

EchoStar CORP
Form 10-Q
May 02, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

**T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
 EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011.

OR

**£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
 EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number: 001-33807

EchoStar Corporation

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

26-1232727

(I.R.S. Employer Identification No.)

100 Inverness Terrace East

Englewood, Colorado

(Address of principal executive offices)

80112-5308

(Zip code)

(303) 706-4000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ T No ☐ £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ T No ☐ £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ T

Accelerated filer ☐ £

Non-accelerated filer ☐ £

(Do not check if a smaller reporting company)

Smaller reporting company ☐ £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ £ No ☒ T

As of April 20, 2011, the registrant's outstanding common stock consisted of 38,470,471 shares of Class A common stock and 47,687,039 shares of Class B common stock.

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PART I FINANCIAL INFORMATION

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 throughout this report. Whenever you read a statement that is not simply a statement of historical fact (such as when we describe what we believe, intend, plan, estimate, expect or anticipate will occur and other similar statements), you must remember that our expectations may not be achieved, even though we believe they are reasonable. We do not guarantee that any future transactions or events described herein will happen as described or that they will happen at all. You should read this report completely and with the understanding that actual future results may be materially different from what we expect. Whether actual events or results will conform with our expectations and predictions is subject to a number of risks and uncertainties.

The risks and uncertainties include, but are not limited to, the following:

General Risks Affecting Our Business

- We currently depend on DISH Network Corporation (DISH Network), Bell TV and Dish Mexico, S. de R.L. de C.V. (Dish Mexico) for substantially all of our revenue. The loss of, or a significant reduction in, orders from, or a decrease in selling prices of digital set-top boxes and/or other products or services to, DISH Network, Bell TV or Dish Mexico would significantly reduce our revenue and adversely impact our results of operations. In addition, the loss of, or a significant reduction in, orders from, or a decrease in selling price of transponder leasing and/or providing digital broadcast operations to, DISH Network would also significantly reduce our revenue and adversely impact our results of operations.
- Economic weakness, including high unemployment and reduced consumer spending, may adversely affect our ability to grow or maintain our business.
- If we are unable to properly respond to technological changes, our business could be significantly harmed.
- We currently have unused satellite capacity, and our results of operations may be materially adversely affected if we are not able to lease more of this capacity to third parties.
- Our sales to DISH Network could be terminated or substantially curtailed on short notice, which would have a detrimental effect on us.

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- We may need additional capital, which may not be available on acceptable terms or at all, to continue investing in our business and to finance acquisitions and other strategic transactions.
- We may experience significant financial losses on our existing investments.
- We may pursue acquisitions and other strategic transactions to complement or expand our business, which may not be successful and we may lose up to the entire value of our investment in these acquisitions and transactions.
- We intend to make significant investments in new products, services, technologies and business areas that may not be profitable.
- We may not be aware of certain foreign government laws or regulations or changes to them which could have a significant adverse impact on our business.
- We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar foreign anti-bribery laws.
- Our business depends on certain intellectual property rights and on not infringing the intellectual property rights of others. The loss of or infringement of our intellectual property rights could have a significant adverse impact on our business.
- Any failure or inadequacy of our information technology infrastructure could harm our business.

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- We are party to various lawsuits which, if adversely decided, could have a significant adverse impact on our business, particularly lawsuits regarding intellectual property.
- We have not been an independent company for a significant amount of time and we may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company.
- We rely on key personnel and the loss of their services may negatively affect our businesses.

Risks Affecting Our Digital Set-Top Box Business

- We depend on sales of digital set-top boxes for nearly all of our revenue and a decline in sales of our digital set-top boxes would have a material adverse effect on our financial position and results of operations.
- Our business may suffer if our customer base does not compete successfully with existing and emerging competition.
- Our future financial performance depends in part on our ability to penetrate new markets for digital set-top boxes.
- Component pricing may remain stable or be negatively affected by inflation, increased demand, decreased supply, or other factors, which could have a material adverse effect on our results of operations.
- The average selling price and gross margins of our digital set-top boxes has been decreasing and may decrease even further, which could negatively impact our financial position and results of operations.
- Our ability to sell our digital set-top boxes to other operators depends on our ability to obtain licenses to use the conditional access systems utilized by these other operators.
- Growth in our Digital Set-Top Box business likely requires expansion of our sales to international customers, and we may be unsuccessful in expanding international sales.

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- If we are successful in growing sales of our digital set-top boxes to international customers, we may be subject to greater risks.
- The digital set-top box business is extremely competitive.
- We expect to continue to face competition from new market entrants, principally located in Asia, that offer low cost set-top boxes.
- Our digital set-top boxes are highly complex and may experience quality or supply problems.
- If significant numbers of television viewers are unwilling to pay for pay-TV services that utilize digital set-top boxes, we may not be able to sustain our current revenue level.
- Our reliance on a single supplier or a limited number of suppliers for several components used in our digital set-top boxes could restrict production, result in higher digital set-top box costs and delay deliveries to customers.
- Our future growth depends on growing demand for advanced technologies.
- If the encryption and related security technology used in our digital set-top boxes is compromised, sales of our digital set-top boxes may decline.

Risks Affecting Our Satellite Services Business

- We currently face competition from established competitors in the satellite service business and may face competition from others in the future.
- Our owned and leased satellites in orbit are subject to significant operational and environmental risks that could limit our ability to utilize these satellites.
- Our satellites have minimum design lives ranging from 12 to 15 years, but could fail or suffer reduced capacity before then.

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- Our satellites under construction are subject to risks related to construction and launch that could limit our ability to utilize these satellites.
- Our Satellite Services business is subject to risks of adverse government regulation.
- Our business depends on Federal Communications Commission (FCC) licenses that can expire or be revoked or modified and applications for FCC licenses that may not be granted.
- Our dependence on outside contractors could result in delays related to the design, manufacture and launch of our new satellites, which could in turn adversely affect our operating results.
- We generally do not have commercial insurance coverage on the satellites we use and could face significant impairment charges if one of our satellites fails.

Risks Relating to the Spin-Off

- We have potential conflicts of interest with DISH Network due to our common ownership and management.

Risks Relating to our Common Stock and the Securities Market

- We cannot assure you that there will not be deficiencies leading to material weaknesses in our internal control over financial reporting.
- It may be difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders, because of our capital structure.
- We are controlled by one principal shareholder who is our Chairman.

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Risks Relating to our Acquisition of Hughes Communications Inc. (Hughes)

- Governmental authorities must approve our acquisition of Hughes and could impose conditions on, delay, or refuse to approve the merger.
- Stockholders of Hughes have filed purported class action lawsuits challenging the merger, and are seeking, among other things, injunctive relief to enjoin the consummation of the merger.
- We may not be able to obtain the financing required to fulfill our obligations under our agreement to acquire Hughes.
- The terms of the financing related to our acquisition of Hughes will significantly reduce our ability to incur additional indebtedness.
- The incurrence of indebtedness to finance our acquisition of Hughes will substantially increase our leverage.
- Although we expect that our acquisition of Hughes will benefit us, those expected benefits may not occur because of the complexity of the integration and other challenges.
- If we are able to complete our acquisition of Hughes, we will be subject to the risks related to Hughes' business.

All cautionary statements made herein should be read as being applicable to all forward-looking statements wherever they appear. Investors should consider the risks described herein and should not place undue reliance on any forward-looking statements. We assume no responsibility for updating forward-looking information contained or incorporated by reference herein or in other reports we file with the Securities and Exchange Commission (SEC).

In this report, the words EchoStar, the Company, we, our and us refer to EchoStar Corporation and its subsidiaries, unless the context otherwise requires. DISH Network refers to DISH Network Corporation and its subsidiaries, unless the context otherwise requires.

Table of Contents**Item 1. FINANCIAL STATEMENTS**

ECHOSTAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	March 31, 2011	As of	December 31, 2010
Assets			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 121,596	\$	141,814
Marketable investment securities	1,018,140		989,086
Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero	250,050		238,997
Trade accounts receivable - other, net of allowance for doubtful accounts of \$8,988 and \$7,644, respectively	43,336		42,247
Inventory	30,063		30,433
Other current assets	117,503		92,890
Total current assets	1,580,688		1,535,467
<i>Noncurrent Assets:</i>			
Restricted cash and marketable investment securities	17,426		17,426
Property and equipment, net of accumulated depreciation of \$1,807,582 and \$1,766,290, respectively	1,276,352		1,263,303
FCC authorizations	69,810		69,810
Intangible assets, net	160,579		165,451
Marketable and other investment securities	752,836		725,588
Other noncurrent assets, net	64,330		64,975
Total noncurrent assets	2,341,333		2,306,553
Total assets	\$ 3,922,021	\$	3,842,020
Liabilities and Stockholders' Equity (Deficit)			
<i>Current Liabilities:</i>			
Trade accounts payable - other	\$ 169,073	\$	145,203
Trade accounts payable - DISH Network	21,854		14,155
Accrued royalties	16,334		20,199
Accrued expenses and other	73,295		62,079
Deferred tax liabilities	63,890		64,121
Current portion of long-term debt and capital lease obligations	54,675		53,060
Total current liabilities	399,121		358,817
<i>Long-Term Obligations, Net of Current Portion:</i>			
Long-term debt and capital lease obligations, net of current portion	354,534		359,825
Deferred tax liabilities	79,031		75,840
Other long-term liabilities	35,316		34,348
Total long-term obligations, net of current portion	468,881		470,013
Total liabilities	868,002		828,830

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Commitments and Contingencies (Note 11)

Stockholders' Equity (Deficit):

Preferred Stock, \$.001 par value, 20,000,000 shares authorized, none issued and outstanding		
Class A common stock, \$.001 par value, 1,600,000,000 shares authorized, 43,664,136 and 43,103,166 shares issued, 38,131,818 and 37,570,848 shares outstanding, respectively	44	43
Class B common stock, \$.001 par value, 800,000,000 shares authorized, 47,687,039 shares issued and outstanding	48	48
Class C common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding		
Class D common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding		
Additional paid-in capital	3,329,160	3,311,405
Accumulated other comprehensive income (loss)	194,896	188,982
Accumulated earnings (deficit)	(371,962)	(389,126)
Treasury stock, at cost	(98,162)	(98,162)
Total EchoStar stockholders' equity (deficit)	3,054,024	3,013,190
Noncontrolling interest	(5)	
Total stockholders' equity (deficit)	3,054,019	3,013,190
Total liabilities and stockholders' equity (deficit)	\$ 3,922,021	\$ 3,842,020

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ECHOSTAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010
Revenue:		
Equipment revenue - DISH Network	\$ 272,126	\$ 385,848
Equipment revenue - other	65,909	111,703
Services and other revenue - DISH Network	121,207	115,060
Services and other revenue - other	20,584	14,469
Total revenue	479,826	627,080
Costs and Expenses:		
Cost of sales - equipment	293,384	422,208
Cost of sales - services and other (exclusive of depreciation shown below - Note 6)	61,460	57,433
Research and development expenses (exclusive of depreciation shown below - Note 6)	8,859	12,234
Selling, general and administrative expenses (exclusive of depreciation shown below - Note 6)	44,772	32,631
General and administrative expenses - DISH Network (exclusive of depreciation shown below - Note 6)	3,489	4,159
Depreciation and amortization (Note 6)	57,014	57,649
Total costs and expenses	468,978	586,314
Operating income (loss)	10,848	40,766
Other Income (Expense):		
Interest income	2,677	1,846
Interest expense, net of amounts capitalized	462	(11,595)
Unrealized and realized gains (losses) on marketable investment securities and other investments	665	(537)
Unrealized gains (losses) on investments accounted for at fair value, net	3,304	65,828
Other, net	6,991	(1,671)
Total other income (expense)	14,099	53,871
Income (loss) before income taxes	24,947	94,637
Income tax (provision) benefit, net	(7,788)	(22,891)
Net income (loss)	17,159	71,746
Less: Net income (loss) attributable to noncontrolling interest	(5)	
Net income (loss) attributable to EchoStar common shareholders	\$ 17,164	\$ 71,746
Comprehensive Income (Loss):		
Net income	\$ 17,159	\$ 71,746
Foreign currency translation adjustments	(192)	(390)
Unrealized holding gains (losses) on available-for-sale securities	6,771	26,669
	(665)	

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Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)			
Comprehensive income (loss)		23,073	98,025
Less: Comprehensive income (loss) attributable to noncontrolling interest		(5)	
Comprehensive income (loss) attributable to EchoStar common shareholders	\$	23,078	\$ 98,025
Weighted-average common shares outstanding - Class A and B common stock:			
Basic		85,466	84,855
Diluted		92,331	84,933
Earnings per share - Class A and B common stock:			
Basic net income (loss) per share attributable to EchoStar common shareholders	\$	0.20	\$ 0.85
Diluted net income (loss) per share attributable to EchoStar common shareholders	\$	0.19	\$ 0.84

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ECHOSTAR CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010
Cash Flows From Operating Activities:		
Net income (loss)	\$ 17,159	\$ 71,746
<i>Adjustments to reconcile net income (loss) to net cash flows from operating activities:</i>		
Depreciation and amortization	57,014	57,649
Equity in losses (earnings) of affiliates	(5,008)	1,690
Unrealized and realized (gains) losses on marketable investment securities and other investments	(665)	537
Unrealized (gains) losses on investments accounted for at fair value, net	(3,304)	(65,828)
Non-cash, stock-based compensation	2,981	4,242
Deferred tax expense (benefit)	1,759	(8,820)
Other, net	353	2,184
Change in noncurrent assets	1,570	1,122
Changes in current assets and current liabilities, net	21,313	(35,646)
Net cash flows from operating activities	93,172	28,876
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(551,508)	(570,308)
Sales and maturities of marketable investment securities	488,781	642,418
Purchases of property and equipment	(39,140)	(32,492)
Launch service assigned to DISH Network (Note 13)		102,913
Purchase of strategic investments included in marketable and other investment securities	(27,775)	(18,601)
Proceeds from sale of strategic investments	15,437	
Other, net	51	(200)
Net cash flows from investing activities	(114,154)	123,730
Cash Flows From Financing Activities:		
Repayment of long-term debt and capital lease obligations	(13,019)	(12,845)
Net proceeds from Class A common stock options exercised and issued under the Employee Stock Purchase Plan	14,153	524
Other	694	
Net cash flows from financing activities	1,828	(12,321)
Effect of exchange rates on cash and cash equivalents	(1,064)	
Net increase (decrease) in cash and cash equivalents	(20,218)	140,285
Cash and cash equivalents, beginning of period	141,814	23,330
Cash and cash equivalents, end of period	\$ 121,596	\$ 163,615
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest (including capitalized interest)	\$ 11,716	\$ 11,422
Capitalized interest	\$ 9,050	\$
Cash received for interest	\$ 4,693	\$ 2,803

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Cash paid for income taxes	\$	474	\$	8,481
Satellites and other assets financed under capital lease obligations	\$	9,343	\$	47,808
Reduction of capital lease obligations and associated asset value for AMC-16 (Note 6)	\$		\$	34,693

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Business Activities

Principal Business

EchoStar Corporation is a holding company, whose subsidiaries (which together with EchoStar Corporation are referred to as "EchoStar," the Company, "we," "us" and/or "our") operate two primary business units:

- ***Digital Set-Top Box Business*** which designs, develops and distributes digital set-top boxes and related products and technology, including our Slingbox "placeshifting" technology, primarily for satellite TV service providers, telecommunication and cable companies and, with respect to Slingboxes, directly to consumers via retail outlets. Our Digital Set-Top Box business also provides digital broadcast operations including satellite uplinking/downlinking, transmission services, signal processing, conditional access management and other services primarily to DISH Network.
- ***Satellite Services Business*** which uses our ten owned and leased in-orbit satellites and related FCC licenses to lease capacity on a full-time and occasional-use basis primarily to DISH Network, and secondarily to Dish Mexico, U.S. government service providers, state agencies, Internet service providers, broadcast news organizations, programmers and private enterprise customers.

Effective January 1, 2008, DISH Network completed its distribution to us (the "Spin-off") of its digital set-top box business and certain infrastructure and other assets, including certain of its satellites, uplink and satellite transmission assets, real estate and other assets and related liabilities. Since the Spin-off, we and DISH Network have operated as separate publicly-traded companies, and neither entity has any ownership interest in the other. However, a substantial majority of the voting power of the shares of both companies is owned beneficially by Charles W. Ergen, our Chairman, or by certain trusts established by Mr. Ergen for the benefit of his family.

Recent Developments

On February 13, 2011, we and certain of our subsidiaries, including EchoStar Satellite Services L.L.C., ("ESS") entered into an agreement and plan of merger (the "Hughes Agreement") with Hughes, whereby we will acquire all of the outstanding equity of Hughes and its subsidiaries, including its main operating subsidiary, Hughes Network Systems, LLC ("HNS") (the "Hughes Merger"). Pursuant to the Hughes Agreement, each issued and outstanding share of common stock of Hughes (other than common stock with respect to which appraisal rights have been exercised) will be converted into the right to receive \$60.70 in cash. The Hughes Agreement also contemplates the repayment of all of the outstanding debt

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of Hughes and HNS (including the 9½% Senior Notes due 2014 issued by HNS), except that the \$115 million loan facility guaranteed by COFACE, the French Export Credit Agency, will continue to remain outstanding following the Merger if certain consents are obtained. As a result, the Hughes Merger is valued at approximately \$2.0 billion, including the Hughes debt expected to be refinanced. The Hughes Merger is expected to close later this year, subject to certain closing conditions, including among others, certain government regulatory approvals, including approval by the FCC. The Hughes Agreement contains certain termination rights for both Hughes and us.

In order to finance the Hughes Merger, we and ESS obtained an aggregate financing commitment of \$1.0 billion in senior secured bridge financing and \$800 million in senior unsecured bridge financing, in each case from Deutsche Bank AG Cayman Islands Branch (collectively, the Bridge Commitment). Deutsche Bank's obligations under the Bridge Commitment are subject to a number of conditions, including that the conditions to closing under the Hughes Agreement have been met (subject to certain exceptions); that we have a minimum amount of cash on hand at the closing; that we have provided certain financial statements and other information relating to us and Hughes in specified time periods; and that our aggregate indebtedness not exceed specified levels. There is no assurance that we will be able to satisfy these conditions. The initial term of the Bridge Commitment is six months. We have the option to extend the term of the Bridge Commitment to nine months so long as we have delivered certain required

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

information, including certain financial statements, and have complied with our obligations to issue debt securities in lieu of borrowing under the Bridge Commitment. Subject to certain exceptions, we do not have the ability to terminate the Hughes Agreement until nine months after the date the Hughes Agreement was executed. Accordingly, there is no assurance that the Bridge Commitment will remain in effect for the duration of our obligations under the Hughes Agreement. We do not have the ability to terminate the Hughes Agreement if we are unable to obtain sufficient funds to satisfy our obligations under the Hughes Agreement. If the funding under the Bridge Commitment were to become unavailable for any reason, there is no assurance that we will be able to obtain sufficient funds to satisfy our obligations under the Hughes Agreement.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required for complete financial statements prepared under GAAP. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Our results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 10-K). Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation

We consolidate all majority owned subsidiaries, investments in entities in which we have controlling influence and variable interest entities where we have been determined to be the primary beneficiary. Non-majority owned investments are accounted for using the equity method when we have the ability to significantly influence the operating decisions of the investee. When we do not have the ability to significantly influence the operating decisions of an investee, the cost method is used. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense for each reporting period. Estimates are used in accounting for, among other things, allowances for doubtful accounts, allowance for sales returns, warranty obligations, self-insurance obligations, deferred taxes and related valuation allowances, uncertain tax positions, loss contingencies, fair value of financial instruments, fair value of options granted under our stock-based compensation plans, fair value of assets and liabilities acquired in business combinations, capital leases, asset impairments, useful lives of property, equipment and intangible assets, and royalty obligations. Weakened economic conditions have increased the inherent uncertainty in the estimates and assumptions indicated above. Actual results may differ from previously estimated amounts, and such differences may be material to the Condensed Consolidated Financial Statements. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected prospectively in the period they occur.

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(Unaudited)

Fair Value of Financial Instruments

As of March 31, 2011 and 2010, the carrying value of our cash and cash equivalents; current marketable investment securities, trade accounts receivable, net of allowance for doubtful accounts; current liabilities and long-term debt is equal to or approximates fair value due to their short-term nature or proximity to current market rates.

3. Basic and Diluted Net Income (Loss) Per Share

We present both basic earnings per share (EPS) and diluted EPS. Basic EPS excludes potential dilution and is computed by dividing Net income (loss) attributable to EchoStar common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock awards were exercised.

The potential dilution from stock awards was computed using the treasury stock method based on the average market value of our Class A common stock. The following table presents earnings per share amounts for all periods and the basic and diluted weighted-average shares outstanding used in the calculation.

	For the Three Months Ended March 31,	
	2011	2010
	(In thousands, except per share amounts)	
Net income (loss) attributable to EchoStar common shareholders	\$ 17,164	\$ 71,746
Weighted-average common shares outstanding - Class A and B common stock:		
Basic	85,466	84,855
Dilutive impact of stock awards outstanding	6,865	78
Diluted	92,331	84,933
Earnings per share - Class A and B common stock:		
Basic net income (loss) per share attributable to EchoStar common shareholders	\$ 0.20	\$ 0.85
Diluted net income (loss) per share attributable to EchoStar common shareholders	\$ 0.19	\$ 0.84

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As of March 31, 2011 and 2010, there were stock awards to purchase 2.3 million and 5.2 million shares, respectively, of Class A common stock outstanding, not included in the weighted-average common shares outstanding above, as their effect is antidilutive.

Vesting of options and rights to acquire shares of our Class A common stock (Restricted Performance Units) granted pursuant to a performance based stock incentive plan is contingent upon meeting a certain company goal which is not yet probable of being achieved. As a consequence, the following are also not included in the diluted EPS calculation.

	As of March 31,	
	2011	2010
	(In thousands)	
Performance based options	689	716
Restricted Performance Units	92	98
Total	781	814

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

4. Marketable Investment Securities, Restricted Cash and Other Investment Securities

Our marketable investment securities, restricted cash and other investment securities consist of the following:

	March 31, 2011	As of (In thousands)	December 31, 2010
Marketable investment securities:			
Current marketable investment securities - VRDNs	\$ 546,420		\$ 395,715
Current marketable investment securities - strategic	239,503		232,718
Current marketable investment securities - other	232,217		360,653
<i>Total marketable investment securities - current</i>	<i>1,018,140</i>		<i>989,086</i>
Restricted marketable investment securities (1)	1,987		1,337
Total	1,020,127		990,423
Restricted cash and cash equivalents (1)	15,439		16,089
Marketable and other investment securities - noncurrent:			
Cost method	3,097		3,097
Equity method	116,575		109,366
Fair value method	633,164		613,125
Total marketable and other investment securities - noncurrent	752,836		725,588
Total marketable investment securities, restricted cash and other investment securities	\$ 1,788,402		\$ 1,732,100

(1) Restricted marketable investment securities and restricted cash and cash equivalents are included in Restricted cash and marketable investment securities on our Condensed Consolidated Balance Sheets.

Marketable Investment Securities

Our marketable investment securities portfolio consists of various debt and equity instruments, all of which are classified as available-for-sale.

Current Marketable Investment Securities - VRDNs

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Variable rate demand notes (VRDNs) are long-term floating rate municipal bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. Our VRDN portfolio is comprised of investments in many municipalities, which are backed by financial institutions or other highly rated companies that serve as the pledged liquidity source. While they are classified as marketable investment securities, the put option allows VRDNs to be liquidated generally on a same day or on a five business day settlement basis.

Current Marketable Investment Securities - Strategic

Our current strategic marketable investment securities are highly speculative and have experienced and continue to experience volatility. As of March 31, 2011, a significant portion of our strategic investment portfolio consisted of securities of several issuers and the value of that portfolio depends on those issuers.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Current Marketable Investment Securities - Other

Our other current marketable investment securities portfolio includes investments in various debt instruments including corporate and government bonds.

Restricted Cash and Marketable Investment Securities

As of March 31, 2011 and December 31, 2010, our restricted marketable investment securities, together with our restricted cash, included amounts required as collateral for our letters of credit or surety bonds.

Marketable and Other Investment Securities - Noncurrent

We account for our unconsolidated debt and equity investments under the fair value, equity and/or cost method of accounting. We have several strategic investments in certain equity securities that are included in noncurrent Marketable and other investment securities on our Condensed Consolidated Balance Sheets.

Marketable and Other Investment Securities Cost and Equity

Non-majority owned investments in equity securities are generally accounted for using the equity method when we have the ability to significantly influence the operating decisions of an investee. However, when we do not have the ability to significantly influence the operating decisions of an investee, the cost method is used.

Our ability to realize value from our strategic investments in companies that are not publicly traded depends on the success of those companies businesses and their ability to obtain sufficient capital to execute their business plans. Because private markets are not as liquid as public markets, there is also increased risk that we will not be able to sell these investments, or that when we desire to sell them we will not be able to obtain fair value for them.

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Marketable and Other Investment Securities Fair Value

We elect the fair value method for certain debt and equity investments in affiliates when we believe the fair value method of accounting provides more meaningful information to our investors. For our investments carried at fair value, interest and dividends are measured at fair value and are recorded in Unrealized gains (losses) on investments accounted for at fair value, net. See Investments in TerreStar below for more information.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Unrealized Gains (Losses) on Marketable Investment Securities

As of March 31, 2011 and December 31, 2010, we had accumulated net unrealized gains of \$194 million and \$188 million, both net of related tax effect, respectively, as a part of Accumulated other comprehensive income (loss) within Total stockholders' equity (deficit). A full valuation allowance has been established against any net deferred tax assets that are capital in nature. The components of our available-for-sale investments are detailed in the table below.

	As of March 31, 2011					As of December 31, 2010										
	Marketable Investment Securities		Gains	Unrealized Losses	Net	Marketable Investment Securities		Gains	Unrealized Losses	Net						
	(In thousands)															
Debt securities:																
VRDNs	\$	546,420	\$	\$	\$	\$	395,715	\$	\$	\$						
Other (including restricted)		248,461		690	(16)	674	375,814		1,154	(233)	921					
Equity securities:																
Other		225,246		193,097		193,097	218,894		186,745		186,745					
Total marketable investment securities	\$	1,020,127	\$	193,787	\$	(16)	\$	193,771	\$	990,423	\$	187,899	\$	(233)	\$	187,666

As of March 31, 2011, restricted and non-restricted marketable investment securities include debt securities of \$795 million with contractual maturities of one year or less and none with contractual maturities greater than one year. Actual maturities may differ from contractual maturities as a result of our ability to sell these securities prior to maturity.

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(Unaudited)

Marketable Investment Securities in a Loss Position

The following table reflects the length of time that the individual securities, accounted for as available-for-sale, have been in an unrealized loss position, aggregated by investment category. We do not intend to sell our investments in debt securities before they recover or mature, and it is more likely than not that we will hold these debt investments until that time. In addition, we are not aware of any specific factors indicating that the underlying issuers of these debt securities would not be able to pay interest as it becomes due or repay the principal at maturity. Therefore, we believe that these changes in the estimated fair values of these marketable investment securities are related to temporary market fluctuations.

Investment Category	Primary Reason for Unrealized Loss	Total Fair Value	As of March 31, 2011					
			Less than Six Months		Six to Nine Months		Nine Months or More	
			Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In thousands)								
	Temporary market fluctuations							
Debt securities		\$ 33,096	\$ 15,389	\$ (8)	\$	\$	\$ 17,707	\$ (8)
Total		\$ 33,096	\$ 15,389	\$ (8)	\$	\$	\$ 17,707	\$ (8)

Investment Category	Primary Reason for Unrealized Loss	Total Fair Value	As of December 31, 2010							
			Less than Six Months			Six to Nine Months		Nine Months or More		
			Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
			(In thousands)							
	Temporary market fluctuations									
Debt securities		\$ 119,135	\$ 26,358	\$ (44)	\$ 17,566	\$ (71)	\$ 75,211	\$ (118)		
Total		\$ 119,135	\$ 26,358	\$ (44)	\$ 17,566	\$ (71)	\$ 75,211	\$ (118)		

Fair Value Measurements

We determine fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Market or observable inputs are the preferred source of values, followed by unobservable inputs or assumptions based on hypothetical transactions in the absence of market inputs. We apply the following hierarchy in determining fair value:

- Level 1, defined as observable inputs being quoted prices in active markets for identical assets;

- Level 2, defined as observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3, defined as unobservable inputs for which little or no market data exists, consistent with reasonably available assumptions made by other participants therefore requiring assumptions based on the best information available.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Our assets measured at fair value on a recurring basis were as follows:

	As of							
	Total	March 31, 2011		Level 3	Total	December 31, 2010		Level 3
		Level 1	Level 2	(In thousands)		Level 1	Level 2	
Debt securities:								
VRDNs	\$ 546,420	\$	\$ 546,420	\$	\$ 395,715	\$	\$ 395,715	\$
Other (including restricted)	248,461		248,461		375,814		375,814	
Equity securities	225,246	225,246			218,894	218,894		
Marketable and other investment securities - noncurrent	633,164	3,450		629,714	613,125	4,170		608,955
Total assets at fair value	\$ 1,653,291	\$ 228,696	\$ 794,881	\$ 629,714	\$ 1,603,548	\$ 223,064	\$ 771,529	\$ 608,955

Changes in Level 3 instruments are as follows:

	Level 3 Investment Securities (In thousands)
Balance as of December 31, 2010	\$ 608,955
Purchases	20,759
Balance as of March 31, 2011	\$ 629,714

Unrealized and Realized Gains (Losses) on Marketable Investment Securities and Other Investments

Unrealized and realized gains (losses) on marketable investment securities and other investments on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) includes changes in the carrying amount of our investments as follows:

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	For the Three Months Ended March 31,			
	2011	(In thousands)		2010
Unrealized and realized gains (losses) on marketable investment securities and other investments:				
Marketable investment securities - gains (losses) on sales/exchange	\$	665	\$	
Marketable and other investment securities - other-than-temporary impairments				(537)
Total unrealized and realized gains (losses) on marketable investment securities and other investments	\$	665	\$	(537)

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Investments in TerreStar

We account for our investments in TerreStar Corporation ("TerreStar Corporation") and TerreStar Networks Inc. ("TerreStar Networks"), an indirect, majority-owned subsidiary of TerreStar Corporation, using the fair value method of accounting which we believe provides more meaningful information to our investors. TerreStar Networks is the principal operating subsidiary of TerreStar Corporation. TerreStar Networks and TerreStar Corporation and its subsidiary, TerreStar Holdings Inc. (together, the "TSC Debtors"), filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code on October 19, 2010 and February 16, 2011, respectively.

We have been an investor in TerreStar Corporation and TerreStar Networks for over three years. In February 2008, we completed several transactions under a Master Investment Agreement between us, TerreStar Corporation and TerreStar Networks. Under the Master Investment Agreement, we acquired \$50 million in aggregate principal amount of TerreStar Networks' 6 1/2% Senior Exchangeable Paid-in-Kind Notes due June 15, 2014 ("Exchangeable Notes") as well as \$50 million aggregate principal amount of TerreStar Networks' 15% Senior Secured Paid-in-Kind Notes due February 15, 2014 ("15% PIK Notes"). The Master Investment Agreement also provides that we have the right to appoint two representatives to TerreStar Corporation's Board of Directors. We do not presently have any representatives on TerreStar Corporation's Board of Directors. We have from time to time acquired, and we currently hold, other securities issued by TerreStar Corporation and TerreStar Networks.

In February 2008, we also entered into a Spectrum Agreement with TerreStar Corporation, under which, in June 2008, TerreStar Corporation completed the acquisition of our holdings of 1.4 GHz spectrum in exchange for the issuance of 30 million shares of its common stock to us. We also entered into an agreement with TerreStar Networks and Harbinger Capital Partners Master Fund I, Ltd. and Harbinger Capital Partners Special Situations Fund LP (collectively, "Harbinger"), in February 2008, in which we and Harbinger each committed to provide up to \$50 million in secured financing, the proceeds of which were advanced to TerreStar Networks from time to time as required for TerreStar Networks to make required payments in connection with a communications satellite to be constructed and launched for TerreStar Networks. As of March 31, 2011, we were owed \$46 million by TerreStar Networks under the terms of this credit agreement.

In connection with the filings by TerreStar Networks and certain of its affiliates (other than TerreStar Corporation) (the "Debtors") for protection under Chapter 11 of the U.S. Bankruptcy Code and an ancillary proceeding under the Companies' Creditors Arrangement Act in Canada, on October 19, 2010, we entered into a commitment to provide a debtor-in-possession credit facility (the "Credit Facility") to the Debtors. On November 18, 2010, the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") approved the Credit Facility on a final basis and authorized the Debtors to enter into the Credit Facility. The Credit Facility consists of a non-revolving, multiple draw term loan in the aggregate principal amount of \$75 million, with drawings subject to the terms and conditions set forth in the Credit Facility. As of March 31, 2011, we had funded \$44 million to the Debtors under this Credit Facility which is included in "Marketable and other investment securities" on our Condensed Consolidated Balance Sheets.

Our debt investments in TerreStar Networks had a fair value of \$647 million and \$626 million as of March 31, 2011 and December 31, 2010, respectively, including accrued interest of \$17 million in each period. Our equity investments in TerreStar Corporation had a fair value of \$3

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million and \$4 million as of March 31, 2011 and December 31, 2010, respectively. Fluctuations in fair value of these investments are recorded in Unrealized gains (losses) on investments accounted for at fair value, net on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and directly impact our profitability. For the three months ended March 31, 2011 and 2010, we recorded a \$3 million gain and a \$66 million gain on these investments, respectively.

On November 19, 2010, we entered into an agreement with the Debtors (the Restructuring Support Agreement) pursuant to which we committed to (i) support the Debtors' proposed plan of reorganization and (ii) backstop a rights offering for preferred shares of TerreStar Networks, which rights offering was to be completed upon the

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Debtors' emergence from bankruptcy, on the terms set forth in the Restructuring Support Agreement. The Bankruptcy Court approved the Restructuring Support Agreement on December 22, 2010.

On February 15, 2011, the Restructuring Support Agreement was terminated by mutual agreement of the parties. TerreStar Networks has proposed holding a sale of substantially all of its assets pursuant to Section 363 of the Bankruptcy Code. It is impossible to predict with certainty the amount of time that the Debtors may spend in bankruptcy.

Our investments in TerreStar Corporation and TerreStar Networks are highly speculative and have experienced and continue to experience significant volatility. The value of our investments in TerreStar Networks is determined using Level 3 inputs under the fair value hierarchy. In estimating those fair values we consider quotes from brokers and other pricing services, if available, and obtain both observable and unobservable inputs in our valuation models which include the use of option pricing and discounted cash flow techniques. The fair value of these investments can be significantly impacted by adverse changes in securities markets generally, as well as risks related to the performance of TerreStar Corporation and TerreStar Networks, their ability to obtain sufficient capital to execute their business plans, risks associated with their specific industries, bankruptcy and other factors. We are continuing to evaluate the effect of developments in the Debtors' and TerreStar Corporation's Chapter 11 cases on the fair value of our investment in TerreStar Networks and TerreStar Corporation. In particular, as a result of the termination of the Restructuring Support Agreement on February 15, 2011 and the on-going bankruptcy process, the fair value of our investments in TerreStar Networks could be significantly impacted. For example, a hypothetical 10% adverse change in the price of these debt instruments would result in a decrease of approximately \$63 million in the fair value of these investments.

On January 14, 2011, TerreStar Corporation filed a Form 15, terminating the registration of its common stock and Series A Voting Convertible Preferred Stock under Section 12(g) of the Securities Exchange Act of 1934 and suspending its obligations to file reports with the Securities and Exchange Commission (other than with respect to its fiscal year ended December 31, 2010).

We report the following TerreStar Corporation financial information on a one-quarter lag as TerreStar Corporation was a public company but not a large accelerated filer, as defined by the SEC. As such, the statements of operations data, shown below, includes the three months ended December 31 for each respective period presented. We rely on TerreStar Corporation's management to provide us with accurate summary financial information, including portions of the information shown below. We are not aware of any errors in, or possible misstatements of, the financial information provided to us that would have a material effect on our Condensed Consolidated Financial Statements. The following table provides summarized financial information from TerreStar Corporation:

Statements of Operations Data (unaudited):	For the Three Months Ended December 31,	
	2010	2009
	(In thousands)	
Revenue	\$ 6,000	\$ 2,384

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Operating expenses	\$	2,220	\$	44,068
Net income (loss) from continuing operations	\$	(168)	\$	(58,999)
Net income (loss)	\$	(168)	\$	(58,999)
Net income (loss) available to common stockholders				