to time in periodic reports filed by GM, Hughes or News with the SEC. You are urged to consider statements that include the words may, will, would, could, should, believes, estimates, projects, potential, expects, plans, continues, forecast, designed, goal, or the negative of those words or other comparable words to be uncertain and forward-looking. This cautionary statement applies to all forward-looking statements included in this document.

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HUGHES ELECTRONICS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND

AVAILABLE SEPARATE CONSOLIDATED NET INCOME (LOSS)

(Dollars in Millions)

(Unaudited)

	Three Months Ended March 31,	
	2003	**2002**
Revenues		
Direct broadcast, leasing and other services	$ 2,081.8	$ 1,844.6
Product sales	145.5	180.2
Total Revenues	2,227.3	2,024.8
Operating Costs and Expenses, Exclusive of Depreciation and Amortization Expense Shown Below		
Broadcast programming and other costs	1,061.7	905.7
Cost of products sold	143.0	173.0
Selling, general and administrative expenses	717.6	781.6
Depreciation and amortization	263.1	252.2
Total Operating Costs and Expenses	2,185.4	2,112.5
Operating Profit (Loss)	41.9	(87.7)
Interest income	6.2	4.3
Interest expense	(80.5)	(76.3)
Other, net	(28.1)	(41.6)
Reorganization expense	(6.9)	
Loss From Continuing Operations Before Income Taxes, Minority Interests and Cumulative Effect of Accounting Change	(67.4)	(201.3)
Income tax benefit	24.2	76.5
Minority interests in net earnings of subsidiaries	(7.4)	(6.7)
Loss from continuing operations before cumulative effect of accounting change	(50.6)	(131.5)
Loss from discontinued operations, net of taxes	(0.3)	(24.9)
Loss before cumulative effect of accounting change	(50.9)	(156.4)
Cumulative effect of accounting change, net of taxes		(681.3)
Net Loss	(50.9)	(837.7)
Preferred stock dividends		(24.1)
Loss Used for Computation of Available Separate Consolidated Net Income (Loss)	$ (50.9)	$ (861.8)
Available Separate Consolidated Net Income (Loss)		

Average number of shares of General Motors Class H Common Stock outstanding (in millions) (Numerator)	989.8	877.6
Average Class H dividend base (in millions) (Denominator)	1,381.9	1,301.2
Available Separate Consolidated Net Income (Loss)	$ (36.5)	$ (581.2)

HUGHES ELECTRONICS CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)

	March 31, 2003	December 31, 2002
ASSETS	**(Unaudited)**	
Current Assets		
Cash and cash equivalents	$ 2,962.2	$ 1,128.6
Accounts and notes receivable	1,126.0	1,133.9
Contracts in process	123.8	165.9
Inventories	290.1	230.3
Deferred income taxes	84.6	97.7
Prepaid expenses and other	889.4	900.0
Total Current Assets	5,476.1	3,656.4
Satellites, net	4,912.2	4,922.6
Property, net	1,966.4	2,017.4
Goodwill, net	5,775.2	5,775.2
Intangible Assets, net	626.2	644.7
Net Investment in Sales-type Leases	155.8	161.9
Investments and Other Assets	762.3	706.9
Total Assets	$ 19,674.2	$ 17,885.1
LIABILITIES AND STOCKHOLDER S EQUITY		
Current Liabilities		
Accounts payable	$ 1,150.2	$ 1,039.0
Deferred revenues	173.2	166.4
Short-term borrowings and current portion of long-term debt	45.1	727.8
Accrued liabilities and other	1,185.6	1,269.9
Total Current Liabilities	2,554.1	3,203.1
Long-Term Debt	4,969.7	2,390.0
Other Liabilities and Deferred Credits	1,132.3	1,178.4
Deferred Income Taxes	530.2	581.2
Commitments and Contingencies		
Minority Interests	563.7	555.3
Stockholder s Equity	9,924.2	9,977.1
Total Liabilities and Stockholder s Equity	$ 19,674.2	$ 17,885.1

Holders of GM Class H common stock have no direct rights in the equity or assets of Hughes, but rather have rights in the equity and assets of General Motors (which includes 100% of the stock of Hughes).

HUGHES ELECTRONICS CORPORATION

SELECTED SEGMENT DATA

(Dollars in Millions)

(Unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
DIRECT-TO-HOME BROADCAST		
Total Revenues	$ 1,847.9	$ 1,630.4
EBITDA (1)	$ 211.3	$ (20.9)
EBITDA Margin (1)	11.4%	N/A
Operating Profit (Loss)	$ 38.3	$ (164.0)
Operating Profit Margin	2.1%	N/A
Depreciation and Amortization	$ 173.0	$ 143.1
Capital Expenditures	$ 73.2	$ 124.6
SATELLITE SERVICES		
Total Revenues	$ 199.8	$ 207.1
EBITDA (1)	$ 148.6	$ 151.1
EBITDA Margin (1)	74.4%	73.0%
Operating Profit	$ 76.3	$ 57.1
Operating Profit Margin	38.2%	27.6%
Depreciation and Amortization	$ 72.3	$ 94.0
Capital Expenditures	$ 33.1	$ 74.0
NETWORK SYSTEMS		
Total Revenues	$ 247.4	$ 242.8
EBITDA (1)	$ (22.2)	$ (30.5)
Operating Loss	$ (39.8)	$ (48.5)
Depreciation and Amortization	$ 17.6	$ 18.0
Capital Expenditures	$ 54.1	$ 128.3
ELIMINATIONS and OTHER		
Total Revenues	$ (67.8)	$ (55.5)
EBITDA (1)	$ (32.7)	$ 64.8
Operating Profit (Loss)	$ (32.9)	$ 67.7
Depreciation and Amortization	$ 0.2	$ (2.9)
Capital Expenditures	$ 27.1	$ 19.0
TOTAL		
Total Revenues	$ 2,227.3	$ 2,024.8
EBITDA (1)	$ 305.0	$ 164.5
EBITDA Margin (1)	13.7%	8.1%
Operating Profit (Loss)	$ 41.9	$ (87.7)
Operating Profit Margin	1.9%	N/A
Depreciation and Amortization	$ 263.1	$ 252.2
Capital Expenditures	$ 187.5	$ 345.9

(1) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is defined as operating profit (loss) plus depreciation and amortization. EBITDA margin is calculated by dividing EBITDA by total revenues. EBITDA is not presented as an alternative measure of operating results or cash flow from operations, as determined in accordance with accounting principles generally accepted in the United States of America. HUGHES management uses EBITDA to evaluate the operating performance of HUGHES and its business segments, to allocate resources and capital to its business segments, and as a measure of performance for incentive compensation purposes. HUGHES believes EBITDA is a measure of performance used by some investors, equity analysts and others to make informed investment decisions. EBITDA is used as an analytical indicator of income generated to service debt and fund capital expenditures. In addition, multiples of current or projected EBITDA are used to estimate current or prospective enterprise value. HUGHES management believes that EBITDA is a common measure used to compare HUGHES operating performance and enterprise value to other communications, entertainment and media service providers. EBITDA does not give effect to cash used for interest payments related to debt service requirements. As a result, EBITDA does not reflect funds available for investment in the business of HUGHES, dividends or other discretionary uses. EBITDA and EBITDA margin as presented herein may not be comparable to similarly titled measures reported by other companies.

The Following Pages Reflect DIRECTV U.S. Financial Statements and

Other Data as a Stand Alone Entity

DIRECTV HOLDINGS LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2003	**2002**
	(dollars in millions)	
Revenues	$ 1,708.1	$ 1,465.8
Operating Costs and Expenses, exclusive of depreciation and amortization expense shown below		
Programming and other costs	695.5	604.4
Subscriber service expenses	156.4	147.3
Subscriber acquisition costs:		
Third party customer acquisitions	325.0	368.2
Direct customer acquisitions	55.8	22.9
Retention, upgrade and other marketing costs	93.8	77.6
Broadcast operations expenses	33.9	30.9
General and administrative expenses	117.3	120.8
Depreciation and amortization expense	124.4	85.1
Total Operating Costs and Expenses	1,602.1	1,457.2
Operating Profit	106.0	8.6
Interest expense, net	(29.2)	(28.1)
Other loss, net	(1.1)	(0.2)
Income (Loss) Before Income Taxes	75.7	(19.7)
Income tax benefit (expense)	(28.4)	7.3
Net Income (Loss)	$ 47.3	$ (12.4)

DIRECTV HOLDINGS LLC

CONSOLIDATED BALANCE SHEETS

	March 31, 2003 (Unaudited)	December 31, 2002
	(dollars in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 273.8	$ 14.1
Accounts receivable, net of allowances	466.9	506.7
Inventories, net	78.2	62.6
Prepaid expenses and other	490.9	545.8
Total Current Assets	1,309.8	1,129.2
Satellites, net	1,019.0	1,011.3
Property, net	786.2	838.6
Goodwill, net	2,888.5	2,888.5
Intangible Assets, net	605.2	623.7
Investments and Other Assets	106.3	87.3
Total Assets	$ 6,715.0	$ 6,578.6
LIABILITIES AND OWNER S EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,204.6	$ 1,139.2
Unearned subscriber revenue	162.7	156.6
Current portion of long-term debt	10.5	
Total Current Liabilities	1,377.8	1,295.8
Long-Term Debt	2,614.5	
Other Liabilities and Deferred Credits	446.6	477.6
Deferred Income Taxes	269.6	246.7
Commitments and Contingencies		
Owner s Equity		
Capital stock and additional paid-in capital	2,782.9	5,385.1
Accumulated deficit	(776.4)	(823.7)
Subtotal Owner s Equity	2,006.5	4,561.4
Accumulated Other Comprehensive Loss		
Accumulated unrealized losses on securities		(2.9)
Total Owner s Equity	2,006.5	4,558.5
Total Liabilities and Owner s Equity	$ 6,715.0	$ 6,578.6

DIRECTV HOLDINGS LLC

Non-GAAP Financial Reconciliation and Other Data

(Unaudited)

Pre-Marketing Margin Reconciliation to Operating Profit

	For the Quarter Ended March 31, 2003	For the Quarter Ended March 31, 2002	Guidance Full Year 2003
	(dollars in millions)		
Operating profit	$ 106.0	$ 8.6	~$ 375
Add back: Subscriber acquisition costs			
Third party customer acquisitions	325.0	368.2	**
Direct customer acquisitions	55.8	22.9	**
Depreciation and amortization expense	124.4	85.1	**
Retention, upgrade and other marketing costs	93.8	77.6	**
Subtotal	599.0	553.8	~2,545
Pre-marketing margin*	$ 705.0	$ 562.4	~$ 2,920
Pre-marketing margin as a percentage of revenue*	41.3%	38.4%	~40%

Other Data

	For the Quarter Ended March 31, 2003	For the Quarter Ended March 31, 2002
	(dollars except where noted)	
Average monthly revenue per subscriber (ARPU)	$ 59.10	$ 56.70
Average monthly subscriber churn %	1.5%	1.6%

Average subscriber acquisition costs (SAC)	$ 545	$ 510
Total number of subscribers platform (000 s)	11,421	10,544
Total owned and operated subscribers (000 s)	9,768	8,793

(*) Pre-marketing margin is a measure of profitability before subscriber acquisition costs; retention, upgrade and other marketing costs; and depreciation and amortization. Pre-marketing margin is not presented as an alternative measure of operating results or cash flow from operations, as determined in accordance with accounting principles generally accepted in the United States of America. HUGHES and DIRECTV U.S. management use pre-marketing margin to aid in the evaluation of DIRECTV U.S. operating performance. HUGHES and DIRECTV U.S. believe pre-marketing margin is a measure of performance used by some investors, equity analysts and others to make informed investment decisions. Pre-marketing margin is used as an additional analytical indicator of profitability. HUGHES and DIRECTV management believe that pre-marketing margin is a common measure used to compare DIRECTV U.S. operating performance to other multi-channel video providers. Pre-marketing margin does not reflect funds available for investment in the business of DIRECTV, dividends or other discretionary uses. Pre-marketing margin as presented herein may not be comparable to similarly titled measures reported by other companies.

(**) No individual guidance provided.

more than thirty-five years and was a Senior Adjustor in Empire Insurance Group for more than 15 years until retiring from that position on July 1, 1997. Mr. Janoff also served, from June 1985 to June 1991, as President of Action Data Management Strategies, Ltd., a supplier of computer programs for use by insurance companies. Mr. Janoff is a member of the Board of Directors of Harmony Heights of Oyster Bay, New York, which is a nonprofit residential school for girls with learning disabilities. Charles N. O'Data has been a Director of FONAR since February, 1998. From 1968 to 1997, Mr. O'Data was the Vice President for Development for Geneva College, a liberal arts college located in western Pennsylvania. In that capacity, he acted as the College's chief investment officer. His responsibilities included management of the College's endowment fund and fund raising. In July 1997, Mr. O'Data retired from Geneva College after 36 years of service to assume a position of National Sales Executive for SC Johnson Company's Professional Markets Group (a unit of SC Johnson Wax), and specialized in healthcare and education sales, a position he held until the spring of 1999. In his capacity with SC Johnson he was responsible for sales to the nation's three largest Group Purchasing Organizations which included some 4,000 hospitals. Mr. O'Data acts an independent financial consultant to various entities. Mr. O'Data served on the board of the Medical Center, Beaver, Pennsylvania (now a part of Heritage Valley Health System), a 500 bed acute care facility, for 22 years, three as its Chair. Mr. O'Data also served on the board of the Hospital Council of Western Pennsylvania, a shared-services and group purchasing organization covering seven states. He founded The Beaver County Foundation, a Community Foundation, in 1992, and serves as its President. Mr. O'Data is listed as a finance associate in the Middle States Association, Commission on Higher Education. The commission is the formal accrediting body for higher education in the eastern region of the country. In this capacity he valuates the financial aspects of educational organizations. ITEM 11. EXECUTIVE COMPENSATION. With the exception of the Chief Executive Officer, the compensation of the Company's executive officers is based on a combination of salary and bonuses based on performance. The Chief Executive Officer's compensation consists only of a salary which has remained constant for more than the past three fiscal years. The Board of Directors does not have a compensation Committee: Dr. Raymond V. Damadian, President, Chief Executive Officer and Chairman of the Board, is the only executive officer who is a member of the Board of Directors. Dr. Damadian participates in the determination of executive compensation for the Company's officers. The Board of Directors has established an audit committee. The members of the committee are Robert J. Janoff and

Charles N. O'Data. There is set forth in the following Summary Compensation Table the compensation provided by the Company during fiscal 2001 to its Chief Executive Officer. There is set forth in the following Option Grant Table and Option Exercise Table any stock options granted and exercised by Dr. Damadian during fiscal 2001. I. SUMMARY COMPENSATION TABLE Long Term Compensation ------------------------------------ Annual Compensation Awards Payouts --------------------------------------- ----------------- ---------------- (a) (b) (c) (d) (e) (f) (g) (h) (i) Name Other All and Annual Restricted Other Principal Compen- Stock Options LTIP Compen- Position Salary Bonus sation Award(s) SARs Payouts sation 2 Year ($) ($) ($) ($) (#) ($) ($) ---------- ---- ---------- ----- ------- ---------- ------- ------- ------- Raymond V. 2001 $86,799.96 - - - - - - Damadian, 2000 $86,799.97 - - - - - - CEO 1999 $86,799.96 - - - - - - ---------- ---- ---------- ----- ------- ---------- ------- ------- ------- II. OPTION/SAR GRANTS IN LAST FISCAL YEAR Potential Realizable Value at Assumed Annual Rates of Alternative Stock Price to (f) and Appreciation for (g): Grant Individual Grants Option Term Date Value --- --------------- ----------- (a) b) (c) (d) (e) (f) (g) (h) % of Total Options/ SARs Options/ Granted to Excercise Grant SARs Employees or Base Date Granted in Fiscal Price Expiration Present Name (#) Year ($/Sh) Date 5% ($) 10% ($) Value $ ---------- -------- ---------- ---------- ---------- ------ ------- -------- Raymond V. Damadian, 0 - - - - - - President & CEO --- III. OPTION/SAR EXERCISES AND YEAR-END VALUE TABLE Aggregated Options/SAR Exercises in Last Fiscal Year, and FY-End Option/Sar Value -- (a) (b) (c) (d) (e) Value of Number of Unexercised Name Shares Acquired Value Unexercised In-the-Money on Exercise (#) Realized Options/SARs Options/SARs ($) at FY-End (#) at FY-End ($) Exercisable/ Exercisable/ Unexercisable Unexercisable -- Raymond V. 0 - 0 - Damadian, President and CEO EMPLOYEE COMPENSATION PLANS FONAR's 1993 Incentive Stock Option Plan, adopted on March 26, 1993, is intended to qualify as an incentive stock option plan under Section 422A of the Internal Revenue Code of 1954, as amended. The 1993 Incentive Stock Option Plan permits the issuance of stock options covering an aggregate of 1,500,000 shares of Common Stock of FONAR. The options have an exercise price equal to the fair market value of the underlying stock on the date the option is granted, are nontransferable, are exercisable for a period not exceeding ten years and expire upon the voluntary termination of employment. The 1993 Stock Option Plan will terminate on March 25, 2003. As of June 30, 2001, options to purchase 311,830 shares of Common Stock were available for future grant under the plan. FONAR's 1997 Nonstatutory Stock Option Plan, adopted on May 9, 1997, permits the issuance of stock options covering an aggregate of 5,000,000 shares of Common Stock of FONAR. The options may be issued at such prices and upon such terms and conditions as are determined by FONAR. The 1997 Nonstatutory Stock Option Plan will terminate on May 8, 2007. As of June 30, 2001, options to purchase 3,900,369 shares of Common Stock of FONAR were available for future grant. FONAR's 1997 Stock Bonus Plan, adopted on May 9, 1997, permits FONAR to issue an aggregate of 5,000,000 shares of Common Stock of FONAR as a bonus or compensation. FONAR selects the persons to whom bonus stock will be issued, the number of shares to be awarded and such other terms and conditions as it deems advisable. The 1997 Stock Bonus Plan will terminate on May 8, 2007. As of June 30, 2001, no shares of Common Stock of FONAR were available for future grant. FONAR's 2000 Stock Bonus Plan, adopted on October 1, 2000, permits FONAR to issue on aggregate of 5,000,000 shares of Common Stock of FONAR as bonus or compensation. FONAR selects the persons to whom bonus stock will be issued, the number of shares to be awarded and such other terms and conditions as it deems advisable. The 2000 Stock Bonus Plan will terminate on September 30, 2010. As of June 30, 2001, 4,012,284 shares of Common Stock of FONAR were available for future grant. HMCA's 1997 Incentive Stock Option Plan, adopted on March 10, 1997, is intended to qualify as an incentive stock option plan under Section 422A of the Internal Revenue Code of 1954, as amended. The 1997 Incentive Stock Option Plan permits the issuance of stock options covering an aggregate of 2,000,000 shares of Common Stock of HMCA. The options have an exercise price equal to the fair market value of the underlying stock on the date the option is granted, are nontransferable, are exercisable for a period not exceeding ten years and expire upon the voluntary termination of employment. The exercisability of the options granted to date is contingent upon the successful completion by HMCA of a public offering of its securities or the recognition by HMCA of at least $10 million in revenues for at least two consecutive fiscal quarters. The 1997 Stock Option Plan will terminate on March 9, 2007. As of June 30, 2001, options to purchase 400,000 shares of HMCA Common Stock were available for future grant under the plan. HMCA's 1998 Incentive Stock Option Plan, adopted on December 16, 1998, is intended to qualify as an incentive stock option plan under Section 422A of the Internal Revenue Code of 1954, as amended. The 1998 Incentive Stock Option Plan permits the issuance of stock options covering an aggregate of 2,000,000 shares of Common Stock of HMCA. The options have an exercise price equal to the fair market value of the underlying stock on the date the option is granted, are nontransferable, are exercisable for a period not exceeding ten years and expire upon the voluntary termination of employment. The excessability of the options granted to date is contingent upon the successful completion by HMCA of a public offering of its securities. The 1998 Stock Option Plan will terminate on December 15, 2008. As of June 30, 2001, options to purchase 1,330,000 shares of HMCA Common Stock were available for future grant under the plan. HMCA's 1998 Nonstatutory Stock Option Plan, adopted on December 16, 1998, permits the issuance of stock options covering an aggregate of 500,000 shares of Common Stock of HMCA. The options may be issued at such prices and upon such terms and conditions as are determined by HMCA. The exercisability of the options granted to date is contingent upon the successful completion by HMCA of a public offering of its securities. The 1998 Nonstatutory Stock Option Plan will terminate on December 15, 2008. As of June 30, 2001, options to purchase 100,000 shares of Common Stock were available for future grant. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. The following table sets forth the number and percentage of shares of the Company's securities held by each director, by each person known by the Company to own in excess of five percent of the Company's voting securities and by all officers and directors as a group as of September 24, 2001. Name and Address of Shares Percent Beneficial Owner (1) Beneficially Owned of Class Raymond V. Damadian, M.D. c/o FONAR Corporation Melville, New York Director, President CEO, 5% + Stockholder Common Stock 2,488,274 4.14% Class C Stock 9,561,174 99.98% Class A Preferred 477,328 6.09% Claudette Chan Director Common Stock 2,648 * Class A Preferred 800 * Robert J. Janoff Director Common Stock 50,000 * Class A Preferred 1,999 * Charles N. O'Data Director Common Stock 700 * All Officers and Directors as a Group (5 persons) (2) (3) Common Stock 2,548,220 4.24% Class C Stock 9,561,174 99.98% Class A Preferred 480,165 6.13% -------------------------- * Less than one percent 1. Address provided for each beneficial owner owning more than five percent of the voting securities of the Company. 2. Includes 101 shares of the Company's Common Stock and 19 shares of the Company's Class A Non-voting Preferred Stock held by an officer jointly with his wife and 192 shares of the Company's Common Stock and 38 shares of the Company's Class A Non-voting Preferred Stock held in trust by an officer for his children. 3. Includes options to purchase 6,286 shares of Common Stock held by an officer. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. Background. On April 7, 1989, at a time when the Company lacked both the financing and working capital to establish its own centers, Donna Damadian, the wife of Raymond V. Damadian, M.D., Chairman and President of the Company, purchased from FONAR a scanner for a purchase price of $1,508,000 (the price paid by FONAR's customers for like equipment). $1.2 million was paid in cash, providing a much needed cash infusion for the Company, and the balance was paid over time with interest pursuant to a promissory note of even date. The scanner was leased to Macon Magnetic Resonance Imaging, P.C., a Georgia professional corporation wholly-owned by, and of which Dr. Damadian is, the President. Thereafter, between 1990 and 1996, Raymond V. Damadian, M.D. MRI Scanning Centers Management Company, a Delaware corporation of which Dr. Damadian was the sole stockholder, director and President ("RVDC"), purchased and leased scanners from FONAR to establish a network of professional corporations operating MRI scanning centers ("Centers"), including the Macon Center, in New York, Florida, Georgia and other locations. Dr. Damadian was the owner, director and President of each of these professional corporations. RVDC provided the necessary management and the scanners to the Centers, although in certain situations, a Center would acquire the scanner directly from FONAR. ACQUISITION OF RVDC. Effective June 30, 1997, FONAR's wholly-owned subsidiary, Health Management Corporation of America ("HMCA"), formerly known as U.S. Health Management Corporation, acquired RVDC by purchasing all of the issued and outstanding shares of RVDC from Dr. Damadian for 10,000 shares of the Common Stock of FONAR. The transactions can be rescinded by Dr. Damadian, however, in the event of a change of control in FONAR or the bankruptcy of FONAR. There is no time limit on the right to rescind. In connection with the transaction, FONAR granted RVDC a nonexclusive royalty free license to FONAR's patents and software. These licenses may be terminated by FONAR in the event of the bankruptcy of RVDC or a change in control of RVDC. In connection with and immediately prior to the sale of RVDC to HMCA, certain leases and sales of scanners to RVDC were terminated. The scanners were then leased directly to the Centers at which they were installed pursuant to new scanner leases between HMCA and the Centers. NEW AGREEMENTS WITH HMCA. Effective July 1, 1997, immediately following the effective date of the acquisition of RVDC by

HMCA, all previous management arrangements between RVDC and the Centers were terminated and new management agreements were entered into by the Centers and HMCA ("Management Agreements"). Pursuant to the Management Agreements, HMCA is providing comprehensive management and administrative services and office facilities, including billing and collection of accounts, payroll and accounts payable processing, supplies and utilities to the Centers. Under the Management Agreements, HMCA provides service through FONAR for the scanners at the Centers, eliminating the need for the Centers to have separate service agreements for their scanners. In total, 15 of the Centers previously managed by RVDC and three additional Centers opened after the acquisition, have Management Agreements with HMCA. With respect to the scanners at 9 of the 18 Centers, the lease or sales agreement between RVDC (or the Center in some cases) and FONAR were terminated. In substitution for the previous arrangements, HMCA, effective as of July 1, 1997, entered into new scanner leases ("Scanner Leases") with these Centers pursuant to which the scanners are provided to the Centers. The fees payable to HMCA are on a per procedure basis, which currently range from $250 to $760 per MRI scan. These fees are reviewed and subject to adjustment on an annual basis by mutual agreement. The agreements have a one year term which automatically renews unless notice of termination is given. Dr. Damadian is the owner of all of the Centers. During the fiscal years ended June 30, 2001 and June 30, 2000 the net revenues received by HMCA from the Centers owned by Dr. Damadian were approximately $14.8 million and $17.2 million respectively. Effective December 1, 1993, one of the Centers, Albany Magnetic Resonance Imaging, P.C. (the "Albany Center"), a Georgia professional corporation of which Raymond V. Damadian is the sole shareholder, director and President, purchased the scanner being utilized at its site from the Company for a purchase price of $1,128,844, which in Fonar's opinion represented a fair market price based on sales of like equipment by Fonar to its customers. Of the purchase price, $574,077 was paid by the assumption and payment of the Company's indebtedness to the lender secured by the scanner. Such indebtedness to the lender was retired pursuant to a new equipment finance lease between the lender and the Albany Center, guaranteed by the Company, providing for 18 monthly payments of $35,000 each. Following payment of the lease, the remaining $554,767 of the purchase price due to the Company was required to be paid pursuant to a promissory note, with interest at 10% per annum, over an 18 month term (17 payments of $35,000 each and one final payment of $2,454.08). In June, 1997, the payment terms for the outstanding balance of $344,766 were restructured to provide for 60 equal monthly payments (including interest at the rate of 10% per annum) of $7,325.27 each commencing July, 1997. Effective December 1, 1993, Daytona Beach Magnetic Resonance Imaging, P.A. (the "Daytona Beach Center"), a Florida professional association of which Raymond V. Damadian is the sole shareholder, director and President, purchased the scanner being utilized at its site from the Company for a purchase price of $1,416,717, which in Fonar's opinion represented a fair market price based on sales of like equipment by Fonar to its customers. Of the purchase price, $328,044 was paid by the assumption and payment of the Company's indebtedness to the lender secured by the scanner. Such indebtedness to the lender was retired pursuant to a new equipment finance lease between the lender and the Daytona Beach Center, guaranteed by the Company, providing for 18 monthly payments of $20,000 each. The remaining $1,088,673 of the purchase price due to the Company was required to be paid pursuant to a promissory note, with interest at 10% per annum. In May, 1999, the payment terms for the outstanding balance of $1,001,507 were restructured to provide for 84 equal monthly payments (including interest at the rate of 10% per annum) of $16,626.20 each commencing May 1999. During fiscal 2001, FONAR took back the scanner in satisfaction of the outstanding indebtedness. The Daytona Beach Center then purchased a new QUAD 12000 MRI scanner from FONAR for a purchase price of $960,000, which is payable with interest a rate of 8.5% per annum in 59 monthly payments of $11,902.62 each and one final installment of $580,148.53. On June 30, 1994, Melville MRI, P.C. (the "Melville Center"), a New York professional corporation of which Raymond V. Damadian is the sole shareholder, director and President, purchased the scanner being utilized at its site from the Company for a purchase price of $1,011,431.12, which in Fonar's opinion represented a fair market price based on sales of like equipment by Fonar to its customers. Of the purchase price, $900,000 is to be paid by the assumption and payment of the Company's indebtedness to the lender secured by the scanner pursuant to a note bearing interest at 14% per annum and providing for 60 monthly payments of $20,700 each. The remaining $111,431.12 of the purchase price was to be paid concurrently with the payments to the lender. The payment terms for the principal balance, plus accrued interest (in the aggregate amount of $139,290) were restructured to provide for 60 equal monthly payments (including interest at the rate of 10% per annum) of $2,959.50 each commencing July, 1998. In fiscal 2001, following the payment in full by FONAR, as guarantor, of the indebtedness due to the lender, there was as a result a balance of $893,606 then owing to FONAR by the Melville Center. The

$2,959.50 monthly payment to FONAR has been increased by an additional principal amount of $10,000 per month to be applied toward the balance due. ACQUISITION OF THE AFFORDABLE COMPANIES. Effective June 30, 1997, HMCA acquired a group of several interrelated corporations, limited liability companies and a partnership engaged in managing three diagnostic imaging centers and one multi-specialty practice in New York State (the "Affordable Companies") pursuant to a series of transactions concluding with a merger between a wholly-owned subsidiary of HMCA and Affordable Diagnostics, Inc. Concurrently with the acquisition, Raymond V. Damadian purchased three New York professional corporations to which the Affordable Companies were providing their services under several agreements. Dr. Damadian is the sole stockholder, director and President of these professional corporations (the "Affordable Professional Corporations"). During the fiscal year ended June 30, 2001, the net revenues from the Affordable Professional Corporations were approximately $2.9 million. ACQUISITION OF A & A SERVICES. Effective March 20, 1998, HMCA acquired A & A Services, Inc. ("A & A Services"), an management company managing four primary care practices in Queens County, New York. Concurrently with the acquisition, Raymond V. Damadian purchased the four New York professional service corporations under contract with A & A Services (the "A & A Professional Corporations"). During the fiscal year ended June 30, 2001, the net revenues from the A & A Professional Corporations were $3.1 million. ACQUISITION OF DYNAMIC HEALTH CARE MANAGEMENT Effective August 20, 1998, HMCA acquired Dynamic Health Care Management, Inc. ("Dynamic"), an MSO managing three physician practices in Nassau and Suffolk Counties on Long Island, New York. Concurrently with the acquisition, Raymond V. Damadian purchased two professional service corporations under contract with Dynamic (the "Dynamic Professional Corporations"). During the fiscal year ended June 30, 2001, the net revenues from the Dynamic Professional Corporations were $8.0 million. HMCA performs management services for Superior Medical Services, P.C. ("Superior"), a New York professional corporation of which Raymond V. Damadian is the sole stockholder, director and President. Superior conducts multi-specialty practices at locations in Yonkers, Elmont, Elmhurst and Riverdale, New York. During the fiscal year ended June 30, 2001, the net revenues from Superior were $5.1 million. The agreements with the A&A Professional Corporations, the Dynamic Professional Corporations and Superior provide for fixed monthly fees which are adjusted annually. Historically, the adjustments have been on the basis of changes in HMCA's costs plus a percentage. Currently, the monthly fees under the agreement range from approximately $53,850 to $272,500. These agreements have a term of twenty years. Pursuant to an agreement dated March 31, 1993, RVDC agreed to purchase the Company's general partnership interest (approximately 92% of the partnership) in a partnership owning and operating an MRI scanning center in Bensonhurst (Brooklyn), New York. Robert Janoff, a director of the Company, is a limited partner in the partnership. The partnership is also party to a service agreement with the Company. The current annual rate is $50,000 for the one year service contract from July 1, 2001 to July 30, 2002. The rate in effect during the prior year was also $50,000. Pursuant to an agreement dated September 30, 1993, AMD sold its interests in a partnership operating an MRI scanning center in Melbourne, Florida to Melbourne Magnetic Resonance Imaging, P.A. (the "Melbourne Facility"), for a purchase price of $150,000. The purchase price is payable, with interest at 10% per annum, over a period of fifteen months commencing September 1, 1995 as follows: $13,500 per month for the first fourteen months and $1,185.60 for the fifteenth month. The Melbourne Facility is a Florida professional corporation of which Raymond V. Damadian is the sole stockholder, director and President. The partnership is presently inactive. Pursuant to an agreement dated September 30, 1993, AMD sold to Dade County MRI, P.A. its interests in a partnership which had formerly operated an MRI scanning center in Miami, Florida. The purchase price of $100,000 is payable, with interest at 10% per annum,in sixty (60) equal consecutive monthly installments of principal and interest (including interest accrued from September 30, 1993), commencing 90 days after the scanner is placed in service. The partnership is presently inactive. Dade County MRI, P.A. is a Florida professional association of which Raymond V. Damadian is the sole stockholder, director and President. This indebtedness has been written off by the Company as uncollectable. Pursuant to a sales agreement dated April 1, 1996, RVDC agreed to purchase an MRI scanner with certain upgrades from the Company which RVDC then contributed to Orlando MRI Associates, Limited Partnership (the "Orlando Partnership"), a limited partnership. The Orlando Partnership is utilizing the scanner at a site located in Orlando, Florida. The sales agreement provides for a purchase price of $400,000 payable in installments as follows: (1) $40,000 down payment within thirty (30) days of execution and (2) $360,000 in 84 monthly installments of $5,611.04 each (inclusive of interest at 8% per annum) pursuant to a promissory note executed by RVDC upon acceptance of the scanner. The Orlando Partnership is party to a service agreement for its scanner with the Company at an annual fee of $50,000 for the period from April 8, 2001 through April 7, 2002. The price in effect for the prior year was also $50,000. Timothy Damadian, the son of Raymond V. Damadian, is a limited partner in Orlando. Pursuant to an agreement dated March 1, 1999, Dublin Magnetic Resonance Imaging, P.C., ("Dublin"), a Georgia professional corporation which Raymond V. Damadian is the sole stockholder, director and President, agreed to lease a used Fonar Beta 3000M Mobile MRI Scanner from the Company at a monthly rental of $4,840.08 commencing on September 1, 1999 and continuing for thirty-six (36) months. At the conclusion of the lease period Dublin will have the option to purchase the scanner for a price of $1.00. Pursuant to an agreement dated December 1, 1999, Damadian MRI in Garden City, P.C. ("Garden City") a New York professional corporation of which Raymond V. Damadian is the sole stockholder, director and President, agreed to lease a Fonar QUAD 12000 MRI Scanner from the Company for a term of five years at a monthly rental of $12,356.09. Upon the conclusion of the five year term, Garden City may elect to purchase the scanner for $581,544.42 or extend the lease for an additional five year period at the same monthly rental. If the lease term is extended, then Garden City will have the option to purchase the scanner at the end of the second five year period for a purchase price of $1.00. The term of the lease commenced on June 12, 2000 upon acceptance of the scanner. Payments are due on the twelfth of the month commencing June 12, 2000. Pursuant to an agreement dated February 1, 2000, Deerfield Magnetic Resonance Imaging, P.A. ("Deerfield"), a Florida professional association of which Raymond V. Damadian is the sole stockholder, director and President, agreed to lease a Fonar QUAD 12000 MRI Scanner from the Company for a term of five years at a monthly rental of $12,356.09. Upon the conclusion of the five year term, Deerfield may elect to purchase the scanner for $581,544.42 or extend the lease for an additional five year period at the same monthly rental. If the lease term is extended, then Deerfield will have the option to purchase the scanner at the end of the second five year period for a purchase price of $1.00. The term of the lease commenced on July 18, 2000 upon the acceptance of the scanner. Lease payments are due on the first of the month, commencing August 1, 2000. Canarsie MRI Associates ("Canarsie"), a joint venture partnership of which MRI Specialties, Inc. ("Specialties") is an owner, is party to a service agreement for its scanner with the Company at an annual fee of $70,000 for the period from September 1, 2001 through August 31, 2002. The price in effect during the prior year was also $70,000. In addition, during fiscal 2001, Canarsie entered into an agreement to purchase a QUAD 12000 MRI scanner from FONAR for a purchase price of $850,000. Timothy Damadian, the son of Raymond V. Damadian, is the sole stockholder, director and President of Specialties. Pompano MRI Associates ("Pompano"), a joint venture partnership of which Guardian MRI, Inc. ("Guardian") is an owner, is party to a service agreement for its scanner with the Company at an annual fee of $70,000 for the period from October 1, 2000 through September 30, 2001. The price in effect during the prior year was also $70,000. In addition, during fiscal 2002, Pompano entered into an agreement to purchase a Stand-Up MRI scanner from FONAR for a purchase price of $1,400,000. Timothy Damadian, the son of Raymond V. Damadian, is a stockholder, director and officer of Guardian. During fiscal 2001, Tallahassee MRI, P.A. ("Tallahassee"), a Florida professional association of which Raymond V. Damadian is the sole stockholder, director and President, agreed to purchase a QUAD 12000 MRI scanner from FONAR for a purchase price of $975,000. During fiscal 2001, Damadian MRI in Orlando, P.A. ("Orlando MRI"), a Florida professional association of which Raymond V. Damadian is the sole stockholder, director and President, agreed to purchase a Stand-Up MRI scanner from FONAR for a purchase price of $1,350,000. During fiscal 2001, Damadian MRI at Islandia, P.C. ("Islandia") a New York professional corporation of which Raymond V. Damadian is the sole stockholder, director and President, agreed to purchase a Stand-Up MRI scanner from FONAR for a purchase price of $1,350,000. During fiscal 2001, Damadian MRI at Elmhurst, P.C. ("Elmhurst"), a New York professional corporation of which Raymond V. Damadian is the sole stockholder, director and President, agreed to purchase an Echo MRI scanner from FONAR for a purchase price of $565,000. During fiscal 2001, Black Bear Management LLC, a New York limited liability company of which TRD Services, Inc. ("TRD") is a member, agreed to purchase a Stand-Up MRI scanner from FONAR for a purchase price of $1,400,000. Timothy Damadian, the son of Raymond V. Damadian, is the stockholder, director and President of TRD. As at June 30, 2001, the indebtedness of Canarsie to the Company was $22,476 and the aggregate indebtedness of Pompano to the Company was $18,550. PART IV ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K. a) FINANCIAL STATEMENTS AND SCHEDULES The following consolidated financial statements are included in Part II, Item 8. Report of Independent Certified Public Accountants. Consolidated Balance Sheets as at June 30, 2001 and 2000. Consolidated Statements of Operations for the Three Years Ended June 30, 2001, 2000 and 1999. Consolidated Statements of Stockholders' Equity for the Three Years Ended June 30, 2001, 2000 and 1999. Consolidated Statements of Cash Flows for the Three Years Ended June 30, 2001, 2000 and 1999.

Notes to Consolidated Financial Statements. Schedule II Valuation and Qualifying Accounts for the Three Years Ended June 30, 2001, 2000 and 1999 follows: FONAR CORPORATION AND SUBSIDIARIES SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS Balance Balance Description June 30, 1998 Additions Deductions June 30, 1999 ----------- ------------ -------------- ---------- ------------- Receivables from equipment sales and service contracts $ 789,749 $ 1,000 $ 788,749 Receivables from medical Services - - - - Receivables from related PC's - (1) $ 628,836 628,836 - Advance and notes to related Parties 904,000 904,000 Notes receivable 477,456 477,456 Balance Balance Description June 30, 1999 Additions Deductions June 30, 2000 ----------- ------------ -------------- ---------- ------------ Receivables from equipment sales and service contracts $ 788,749 $ 418 $ 788,331 Receivables from medical Services - - - - Receivables from related PC's - (1) 177,162 23,430 153,732 Advance and notes to related Parties 904,000 904,000 Notes receivable 477,456 477,456 Balance Balance Description June 30, 2000 Additions Deductions June 30, 2001 ----------- ------------ -------------- ---------- ------------- Receivables from equipment sales and service contracts $ 788,331 (1) $ 245,000 $ - $ 1,033,331 Receivables from medical Services - - - - Receivables from related PC's 153,732 (1) 387,505 2,940 538,297 Advance and notes to related Parties 904,000 (1) 287,456 875,421 316,035 Notes receivable 477,456 (1) - 477,456 - (1) Included in bad debt expense b) REPORTS ON FORM 8-K None. c) EXHIBITS 3.1 Certificate of Incorporation, as amended, of the Company incorporated herein by reference to Exhibit 3.1 to the Registrant's registration statement on Form S-1,Commission File No. 33-13365. 3.2 Article Fourth of the Certificate of Incorporation, as amended, of the Company incorporated by reference to Exhibit 4.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-62099. 3.3 By-Laws, as amended, of the Company incorporated herein by reference to Exhibit 3.2 to the Registrant's registration statement on Form S-1, Commission File No. 33-13365. 4.1 Specimen Common Stock Certificate incorporated herein by reference to Exhibit 4.1 to the Registrant's registration statement on Form S-1, Commission File No. 33-13365. 4.2 Specimen Class B Common Stock Certificate incorporated herein by reference to Exhibit 4.2 to the Registrant's registration statement on Form S-1, Commission File No. 33-13365. 10.1 License Agreement between FONAR and Raymond V. Damadian incorporated herein by reference to Exhibit 10 (e) to Form 10-K for the fiscal year ended June 30, 1983, Commission File No. 0-10248. 10.2 1983 Nonstatutory Stock Option Plan incorporated herein by reference to Exhibit 10 (a) to Form 10-K for the fiscal year ended June 30, 1983, Commission File No. 0-10248, and amendments thereto dated as of March 7, 1984 and dated August 22, 1984, incorporated herein by referenced to Exhibit 28 (a) to Form 10-K for the year ended June 30, 1984, Commission File No. 0-10248. 10.3 1984 Incentive Stock Option Plan incorporated herein by reference to Exhibit 28 (c) to Form 10-K for the year ended June 30, 1984, Commission File No. 0-10248. 10.4 1986 Nonstatutory Stock Option Plan incorporated herein by reference to Exhibit 10.7 to Form 10-K for the fiscal year ended June 30, 1986, Commission File No. 0-10248. 10.5 1986 Stock Bonus Plan incorporated herein by reference to Exhibit 10.8 to Form 10-K for the fiscal year ended June 30, 1986, Commission File No. 0-10248. 10.6 1986 Incentive Stock Option Plan incorporated herein by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended June 30, 1986, Commission File No. 0-10248. 10.7 Lease Agreement, dated as of August 18, 1987, between FONAR and Reckson Associates incorporated herein by reference to Exhibit 10.26 to Form 10-K for the fiscal year ended June 30, 1987, Commission File No. 0-10248. 10.8 1993 Incentive Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-60154. 10.9 1993 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No. 33-60154. 10.10 1993 Stock Bonus Plan incorporated herein by reference to Exhibit 28.3 to the Registrant's registration statement on Form S-8, Commission File No. 33-60154. 10.11 1994 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-81638. 10.12 1994 Stock Bonus Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No. 33-81638. 10.13 1995 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No. 33-62099. 10.14 1995 Stock Bonus Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No. 33-62099. 10.15 1997 Non-Statutory Stock Option Plan incorporated herein by reference to Exhibit 28.1 to the Registrant's registration statement on Form S-8, Commission File No.: 333-27411. 10.16 1997 Stock Bonus Plan incorporated herein by reference to Exhibit 28.2 to the Registrant's registration statement on Form S-8, Commission File No: 333-27411. 10.17 Stock Purchase Agreement, dated July 31, 1997, by and between U.S. Health Management Corporation, Raymond V. Damadian, M.D. MR Scanning Centers Management Company and Raymond V. Damadian, incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K, July 31, 1997, commission File No: 0-10248. 10.18 Merger Agreement and Supplemental Agreement dated June 17, 1997 and Letter of Amendment dated June 27, 1997 by and among U.S. Health Management Corporation and Affordable Diagnostics Inc. et al., incorporated herein by reference to Exhibit 2.1 to the Registrant's 8-K, June 30, 1997, Commission File No: 0-10248. 10.19 Stock Purchase Agreement dated March 20, 1998 by and among Health Management Corporation of America, FONAR Corporation, Giovanni Marciano, Glenn Muraca et al., incorporated herein by reference to Exhibit 2.1 to the Registrant's 8-K, March 20, 1998, Commission File No: 0-10248. 10.20 Stock Purchase Agreement dated August 20, 1998 by and among Health Management Corporation of America, FONAR Corporation, Stuart Blumberg and Steven Jonas, incorporated herein by reference to Exhibit 2 to the Registrant's 8-K, September 3, 1998, Commission File No. 0-10248. 21. Subsidiaries of the Registrant. See Exhibits. SIGNATURES Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized. FONAR CORPORATION Dated: October 30, 2001 By: /s/ Raymond Damadian Raymond V. Damadian, President Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Signature Title Date /s/ Raymond Damadian Chairman of the October 30, 2001 Raymond V. Damadian Board of Directors, President and a Director (Principal Executive Officer) /s/ Claudette J.V. Chan Director October 30, 2001 Claudette J.V. Chan /s/ Robert J. Janoff Director October 30, 2001 Robert J. Janoff /s/ Charles N. O'Data Director October 30, 2001 Charles N. O'Data CORPORATE INFORMATION Corporate Headquarters 110 Marcus Drive Melville, NY 11747 (631) 694-2929 Investor Relations FONAR Corporation 110 Marcus Drive Melville, NY 11747 (631) 694-2929 Stock Transfer Agency Computershare Trust Company, Inc. 350 Indiana Street, Suite 800 Golden, Colorado 80401 Auditors Grassi & Co., CPAs, P.C. New York, New York Board of Directors Raymond V. Damadian, M.D. Chairman of the Board Claudette Chan, Director Robert Janoff, Director Charles O'Data, Director Officers Raymond V. Damadian, M.D. President, Chief Executive Officer and Treasurer David B. Terry Vice President of Administration and Secretary