

EchoStar CORP
Form 10-Q
May 07, 2012
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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, 2012.

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)

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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 30, 2012, the registrant's outstanding common stock consisted of 39,358,396 shares of Class A common stock and 47,687,039 shares of Class B common stock.

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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 derive a substantial portion of our revenue from our two primary customers, DISH Network and Bell TV. The loss of, or a significant reduction in, orders from, or a decrease in selling prices of digital set-top boxes, transponder leasing, provision of digital broadcast services, and/or other products or services to DISH Network or Bell TV would 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.
- Certain of our sales to DISH Network could be terminated or substantially curtailed on short notice, which would have a detrimental effect on us.
- We may be required to raise and refinance indebtedness during unfavorable market conditions.
- 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 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.
- Our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations.
- 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.

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- Any failure or inadequacy of our information technology infrastructure or those of our third-party service providers could harm our business.
- 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.
- We have substantial debt outstanding and may incur additional debt.

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Risks Affecting Our EchoStar Technologies Segment

- We depend on sales of digital set-top boxes for a substantial portion 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 EchoStar Technologies segment likely requires expansion of our sales to international customers, and we may be unsuccessful in expanding international sales.
- If we are successful in growing sales of our digital set-top boxes to international customers, we may be subject to additional risks including, among other things, trade barriers and political instability abroad.
- The digital set-top box industry 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 EchoStar Satellite Services and Hughes Segments

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- 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.
- Our satellites under construction are subject to risks related to construction and launch that could limit our ability to utilize these satellites.
- Our 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 use of certain satellites is often dependent on satellite coordination agreements, which may be difficult to obtain.
- 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.

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- We generally do not have commercial insurance coverage on the satellites we use and could face significant impairment charges if one of our uninsured satellites fails.
- We currently have unused satellite capacity in our EchoStar Satellite Services segment, and our results of operations may be materially adversely affected if we are not able to lease more of this capacity to third parties.
- The enterprise network communications industry is highly competitive. We may be unsuccessful in competing effectively against other terrestrial and satellite-based network providers in our enterprise groups.
- The consumer network communications market is highly competitive. We may be unsuccessful in competing effectively against fiber, Digital Subscriber Line (DSL), cable service providers and other satellite broadband providers in the consumer market.
- We are dependent upon third-party providers for components, manufacturing, installation services, and customer support services, and our results of operations may be materially adversely affected if any of these third-party providers fail to appropriately deliver the contracted goods or services.
- The failure to adequately anticipate the need for transponder capacity or the inability to obtain transponder capacity for our Hughes segment could harm our results of operations.
- If our products contain defects, we could be subject to significant costs to correct such defects and our product and network service contracts could be delayed or cancelled, which could adversely affect our revenues.
- We may face difficulties in accurately assessing and collecting contributions towards the Universal Service Fund.
- Our foreign operations expose us to regulatory risks and restrictions not present in our domestic operations.
- Although we expect that the Hughes Acquisition (as defined below) will benefit us, those expected benefits may not occur because of the complexity of integration and other challenges.

Other Risks

- We may have potential conflicts of interest with DISH Network due to our common ownership and management.
- 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 stockholder who is our Chairman.
- We may face other risks described from time to time in periodic and current reports we file with the Securities and Exchange Commission (SEC).

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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 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, 2012	As of	December 31, 2011
Assets			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 629,094	\$	614,035
Marketable investment securities	1,053,650		1,082,407
Trade accounts receivable, net of allowance for doubtful accounts of \$18,893 and \$18,484, respectively	240,486		212,960
Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero	284,407		229,852
Inventory	97,621		68,707
Deferred tax assets	38,340		23,492
Other current assets	67,673		76,284
Total current assets	2,411,271		2,307,737
<i>Noncurrent Assets:</i>			
Restricted cash and marketable investment securities	23,987		24,286
Property and equipment, net of accumulated depreciation of \$2,092,470 and \$2,003,875, respectively	2,509,702		2,453,546
FCC authorizations	469,810		469,810
Intangible assets, net	443,146		466,452
Goodwill	526,680		533,018
Marketable and other investment securities	147,315		140,439
Other noncurrent assets, net	155,558		148,449
Total noncurrent assets	4,276,198		4,236,000
Total assets	\$ 6,687,469	\$	6,543,737
Liabilities and Stockholders' Equity (Deficit)			
<i>Current Liabilities:</i>			
Trade accounts payable	\$ 305,172	\$	250,366
Trade accounts payable - DISH Network	19,002		16,374
Deferred revenue and other	49,778		54,090
Accrued interest	41,522		6,353
Accrued royalties	17,490		23,590
Accrued expenses and other	155,625		167,710
Current portion of long-term debt and capital lease obligations	68,541		65,239
Total current liabilities	657,130		583,722
<i>Long-Term Obligations, Net of Current Portion:</i>			
Long-term debt and capital lease obligations, net of current portion	2,477,143		2,469,023

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Deferred tax liabilities	378,218	373,391
Long-term deferred revenue and other long-term liabilities	67,924	65,975
Total long-term obligations, net of current portion	2,923,285	2,908,389
Total liabilities	3,580,415	3,492,111

Commitments and Contingencies (Note 12)

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, 44,561,296 and 44,500,440 shares issued, and 39,028,978 and 38,968,122 shares outstanding, respectively	45	45
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Class B common stock, \$.001 par value, 800,000,000 shares authorized, 47,687,039 shares issued and outstanding	48	48
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Class C common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding		
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Class D common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding		
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Additional paid-in capital	3,368,534	3,360,301
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Accumulated other comprehensive income (loss)	86,039	165,771
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Accumulated earnings (deficit)	(258,899)	(385,487)
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Treasury stock, at cost	(98,162)	(98,162)
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Total EchoStar stockholders' equity (deficit)	3,097,605	3,042,516
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Noncontrolling interests	9,449	9,110
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Total stockholders' equity (deficit)	3,107,054	3,051,626
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Total liabilities and stockholders' equity (deficit)	\$ 6,687,469	\$ 6,543,737
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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AND COMPREHENSIVE INCOME (LOSS)**

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2012	2011
Revenue:		
Equipment revenue - DISH Network	\$ 237,365	\$ 272,126
Equipment revenue - other	157,347	65,909
Services and other revenue - DISH Network	126,658	121,207
Services and other revenue - other	243,410	20,584
Total revenue	764,780	479,826
Costs and Expenses: (exclusive of depreciation shown separately below - Note 7)		
Cost of sales - equipment	337,166	293,384
Cost of sales - services and other	167,830	61,460
Research and development expenses	17,350	8,859
Selling, general and administrative expenses	96,979	44,772
General and administrative expenses - DISH Network	1,955	3,489
Depreciation and amortization (Notes 7 and 8)	114,090	57,014
Total costs and expenses	735,370	468,978
Operating income (loss)	29,410	10,848
Other Income (Expense):		
Interest income	2,879	2,677
Interest expense, net of amounts capitalized	(38,621)	462
Unrealized and realized gains (losses) on marketable investment securities and other investments	127,995	665
Unrealized gains (losses) on investments accounted for at fair value, net		3,304
Other, net	4,533	6,991
Total other income (expense)	96,786	14,099
Income (loss) before income taxes	126,196	24,947
Income tax (provision) benefit, net	305	(7,788)
Net income (loss)	126,501	17,159
Less: Net income (loss) attributable to noncontrolling interests	(87)	(5)
Net income (loss) attributable to EchoStar	\$ 126,588	\$ 17,164
Weighted-average common shares outstanding - Class A and B common stock:		
Basic	86,684	85,466
Diluted	87,326	92,331
Earnings per share - Class A and B common stock:		
Basic net income (loss) per share attributable to EchoStar	\$ 1.46	\$ 0.20
Diluted net income (loss) per share attributable to EchoStar	\$ 1.45	\$ 0.19

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Comprehensive Income (Loss):			
Net income (loss)	\$	126,501	\$ 17,159
<i>Other comprehensive income (loss), net of tax:</i>			
Foreign currency translation adjustments		5,092	(192)
Unrealized holding gains (losses) on available-for-sale securities		43,429	6,771
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)		(127,995)	(665)
<i>Total other comprehensive income (loss), net of tax</i>		<i>(79,474)</i>	<i>5,914</i>
Comprehensive income (loss)		47,027	23,073
Less: Comprehensive income (loss) attributable to noncontrolling interests		171	(5)
Comprehensive income (loss) attributable to EchoStar	\$	46,856	\$ 23,078

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,	
	2012	2011
Cash Flows From Operating Activities:		
Net income (loss)	\$ 126,501	\$ 17,159
<i>Adjustments to reconcile net income (loss) to net cash flows from operating activities:</i>		
Depreciation and amortization	114,090	57,014
Equity in losses (earnings) of affiliates	(4,185)	(5,008)
Unrealized and realized (gains) losses on marketable investment securities and other investments	(127,995)	(665)
Unrealized (gains) losses on investments accounted for at fair value, net		(3,304)
Non-cash, stock-based compensation	6,918	2,981
Deferred tax expense (benefit)	(4,766)	1,759
Other, net	6,511	353
Change in noncurrent assets	(3,681)	1,570
Changes in current assets and current liabilities, net	(34,183)	21,313
Net cash flows from operating activities	79,210	93,172
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(278,902)	(551,508)
Sales and maturities of marketable investment securities	348,754	488,781
Purchases of property and equipment	(114,007)	(39,140)
Change in restricted cash and marketable investment securities	299	
Purchase of strategic investments included in marketable and other investment securities	(374)	(27,775)
Proceeds from sale of strategic investments		15,437
Other, net	(4,554)	51
Net cash flows from investing activities	(48,784)	(114,154)
Cash Flows From Financing Activities:		
Repayment of long-term debt and capital lease obligations	(17,477)	(13,019)
Debt issuance costs	(229)	
Net proceeds from Class A common stock options exercised and issued under the Employee Stock Purchase Plan	1,297	14,153
Other	288	694
Net cash flows from financing activities	(16,121)	1,828
Effect of exchange rates on cash and cash equivalents	754	(1,064)
Net increase (decrease) in cash and cash equivalents	15,059	(20,218)
Cash and cash equivalents, beginning of period	614,035	141,814
Cash and cash equivalents, end of period	\$ 629,094	\$ 121,596
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest (including capitalized interest)	\$ 13,737	\$ 11,716
Capitalized interest	\$ 11,598	\$ 9,050

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Cash received for interest	\$	4,993	\$	4,693
Cash paid for income taxes	\$	1,648	\$	474
Satellites and other assets financed under capital lease obligations	\$	28,455	\$	9,343
Capital expenditures included in accounts payable	\$	7,652	\$	9,463

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

We were organized in October 2007 as a corporation under the laws of the State of Nevada. EchoStar Corporation is a holding company (together with its subsidiaries, EchoStar, the Company, we, us and/or our). On June 8, 2011, we acquired all of the outstanding equity of Hughes Communications, Inc. (the Hughes Acquisition). Following the Hughes Acquisition, we operate three segments.

- ***EchoStar Technologies*** 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 international cable companies and, with respect to Slingboxes, directly to consumers via retail outlets. Our EchoStar Technologies segment also provides digital broadcast operations including satellite uplinking/downlinking, transmission services, signal processing, conditional access management and other services primarily to DISH Network.
- ***EchoStar Satellite Services*** which uses 10 of our 11 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, S. de R.L. de C.V. (Dish Mexico), United States government service providers, state agencies, Internet service providers, broadcast news organizations, programmers and private enterprise customers.
- ***Hughes*** which provides satellite broadband Internet access to North American consumers and broadband network services and systems to the domestic and international enterprise markets. Hughes also provides managed services to large enterprises and networking systems solutions to customers for mobile satellite and wireless backhaul systems. Hughes became a new segment as a result of the Hughes Acquisition and the results of operations of Hughes Communications, Inc. and its subsidiaries (Hughes Communications) are included in our results effective June 9, 2011. See Note 11 for further discussion of the Hughes Acquisition.

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.

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, 2011 (2011 10-K). Certain prior period amounts have been reclassified to conform to the current period presentation.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Principles of Consolidation

We consolidate all majority owned subsidiaries, investments in entities in which we have controlling influence and variable interest entities where we are 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

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, deferred revenue and deferred subscriber acquisition costs amortization periods, percentage-of-completion related to revenue recognition, allowances for doubtful accounts, allowance for sales returns/rebates, 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 may increase the inherent uncertainty in the estimates and assumptions indicated above. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results may differ from previously estimated amounts, and such differences may be material to our Condensed Consolidated Financial Statements. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected prospectively in the period they occur.

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;

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- 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.

As of March 31, 2012 and December 31, 2011, the carrying value of our cash and cash equivalents; current marketable investment securities; trade accounts receivable, net of allowance for doubtful accounts; and current liabilities were equal to or approximates fair value due to their short-term nature or proximity to current market rates.

Fair values for our publicly traded debt securities are based on quoted market prices. The fair values of our private debt is estimated based on an analysis in which we evaluate market conditions, related securities, various public and

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

private offerings, and other publicly available information. In performing this analysis, we make various assumptions regarding, among other things, credit spreads, and the impact of these factors on the value of the notes. See Note 9 for the fair value of our long-term debt.

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 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 EPS amounts for all periods and the basic and diluted weighted-average shares outstanding used in the calculation.

	For the Three Months Ended March 31,			
	2012 (In thousands except per share amounts)		2011	
Net income (loss) attributable to EchoStar	\$	126,588	\$	17,164
Weighted-average common shares outstanding - Class A and B common stock:				
Basic		86,684		85,466
Dilutive impact of stock awards outstanding		642		6,865
Diluted		87,326		92,331
Earnings per share - Class A and B common stock:				
Basic net income (loss) per share attributable to EchoStar	\$	1.46	\$	0.20
Diluted net income (loss) per share attributable to EchoStar	\$	1.45	\$	0.19

As of March 31, 2012 and 2011, there were stock awards to purchase 4.4 million and 2.3 million shares, respectively, of our 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 granted pursuant to a performance-based stock incentive plan (Restricted Performance Units) 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.

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	2012	As of March 31, (In thousands)	2011
Performance-based options	659		689
Restricted Performance Units	74		92
Total	733		781

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

4. Other Comprehensive Income Related Tax Effects

The following table presents the tax effects allocated to each component of other comprehensive income. A full valuation allowance has been established against any deferred tax assets that are capital in nature.

	For the Three Months Ended March 31,					
	Before Tax Amount	2012 Tax (Expense) Benefit	Net of Tax Amount (In thousands)	Before Tax Amount	2011 Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	\$ 5,092	\$	\$ 5,092	\$ (192)	\$	\$ (192)
Unrealized holding gains (losses) on available-for-sale securities	43,429		43,429	6,771		6,771
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	(127,995)		(127,995)	(665)		(665)
Other comprehensive income (loss)	\$ (79,474)	\$	\$ (79,474)	\$ 5,914	\$	\$ 5,914

5. Marketable Investment Securities, Restricted Cash and Cash Equivalents, and Other Investment Securities

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

	March 31, 2012	As of December 31, 2011
	(In thousands)	
Marketable investment securities - current:		
VRDNs	\$ 214,845	\$ 218,665
Strategic	120,170	216,090
Other	718,635	647,652
<i>Total marketable investment securities - current</i>	<i>1,053,650</i>	<i>1,082,407</i>
Restricted marketable investment securities (1)	3,181	3,939
Total	1,056,831	1,086,346

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Restricted cash and cash equivalents (1)	20,806	20,347
Marketable and other investment securities - noncurrent:		
Cost method	26,193	26,193
Equity method	121,122	114,246
Total marketable and other investment securities - noncurrent	147,315	140,439
Total marketable investment securities, restricted cash and cash equivalents, and other investment securities	\$ 1,224,952	\$ 1,247,132

(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.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Marketable Investment Securities

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

Variable rate demand notes (VRDNs)

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.

Strategic

Our current strategic marketable investment securities are highly speculative and have experienced and continue to experience volatility. As of March 31, 2012 and December 31, 2011, a significant portion of our strategic investment portfolio consisted of securities of several issuers and a significant portion of the value of that portfolio depends on the value of those issuers.

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

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As of March 31, 2012 and December 31, 2011, 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.

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.

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

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(Unaudited)

value, interest and dividends are measured at fair value and are recorded in Unrealized gains (losses) on investments accounted for at fair value, net in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Unrealized Gains (Losses) on Marketable Investment Securities

As of March 31, 2012 and December 31, 2011, we had accumulated net unrealized gains, net of related tax effect, of \$95 million and \$180 million, 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 summarized in the table below.

	Marketable Investment Securities	As of March 31, 2012			Net (In thousands)	Marketable Investment Securities	As of December 31, 2011		
		Gains	Unrealized Losses				Gains	Unrealized Losses	Net
Debt securities:									
VRDNs	\$ 214,845	\$	\$	\$	\$ 218,665	\$	\$	\$	
Other (including restricted)	721,816	635	(1,017)	(382)	651,591	253	(2,715)	(2,462)	
Equity securities:									
Other	120,170	95,568		95,568	216,090	182,214			182,214
Total marketable investment securities	\$ 1,056,831	\$ 96,203	\$ (1,017)	\$ 95,186	\$ 1,086,346	\$ 182,467	\$ (2,715)	\$	\$ 179,752

As of March 31, 2012, restricted and non-restricted marketable investment securities included debt securities of \$831 million with contractual maturities of one year or less and \$106 million 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.

Marketable Investment Securities in a Loss Position

The following table reflects the length of time that our available-for-sale debt securities have been in an unrealized loss position. 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 primarily related to temporary market fluctuations.

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Debt Securities	March 31, 2012		As of		December 31, 2011	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In thousands)						
Less than 12 months	\$ 428,083	\$ (1,017)	\$ 507,925	\$ (2,709)		
12 months or more			3,931	(6)		
Total	\$ 428,083	\$ (1,017)	\$ 511,856	\$ (2,715)		

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(Unaudited)

Fair Value Measurements

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

	Total		March 31, 2012		As of		December 31, 2011		
			Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
					(In thousands)				
Cash equivalents (including restricted)	\$	534,686	\$	15,735	\$	543,243	\$	16,197	\$
				\$	518,951			\$	527,046
Debt securities:									
VRDNs	\$	214,845	\$		\$	218,665	\$		\$
				\$	214,845			\$	218,665
Other (including restricted)		721,816				651,591		651,591	
				721,816					
Equity securities - strategic		120,170		120,170		216,090		216,090	
Total assets at fair value	\$	1,056,831	\$	120,170	\$	1,086,346	\$	216,090	\$
				\$	936,661			\$	870,256

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

During the three months ended March 31, 2012 and 2011, we recognized \$128 million and \$1 million, respectively, of realized gains on sales of our debt and equity marketable investment securities.

Investment in TerreStar

In February 2008, we completed several transactions under a Master Investment Agreement between us, TerreStar Corporation and TerreStar Networks Inc. ("TerreStar"). Under the Master Investment Agreement, we acquired, among other things, \$50 million in aggregate principal amount of TerreStar Networks Inc.'s 6 1/2% Senior Exchangeable Paid-in-Kind Notes due June 15, 2014 ("Exchangeable Notes"). TerreStar Networks, Inc. and certain of its affiliates filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code on October 19, 2010. The United States Bankruptcy Court for the Southern District of New York confirmed TerreStar Networks Inc.'s Chapter 11 plan of reorganization (the "TerreStar Networks Plan") on February 15, 2012.

Pursuant to the TerreStar Networks Plan, which became effective March 29, 2012, our Exchangeable Notes were cancelled. In satisfaction of our claims against TerreStar under the Exchangeable Notes, we have a right to receive a distribution, along with other general unsecured creditors, in accordance with the terms of the TerreStar Networks Plan. The amount of any distribution we ultimately receive will vary depending upon and will be impacted by, among other things, the outcome of any claim objections, and will be substantially less than the amount we paid for the Exchangeable Notes. Any proceeds received on this investment will be recognized as a gain in Unrealized and realized gains (losses) on marketable investment securities and other investments on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and will directly impact our profitability. As of March 31, 2012 and December 31, 2011, we had no investment in TerreStar.

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(Unaudited)

6. Inventory

Inventory consists of the following:

	March 31, 2012	As of December 31, 2011
	(In thousands)	
Finished goods	\$ 70,556	\$ 49,038
Raw materials	17,482	11,212
Work-in-process	9,583	8,457
Total inventory	\$ 97,621	\$ 68,707

7. Property and Equipment

Depreciation and amortization expense consists of the following:

	2012	For the Three Months Ended March 31, 2011
	(In thousands)	
Satellites	\$ 37,059	\$ 23,125
Furniture, fixtures, equipment and other	50,573	25,377
Amortization of intangible assets and other	23,263	6,869
Buildings and improvements	3,195	1,643
Total depreciation and amortization	\$ 114,090	\$ 57,014

The increase in our depreciation and amortization expense from the three months ended March 31, 2011 compared to the same period in 2012 is primarily related to the Hughes Acquisition.

Cost of sales and other expense categories included in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) do not include depreciation expense.

Satellites

We currently utilize 11 satellites in geostationary orbit approximately 22,300 miles above the equator, including the SPACEWAYTM 3 satellite, which was added to our satellite fleet as a result of the Hughes Acquisition in 2011. Five of these satellites are leased. Four of our leased satellites are accounted for as capital leases and are depreciated over the terms of the satellite service agreements, and the one satellite we lease from DISH Network is accounted for as an operating lease. We depreciate our owned satellites on a straight-line basis over the estimated useful life of each satellite. See Note 14 for further discussion of our satellite leases with DISH Network.

Satellite Anomalies

Prior to 2012, certain of our satellites have experienced anomalies, some of which have had a significant adverse impact on their remaining useful life and/or commercial operation. There can be no assurance that future anomalies will not further impact the remaining useful life and commercial operation of any of the satellites in our fleet. See *Long-Lived Satellite Assets* below for further discussion of evaluation of impairment. In addition, there can be no assurance that we can recover critical transmission capacity in the event one or more of our in-orbit satellites were to fail. We generally do not carry in-orbit insurance on any of our satellites, other than SPACEWAY 3, EchoStar XVII/Jupiter and EchoStar XVI as discussed below, and therefore, we will bear the risk of any uninsured in-orbit

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

failures. However, pursuant to the terms of the agreements governing certain portions of our indebtedness, we are required, subject to certain limitations on coverage, to maintain launch insurance for EchoStar XVII/Jupiter and EchoStar XVI and to maintain in-orbit insurance for EchoStar XVII/Jupiter, EchoStar XVI and SPACEWAY 3. Satellite anomalies with respect to certain of our satellites are discussed below.

Owned Satellites

EchoStar III. EchoStar III, which is currently an in-orbit spare, was designed to meet a minimum 12-year useful life. During first quarter 2012, we determined that EchoStar III experienced a solar array anomaly which did not impact commercial operation of the satellite; however there can be no assurance that future anomalies will not impact its commercial operation. EchoStar III was fully depreciated during 2009.

EchoStar VI. EchoStar VI was designed to meet a minimum 12-year useful life. Prior to 2012, this satellite experienced solar array anomalies and the loss of traveling wave tube amplifiers (TWTAs) that did not reduce its useful life; however, the solar array anomalies impacted the commercial operation of the satellite. During first quarter 2012, we determined that EchoStar VI experienced the loss of two additional TWTAs increasing the total number of TWTAs lost on the satellite to five. The recent loss of TWTAs did not reduce the estimated useful life of the satellite and had no impact on the commercial operation of the satellite; however there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation. EchoStar VI will be fully depreciated in August 2012.

Leased Satellites

EchoStar I. During first quarter 2012, it was determined that EchoStar I experienced a communications receiver anomaly. While this anomaly did not impact the commercial operation of the satellite, there can be no assurance that future anomalies will not impact its future commercial operation.

AMC-16. During 2012, AMC-16 experienced two additional solar-power anomalies, causing a partial power loss that further reduced its capacity. Testing is being performed to determine the extent to which these anomalies impacted its commercial operations, the extent to which our monthly recurring payment under the applicable satellite services agreement may be further reduced and the extent to which our capital lease obligation may be further decreased. There can be no assurance that these anomalies or any future anomalies will not reduce its useful life or further impact its commercial operations.

Long-Lived Satellite Assets

We evaluate our satellites for impairment and test for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. This evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Certain of the anomalies discussed above, and previously disclosed, may be considered to represent a significant adverse change in the physical condition of a particular satellite. However, based on the redundancy designed within each satellite, these anomalies are not considered to be significant events that would require evaluation for impairment recognition because the projected cash flows have not been significantly affected by these anomalies.

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(Unaudited)

8. Intangible Assets and Goodwill*Intangible Assets*

Our identifiable intangible assets subject to amortization consisted of the following:

	March 31, 2012		As of	December 31, 2011	
	Intangible Assets	Accumulated Amortization		Intangible Assets	Accumulated Amortization
	(In thousands)				
Customer relationships	\$ 295,327	\$ (86,995)	\$	295,327	\$ (77,560)
Contract-based	255,366	(154,137)		255,366	(145,406)
Technology-based (1)	153,185	(53,656)		153,185	(49,307)
Trademark portfolio	32,191	(1,861)		32,191	(1,364)
Favorable leases	4,707	(981)		4,707	(687)
Total	\$ 740,776	\$ (297,630)	\$	740,776	\$ (274,324)

Amortization expense on these intangible assets is recorded on a straight-line basis over a useful life primarily ranging from approximately one to twenty years or in relation to the estimated discounted cash flows over the life of the intangible. Amortization expense was \$23 million and \$7 million for the three months ended March 31, 2012 and 2011, respectively.

Estimated future amortization of our identifiable intangible assets as of March 31, 2012 is as follows:

	Amount
	(In thousands)
For the Years Ended December 31,	
2012 (remaining nine months)	\$ 67,726
2013	69,495
2014	78,082
2015	63,360
2016	42,263
Thereafter (1)	122,220
Total	\$ 443,146

(1) On December 31, 2010, we acquired certain assets of Move Networks, Inc. which included in-process research and development (R&D). In-process R&D assets acquired in a business combination initially are considered indefinite-lived assets until either the completion or abandonment of the associated R&D efforts. Upon the successful completion of the development process, we will commence amortization of the balance over the estimated useful life of the project. For purposes of the future amortization table, we include, among other things, the entire in-process R&D balance of \$26 million in the category labeled Thereafter until such time that the R&D efforts are finalized or abandoned.

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(Unaudited)

Goodwill

During the three months ended March 31, 2012, we made adjustments to the allocation of our purchase price related to the Hughes Acquisition as summarized in the table below.

	Goodwill	
	(In thousands)	
Balance as of December 31, 2011	\$	533,018
Adjustments to the Hughes Acquisition (non-deductible)		(6,338)
Balance as of March 31, 2012	\$	526,680

9. Debt*Fair Value of our Debt*

The following table summarizes the carrying and fair values of our debt facilities:

	March 31, 2012		As of		December 31, 2011	
	Carrying	Fair Value			Carrying	Fair Value
	Value				Value	
	(In thousands)					
6 1/2% Senior Secured Notes due 2019	\$ 1,100,000	\$ 1,155,000	\$	1,100,000	\$	1,138,500
7 5/8% Senior Notes due 2021	900,000	969,750		900,000		936,000
Mortgages and other notes payable	6,567	6,567		6,644		6,644
Subtotal	2,006,567	\$ 2,131,317		2,006,644	\$	2,081,144
Capital lease obligations (1)	539,117	NA		527,618		NA
Total debt and capital lease obligations	\$ 2,545,684		\$	2,534,262		

(1) Disclosure regarding fair value of capital leases is not required.

We estimated the fair value of our publicly traded long-term debt using market prices in less active markets (Level 2).

10. Stock-Based Compensation

Stock Incentive Plans

We maintain stock incentive plans to attract and retain officers, directors and key employees. Stock awards under these plans include both performance and non-performance based stock incentives. As of March 31, 2012, we had outstanding under these plans stock options to acquire 8.7 million shares of our Class A common stock and 0.1 million restricted stock units. Stock options granted prior to and on March 31, 2012 were granted with exercise prices equal to or greater than the market value of our Class A common stock at the date of grant and with a maximum term of ten years. While historically we have issued stock awards subject to vesting, typically at the rate of 20% to 33% per year, some stock awards have been granted with immediate vesting and other stock awards vest only upon the achievement of certain company-wide objectives. As of March 31, 2012, we had 4.8 million shares of our Class A common stock available for future grant under our stock incentive plans.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

In connection with the Spin-off, as permitted by DISH Network's existing stock incentive plans and consistent with the Spin-off exchange ratio, each DISH Network stock option was converted into two stock options as follows:

- an adjusted DISH Network stock option for the same number of shares that were exercisable under the original DISH Network stock option, with an exercise price equal to the exercise price of the original DISH Network stock option multiplied by 0.831219.
- a new EchoStar stock option for one-fifth of the number of shares that were exercisable under the original DISH Network stock option, with an exercise price equal to the exercise price of the original DISH Network stock option multiplied by 0.843907.

Similarly, each holder of DISH Network restricted stock units retained his or her DISH Network restricted stock units and received one EchoStar restricted stock unit for every five DISH Network restricted stock units that they held.

Consequently, the fair value of the DISH Network stock award and the new EchoStar stock award immediately following the Spin-off was equivalent to the fair value of such stock award immediately prior to the Spin-off.

The following stock awards were outstanding:

	As of March 31, 2012			
	EchoStar Awards		DISH Network Awards	
Stock Awards Outstanding	Stock Options	Restricted Stock Units	Stock Options	Restricted Stock Units
Held by EchoStar employees	7,916,296	89,940	2,580,701	94,999
Held by DISH Network employees	791,554	53,620	N/A	N/A
Total	8,707,850	143,560	2,580,701	94,999

We are responsible for fulfilling all stock awards related to EchoStar common stock and DISH Network is responsible for fulfilling all stock awards related to DISH Network common stock, regardless of whether such stock awards are held by our or DISH Network's employees. Notwithstanding the foregoing, our stock-based compensation expense, resulting from stock awards outstanding at the Spin-off date, is based on the stock awards held by our employees regardless of whether such stock awards were issued by EchoStar or DISH Network. Accordingly, stock-based compensation that we expense with respect to DISH Network stock awards is included in Additional paid-in capital on our Condensed Consolidated Balance Sheets.

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(Unaudited)

Stock Award Activity

Our stock option activity was as follows:

	For the Three Months Ended March 31, 2012	
	Options	Weighted- Average Exercise Price
Total options outstanding, beginning of period	8,778,413	\$ 27.22
Granted	15,000	\$ 28.14
Exercised	(24,803)	\$ 17.80
Forfeited and cancelled	(60,760)	\$ 29.99
Total options outstanding, end of period	8,707,850	\$ 27.23
Performance-based options outstanding, end of period (1)	658,700	\$ 25.30
Exercisable at end of period	3,742,230	\$ 26.03

(1) These stock options are included in the caption Total options outstanding, end of period. See discussion of the 2005 LTIP below.

We realized tax benefits from stock awards exercised as follows:

	For the Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Tax benefit from stock awards exercised	\$ 1,236	\$ 2,170

Based on the closing market price of our Class A common stock on March 31, 2012, the aggregate intrinsic value of our stock options was as follows:

As of March 31, 2012	
Options Outstanding	Options Exercisable
(In thousands)	

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Aggregate intrinsic value	\$	33,740	\$	13,972
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(Unaudited)

Our restricted stock unit activity was as follows:

		For the Three Months Ended March 31, 2012	Weighted- Average Grant Date Fair Value
	Restricted Stock Units		
Total restricted stock units outstanding, beginning of period	144,226	\$	29.22
Granted		\$	
Vested		\$	
Forfeited and cancelled	(666)	\$	25.46
Total restricted stock units outstanding, end of period	143,560	\$	29.24
Restricted Performance Units outstanding, end of period (1)	73,610	\$	26.62

(1) These Restricted Performance Units are included in the caption Total restricted stock units outstanding, end of period. See discussion of the 2005 LTIP below.

Long-Term Performance-Based Plans

2005 LTIP. During 2005, DISH Network adopted a long-term, performance-based stock incentive plan (the 2005 LTIP). The 2005 LTIP provides stock options and restricted stock units, either alone or in combination, which vest over seven years at the rate of 10% per year during the first four years, and at the rate of 20% per year thereafter. Exercise of the stock awards is subject to the foregoing vesting schedule and a performance condition that a company-specific goal is achieved by March 31, 2015.

Contingent compensation related to the 2005 LTIP will not be recorded in our financial statements unless and until the achievement of the performance condition is probable. The competitive nature of our industry and certain other factors can significantly impact achievement of the goal. Consequently, while it was determined that achievement of the goal was not probable as of March 31, 2012, this assessment could change in the future.

If all of the stock awards under the 2005 LTIP were vested and the goal had been met, or if we had determined that achievement of the goal was probable during the three months ended March 31, 2012, we would have recorded total non-cash, stock-based compensation expense for our employees as indicated in the table below. If the goal is met and there are unvested stock awards at that time, the vested amounts would be expensed immediately on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), with the unvested portion

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recognized ratably over the remaining vesting period.

	2005 LTIP	
	Total	Vested Portion (1)
	(In thousands)	
DISH Network awards held by EchoStar employees	\$ 16,292	\$ 16,140
EchoStar awards held by EchoStar employees	3,008	2,977
Total	\$ 19,300	\$ 19,117

(1) Represents the amount of this award that has met the foregoing vesting schedule and would therefore vest upon achievement of the performance condition.

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(Unaudited)

Of the 8.7 million stock options and 0.1 million restricted stock units outstanding under our stock incentive plans the following awards were outstanding pursuant to the 2005 LTIP:

	As of March 31, 2012	
	Number of Awards	Weighted-Average Exercise Price
Stock options	658,700	\$ 25.30
Restricted Performance Units	73,610	
Total	732,310	

Stock-Based Compensation

During December 2011, DISH Network paid a dividend in cash of \$2.00 per share on their outstanding Class A and Class B common stock to shareholders of record on November 17, 2011. In light of such dividend, during January 2012, the exercise price of 2.6 million DISH Network stock options held by 194 of our employees was reduced by \$2.00 per share (DISH Network's 2012 Stock Option Adjustment). During the three months ended March 31, 2012, we incurred \$3 million of additional non-cash, stock-based compensation expense in connection with DISH Network's 2012 Stock Option Adjustment. This amount is included in the table below. Total non-cash, stock-based compensation expense for all of our employees is shown in the following table and was allocated to the same expense categories as the base compensation for such employees:

	For the Three Months Ended March 31,			
	2012		2011	
	(In thousands)			
Research and development expenses	\$	1,061	\$	603
Selling, general and administrative expenses		5,857		2,378
Total non-cash, stock-based compensation	\$	6,918	\$	2,981

As of March 31, 2012, our total unrecognized compensation cost related to our non-performance based unvested stock awards was \$42 million and includes compensation expense that we will recognize for DISH Network stock awards held by our employees as a result of the Spin-off. This cost is based on an estimated future forfeiture rate of approximately 1.8% per year and will be recognized over a weighted-average period of approximately three years. Share-based compensation expense is recognized based on stock awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Changes in the estimated forfeiture rate can have a significant effect on share-based compensation expense since the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

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(Unaudited)

Valuation

The fair value of each stock option for the three months ended March 31, 2012 and 2011 was estimated at the date of the grant using a Black-Scholes option valuation model with the following assumptions:

Stock Options	For the Three Months Ended March 31,	
	2012	2011
Risk-free interest rate	1.33%	2.57%
Volatility factor	40.36%	34.68%
Expected term of options in years	6.0	6.0
Weighted-average fair value of options granted	\$ 11.37	\$ 14.42

We do not currently intend to pay dividends on our common stock and accordingly, the dividend yield percentage used in the Black-Scholes option valuation model is set at zero for all periods. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded stock options which have no vesting restrictions and are fully transferable. Consequently, our estimate of fair value may differ from other valuation models. Further, the Black-Scholes option valuation model requires the input of subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate.

We will continue to evaluate the assumptions used to derive the estimated fair value of our stock options as new events or changes in circumstances become known.

11. Acquisition***Hughes Communications***

On June 8, 2011, we completed the Hughes Acquisition, pursuant to an agreement and plan of merger (the "Hughes Agreement") by and between us, certain of our subsidiaries, including EchoStar Satellite Services L.L.C., and Hughes Communications, Inc. Pursuant to the Hughes Agreement, 100% of the issued and outstanding shares of common stock and vested stock options of Hughes Communications, Inc. were converted into the right to receive \$60.70 (minus any applicable exercise price) in cash and substantially all of the outstanding debt of Hughes Communications, Inc. was repaid. In addition, each share of unvested restricted stock and unvested stock option of Hughes

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Communications, Inc. was converted into the right to receive \$60.70 (minus any applicable exercise price) in cash on the vesting date of the stock award.

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(Unaudited)

A summary of the purchase price and opening balance sheet for the Hughes Acquisition at the June 8, 2011 acquisition date is presented in the following table. The opening balance sheet presented below reflects our preliminary purchase price allocation.

	Preliminary Purchase Price Allocation (In thousands)
Cash	\$ 98,900
Marketable investment securities	22,148
Other current assets	282,471
Property and equipment	930,426
Intangibles	420,907
Goodwill (non-deductible)	509,860
FCC authorizations	400,000
Other noncurrent assets	55,776
Current liabilities	(293,029)
Deferred tax liabilities	(220,928)
Long-term liabilities	(22,239)
Non-controlling interests	(9,679)
Total purchase price	\$ 2,174,613

The following unaudited pro forma condensed consolidated operating results for the three months ended March 31, 2011 gives effect to the Hughes Acquisition as if it occurred on January 1, 2010. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if this transaction had occurred on such date and should not be used as a predictive measure of our future financial position, results of operations or liquidity. The pro forma adjustments are based on currently available information and certain assumptions that we believe are reasonable.

Supplemental pro forma financial information (Unaudited)	For the Three Months Ended March 31, 2011 (In thousands, except per share amounts)
Total revenue	\$ 743,109
Net income (loss) attributable to EchoStar	\$ (6,246)
Basic net income (loss) per share attributable to EchoStar	\$ (0.07)
Diluted net income (loss) per share attributable to EchoStar	\$ (0.07)

Effective June 9, 2011, revenue and expenses associated with the Hughes Acquisition are included within the Hughes segment in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). See Note 13 for further discussion.

12. Commitments and Contingencies

Commitments

Acquisition of Brazilian Orbital Slot. On August 30, 2011, we were declared the winner of the right to select an orbital slot in an auction conducted by ANATEL, the Brazilian communications regulatory authority. We selected the 45 degree west longitude orbital location for a bid of approximately \$80 million using an exchange rate of \$1 to 1.8221 Brazilian Real as of March 31, 2012. We must comply with certain post-auction regulatory and payment requirements before we will receive the orbital slot. Once we receive the orbital slot, which is expected to occur

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

during May 2012, the slot will be used to expand our video and data capabilities in South America. Pursuant to our obligations under the license for the orbital slot we will be required to make significant additional investments, which may affect our future financial condition or results of operations.

EchoStar XVI. During November 2009, we entered into a contract for the construction of EchoStar XVI, a direct broadcast satellite (DBS), which is expected to be launched during the second half of 2012 and will operate at the 61.5 degree west longitude orbital location. DISH Network has agreed to lease all of the capacity on this satellite from us for a portion of its useful life. As of March 31, 2012, the remaining obligation related to EchoStar XVI is \$68 million, which includes the launch contract, launch insurance and one-year of in-orbit insurance.

EchoStar XVII/Jupiter. During June 2009, Hughes Communications entered into a contract for the construction of EchoStar XVII/Jupiter, which is expected to launch in the summer of 2012. Barrett Xplore Inc. has agreed to lease the user beams designed to operate in Canada, which represents a portion of the capacity available on EchoStar XVII/Jupiter. As of March 31, 2012, the remaining obligation related to EchoStar XVII/Jupiter is \$120 million, which includes the launch contract, launch insurance and one year of in-orbit insurance.

Contingencies

Separation Agreement

In connection with the Spin-off, we entered into a separation agreement with DISH Network that provides, among other things, for the division of certain liabilities, including liabilities resulting from litigation. Under the terms of the separation agreement, we have assumed certain liabilities that relate to our business including certain designated liabilities for acts or omissions that occurred prior to the Spin-off. Certain specific provisions govern intellectual property related claims under which, generally, we will only be liable for our acts or omissions following the Spin-off and DISH Network will indemnify us for any liabilities or damages resulting from intellectual property claims relating to the period prior to the Spin-off as well as DISH Network's acts or omissions following the Spin-off.

Litigation

We are involved in a number of legal proceedings (including those described below) concerning matters arising in connection with the conduct of our business activities. Many of these proceedings are at preliminary stages, and many of these proceedings seek an indeterminate amount of damages. We regularly evaluate the status of the legal proceedings in which we are involved to assess whether a loss is probable or there is a

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reasonable possibility that a loss or an additional loss may have been incurred and to determine if accruals are appropriate. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of the possible loss or range of possible loss can be made.

For certain cases described below, management is unable to provide a meaningful estimate of the possible loss or range of possible loss because, among other reasons, (i) the proceedings are in various stages; (ii) damages have not been sought; (iii) damages are unsupported and/or exaggerated; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; and/or (vi) there are novel legal issues or unsettled legal theories to be presented or a large number of parties (as with many patent-related cases). For these cases, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on our financial condition, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Cyberfone Systems, LLC (f/k/a LVL Patent Group, LLC)

On September 15, 2011, LVL Patent Group, LLC filed a complaint against us and our wholly-owned subsidiary, EchoStar Technologies L.L.C., as well as DISH Network L.L.C. a wholly-owned subsidiary of DISH Network, and DirecTV, Inc. in the United States District Court for the District of Delaware alleging infringement of United States Patent No. 6,044,382, which is entitled Data Transaction Assembly Server. On November 18, 2011, Cyberfone Systems, LLC (f/k/a LVL Patent Group, LLC) filed an amended complaint making the same claim. DirecTV was dismissed from the case on January 4, 2012.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

E-Contact Technologies, LLC

On February 22, 2012, E-Contact Technologies, LLC (E-Contact) filed suit against two of our subsidiaries, Hughes Communications, Inc. and Hughes Network Systems, LLC, in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 5,347,579, which is entitled Personal Computer Diary. E-Contact appears to assert that some portion of HughesNet email services infringe that patent. HughesNet email services are provided by a third party service provider, who has assumed indemnification obligations for the case.

We, along with the third party service provider, intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us or our service provider to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Joao Control & Monitoring Systems

During December 2010, Joao Control & Monitoring Systems (Joao) filed suit against Sling Media Inc., our indirect wholly owned subsidiary, ACTI Corporation, ADT Security, Alarmclub.Com, American Honda Motor Company, BMW, Byremote, Drivecam, Honeywell, Iveda

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Corporation, Magtec Products, Mercedes-Benz, On-Net Surveillance, OnStar, SafeFreight Technology, Skyway Security, SmartVue Corporation, Toyota Motor Sales, Tyco, UTC Fire and Xanboo in the United States District Court for the Central District of California alleging infringement of United States Patent Nos. 6,549,130 and 6,587,046. The abstracts of the patents state that the claims are directed to the remote control of devices and appliances. Joao is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. During 2011, the case was transferred to the Northern District of California.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Nazomi Communications, Inc.

On February 10, 2010, Nazomi Communications, Inc. (Nazomi) filed suit against Sling Media, Inc., our indirect wholly owned subsidiary, Nokia Corp, Nokia Inc., Microsoft Corp., Amazon.com Inc., Western Digital Corp., Western Digital Technologies, Inc., Garmin Ltd., Garmin Corp., Garmin International, Inc., Garmin USA, Inc., Vizio Inc. and iOmega Corp in the United States District Court for the Central District of California alleging infringement of United States Patent No. 7,080,362 (the 362 patent) and United States Patent No. 7,225,436 (the 436 patent). The 362 patent and the 436 patent relate to Java hardware acceleration. The suit alleges that the Slingbox-Pro-HD product infringes the 362 patent and the 436 patent because the Slingbox-PRO HD allegedly incorporates an ARM926EJ-S processor core capable of Java hardware acceleration. During 2010, the case was transferred to the Northern District of California.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

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(Unaudited)

NorthPoint Technology, Ltd.

On July 2, 2009, NorthPoint Technology, Ltd. (NorthPoint) filed suit against us, DISH Network, and DirecTV in the United States District Court for the Western District of Texas alleging infringement of United States Patent No. 6,208,636 (the 636 patent). The 636 patent relates to the use of multiple low-noise block converter feedhorns, or LNBFs, which are antennas used for satellite reception. On April 21, 2011, the United States Patent and Trademark Office issued an order granting reexamination of the 636 patent. On June 21, 2011, the District Court entered summary judgment in our favor, finding that all asserted claims of the 636 patent are invalid. NorthPoint has appealed.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We are being indemnified by DISH Network for any potential liability or damages resulting from this suit relating to the period prior to the effective date of the Spin-off. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Personalized Media Communications, Inc.

During 2008, Personalized Media Communications, Inc. (PMC) filed suit against us, DISH Network and Motorola Inc. in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent Nos. 4,694,490, 5,109,414, 4,965,825, 5,233,654, 5,335,277, and 5,887,243, which relate to satellite signal processing. PMC is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. Subsequently, Motorola Inc. settled with PMC, leaving DISH Network and us as defendants. Trial is currently set for August 2012.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We are being indemnified by DISH Network for any potential liability or damages resulting from this suit relating to the period prior to the effective date of the Spin-off. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Semiconductor Ideas to the Market BV

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On March 16, 2012, Semiconductor Ideas to the Market BV (ITOM) filed suit against our subsidiary Hughes Network Systems, LLC, as well as Texas Instruments, Inc., Qualcomm, Inc., Broadcom Corp., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, Dell Inc., Apple Inc., Ford Motor Company, Buffalo Technology (USA) Inc., Amazon.com, Inc., Hughes Telematics, Inc., Motorola Mobility, Inc., Motorola Solutions, Inc., Honeywell International Inc., Koninklijke Philips Electronics N.V., and Philips Consumer Lifestyle International B.V. The suit was brought in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 7,299,018 which is entitled Receiver comprising a digitally controlled capacitor bank and United States Patent No. 7,072,614 which is entitled Communication device . ITOM alleges infringement through use of various third party chipsets in unspecified products and/or systems.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Technology Development and Licensing L.L.C.

On January 22, 2009, Technology Development and Licensing L.L.C. (TDL) filed suit against us and DISH Network in the United States District Court for the Northern District of Illinois alleging infringement of United States Patent No. Re. 35,952, which relates to certain favorite channel features. TDL is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. In July 2009, the Court granted our motion to stay the case pending two reexamination petitions before the Patent and Trademark Office.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We are being indemnified by DISH Network for any potential liability or damages resulting from this suit relating to the period prior to the effective date of the Spin-off. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

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(Unaudited)

Vigilos, LLC

On February 23, 2011, Vigilos, LLC filed suit against us, two of our subsidiaries, Sling Media, Inc. and EchoStar Technologies L.L.C., and Monsoon Multimedia, Inc. in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 6,839,731, which is entitled System and Method for Providing Data Communication in a Device Network. Subsequently in 2011, Vigilos added DISH Network L.L.C., a wholly owned subsidiary of DISH Network, as a defendant in its First Amended Complaint and the case was transferred to the Northern District of California. Later in 2011, Vigilos filed a Second Amended Complaint that added claims for infringement of a second patent, United States Patent No. 7,370,074, which is entitled System and Method for Implementing Open-Protocol Remote Device Control.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Other

In addition to the above actions, we are subject to various other legal proceedings and claims which arise in the ordinary course of business. In our opinion, the amount of ultimate liability with respect to any of these actions is unlikely to materially affect our financial position, results of operations or liquidity, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

13. Segment Reporting

Operating segments are components of an enterprise for which separate financial information is available and regularly evaluated by the chief operating decision maker(s) of an enterprise. Total assets by segment have not been specified because the information is not available to the chief operating decision-maker. Under this definition, we operate three segments.

- **EchoStar Technologies** 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 international cable companies and,

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with respect to Slingboxes, directly to consumers via retail outlets. Our EchoStar Technologies segment also provides digital broadcast operations including satellite uplinking/downlinking, transmission services, signal processing, conditional access management and other services primarily to DISH Network.

- ***EchoStar Satellite Services*** which uses 10 of our 11 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, United States government service providers, state agencies, Internet service providers, broadcast news organizations, programmers and private enterprise customers.
- ***Hughes*** which provides satellite broadband Internet access to North American consumers and broadband network services and systems to the domestic and international enterprise markets. Hughes also provides managed services to large enterprises and networking systems solutions to customers for mobile satellite and wireless backhaul systems. Hughes became a new segment as a result of the Hughes Acquisition and the results of operations of Hughes Communications are included in our results effective June 9, 2011. See Note 11 for further discussion of the Hughes Acquisition.

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(Unaudited)

The All Other and Eliminations category consists of revenue and net income (loss) attributable to EchoStar from other operations including our corporate investment portfolio for which segment disclosure requirements do not apply. In addition, this category includes interest expense related to our 6 1/2% Senior Secured Notes due 2019 and our 7 5/8% Senior Notes due 2021, net of capitalized interest. Transactions between segments were not significant.

The following table reports our operating segment data and reconciles earnings before interest, taxes, depreciation and amortization (EBITDA) to reported Net income (loss) attributable to EchoStar in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss):

For the Three Months Ended March 31, 2012	EchoStar Technologies	EchoStar Satellite Services	Hughes (In thousands)	All Other and Eliminations	Consolidated Total
Total revenue	\$ 408,579	\$ 73,583	\$ 274,218	\$ 8,400	\$ 764,780
EBITDA (1)	24,487	52,200	69,202	130,226	276,115
Interest income		22	73	2,784	2,879
Interest expense, net of amounts capitalized	(20)	(13,794)	(88)	(24,719)	(38,621)
Income tax benefit (provision), net	(277)	(2,652)	(5,218)	8,452	305
Depreciation and amortization	(19,503)	(31,439)	(55,588)	(7,560)	(114,090)
Net income (loss) attributable to EchoStar	\$ 4,687	\$ 4,337	\$ 8,381	\$ 109,183	\$ 126,588

For the Three Months Ended March 31, 2011

Total revenue	\$ 405,383	\$ 68,771	\$ 5,672	\$ 479,826
EBITDA (1)	24,263	44,246	10,318	78,827
Interest income			2,677	2,677
Interest expense, net	(2)	(8,523)	8,987	462
Income tax benefit (provision), net	1,334	(4,640)	(4,482)	(7,788)
Depreciation and amortization	(26,651)	(23,625)	(6,738)	(57,014)
Net income (loss) attributable to EchoStar	\$ (1,056)	\$ 7,458	\$ 10,762	\$ 17,164

(1) EBITDA is not a measure determined in accordance with GAAP and should not be considered a substitute for operating income, net income or any other measure determined in accordance with GAAP. Conceptually, EBITDA measures the amount of income generated each period that could be used to service debt, pay taxes and fund capital expenditures. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. EBITDA is used by our management as a measure of operating efficiency and overall financial performance for benchmarking against our peers and competitors. Management believes EBITDA provides meaningful supplemental information regarding liquidity and the underlying operating performance of our business. Management also believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to evaluate companies in our industries.

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(Unaudited)

Geographic Information and Transactions with Major Customers

Geographic Information. Revenues are attributed to geographic regions based upon the location where the goods and services are provided. North American revenue includes transactions with North American customers. All other revenue includes transactions with customers in Asia, Africa, Australia, Europe, South America and the Middle East. The following table summarizes total long-lived assets and revenue attributed to the North American and other foreign locations.

	March 31, 2012	As of December 31, 2011
Long-lived assets, including FCC authorizations:		
	(In thousands)	
North America	\$ 3,914,949	\$ 3,888,286
All other	34,389	34,540
Total	\$ 3,949,338	\$ 3,922,826

	2012	For the Three Months Ended March 31, 2011
Revenue:		
	(In thousands)	
North America	\$ 688,584	\$ 472,309
All other	76,196	7,517
Total	\$ 764,780	\$ 479,826

Transactions with Major Customers. During the three months ended March 31, 2012 and 2011, our revenue included sales to two major customers. The following table summarizes sales to each customer and its percentage of total revenue.

	2012	For the Three Months Ended March 31, 2011
	(In thousands)	
Total revenue		
DISH Network:		
EchoStar Technologies Segment	\$ 300,198	\$ 336,032
EchoStar Satellite Services Segment	53,633	53,941
Hughes Segment	531	
All Other and Eliminations	9,661	3,360
Total DISH Network	\$ 364,023	\$ 393,333
Bell TV (EchoStar Technologies Segment)	66,178	41,402

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All other		334,579		45,091
Total revenue	\$	764,780	\$	479,826

Percentage of total revenue

DISH Network		47.6%		82.0%
Bell TV		8.7%		8.6%
All other		43.7%		9.4%

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

14. Related Party Transactions

DISH Network

Following the Spin-off, we and DISH Network have operated as separate public companies and DISH Network has no ownership interest in us. 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.

We and DISH Network have entered into certain agreements pursuant to which we obtain certain products, services and rights from DISH Network; DISH Network obtains certain products, services and rights from us; and we and DISH Network have indemnified each other against certain liabilities arising from our respective businesses. We also may enter into additional agreements with DISH Network in the future.

Generally, the amounts DISH Network pays for products and services provided under the agreements are based on our cost plus a fixed margin (unless noted differently below), which varies depending on the nature of the products and services provided.

The following is a summary of the terms of our principal agreements with DISH Network that may have an impact on our financial position and results of operations.

Equipment revenue DISH Network

Receiver Agreement. In connection with the Spin-off, we and DISH Network entered into a receiver agreement pursuant to which DISH Network had the right, but not the obligation, to purchase digital set-top boxes and related accessories, and other equipment from us for a period ending on January 1, 2012 (the "Prior Receiver Agreement"). The Prior Receiver Agreement allowed DISH Network to purchase digital set-top boxes, related accessories and other equipment from us at our cost plus a fixed percentage margin, which varied depending on the nature of the equipment purchased. Additionally, we provided DISH Network with standard manufacturer warranties for the goods sold under the Prior Receiver Agreement. DISH Network was able to terminate the Prior Receiver Agreement for any reason upon at least 60 days notice to us. We were able to terminate the Prior Receiver Agreement if certain entities were to acquire DISH Network. The Prior Receiver Agreement also included an indemnification provision, whereby the parties indemnified each other for certain intellectual property matters.

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Effective January 1, 2012, we and DISH Network entered into a new agreement (the "2012 Receiver Agreement") pursuant to which DISH Network continues to have the right, but not the obligation, to purchase digital set-top boxes, related accessories, and other equipment from us for the period from January 1, 2012 to December 31, 2014. DISH Network has an option, but not the obligation, to extend the 2012 Receiver Agreement for one additional year upon 180 days notice prior to the end of the term. The material terms of the 2012 Receiver Agreement are substantially the same as the material terms of the Prior Receiver Agreement, except that the 2012 Receiver Agreement allows DISH Network to purchase digital set-top boxes, related accessories and other equipment from us either: (i) at a cost (decreasing as we reduce costs and increasing as costs increase) plus a dollar mark-up which will depend upon the cost of the product subject to a collar on our mark-up; or (ii) at cost plus a fixed margin, which will depend on the nature of the equipment purchased. Under the 2012 Receiver Agreement, our margins will be increased if we are able to reduce the costs of our digital set-top boxes and our margins will be reduced if these costs increase. There can be no assurance that, over the long term, aggregate pricing under the 2012 Receiver Agreement will be substantially the same as it was under the Prior Receiver Agreement.

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(Unaudited)

Services and other revenue DISH Network

Broadcast Agreement. In connection with the Spin-off, we and DISH Network entered into a broadcast agreement pursuant to which we provided certain broadcast services to DISH Network, including teleport services such as transmission and downlinking, channel origination services, and channel management services for a period ending on January 1, 2012 (the *Prior Broadcast Agreement*). DISH Network had the ability to terminate channel origination services and channel management services for any reason and without any liability upon at least 60 days notice to us. If DISH Network terminated teleport services for a reason other than our breach, DISH Network was obligated to pay us the aggregate amount of the remainder of the expected cost of providing the teleport services. The fees for the services provided under the *Prior Broadcast Agreement* were calculated at cost plus a fixed margin, which varied depending on the nature of the products and services provided.

Effective January 1, 2012, we and DISH Network entered into a new broadcast agreement (the *2012 Broadcast Agreement*) pursuant to which we will continue to provide broadcast services to DISH Network, for the period from January 1, 2012 to December 31, 2016. The material terms of the *2012 Broadcast Agreement* are substantially the same as the material terms of the *Prior Broadcast Agreement*, except that: (i) the fees for services provided under the *2012 Broadcast Agreement* are calculated at either: (a) our cost of providing the relevant service plus a fixed dollar fee, which is subject to certain adjustments; or (b) our cost of providing the relevant service plus a fixed margin, which will depend on the nature of the services provided; and (ii) if DISH Network terminates the teleport services provided under the *2012 Broadcast Agreement* for a reason other than our breach, DISH Network is generally obligated to reimburse us for any direct costs we incur related to any such termination that we cannot reasonably mitigate. There can be no assurance that, over the long term, aggregate pricing under the *2012 Broadcast Agreement* will be substantially the same as it was under the *Prior Broadcast Agreement*.

Broadcast Agreement for Certain Sports Related Programming. During May 2010, we and DISH Network entered into a broadcast agreement pursuant to which we provide certain broadcast services to DISH Network in connection with its carriage of certain sports related programming. The term of this agreement is for ten years. If DISH Network terminates this agreement for a reason other than our breach, DISH Network is generally obligated to reimburse us for any direct costs we incur related to any such termination that we cannot reasonably mitigate. The fees for the broadcast services provided under this agreement depend, among other things, upon the cost to develop and provide such services.

Satellite Capacity Agreements. Since the Spin-off, we have entered into certain satellite capacity agreements pursuant to which DISH Network leases satellite capacity on certain satellites owned or leased by us. The fees for the services provided under these satellite capacity agreements depend, among other things, upon the orbital location of the applicable satellite and the length of the lease. The term of each lease is set forth below:

EchoStar VI, VIII and XII. DISH Network leases certain satellite capacity from us on EchoStar VI, VIII and XII. The leases generally terminate upon the earlier of: (i) the end of life or replacement of the satellite (unless DISH Network determines to renew on a year-to-year basis); (ii) the date the satellite fails; (iii) the date the transponders on which service is being provided fails; or (iv) a certain date, which depends upon, among

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other things, the estimated useful life of the satellite, whether the replacement satellite fails at launch or in orbit prior to being placed into service, and the exercise of certain renewal options. DISH Network generally has the option to renew each lease on a year-to-year basis through the end of the respective satellite's life. There can be no assurance that any options to renew such agreements will be exercised.

EchoStar IX. DISH Network leases certain satellite capacity from us on EchoStar IX. Subject to availability, DISH Network generally has the right to continue to lease satellite capacity from us on EchoStar IX on a month-to-month basis.

EchoStar XVI. DISH Network will lease certain satellite capacity from us on EchoStar XVI after its service commencement date, and this lease generally terminates upon the earlier of: (i) the end of life or replacement of

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

the satellite; (ii) the date the satellite fails; (iii) the date the transponder(s) on which service is being provided under the agreement fails; or (iv) ten years following the actual service commencement date. Upon expiration of the initial term, DISH Network has the option to renew on a year-to-year basis through the end of life of the satellite. There can be no assurance that any options to renew this agreement will be exercised. EchoStar XVI is expected to be launched during the second half of 2012.

EchoStar XV. EchoStar XV is owned by DISH Network and is operated at the 61.5 degree west longitude orbital location. The FCC has granted us an authorization to operate the satellite at the 61.5 degree west longitude orbital location. For so long as EchoStar XV remains in service at the 61.5 degree west longitude orbital location, DISH Network is obligated to pay us a fee for the use of the orbital slot which varies depending on the number of frequencies being used by EchoStar XV.

Nimiq 5 Agreement. During 2009, we entered into a fifteen-year satellite service agreement with Telesat Canada (Telesat) to receive service on all 32 DBS transponders on the Nimiq 5 satellite at the 72.7 degree west longitude orbital location (the Telesat Transponder Agreement). During 2009, DISH Network also entered into a satellite service agreement (the DISH Nimiq 5 Agreement) with us, pursuant to which they receive service from us on all 32 of the DBS transponders covered by the Telesat Transponder Agreement.

Under the terms of the DISH Nimiq 5 Agreement, DISH Network makes certain monthly payments to us that commenced in 2009 when the Nimiq 5 satellite was placed into service and continue through the service term. Unless earlier terminated under the terms and conditions of the DISH Nimiq 5 Agreement, the service term will expire ten years following the date it was placed into service. Upon expiration of the initial term, DISH Network has the option to renew the DISH Nimiq 5 Agreement on a year-to-year basis through the end of life of the Nimiq 5 satellite. Upon in-orbit failure or end of life of the Nimiq 5 satellite, and in certain other circumstances, DISH Network has certain rights to receive service from us on a replacement satellite. There can be no assurance that any options to renew the DISH Nimiq 5 Agreement will be exercised or that DISH Network will exercise its option to receive service on a replacement satellite.

QuetzSat-1 Agreement. During 2008, we entered into a ten-year satellite service agreement with SES, which provides, among other things, for the provision by SES to us of service on 32 DBS transponders on the QuetzSat-1 satellite. This satellite was launched on September 29, 2011 and was placed into service during the fourth quarter 2011 at the 67.1 degree west longitude orbital location while we and DISH Network explore alternative uses for the QuetzSat-1 satellite. In the interim, we are providing DISH Network with alternate capacity at the 77 degree west longitude orbital location. We commenced payments under our agreement with SES upon the placement of the QuetzSat-1 satellite at the 67.1 degree west longitude orbital location. During 2008, we also entered into a transponder service agreement with DISH Network pursuant to which DISH Network will receive service from us on 24 of the DBS transponders on QuetzSat-1, which will replace certain other transponders leased from us.

Under the terms of our contractual arrangements with DISH Network, we will recognize revenue for the QuetzSat-1 satellite when it is placed into service at the 77 degree west longitude orbital location and continuing through the remainder of the service term. Unless extended or earlier terminated under the terms and conditions of our agreement with DISH Network for the QuetzSat-1 satellite, the initial service term will expire

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in November 2021. Upon expiration of the initial service term, DISH Network has the option to renew the agreement for the QuetzSat-1 satellite on a year-to-year basis through the end of life of the QuetzSat-1 satellite. Upon an in-orbit failure or end of life of the QuetzSat-1 satellite, and in certain other circumstances, DISH Network has certain rights to receive service from us on a replacement satellite. There can be no assurance that any options to renew this agreement will be exercised or that DISH Network will exercise its option to receive service on a replacement satellite.

TT&C Agreement. In connection with the Spin-off, we entered into a telemetry, tracking and control (TT&C) agreement pursuant to which we provided TT&C services to DISH Network for a period ending on January 1, 2012 (the Prior TT&C Agreement). The fees for services provided under the Prior TT&C Agreement were calculated

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(Unaudited)

at cost plus a fixed margin. DISH Network was able to terminate the Prior TT&C Agreement for any reason upon 60 days notice.

On January 1, 2012, we entered into a TT&C agreement pursuant to which we will continue to provide TT&C services to DISH Network and its subsidiaries for a period ending on December 31, 2016 (the 2012 TT&C Agreement). The material terms of the 2012 TT&C Agreement are substantially the same as the material terms of the Prior TT&C Agreement, except that the fees for services provided under the 2012 TT&C Agreement are calculated at either: (i) a fixed fee; or (ii) cost plus a fixed margin, which will vary depending on the nature of the services provided.

Real Estate Lease Agreements. We have entered into lease agreements pursuant to which DISH Network leases certain real estate from us. The rent on a per square foot basis for each of the leases is comparable to per square foot rental rates of similar commercial property in the same geographic area, and DISH Network is responsible for its portion of the taxes, insurance, utilities and maintenance of the premises. The term of each of the leases is set forth below:

Inverness Lease Agreement. The lease for certain space at 90 Inverness Circle East in Englewood, Colorado is for a period ending on December 31, 2016. This agreement can be terminated by either party upon six months prior notice.

Meridian Lease Agreement. The lease for all of 9601 S. Meridian Blvd. in Englewood, Colorado is for a period ending on December 31, 2016.

Santa Fe Lease Agreement. The lease for all of 5701 S. Santa Fe Dr. in Littleton, Colorado is for a period ending on December 31, 2016 with a renewal option for one additional year.

EchoStar Data Networks Sublease Agreement. The sublease for certain space at 211 Perimeter Center in Atlanta, Georgia is for a period ending on October 31, 2016.

Gilbert Lease Agreement. The lease for certain space at 801 N. DISH Dr. in Gilbert, Arizona is a month to month lease and can be terminated by either party upon 30 days prior notice.

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Cheyenne Lease Agreement. Effective January 1, 2012, we and DISH Network entered into a lease for certain space at 530 EchoStar Drive in Cheyenne, Wyoming for a period ending on December 31, 2031.

Product Support Agreement. In connection with the Spin-off, we entered into a product support agreement pursuant to which DISH Network has the right, but not the obligation, to receive product support (including certain engineering and technical support services) for all set-top boxes and related components that our subsidiaries have previously sold and in the future may sell to DISH Network. The fees for the services provided under the product support agreement are calculated at cost plus a fixed margin, which varies depending on the nature of the services provided. The term of the product support agreement is the economic life of such receivers and related components, unless terminated earlier. DISH Network may terminate the product support agreement for any reason upon at least 60 days notice. In the event of an early termination of this agreement, DISH Network shall be entitled to a refund of any unearned fees paid to us for the services.

DISHOnline.com Services Agreement. Effective January 1, 2010, DISH Network entered into a two-year agreement with us pursuant to which DISH Network will receive certain services associated with an online video portal. The fees for the services provided under this services agreement depend, among other things, upon the cost to develop and operate such services. DISH Network has the option to renew this agreement for three successive one year terms and the agreement may be terminated for any reason upon at least 120 days notice to us. In November 2011, DISH Network exercised its right to renew this agreement for a one-year period ending on December 31, 2012.

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(Unaudited)

DISH Remote Access Services Agreement. Effective February 23, 2010, DISH Network entered into an agreement with us pursuant to which DISH Network will receive, among other things, certain remote DVR management services. The fees for the services provided under this services agreement depend, among other things, upon the cost to develop and operate such services. This agreement has a term of five years with automatic renewal for successive one year terms and may be terminated for any reason upon at least 120 days notice to us.

SlingService Services Agreement. Effective February 23, 2010, DISH Network entered into an agreement with us pursuant to which DISH Network will receive certain place-shifting services. The fees for the services provided under this services agreement depend, among other things, upon the cost to develop and operate such services. This agreement has a term of five years with automatic renewal for successive one year terms and may be terminated for any reason upon at least 120 days notice to us.

Move Networks Services Agreement. In the fourth quarter 2011, we granted DISH Network the right to use Move Network's software and video publishing systems, which facilitate the streaming, downloading and distribution of audio and video content to set-top boxes via the Internet. The fees for the services provided under this agreement are based upon a fixed fee which varies based upon the number of set-top boxes in a given month that access Move Network's software. This agreement has a term of five years with automatic renewal for successive one year terms and may be terminated by DISH Network for any reason upon at least 180 days notice to us.

Blockbuster. On April 26, 2011, DISH Network acquired substantially all of the assets of Blockbuster, Inc. (the "Blockbuster Acquisition"). On June 8, 2011, we completed the Hughes Acquisition. Hughes provided certain broadband products and services to Blockbuster pursuant to an agreement that was entered into prior to the Blockbuster Acquisition and the Hughes Acquisition. Subsequent to both the Blockbuster Acquisition and the Hughes Acquisition, Blockbuster entered into a new agreement with Hughes which extends for a period through October 31, 2014, pursuant to which Blockbuster may continue to purchase broadband products and services from Hughes. Blockbuster has the option to renew the agreement for an additional one year period.

Additionally, on August 5, 2011, we entered into a letter agreement with DISH Network pursuant to which certain assets used to support Blockbuster's website were transferred to us and we agreed to provide certain technical and infrastructure support for the Blockbuster website. The fees for the services provided under the letter agreement are calculated at cost plus a fixed margin, which varies depending upon the nature of the services provided. The letter agreement provides that it shall continue in effect until the completion of a definitive agreement between DISH Network and us setting forth the terms of our support of the Blockbuster website.

RUS Implementation Agreement. In September 2010, DISH Broadband L.L.C. ("DISH Broadband"), DISH Network's wholly owned subsidiary, was selected by the Rural Utilities Service ("RUS") of the United States Department of Agriculture to receive up to approximately \$14 million in broadband stimulus grant funds (the "Grant Funds"). On June 8, 2011, we completed the Hughes Acquisition. Effective November 2011, Hughes Communications and DISH Broadband entered into a RUS Implementation Agreement (the "RUS Agreement") pursuant to which Hughes Communications provides certain portions of the equipment and broadband service used to implement DISH Broadband's RUS program. The initial term of the RUS Agreement shall continue until the earlier of: (i) September 24, 2013; or (ii) the date that the Grant Funds have been

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exhausted. In addition, DISH Broadband may terminate the RUS Agreement for convenience upon 45 days prior written notice to Hughes Communications.

General and administrative expenses DISH Network

Management Services Agreement. We have a Management Services Agreement with DISH Network pursuant to which DISH Network makes certain of its officers available to provide services (which are primarily legal and accounting services) to us. Specifically, Paul W. Orban remains employed by DISH Network, but also served as our Senior Vice President and Controller through April 2012. In addition, R. Stanton Dodge remains employed by DISH Network, but also served as our Executive Vice President, General Counsel and Secretary through November

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(Unaudited)

2011. We make payments to DISH Network based upon an allocable portion of the personnel costs and expenses incurred by DISH Network with respect to such DISH Network officers (taking into account wages and fringe benefits). These allocations are based upon the estimated percentages of time to be spent by the DISH Network executive officers performing services for us under the Management Services Agreement. We also reimburse DISH Network for direct out-of-pocket costs incurred by DISH Network for management services provided to us. We and DISH Network evaluate all charges for reasonableness at least annually and make any adjustments to these charges as we and DISH Network mutually agree upon.

The Management Services Agreement automatically renewed on January 1, 2012 for an additional one-year period until January 1, 2013 and renews automatically for successive one-year periods thereafter, unless terminated earlier: (i) by us at any time upon at least 30 days notice; (ii) by DISH Network at the end of any renewal term, upon at least 180 days notice; or (iii) by DISH Network upon notice to us, following certain changes in control.

Real Estate Lease Agreement. During 2008, we entered into a sublease for space at 185 Varick Street, New York, New York from DISH Network for a period of approximately seven years. The rent on a per square foot basis for this sublease was comparable to per square foot rental rates of similar commercial property in the same geographic area at the time of the sublease, and we are responsible for our portion of the taxes, insurance, utilities and maintenance of the premises.

Professional Services Agreement. Prior to 2010, in connection with the Spin-off, we entered into various agreements with DISH Network including the Transition Services Agreement, Satellite Procurement Agreement and Services Agreement, which all expired on January 1, 2010 and were replaced by a Professional Services Agreement. During 2009, we and DISH Network agreed that we shall continue to have the right, but not the obligation, to receive the following services from DISH Network, among others, certain of which were previously provided under the Transition Services Agreement: information technology, travel and event coordination, internal audit, legal, accounting and tax, benefits administration, program acquisition services and other support services. Additionally, we and DISH Network agreed that DISH Network shall continue to have the right, but not the obligation, to engage us to manage the process of procuring new satellite capacity for DISH Network (previously provided under the Satellite Procurement Agreement) and receive logistics, procurement and quality assurance services from us (previously provided under the Services Agreement). The Professional Services Agreement automatically renewed on January 1, 2012 for an additional one-year period until January 1, 2013 and renews automatically for successive one-year periods thereafter, unless terminated earlier by either party upon at least 60 days notice. However, either party may terminate the Professional Services Agreement in part with respect to any particular service it receives for any reason upon at least 30 days notice.

Other Agreements DISH Network

Satellite Capacity Leased from DISH Network. During 2009, we entered into a satellite capacity agreement pursuant to which we lease certain satellite capacity from DISH Network on EchoStar I. The fee for the services provided under this satellite capacity agreement depends, among other things, upon the orbital location of the satellite and the length of the lease. During the three months ended March 31, 2012 and 2011, the

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amount of those fees included in Cost of sales services and other on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) was approximately \$4 million and \$6 million, respectively. The lease generally terminates upon the earlier of: (i) the end of life or replacement of the satellite (unless we determine to renew on a year-to-year basis); (ii) the date the satellite fails; (iii) the date the transponder on which service is being provided fails; or (iv) a certain date, which depends, among other things, upon the estimated useful life of the satellite, whether the replacement satellite fails at launch or in orbit prior to being placed into service, and the exercise of certain renewal options. We generally have the option to renew this lease on a year-to-year basis through the end of the satellite's life. There can be no assurance that any options to renew this agreement will be exercised.

Remanufactured Receiver Agreement. In connection with the Spin-off, we entered into a remanufactured receiver agreement with DISH Network pursuant to which we have the right, but not the obligation, to purchase

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(Unaudited)

remanufactured receivers and related components from DISH Network at cost plus a fixed margin, which varies depending on the nature of the equipment purchased. In November 2011, we and DISH Network extended this agreement until December 31, 2012. We may terminate the remanufactured receiver agreement for any reason upon at least 60 days notice to DISH Network. DISH Network may also terminate this agreement if certain entities acquire it. During the each of the three months ended March 31, 2012 and 2011, we purchased remanufactured receivers and related components from DISH Network for an aggregate amount of less than \$1 million.

Tax Sharing Agreement. In connection with the Spin-off, we entered into a tax sharing agreement with DISH Network which governs our respective rights, responsibilities and obligations after the Spin-off with respect to taxes for the periods ending on or before the Spin-off. Generally, all pre-Spin-off taxes, including any taxes that are incurred as a result of restructuring activities undertaken to implement the Spin-off, are borne by DISH Network, and DISH Network will indemnify us for such taxes. However, DISH Network is not liable for and will not indemnify us for any taxes that are incurred as a result of the Spin-off or certain related transactions failing to qualify as tax-free distributions pursuant to any provision of Section 355 or Section 361 of the Code because of: (i) a direct or indirect acquisition of any of our stock, stock options or assets; (ii) any action that we take or fail to take; or (iii) any action that we take that is inconsistent with the information and representations furnished to the IRS in connection with the request for the private letter ruling, or to counsel in connection with any opinion being delivered by counsel with respect to the Spin-off or certain related transactions. In such case, we will be solely liable for, and will indemnify DISH Network for, any resulting taxes, as well as any losses, claims and expenses. The tax sharing agreement will only terminate after the later of the full period of all applicable statutes of limitations, including extensions, or once all rights and obligations are fully effectuated or performed.

TiVo. On April 29, 2011, we and DISH Network entered into a settlement agreement with TiVo, Inc. (*TiVo*). The settlement resolved all pending litigation between us and DISH Network, on the one hand, and TiVo, on the other hand, including litigation relating to alleged patent infringement involving certain DISH digital video recorders, or DVRs, which litigation is described in our Annual Report on Form 10-K for the year ended December 31, 2011 under the caption *Item 3. Legal Proceedings TiVo Inc.*

Under the settlement agreement, all pending litigation has been dismissed with prejudice and all injunctions that permanently restrain, enjoin or compel any action by us or DISH Network have been dissolved. We and DISH Network are jointly responsible for making payments to TiVo in the aggregate amount of \$500 million, including an initial payment of \$300 million and the remaining \$200 million in six equal annual installments between 2012 and 2017. Pursuant to the terms and conditions of the agreements entered into in connection with the Spin-off, DISH Network made the initial payment to TiVo in May 2011, except for the contribution from us totaling approximately \$10 million, representing an allocation of liability relating to our sales of DVR-enabled receivers to an international customer. Future payments will be allocated between us and DISH Network based on historical sales of certain licensed products, with EchoStar being responsible for 5% of each annual payment.

We and DISH Network, on the one hand, and TiVo, on the other hand, have also agreed on mutual releases of certain related claims and agreed not to challenge each other's DVR technology-related patents that are licensed under the settlement agreement.

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Because both we and DISH Network were defendants in the TiVo lawsuit, we and DISH Network were jointly and severally liable to TiVo for any final damages and sanctions that could have been awarded by the District Court. As previously disclosed, DISH Network determined that it was obligated under the agreements entered into in connection with the Spin-off to indemnify us for substantially all liability arising from this lawsuit. We contributed an amount equal to our \$5 million intellectual property liability limit under the receiver agreement. We and DISH Network further agreed that EchoStar's \$5 million contribution would not exhaust our liability to DISH Network for other intellectual property claims that may arise under the receiver agreement. We and DISH Network also agreed that we would each be entitled to joint ownership of, and a cross-license to use, any intellectual property developed in connection with any potential new alternative technology. Any amounts that we are responsible for under the settlement agreement with TiVo are in addition to the \$5 million contribution previously made by us.

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(Unaudited)

Patent Cross-License Agreements. During December 2011, we and DISH Network entered into separate patent cross-license agreements with the same third party whereby: (i) we and such third party licensed our respective patents to each other subject to certain conditions; and (ii) DISH Network and such third party licensed their respective patents to each other subject to certain conditions (each, a Cross-License Agreement). Each Cross-License Agreement covers patents acquired by the respective party prior to January 1, 2017 and aggregate payments under both Cross-License Agreements total less than \$10 million. Each Cross-License Agreement also contains an option to extend each Cross-License Agreement to include patents acquired by the respective party prior to January 1, 2022. If both options are exercised, the aggregate additional payments to such third party would total less than \$3 million. However, we and DISH Network may elect to extend our respective Cross-License Agreement independently of each other. Since the aggregate payments under both Cross-License Agreements were based on the combined annual revenues of us and DISH Network, we and DISH Network agreed to allocate our respective payments to such third party based on our respective percentage of combined total revenue.

Sprint Settlement Agreement. On November 3, 2011, DISH Network and Sprint Nextel Corporation (Sprint) entered into an agreement with Sprint (the Sprint Settlement Agreement) pursuant to which all disputed issues relating to DISH Network's acquisition of DBSD North America, Inc. (DBSD North America) and TerreStar were resolved between DISH Network and Sprint, including, but not limited to, issues relating to costs allegedly incurred by Sprint to relocate users from the spectrum then licensed to DBSD North America and TerreStar (the Sprint Clearing Costs). We were a party to the Sprint Settlement Agreement solely for the purposes of executing a mutual release between us and Sprint relating to the Sprint Clearing Costs. We were a holder of certain TerreStar debt instruments. In March 2012, our remaining debt instruments were exchanged for a right to receive a distribution in accordance with the terms of the liquidating trust established pursuant to TerreStar's chapter 11 plan of liquidation. Pursuant to the terms of the Sprint Settlement Agreement, DISH Network made a net payment of approximately \$114 million to Sprint.

DBSD North America Agreement. On March 9, 2012, DISH Network completed its acquisition of 100% of the equity of reorganized DBSD North America. Prior to DISH Network's acquisition of DBSD North America and our completion of the Hughes Acquisition, DBSD North America and Hughes Network Systems, LLC (HNS), a wholly-owned subsidiary of Hughes, entered into an agreement pursuant to which our Hughes segment provides, among other things, hosting, operations and maintenance services of DBSD North America's satellite gateway and associated ground infrastructure. This agreement was renewed for a one year period ending on February 15, 2013, and renews for four successive one-year periods unless terminated by DBSD North America upon at least 30 days notice prior to the expiration of any renewal term. During the three months ended March 31, 2012, our Hughes segment provided services to DBSD North America for an aggregate amount of less than \$1 million.

TerreStar Agreement. On March 9, 2012, DISH Network completed its acquisition of substantially all the assets of TerreStar. Prior to DISH Network's acquisition of substantially all the assets of TerreStar and our completion of the Hughes Acquisition, TerreStar and HNS entered into various agreements pursuant to which our Hughes segment provides, among other things, hosting, operations and maintenance services for TerreStar's satellite gateway and associated ground infrastructure. These agreements generally may be terminated by DISH Network at any time for convenience. During the three months ended March 31, 2012, our Hughes segment provided services to TerreStar for an aggregate amount of less than \$1 million.

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(Unaudited)

Other Agreements

In November 2009, Mr. Roger Lynch became employed by both us and DISH Network as Executive Vice President. Mr. Lynch is responsible for the development and implementation of advanced technologies that are of potential utility and importance to both us and DISH Network. Mr. Lynch's compensation consists of cash and equity compensation and is borne by both DISH Network and us.

Hughes Systique Corporation (Hughes Systique)

We contract with Hughes Systique for software development services. In addition to our 45% ownership in Hughes Systique, Pradman Kaul, the President of Hughes Communications, Inc. and a member of our Board of Directors and his brother, who is the CEO and President of Hughes Systique, in the aggregate, owned approximately 26%, on an undiluted basis, of Hughes Systique's outstanding shares as of March 31, 2012. Furthermore, Mr. Pradman Kaul serves on the board of directors of Hughes Systique. We are considered the primary beneficiary of Hughes Systique and as a result, we are required to consolidate Hughes Systique's results of operations in our operating results.

NagraStar L.L.C.

We own 50% of NagraStar L.L.C. (NagraStar), a joint venture that is our primary provider of encryption and related security technology used in our set-top boxes. Although we do not consolidate NagraStar, we have the ability to significantly influence its operating policies; therefore, we account for our investment in NagraStar under the equity method of accounting.

The table below summarizes our transactions with NagraStar.

	For the Three Months Ended March 31,			2011
	2012			
	(In thousands)			
Purchases from NagraStar	\$	2,942	\$	1,795

March 31, **As of** **December 31,**

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	2012		2011	
	(In thousands)			
Amounts payable to NagraStar	\$	3,899	\$	2,965
Commitments to purchase from NagraStar	\$	2,730	\$	2,731

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(Unaudited)

Dish Mexico

During 2008, we entered into a joint venture for a direct-to-home (DTH) satellite service in Mexico known as Dish Mexico. Pursuant to these arrangements, we provide certain broadcast services and satellite capacity and sell hardware such as digital set-top boxes and related equipment to Dish Mexico.

The following table summarizes our transactions with Dish Mexico.

	For the Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Sales not related to the original contribution commitment associated with our investment:		
Digital set-top boxes and related accessories	\$ 14,296	\$ 9,347
Sales of satellite services	\$ 2,130	\$ 2,130
Uplink services	\$ 2,352	\$ 1,705
Engineering services	\$ 562	\$

	As of	
	March 31, 2012	December 31, 2011
	(In thousands)	
Amounts receivable from Dish Mexico	\$ 7,150	\$ 8,594

Joint Venture in Taiwan

During December 2009, we entered into a joint venture to provide a DTH satellite service in Taiwan and certain other targeted regions in Asia. We own 50% and have joint control of the joint venture. Pursuant to our joint venture arrangements, we sell hardware such as digital set-top boxes and provide certain technical support services to the joint venture. We have provided \$18 million of cash to the joint venture, and an \$18 million line of credit that the joint venture may only use to purchase set-top boxes from us. This investment is subject to an evaluation for other-than-temporary impairment on a quarterly basis. This quarterly evaluation consists of reviewing, among other things, company business plans and current financial statements, if available, for factors that may indicate an impairment of our investment. During 2010, we recorded a \$14 million charge to fully impair this investment. In December 2011, we entered into an agreement to sell all of our equity in the joint venture, other than an approximately 5% interest, to a third party for nominal consideration (the JV Sale Transaction). Upon the closing of the JV Sale Transaction, which is subject to receipt of customary regulatory approvals, our line of credit will be terminated. We expect to close the JV Sale

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Transaction during the first half of 2012. As of March 31, 2012, the remaining amount available under the line of credit was \$10 million and if advanced would be subject to our evaluation for other-than-temporary impairment.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following management's discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and notes to the financial statements included elsewhere in this quarterly report. This management's discussion and analysis is intended to help provide an understanding of our financial condition, changes in financial condition and results of our operations and contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in our Annual Report on Form 10-K for the year ended December 31, 2011 under the caption "Item 1A. Risk Factors."

EXECUTIVE SUMMARY

EchoStar Corporation is a holding company, whose subsidiaries operate three primary segments: the EchoStar Technologies segment, the EchoStar Satellite Services segment and the Hughes segment.

EchoStar Technologies Segment

Our EchoStar Technologies segment 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 international cable companies and, with respect to Slingboxes, directly to consumers via retail outlets. Slingbox placeshifting technology allows consumers to watch and control their home digital video and audio content via a broadband Internet connection. Most of our digital set-top boxes are sold to DISH Network, but we also sell a significant number of digital set-top boxes to Bell TV in Canada, Dish Mexico in Mexico and other international customers.

Our EchoStar Technologies segment also provides digital broadcast operations including satellite uplinking/downlinking, transmission services, signal processing, conditional access management and other services that are provided primarily to DISH Network.

We believe opportunities exist to expand our business by selling equipment and services in both the United States and international markets. As a result of our extensive experience with digital set-top boxes and digital broadcast operations, we are able to provide end-to-end pay-TV delivery systems incorporating our satellite and terrestrial backhaul capacity, customized digital set-top boxes and related components, and network design and management. We recently decided to focus the efforts of our digital set-top box business on international markets and not to actively seek set-top box opportunities with United States cable operators.

Dependence on DISH Network. We depend on DISH Network for a substantial portion of the revenue for our EchoStar Technologies segment and we expect that for the foreseeable future DISH Network will continue to be the primary source of revenue for our EchoStar Technologies segment. Therefore, our results of operations are, and will for the foreseeable future be, closely linked to the performance of DISH Network's pay-TV service. Effective January 1, 2012, we entered into a new receiver agreement with DISH Network pursuant to which we are obligated to

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sell digital set-top boxes and related products to DISH Network until December 31, 2014. However, DISH Network is under no obligation to purchase our digital set-top boxes or related products before or after this date. The receiver agreement allows DISH Network to purchase digital set-top boxes, related accessories and other equipment from us either: (i) at a cost (decreasing as we reduce cost and increasing as costs increase) plus a dollar mark-up which will depend upon the cost of the product subject to a collar on our mark-up; or (ii) at cost plus a fixed margin, which will depend on the nature of the equipment purchased. Under the receiver agreement, our margins will be increased if we are able to reduce the costs of our digital set-top boxes and our margins will be impaired if these costs increase. In addition, while we expect to sell equipment to other customers, the number of potential new customers for our EchoStar Technologies segment is small and may be limited by our common ownership and related management with DISH Network, and our current customer concentration is likely to continue for the foreseeable future.

To the extent that DISH Network's gross subscriber additions decrease or DISH Network experiences a net loss of subscribers, sales of our digital set-top boxes and related components to DISH Network may further decline, which in turn could have a further material adverse effect on our financial position and results of operations.