

EchoStar CORP
Form 10-Q
August 06, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015.

OR

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

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number: 001-33807

EchoStar Corporation

(Exact Name of Registrant as Specified in Its Charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

26-1232727

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

100 Inverness Terrace East, Englewood, Colorado
(Address of Principal Executive Offices)

80112-5308
(Zip Code)

(303) 706-4000

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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. (Check one):

Large accelerated filer

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

As of July 28, 2015, the Registrant's outstanding common stock consisted of 44,736,442 shares of Class A common stock and 47,687,039 shares of Class B common stock.

Table of Contents

TABLE OF CONTENTS

Disclosure Regarding Forward-Looking Statements i

PART I - FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets as of June 30, 2015 (Unaudited) and December 31, 2014</u>	1
	<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2015 and 2014 (Unaudited)</u>	2
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014 (Unaudited)</u>	3
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	4
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	63
<u>Item 4.</u>	<u>Controls and Procedures</u>	65

PART II - OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	66
<u>Item 1A.</u>	<u>Risk Factors</u>	66
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	67
<u>Item 3.</u>	<u>Defaults upon Securities</u>	67
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	67
<u>Item 5.</u>	<u>Other Information</u>	67
<u>Item 6.</u>	<u>Exhibits</u>	68
	<u>Signatures</u>	69

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Form 10-Q) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Exchange Act of 1934, as amended, including but not limited to statements about our estimates, expectations, plans, objectives, strategies, and financial condition, expected impact of regulatory developments and legal proceedings, opportunities in our industries and businesses and other trends and projections for the next fiscal quarter and beyond. All statements, other than statements of historical facts, may be forward-looking statements. Forward-looking statements may also be identified by words such as anticipate, intend, plan, goal, believe, estimate, expect, predict, continue, future, will, would, could, can, may and similar terms. Forward-looking statements are based on information available to us as of the date of this Form 10-Q and represent management's current views and assumptions. Forward-looking statements are not guarantees of future performance, events or results and involve potential known and unknown risks, uncertainties and other factors, many of which may be beyond our control and may pose a risk to our operating and financial condition. Accordingly, actual performance, events or results could differ materially from those expressed or implied in the forward-looking statements due to a number of factors including, but not limited to:

- our reliance on our primary customer, DISH Network Corporation and its subsidiaries (DISH Network), for a significant portion of our revenue;
- the impact of variable demand and the adverse pricing environment for digital set-top boxes;
- dependence on our ability to successfully manufacture and sell our digital set-top boxes in increasing volumes on a cost-effective basis and with acceptable quality;
- our ability to bring advanced technologies to market to keep pace with our competitors;
- significant risks related to the construction, launch and operation of our satellites, such as the risk of material malfunction on one or more of our satellites, changes in the space weather environment that could interfere with the operation of our satellites, and our general lack of commercial insurance coverage on our satellites;
- our failure to adequately anticipate the need for satellite capacity or the inability to obtain satellite capacity for our Hughes segment; and

Edgar Filing: EchoStar CORP - Form 10-Q

- the failure of third-party providers of components, manufacturing, installation services and customer support services to appropriately deliver the contracted goods or services.

Other factors that could cause or contribute to such differences include, but are not limited to, those discussed under the caption **Risk Factors** in Part II, Item 1A of this Form 10-Q and in Part I, Item 1A of our most recent Annual Report on Form 10-K (**Form 10-K**) filed with the Securities and Exchange Commission (**SEC**), those discussed in **Management's Discussion and Analysis of Financial Condition and Results of Operations** herein and in our Form 10-K, and those discussed in other documents we file with the SEC.

All cautionary statements made herein should be read as being applicable to all forward-looking statements wherever they appear. Investors should consider the risks and uncertainties described herein and should not place undue reliance on any forward-looking statements. We do not undertake, and specifically disclaim, any obligation to publicly release the results of any revisions that may be made to any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****ECHOSTAR CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

	June 30, 2015 (Unaudited)	As of	December 31, 2014 (Audited)
Assets			
Current Assets:			
Cash and cash equivalents	\$ 502,010	\$	549,053
Marketable investment securities, at fair value	1,009,478		1,139,103
Trade accounts receivable, net of allowance for doubtful accounts of \$13,239 and \$14,188, respectively	183,555		163,232
Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero	245,338		251,669
Inventory	70,568		62,963
Prepaid expenses	63,566		67,164
Deferred tax assets	96,245		87,208
Other current assets	8,717		7,699
Total current assets	2,179,477		2,328,091
Noncurrent Assets:			
Restricted cash and marketable investment securities	20,452		18,945
Property and equipment, net of accumulated depreciation of \$2,833,173 and \$2,899,353, respectively	3,304,870		3,194,793
Regulatory authorizations, net	554,736		568,378
Goodwill	510,630		510,630
Other intangible assets, net	162,417		195,662
Other investments	226,668		159,962
Other receivable - DISH Network	90,620		90,241
Other noncurrent assets, net	183,263		187,296
Total noncurrent assets	5,053,656		4,925,907
Total assets	\$ 7,233,133	\$	7,253,998
Liabilities and Stockholders Equity			
Current Liabilities:			
Trade accounts payable	\$ 197,425	\$	188,282
Trade accounts payable - DISH Network	32,652		32,474
Current portion of long-term debt and capital lease obligations	31,666		41,912
Deferred revenue and prepayments	75,906		71,708
Accrued compensation	30,227		32,117
Accrued royalties	26,876		27,590
Accrued expenses and other	111,472		123,650
Total current liabilities	506,224		517,733
Noncurrent Liabilities:			

Edgar Filing: EchoStar CORP - Form 10-Q

Long-term debt and capital lease obligations, net of current portion	2,202,337	2,325,775
Deferred tax liabilities	718,563	679,524
Other noncurrent liabilities	102,753	107,328
Total noncurrent liabilities	3,023,653	3,112,627
Total liabilities	3,529,877	3,630,360
Commitments and Contingencies (Note 14)		

Stockholders Equity:

Preferred Stock, \$.001 par value, 20,000,000 shares authorized:		
Hughes Retail Preferred Tracking Stock, \$.001 par value, 13,000,000 shares authorized, 6,290,499 issued and outstanding at each of June 30, 2015 and December 31, 2014	6	6
Common Stock, \$.001 par value, 4,000,000,000 shares authorized:		
Class A common stock, \$.001 par value, 1,600,000,000 shares authorized, 50,235,447 shares issued and 44,703,129 shares outstanding at June 30, 2015 and 49,576,247 shares issued and 44,043,929 shares outstanding at December 31, 2014	50	50
Class B common stock, \$.001 par value, 800,000,000 shares authorized, 47,687,039 shares issued and outstanding at each of June 30, 2015 and December 31, 2014	48	48
Class C common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding at each of June 30, 2015 and December 31, 2014		
Class D common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding at each of June 30, 2015 and December 31, 2014		
Additional paid-in capital	3,744,852	3,706,122
Accumulated other comprehensive loss	(73,579)	(55,856)
Accumulated earnings (deficit)	42,108	(19,040)
Treasury stock, at cost	(98,162)	(98,162)
Total EchoStar stockholders equity	3,615,323	3,533,168
Noncontrolling interest in HSS Tracking Stock	77,123	80,457
Other noncontrolling interests	10,810	10,013
Total stockholders equity	3,703,256	3,623,638
Total liabilities and stockholders equity	\$ 7,233,133	\$ 7,253,998

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

Table of Contents

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

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue:				
Equipment revenue - DISH Network	\$ 196,134	\$ 302,734	\$ 420,093	\$ 608,416
Equipment revenue - other	87,772	95,033	166,908	163,963
Services and other revenue - DISH Network	235,953	209,053	458,757	393,617
Services and other revenue - other	273,736	273,008	546,490	539,855
Total revenue	793,595	879,828	1,592,248	1,705,851
Costs and Expenses:				
Cost of sales - equipment (exclusive of depreciation and amortization)	238,623	337,376	498,846	658,046
Cost of sales - services and other (exclusive of depreciation and amortization)	217,765	204,269	426,005	414,362
Selling, general and administrative expenses	90,704	90,492	188,632	178,124
Research and development expenses	19,685	14,574	37,557	29,156
Depreciation and amortization	132,470	140,647	265,655	273,873
Total costs and expenses	699,247	787,358	1,416,695	1,553,561
Operating income	94,348	92,470	175,553	152,290
Other Income (Expense):				
Interest income	2,723	2,147	5,334	4,745
Interest expense, net of amounts capitalized	(31,958)	(44,687)	(67,266)	(90,731)
Loss from partial redemption of debt	(5,044)		(5,044)	
Gains (losses) on marketable investment securities, net	(1,613)	6	(1,604)	34
Other-than-temporary impairment loss on available-for-sale securities	(4,649)		(4,649)	
Equity in losses of unconsolidated affiliates, net	(203)	(1,210)	(256)	(3,061)
Other, net	(3,728)	(201)	(6,193)	435
Total other expense, net	(44,472)	(43,945)	(79,678)	(88,578)
Income before income taxes	49,876	48,525	95,875	63,712
Income tax provision, net	(18,863)	(18,911)	(37,264)	(22,068)
Net income	31,013	29,614	58,611	41,644
Less: Net loss attributable to noncontrolling interest in HSS Tracking Stock	(1,165)	(1,619)	(3,334)	(1,943)
Less: Net income attributable to other noncontrolling interests	428	428	797	728
Net income attributable to EchoStar	31,750	30,805	61,148	42,859
Less: Net loss attributable to Hughes Retail Preferred Tracking Stock (Note 2)	(2,150)	(2,989)	(6,154)	(3,587)
Net income attributable to EchoStar common stock	\$ 33,900	\$ 33,794	\$ 67,302	\$ 46,446

Edgar Filing: EchoStar CORP - Form 10-Q

Weighted-average common shares

outstanding - Class A and B common stock:

Basic	92,283	91,097	92,127	90,894
Diluted	93,514	92,714	93,437	92,546

Earnings per share - Class A and B common stock:

Basic	\$	0.37	\$	0.37	\$	0.73	\$	0.51
Diluted	\$	0.36	\$	0.36	\$	0.72	\$	0.50

Comprehensive Income (Loss)

Net income	\$	31,013	\$	29,614	\$	58,611	\$	41,644
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustments		2,994		3,208		(23,406)		7,715
Recognition of previously unrealized foreign currency translation loss in net income		1,889				1,889		
Unrealized (gains) losses on available-for-sale securities and other		(2,053)		(3,252)		(835)		(2,503)
Unrealized other-than-temporary loss on available-for-sale securities		4,649				4,649		
Recognition of previously unrealized gains on available-for-sale securities in net income		(11)		(6)		(20)		(34)
Total other comprehensive income (loss), net of tax		7,468		(50)		(17,723)		5,178
Comprehensive income		38,481		29,564		40,888		46,822
Less: Comprehensive loss attributable to noncontrolling interest in HSS Tracking Stock		(1,165)		(1,619)		(3,334)		(1,943)
Less: Comprehensive income attributable to other noncontrolling interests		428		442		797		976
Comprehensive income attributable to EchoStar	\$	39,218	\$	30,741	\$	43,425	\$	47,789

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

Table of Contents**ECHOSTAR CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 58,611	\$ 41,644
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	265,655	273,873
Equity in losses of unconsolidated affiliates, net	256	3,061
Loss from partial redemption of debt	5,044	
Loss (gains) and impairment on marketable investment securities, net	6,253	(34)
Stock-based compensation	10,288	7,178
Deferred tax provision	36,255	10,512
Changes in current assets and current liabilities, net	(14,429)	22,947
Changes in noncurrent assets and noncurrent liabilities, net	3,294	(9,075)
Other, net	11,517	21,868
Net cash flows from operating activities	382,744	371,974
Cash Flows from Investing Activities:		
Purchases of marketable investment securities	(285,130)	(599,677)
Sales and maturities of marketable investment securities	419,038	594,306
Purchases of property and equipment	(356,910)	(269,717)
Changes in restricted cash and marketable investment securities	(1,507)	(3,042)
Other non-current investments	(64,655)	
Acquisition of regulatory authorization	(3,428)	
Other, net	(11,652)	(10,403)
Net cash flows from investing activities	(304,244)	(288,533)
Cash Flows from Financing Activities:		
Repayment of 6 1/2% Senior Notes Due 2019 and related premium	(113,300)	
Repayment of long-term debt and capital lease obligations	(26,235)	(36,359)
Net proceeds from Class A common stock options exercised and stock issued under the Employee Stock Purchase Plan	14,104	14,414
Net proceeds from issuance of Tracking Stock (Note 2)		10,104
Other, net	3,186	1,082
Net cash flows from financing activities	(122,245)	(10,759)
Effect of exchange rates on cash and cash equivalents	(3,298)	1,456
Net increase (decrease) in cash and cash equivalents	(47,043)	74,138
Cash and cash equivalents, beginning of period	549,053	634,119
Cash and cash equivalents, end of period	\$ 502,010	\$ 708,257
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest (including capitalized interest)	\$ 91,817	\$ 94,195
Capitalized interest	\$ 27,569	\$ 7,689
Cash paid for income taxes	\$ 3,010	\$ 8,711
Employee benefits paid in Class A common stock	\$ 10,711	\$ 10,310
Satellites and other assets financed under capital lease obligations	\$ 3,367	\$ 2,138
(Decrease) increase in capital expenditures included in accounts payable, net	\$ (8,931)	\$ 4,981

Edgar Filing: EchoStar CORP - Form 10-Q

Net noncash assets transferred from DISH Network in exchange for Tracking Stock (Note 2)	\$		\$	398,095
Reduction of capital lease obligation for AMC-15 and AMC-16 satellites	\$	4,500	\$	

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

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Business Activities

Principal Business

EchoStar Corporation (which, together with its subsidiaries, is referred to as EchoStar, the Company, we, us and/or our) is a holding company that was organized in October 2007 as a corporation under the laws of the State of Nevada. We are a global provider of satellite operations, video delivery solutions, digital set-top boxes, and broadband satellite technologies and services for home and office, delivering innovative network technologies, managed services, and solutions for enterprises and governments. Our Class A common stock is publicly traded on the Nasdaq Global Select Market (Nasdaq) under the symbol SATS.

We currently operate in three business segments.

- **EchoStar Technologies (ETC)** which designs, develops and distributes digital set-top boxes and related products and technology, primarily for satellite TV service providers and telecommunication companies. 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. In addition, we provide our TVEverywhere technology through Slingboxes directly to consumers via retail outlets and online, as well as to the pay-TV operator market. Beginning in 2015, this segment also includes Move Network, our live linear over-the-top platform (OTT) business, which includes assets acquired from Sling TV Holding L.L.C. (formerly DISH Digital Holding L.L.C), and primarily provides support services to DISH Network s Sling TV operations.
- **Hughes** which provides satellite broadband internet access to North American consumers and broadband network services and equipment to domestic and international enterprise markets. The Hughes segment also provides managed services to large enterprises and solutions to customers for mobile satellite systems.
- **EchoStar Satellite Services (ESS)** which uses certain of our owned and leased in-orbit satellites and related licenses to provide satellite services on a full-time and occasional-use basis primarily to DISH Network, Dish Mexico, S. de R.L. de C.V. (Dish Mexico), a joint venture we entered into in 2008, United States (U.S.) government

Edgar Filing: EchoStar CORP - Form 10-Q

service providers, internet service providers, broadcast news organizations, programmers, and private enterprise customers.

Our operations also include real estate and other activities that have not been assigned to our operating segments, including without limitation, costs incurred in certain satellite development programs and other business development activities, expenses of various corporate departments, and our centralized treasury operations, including without limitation, income from our investment portfolio and interest expense on our debt. These activities are accounted for in the All Other and Eliminations column in Note 15. Segment Reporting of our condensed consolidated financial statements.

In 2008, DISH Network completed its distribution to us of its digital set-top box business, certain infrastructure, and other assets and related liabilities, including certain of their satellites, uplink and satellite transmission assets, and real estate (the Spin-off). Since the Spin-off, EchoStar and DISH Network have operated as separate publicly-traded companies. However, as a result of the Satellite and Tracking Stock Transaction described in Note 2 below, DISH Network owns shares of our and our subsidiary's preferred tracking stock representing an aggregate 80.0% economic interest in the residential retail satellite broadband business of our Hughes segment. In addition, a substantial majority of the voting power of the shares of DISH Network and EchoStar is owned beneficially by Charles W. Ergen, our Chairman, and by certain trusts established by Mr. Ergen for the benefit of his family.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Note 2. Hughes Retail Preferred Tracking Stock

Satellite and Tracking Stock Transaction

On February 20, 2014, EchoStar entered into agreements with certain subsidiaries of DISH Network pursuant to which, effective March 1, 2014, (i) EchoStar issued shares of its newly authorized Hughes Retail Preferred Tracking Stock (the EchoStar Tracking Stock) and Hughes Satellite Systems Corporation (HSS), a subsidiary of EchoStar, also issued shares of its newly authorized Hughes Retail Preferred Tracking Stock (the HSS Tracking Stock) and together with the EchoStar Tracking Stock, the Tracking Stock) to DISH Network in exchange for five satellites (EchoStar I, EchoStar VII, EchoStar X, EchoStar XI, and EchoStar XIV), including the assumption of related in-orbit incentive obligations, and \$11.4 million in cash and (ii) DISH Network began receiving certain satellite services on these five satellites from us (the Satellite and Tracking Stock Transaction). The Tracking Stock tracks the residential retail satellite broadband business of our Hughes segment, including certain operations, assets and liabilities attributed to such business (collectively, the Hughes Retail Group or HRG). The Satellite and Tracking Stock Transaction is consistent with the long-term strategy of the Company to increase the scale of its satellite services business, which provides high-margin revenues, while continuing to benefit from the growth of the satellite broadband business. As a result of the additional satellites received in the Satellite and Tracking Stock Transaction, EchoStar has been able to increase short-term cash flow that it believes will better position it to achieve its strategic objectives.

EchoStar and HSS have adopted policy statements (the Policy Statements) setting forth management and allocation policies for purposes of attributing all of the business and operations of EchoStar to either the Hughes Retail Group or the EchoStar Group, which is defined as all other operations of EchoStar, including all existing and future businesses, other than the Hughes Retail Group. Among other things, the Policy Statements govern how assets, liabilities, revenue and expenses are attributed or allocated between HRG and the EchoStar Group. Such attributions and allocations generally do not affect the amounts reported in our consolidated financial statements, except for the attribution of stockholders' equity and net income or loss between the holders of Tracking Stock and common stock. The Policy Statements also do not significantly affect the way that management assesses operating performance and allocates resources within our Hughes segment.

We provide unaudited attributed financial information for HRG and the EchoStar Group in an exhibit to our periodic reports on Form 10-Q and Form 10-K. Set forth below is information about certain terms of the Tracking Stock and the initial recording of the Satellite and Tracking Stock Transaction in our consolidated financial statements.

Description of the Tracking Stock

Edgar Filing: EchoStar CORP - Form 10-Q

Tracking stock is a type of capital stock that the issuing company intends to reflect or track the economic performance of a particular business component within the company, rather than reflect the economic performance of the company as a whole. The Tracking Stock is intended to track the economic performance of the Hughes Retail Group. The shares of the Tracking Stock issued to DISH Network represent an aggregate 80.0% economic interest in the Hughes Retail Group (the shares issued as EchoStar Tracking Stock represent a 51.89% economic interest in the Hughes Retail Group and the shares issued as HSS Tracking Stock represent a 28.11% economic interest in the Hughes Retail Group). In addition to the remaining 20.0% economic interest in the Hughes Retail Group, EchoStar retains all economic interest in the wholesale satellite broadband business and other businesses of EchoStar. The 80.0% economic interest was determined at the time of issuance based on the estimated fair value of the consideration received from DISH Network in exchange for the Tracking Stock, consisting of the five satellites and \$11.4 million in cash, relative to the estimated fair value of the Hughes Retail Group. The allocation of economic interest represented by the Tracking Stock of 51.89% issued as EchoStar Tracking Stock and 28.11% issued as HSS Tracking Stock reflected the relative assignment to HSS Tracking Stock and EchoStar Tracking Stock of the aggregate increase in equity resulting from DISH Network's contribution of the satellites and cash. The tracking stock structure and the allocation of the tracking stock economic interest between EchoStar and HSS was advantageous to EchoStar from an economic and tax perspective by allowing the Company to increase cash flow by using the value of the Hughes Retail Group to purchase the satellites from DISH Network.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

While DISH Network, as the holder of the Tracking Stock, holds an aggregate 80.0% economic interest in the Hughes Retail Group, the Hughes Retail Group is not a separate legal entity and therefore cannot own assets, issue securities or enter into legally binding agreements. Holders of the Tracking Stock have no direct claim to the assets of the Hughes Retail Group; rather, holders of the Tracking Stock are stockholders of its respective issuer (EchoStar or HSS) and are subject to all risks and liabilities of the issuer.

The EchoStar Tracking Stock is a series of preferred stock consisting of 13,000,000 authorized shares with a par value of \$0.001 per share, of which 6,290,499 shares were issued to DISH Network on March 1, 2014. The HSS Tracking Stock is a series of HSS preferred stock consisting of 300 authorized shares with a par value of \$0.001 per share, of which 81.128 shares were issued to DISH Network on March 1, 2014. Following the issuance of the shares of the EchoStar Tracking Stock and the HSS Tracking Stock, DISH Network held 6.5% and 7.5% of the aggregate number of outstanding shares of EchoStar and HSS capital stock, respectively.

Holders of shares of the Tracking Stock vote with holders of the outstanding shares of common stock of its respective issuer, as a single class, with respect to any and all matters presented to stockholders for their action or consideration. Each share of the Tracking Stock is entitled to one-tenth (1/10th) of one vote, which resulted in a relative loss of voting power for our Class A and Class B Common Stockholders. In the event of a liquidation of EchoStar, holders of shares of EchoStar Class A Common Stock, EchoStar Class B Common Stock and the EchoStar Tracking Stock are entitled to receive their respective proportionate interests in the net assets of EchoStar, if any, remaining for distribution upon liquidation, pro rata based upon the aggregate market value of outstanding shares of the EchoStar Tracking Stock (determined by an independent appraisal to the extent such shares are not then listed or quoted on any U.S. national or regional securities exchange or quotation system) as compared to the aggregate market value of outstanding shares of EchoStar Class A Common Stock and EchoStar Class B Common Stock. Similarly, in the event of a liquidation of HSS, holders of shares of HSS common stock and HSS Tracking Stock are entitled to receive their respective proportionate interests in the net assets of HSS, if any, remaining for distribution upon liquidation, pro rata based upon the aggregate market value of outstanding shares of HSS Tracking Stock as compared to the aggregate market value of outstanding shares of HSS common stock. Market values of HSS Tracking Stock and HSS common stock are to be determined by an independent appraisal to the extent such shares are not then listed or quoted on any U.S. national or regional securities exchange or quotation system.

Should our board of directors, or the board of directors of HSS, make a future determination to pay a dividend on any shares of capital stock, the respective board of directors may, in its sole discretion, declare dividends only on shares of common stock, only on shares of the Tracking Stock or on shares of both the common stock and the Tracking Stock of the respective company. No dividend or other distribution may be paid on any shares of EchoStar Tracking Stock unless a dividend or distribution in an equivalent amount is paid on shares of HSS Tracking Stock and no dividend or other distribution may be paid on any shares of HSS Tracking Stock unless a dividend or distribution in an equivalent amount is paid on shares of EchoStar Tracking Stock.

Edgar Filing: EchoStar CORP - Form 10-Q

EchoStar and HSS may each, at its option, redeem all of the outstanding shares of its Tracking Stock in exchange for shares of common stock in an HRG Holding Company (as defined below), which EchoStar is required to establish pursuant to the Investor Rights Agreement discussed below.

Investor Rights Agreement

In connection with the Satellite and Tracking Stock Transaction, EchoStar, HSS and DISH Network entered into an agreement (the **Investor Rights Agreement**) setting forth certain rights and obligations of the parties with respect to the Tracking Stock. Among other provisions, the Investor Rights Agreement provides: (i) certain information and consultation rights for DISH Network; (ii) certain transfer restrictions on the Tracking Stock and certain rights and obligations to offer and sell under certain circumstances (including a prohibition on transfer of the Tracking Stock until March 1, 2015), with continuing transfer restrictions (including a right of first offer in favor of EchoStar) thereafter, an obligation to sell the Tracking Stock to us in connection with a change of control of DISH Network and a right to require us to repurchase the Tracking Stock in connection with a change of control of EchoStar, in each case subject to certain terms and conditions; (iii) certain protective covenants afforded to holders of the Tracking Stock; and (iv) a requirement for EchoStar to establish a holding company subsidiary (an **HRG Holding Company**) that is directly or indirectly wholly-owned by EchoStar and that will hold the Hughes Retail Group.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

In addition, the Investor Rights Agreement provides that DISH Network may, on or after September 1, 2016, require EchoStar to use its commercially reasonable efforts to register some or all of the outstanding shares of the Tracking Stock under the Securities Act of 1933, subject to certain terms and conditions (including our right, upon the receipt of a demand for registration, to offer to repurchase all of the Tracking Stock). In connection with any demand for registration, DISH Network may require any outstanding shares of the HSS Tracking Stock to be exchanged for shares of the EchoStar Tracking Stock with an equivalent economic interest in the Hughes Retail Group. In the event that a registration of shares of Tracking Stock is effected, EchoStar is required to use its reasonable best efforts to amend the terms of the Tracking Stock so that the Tracking Stock will be convertible or exchangeable for shares of EchoStar Class A Common Stock with equivalent market value.

Note 3. 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 U.S. (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these financial statements do not include all of the information and notes required for complete financial statements prepared in accordance with 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 Form 10-K for the year ended December 31, 2014.

Principles of Consolidation

We consolidate all majority owned subsidiaries, investments in entities in which we have controlling interest and variable interest entities where we are the primary beneficiary. For entities we control but do not wholly own, we record a noncontrolling interest within stockholders' equity for the portion of the entity's equity attributed to the noncontrolling ownership interests. For the noncontrolling interest in the HSS Tracking Stock (see Note 2), we attribute a portion of HSS net income or loss to the noncontrolling interest in HSS Tracking Stock with such portion equal to 28.11% (the HSS portion of the 80.0% economic interest) of the Hughes Retail Group attributed net income or loss represented by the HSS Tracking Stock, as determined in accordance with the Policy Statements and other documents governing the Tracking Stock. We use the equity method to account for investments in entities that we do not control but have the ability to significantly influence the operating decisions of the investee. We use the cost method when we do not have the ability to significantly influence the operating decisions of the investee. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheets, the reported amounts of revenue and expense for each reporting period, and certain information disclosed in the notes to our condensed consolidated financial statements. Estimates are used in accounting for, among other things, amortization periods for deferred revenue and deferred subscriber acquisition costs, revenue recognition using the percentage-of-completion method, allowances for doubtful accounts, allowances for sales returns and 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 awards granted under our stock-based compensation plans, fair value of assets and liabilities acquired in business combinations, lease classifications, asset impairments, useful lives and methods for depreciation and amortization of long-lived assets, goodwill impairment testing, royalty obligations, and allocations that affect the net income or loss attributable to the Tracking Stock. We base our estimates and assumptions on historical experience, observable market inputs and on various other factors that we believe to be relevant 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. Weakened economic conditions may increase the inherent uncertainty in the

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

estimates and assumptions indicated above. We review our estimates and assumptions periodically and the effects of revisions are reflected in the period they occur or prospectively if the revised estimate affects future periods.

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 utilize the highest level of inputs available according to the following hierarchy in determining fair value:

- Level 1, defined as observable inputs being quoted prices in active markets for identical assets;
- Level 2, defined as observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3, defined as unobservable inputs for which little or no market data exists, consistent with characteristics of the asset or liability that would be considered by market participants in a transaction to purchase or sell the asset or liability.

Transfers between levels in the fair value hierarchy are considered to occur at the beginning of the quarterly accounting period. There were no transfers between levels for each of the six months ended June 30, 2015 or 2014.

As of June 30, 2015 and December 31, 2014, the carrying amounts of our cash and cash equivalents, trade accounts receivable, net of allowance for doubtful accounts, accounts payable and accrued liabilities were equal to or approximated fair value due to their short-term nature or proximity to current market rates.

Fair values of our current marketable investment securities are based on a variety of observable market inputs. For our investments in publicly traded equity securities and U.S. government securities, fair value ordinarily is determined based on a Level 1 measurement that reflects quoted prices for identical securities in active markets. Fair values of our investments in other marketable debt securities generally are based on Level 2 measurements, as the markets for such debt securities are less active. Trades of identical debt securities on or near the measurement date are considered a strong indication of fair value. Matrix pricing techniques that consider par value, coupon rate, credit quality, maturity and other relevant features also may be used to determine fair value of our investments in marketable debt securities.

Fair values for our publicly traded long-term debt are based on quoted market prices in less active markets and are categorized as Level 2 measurements. The fair values of our privately held debt are Level 2 measurements and are estimated to approximate their carrying amounts based on the proximity of their interest rates to current market rates. As of June 30, 2015 and December 31, 2014, the fair values of our in-orbit incentive obligations, based on measurements categorized within Level 2 of the fair value hierarchy, approximated their carrying amounts of \$82.2 million and \$85.8 million, respectively. We use fair value measurements from time-to-time in connection with impairment testing and the assignment of purchase consideration to assets and liabilities of acquired companies. Those fair value measurements typically include significant unobservable inputs and are categorized within Level 3 of the fair value hierarchy.

Research and Development

In addition to research and development expenses reported in our condensed consolidated statements of operations and comprehensive income (loss), our cost of sales includes research and development costs funded by customers of approximately \$15.7 million and \$17.9 million for the three months ended June 30, 2015 and 2014, respectively, and \$30.5 million and \$34.4 million for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Capitalized Software Costs

Development costs related to software for internal use and externally marketed software are capitalized and amortized using the straight-line method over the estimated useful life of the software, not in excess of five years. Capitalized costs of internal-use software are included in Property and equipment, net and capitalized costs of externally marketed software are included in Other noncurrent assets, net in our condensed consolidated balance sheets. Externally marketed software is generally installed in the equipment we sell to customers. We conduct software program reviews for externally marketed capitalized software costs at least annually, or as events and circumstances warrant such a review, to determine if capitalized software development costs are recoverable and to ensure that costs associated with programs that are no longer generating revenue are expensed. As of June 30, 2015 and December 31, 2014, the net carrying amount of externally marketed software was \$56.7 million and \$48.9 million, respectively. We capitalized costs of \$6.7 million and \$7.5 million for the three months ended June 30, 2015 and 2014, respectively, and costs of \$11.7 million and \$12.5 million for the six months ended June 30, 2015 and 2014, respectively, related to the development of externally marketed software. We recorded amortization expense relating to the development of externally marketed software of \$2.0 million and \$0.9 million for the three months ended June 30, 2015 and 2014, respectively, and \$3.9 million and \$1.7 million for the six months ended June 30, 2015 and 2014, respectively. The weighted average useful life of our externally marketed software was approximately four years as of June 30, 2015.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). It outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB agreed to defer by one year the mandatory effective date of ASU 2014-09. As a result, public entities are required to adopt the new revenue standard in annual periods beginning after December 15, 2017 and in interim periods within those annual periods. The standard may be applied either retrospectively to prior periods or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted, but not before annual periods beginning after December 15, 2016. We have not determined when we will adopt the new revenue standard or selected the transition method that we will apply upon adoption. We are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (ASU 2015-02). This standard amends the consolidation guidance for variable interest entities (VIEs) and general partners' investments in limited partnerships and similar entities. ASU 2015-02 is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, and requires either a retrospective or a modified retrospective approach as of the beginning of the fiscal year of adoption. Early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial

Edgar Filing: EchoStar CORP - Form 10-Q

statements or related disclosures. We do not expect to adopt this standard prior to the effective date.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, (ASU 2015-03). This standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. ASU 2015-03 is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, and requires a retrospective approach to adoption. Early adoption is permitted. Based on our preliminary assessment, upon adoption of this standard, we expect to present unamortized deferred costs in other noncurrent assets with a carrying amount of \$34.3 million and \$39.1 million as of June 30, 2015 and December 31, 2014, respectively, as a reduction of our long-term debt balances. We do not expect to adopt this standard prior to the effective date.

Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

Note 4. Earnings per Share

We present basic earnings per share (EPS) and diluted EPS for our Class A and Class B common stock. The EchoStar Tracking Stock is a participating security that shares in our consolidated earnings and therefore, effective March 1, 2014, the issuance date of the EchoStar Tracking Stock, we apply the two-class method to calculate EPS. Under the two-class method, we allocate net income or loss attributable to EchoStar between common stock and the EchoStar Tracking Stock considering both dividends declared on each class of stock and the participation rights of each class of stock in undistributed earnings. Based on the 51.89% economic interest in the Hughes Retail Group outstanding as the EchoStar Tracking Stock, we allocate undistributed earnings to the EchoStar Tracking Stock based on 51.89% of the attributed net income or loss of the Hughes Retail Group. We allocated a net loss of \$2.2 million and \$3.0 million for the three months ended June 30, 2015 and 2014, respectively, and a net loss of \$6.2 million and \$3.6 million for the six months ended June 30, 2015 and 2014, respectively, to the EchoStar Tracking Stock reflecting DISH Network's 51.89% economic interest (represented by the EchoStar Tracking Stock) in the net loss of the Hughes Retail Group. Moreover, because the reported amount of Net income attributable to EchoStar in our condensed consolidated statements of operations and comprehensive income (loss) excludes DISH Network's 28.11% economic interest (represented by the HSS Tracking Stock) in the net loss of the Hughes Retail Group (reported as a noncontrolling interest), the amount of consolidated net income or loss allocated to holders of Class A and Class B common stock effectively excludes an aggregate 80.0% of the attributed net loss of the Hughes Retail Group.

Basic EPS for our Class A and Class B common stock excludes potential dilution and is computed by dividing Net income attributable to EchoStar common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if our common stock awards were exercised. The potential dilution from common stock awards was computed using the treasury stock method based on the average market value of our Class A common stock during the period. The calculation of our diluted weighted-average common shares outstanding excluded options to purchase shares of our Class A common stock, whose effect would be anti-dilutive, of 2.0 million and 0.7 million shares for each of the three and six months ended June 30, 2015 and 2014, respectively. For the three and six months ended June 30, 2014, the calculation also excluded 0.7 million shares of our Class A common stock that were issuable pursuant to our performance based stock incentive plan contingent upon meeting a company-specific performance measure by March 31, 2015, that was not achieved and which resulted in the expiration of such shares as of March 31, 2015.

The following table presents basic and diluted EPS amounts for all periods and the corresponding weighted-average shares outstanding used in the calculations.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net income attributable to EchoStar	\$ 31,750	\$ 30,805	\$ 61,148	\$ 42,859
Less: Net loss attributable to EchoStar Tracking Stock	(2,150)	(2,989)	(6,154)	(3,587)
Net income attributable to EchoStar common stock	\$ 33,900	\$ 33,794	\$ 67,302	\$ 46,446

Edgar Filing: EchoStar CORP - Form 10-Q

Weighted-average common shares outstanding :

Class A and B common stock:

Basic	92,283	91,097	92,127	90,894
Dilutive impact of stock awards outstanding	1,231	1,617	1,310	1,652
Diluted	93,514	92,714	93,437	92,546

Earnings per share:

Class A and B common stock:

Basic	\$	0.37	\$	0.37	\$	0.73	\$	0.51
Diluted	\$	0.36	\$	0.36	\$	0.72	\$	0.50

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Note 5. Other Comprehensive Income (Loss) and Related Tax Effects

We have not recognized any tax effects on foreign currency translation adjustments because they are not expected to result in future taxable income or deductions. We have not recognized any tax effects on unrealized gains or losses on available-for-sale securities because such gains or losses would affect the amount of existing capital loss carryforwards for which the related deferred tax asset has been fully offset by a valuation allowance.

Accumulated other comprehensive loss includes cumulative foreign currency translation losses of \$85.3 million and \$63.8 million as of June 30, 2015 and December 31, 2014, respectively.

Reclassifications out of accumulated other comprehensive loss for the three and six months ended June 30, 2015 and 2014 were as follows:

Accumulated Other Comprehensive Loss Components	Affected Line Item in our Condensed Consolidated Statement of Operations	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
		2015	2014	2015	2014
		(In thousands)			
Realized gains on available-for-sale securities (1)	Gains (losses) on marketable investment securities, net	\$ (11)	\$ (6)	\$ (20)	\$ (34)
Other-than-temporary impairment loss on available-for-sale securities (2)	Other-than-temporary impairment loss on available-for sale securities		4,649		4,649
Realized foreign currency translation losses (3)	Other, net	1,889		1,889	
Total reclassifications, net of tax and noncontrolling interests		\$ 6,527	\$ (6)	\$ 6,518	\$ (34)

(1) When available-for-sale securities are sold, the related unrealized gains and losses that were previously recognized in other comprehensive income (loss) are reclassified and recognized as realized gains on available-for-sale securities on the condensed consolidated statement of operations.

(2) In June 2015, we recorded an other-than-temporary impairment loss on shares of certain common stock included in our strategic equity securities. See Note 6 for further discussion of our other-than-temporary impairment loss.

(3) As a result of the deconsolidation of several of our European subsidiaries in connection with our investment in SmarDTV in May 2015, the related cumulative translation adjustments that were previously recognized in other comprehensive income (loss) were reclassified and recognized as a loss within Other income (expense) in our condensed consolidated statement of operations and comprehensive income (loss) for the three and six months ended June 30, 2015. See Note 6 for further discussion of our deconsolidation of the contributed entities.

Note 6. Investment Securities

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

	June 30, 2015	As of (In thousands)	December 31, 2014
Marketable investment securities current:			
Corporate bonds	\$ 922,343		\$ 1,049,139
Strategic equity securities	55,429		41,705
Other	31,706		48,259
Total marketable investment securities current	1,009,478		1,139,103
Restricted marketable investment securities (1)	10,342		11,712
Total	1,019,820		1,150,815
Restricted cash and cash equivalents (1)	10,110		7,233
Other investments noncurrent:			
Cost method	81,174		31,174
Equity method	145,494		128,788
Total other investments noncurrent	226,668		159,962
Total marketable investment securities, restricted cash and cash equivalents, and other investments	\$ 1,256,598		\$ 1,318,010

(1) Restricted marketable investment securities and restricted cash and cash equivalents are included in Restricted cash and marketable investment securities in our condensed consolidated balance sheets.

Table of Contents

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, which generally are classified as available-for-sale. As of June 30, 2015, certain of our equity securities were classified as trading securities in order to reflect our investment strategy for those securities.

Corporate Bonds

Our corporate bond portfolio includes debt instruments issued by individual corporations, primarily in the industrial and financial services industries.

Strategic Equity Securities

Our strategic investment portfolio consists of investments in shares of common stock of public companies, which are highly speculative and have experienced and continue to experience volatility. The value of our investment portfolio depends on the value of such shares of common stock.

As of June 30, 2015 and December 31, 2014, our strategic equity securities included shares of certain common stock of one of our customers that we received in satisfaction of certain milestone payments that were required to be paid to us under an existing long-term contract. For the three and six months ended June 30, 2015, Other-than-temporary impairment loss on available-for-sale securities included a \$4.6 million other-than-temporary impairment of our available-for-sale shares of this customer and Gains (losses) on marketable investment securities, net includes a \$1.6 million unrealized holding loss on our trading securities, which had a fair value of \$15.6 million as of June 30, 2015.

Other

Our other current marketable investment securities portfolio includes investments in various debt instruments, including U.S. government bonds and variable rate demand notes.

Restricted Cash and Marketable Investment Securities

As of June 30, 2015 and December 31, 2014, our restricted marketable investment securities, together with our restricted cash, included amounts required as collateral for our letters of credit or surety bonds.

Other Investments - Noncurrent

We have several strategic investments in certain non-publicly traded equity securities that are accounted for using either the equity or the cost method of accounting. 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.

In May 2015, we acquired a 22.5% interest in the equity and subordinated debt of SmarDTV SA ("SmarDTV"), a Swiss subsidiary of Kudelski SA that offers set-top boxes and conditional access modules, in exchange for cash of \$13.9 million and the contribution of several of our European subsidiaries to SmarDTV. We recorded our initial investment in SmarDTV at \$20.0 million, representing our estimate of the investment's fair value using discounted cash flow techniques. Our estimate included significant unobservable inputs related to SmarDTV's future operations and is categorized within Level 3 of the fair value hierarchy. As of the acquisition date, we deconsolidated the contributed entities and recognized a \$2.6 million loss within Other income (expense) in our condensed consolidated statement of operations and comprehensive income (loss), consisting of: (i) a \$0.7 million

Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

loss resulting from our initial investment (at fair value) being less than our \$13.9 million cash payment and the carrying amount of the net assets of the deconsolidated entities and (ii) the reclassification from accumulated other comprehensive loss of \$1.9 million in foreign currency translation adjustments related to the deconsolidated entities. The net assets of the deconsolidated entities included net property and equipment of \$6.7 million and cash of \$0.8 million. We have the ability to exercise significant influence over SmarDTV and therefore account for our investment using the equity method. In connection with our investment, we and SmarDTV entered into a services agreement pursuant to which our EchoStar Technologies segment purchases certain engineering services from SmarDTV. See Note 16 for information about our related party transactions with SmarDTV subsequent to the date of our initial investment.

In June 2015, we purchased a noncontrolling equity investment in WorldVu Satellites Limited (WorldVu), a low-earth orbiting satellite company. WorldVu plans to develop and operate a global network of low-orbiting Ku-band satellites to provide internet access to fixed and mobile terminals. We do not exercise significant influence over WorldVu; accordingly, we account for the investment using the cost method. Our Hughes segment entered into an agreement to sell certain equipment and services to WorldVu in connection with our investment.

Unrealized Gains (Losses) on Marketable Investment Securities

The components of our available-for-sale investments are summarized in the table below.

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(In thousands)			
As of June 30, 2015				
Debt securities:				
Corporate bonds	\$ 923,055	\$ 49	\$ (761)	\$ 922,343
Other (including restricted)	42,040	11	(3)	42,048
Equity securities - strategic	27,432	12,420		39,852
Total marketable investment securities	\$ 992,527	\$ 12,480	\$ (764)	\$ 1,004,243
As of December 31, 2014				
Debt securities:				
Corporate bonds	\$ 1,050,803	\$ 33	\$ (1,697)	\$ 1,049,139
Other (including restricted)	59,977	1	(7)	59,971
Equity securities - strategic	32,081	12,849	(3,225)	41,705
Total marketable investment securities	\$ 1,142,861	\$ 12,883	\$ (4,929)	\$ 1,150,815

As of June 30, 2015, restricted and non-restricted marketable investment securities included debt securities of \$953.5 million with contractual maturities of one year or less and \$10.9 million with contractual maturities greater than one year. We may realize proceeds from certain investments prior to their contractual maturity as a result of our ability to sell these

securities prior to their contractual maturity.

Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

Marketable Investment Securities in a Loss Position

The following table reflects the length of time that our available-for-sale securities have been in an unrealized loss position. We do not intend to sell these securities before they recover or mature, and it is more likely than not that we will hold these securities until they recover or mature. We believe that these changes in the estimated fair values of these securities are primarily related to temporary market conditions.

	June 30, 2015		As of		December 31, 2014	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Less than 12 months	\$ 770,815	\$ (733)	\$ 968,941	\$ (4,929)		
12 months or more	29,830	(31)				
Total	\$ 800,645	\$ (764)	\$ 968,941	\$ (4,929)		

Sales of Marketable Investment Securities

We recognized minimal gains from the sales of our available-for-sale marketable investment securities for each of the three and six months ended June 30, 2015 and 2014. We recognized minimal losses from the sales of our available-for-sale marketable investment securities for the three and six months ended June 30, 2015 and 2014, respectively.

Proceeds from sales of our available-for-sale marketable investment securities totaled \$3.1 million and \$4.8 million for the three months ended June 30, 2015 and 2014, respectively, and \$90.2 million and \$5.4 million for the six months ended June 30, 2015 and 2014, respectively.

Fair Value Measurements

Our current marketable investment securities are measured at fair value on a recurring basis as summarized in the table below. As of June 30, 2015 and December 31, 2014, we did not have investments that were categorized within Level 3 of the fair value hierarchy.

Edgar Filing: EchoStar CORP - Form 10-Q

	Total	As of			Total	December 31, 2014	
		June 30, 2015	Level 2	Level 1		Level 1	Level 2
		Level 1	(In thousands)				
Cash equivalents (including restricted)	\$ 412,467	\$ 9,126	\$ 403,341	\$ 437,886	\$ 58,108	\$ 379,778	
Debt securities:							
Corporate bonds	\$ 922,343	\$ 5,718	\$ 922,343	\$ 1,049,139	\$ 5,630	\$ 1,049,139	
Other (including restricted)	42,048	5,718	36,330	59,971	5,630	54,341	
Equity securities - strategic	55,429	55,429		41,705	41,705		
Total marketable investment securities	\$ 1,019,820	\$ 61,147	\$ 958,673	\$ 1,150,815	\$ 47,335	\$ 1,103,480	

[Table of Contents](#)**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

Note 7. Trade Accounts Receivable

Our trade accounts receivable consisted of the following:

	June 30, 2015	As of (In thousands)	December 31, 2014
Trade accounts receivable	\$ 167,088	\$	160,886
Contracts in process, net	29,706		16,534
Total trade accounts receivable	196,794		177,420
Allowance for doubtful accounts	(13,239)		(14,188)
Trade accounts receivable - DISH Network	245,338		251,669
Total trade accounts receivable, net	\$ 428,893	\$	414,901

As of June 30, 2015 and December 31, 2014, progress billings offset against contracts in process amounted to \$0.2 million and \$2.5 million, respectively.

Note 8. Inventory

Our inventory consisted of the following:

	June 30, 2015	As of (In thousands)	December 31, 2014
Finished goods	\$ 52,882	\$	49,038
Raw materials	8,527		6,192
Work-in-process	9,159		7,733
Total inventory	\$ 70,568	\$	62,963

Note 9. Property and Equipment

Edgar Filing: EchoStar CORP - Form 10-Q

Property and equipment consisted of the following:

	Depreciable Life (In Years)	June 30, 2015	As of December 31, 2014
(In thousands)			
Land	-	\$ 41,478	\$ 42,826
Buildings and improvements	1-40	369,954	375,920
Furniture, fixtures, equipment and other	1-12	1,245,093	1,223,807
Customer rental equipment	2-4	556,927	498,180
Satellites - owned	2-15	2,381,120	2,381,120
Satellites acquired under capital leases	10-15	665,518	935,104
Construction in progress	-	877,953	637,189
Total property and equipment		6,138,043	6,094,146
Accumulated depreciation		(2,833,173)	(2,899,353)
Property and equipment, net		\$ 3,304,870	\$ 3,194,793

Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

Construction in progress consisted of the following:

Segment	As of		
	June 30, 2015	December 31, 2014	
(In thousands)			
Progress amounts for satellite construction, including prepayments under capital leases and launch costs:			
EchoStar XIX	Other	\$ 379,280	\$ 341,082
EchoStar XXI	Other	151,295	120,764
EchoStar XXIII	Other	128,898	63,072
EchoStar 105/SES-11	ESS	84,012	28,470
EUTELSAT 65 West A	Hughes	41,242	26,049
Other	Other/ESS	4,340	4,440
Uplinking equipment	ETC/Hughes	65,113	34,270
Other	ETC/Hughes/ESS	23,773	19,042
Construction in progress		\$ 877,953	\$ 637,189

Depreciation expense associated with our property and equipment consisted of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
(In thousands)				
Satellites	\$ 49,154	\$ 55,576	\$ 98,241	\$ 103,139
Furniture, fixtures, equipment and other	29,897	29,161	60,400	59,052
Customer rental equipment	30,524	29,016	60,711	56,908
Buildings and improvements	3,463	3,413	6,858	6,943
Total depreciation expense	\$ 113,038	\$ 117,166	\$ 226,210	\$ 226,042

Satellites

As of June 30, 2015, we utilized 19 of our owned and leased satellites in geosynchronous orbit, approximately 22,300 miles above the equator. We depreciate our owned satellites on a straight-line basis over the estimated useful life of each satellite. Two of our satellites are accounted for as capital leases and are depreciated on a straight-line basis over the terms of the satellite service agreements. Three of our satellites are accounted for as operating leases and are not included in property and equipment.

Recent Developments

AMC-15 and AMC-16. In August 2014, in connection with the execution of agreements related to EchoStar 105/SES-11, we entered into amendments that extend the terms of our existing agreements with SES for satellite services on AMC-15 and AMC-16. As amended, the term of our agreement for satellite services on certain transponders on AMC-15 was extended from December 2014 through the in-service date of EchoStar 105/SES-11. The amended agreement for the AMC-16 satellite services extends the term for the satellite's entire communications capacity, subject to available power, for one year following expiration of the initial term in February 2015. The extended terms of these agreements are being accounted for as operating leases.

Satellite Anomalies

Certain of our satellites have experienced anomalies, some of which have had a significant adverse impact on their remaining useful lives and/or the commercial operation of the satellites. There can be no assurance that existing and future anomalies will not further impact the remaining useful life and/or the commercial operation of any of the satellites in our fleet. 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 our

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

satellites; therefore, we generally bear the risk of any uninsured in-orbit failures. 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 and in-orbit insurance for SPACEWAY 3, EchoStar XVI, and EchoStar XVII. In addition, although we are not required to maintain in-orbit insurance pursuant to our service agreement with DISH Network for EchoStar XV, we are liable for any damage caused by our use of the satellite and therefore we carry third-party insurance on EchoStar XV.

We have previously disclosed in our financial statements as of and for the year ended December 31, 2014 anomalies in prior years that affect our in-service owned and leased satellites, including EchoStar III, EchoStar VI, EchoStar VIII, EchoStar XII, and AMC-16. We are not aware of any additional anomalies that have occurred with respect to any of our owned or leased satellites in 2015 as of the date of this report that affected the commercial operation of these satellites. EchoStar III and EchoStar VI are fully depreciated and EchoStar III is being used as an in-orbit spare; accordingly, the prior anomalies affecting these satellites have not had a significant effect on our operating results and cash flows.

EchoStar XII has experienced several anomalies, which have resulted in a loss of electrical power. Those anomalies have not had a significant adverse impact on service under the related satellite services agreement with DISH Network for EchoStar XII; however, the anomalies have increased the risk of future transponder failures that could result in reductions in our revenue.

Satellite Impairments

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. Certain of the anomalies 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, certain of these anomalies are not necessarily considered to be significant events that would require a test of recoverability.

Note 10. Goodwill, Regulatory Authorizations and Other Intangible Assets

Goodwill

The excess of the cost of an acquired business over the fair values of net tangible and identifiable intangible assets at the time of the acquisition is recorded as goodwill. Goodwill is assigned to our reporting units of our operating segments and is subject to impairment testing annually, or more frequently when events or changes in circumstances indicate the fair value of a reporting unit is more likely than not less than its carrying amount.

Edgar Filing: EchoStar CORP - Form 10-Q

As of June 30, 2015 and December 31, 2014, approximately \$504.2 million of our goodwill was assigned to reporting units of our Hughes segment. We test this goodwill for impairment annually in the second quarter. Based on our qualitative assessment of impairment of such goodwill in the second quarter of 2015, we determined that it was not more likely than not that the fair values of the Hughes segment reporting units were less than the corresponding carrying amounts.

In August 2014, we and DISH Digital Holding L.L.C. (DISH Digital) entered into an exchange agreement (the Exchange Agreement) pursuant to which, among other things, DISH Digital distributed certain assets to us, including our Move Network business with associated goodwill of \$6.5 million. See Note 16 for a description of the Exchange Agreement. Prior to 2015, our Move Network business was managed separately from our operating segments and was not integrated into any of our existing reporting units. As further described in Note 15, the Move Network business is now managed as a separate reporting unit within our EchoStar Technologies segment. We expect to conduct our annual test of goodwill associated with this business in the third quarter of 2015.

Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

Regulatory Authorizations

Regulatory authorizations included amounts with finite and indefinite useful lives, as follows:

	June 30, 2015	As of December 31, 2014
	(In thousands)	
Finite useful lives:		
Cost	\$ 91,441	\$ 103,499
Accumulated amortization	(8,362)	(6,778)
Net	83,079	96,721
Indefinite lives	471,657	471,657
Total regulatory authorizations, net	\$ 554,736	\$ 568,378

Other Intangible Assets

Our other intangible assets, which are subject to amortization, consisted of the following:

	Weighted Average Useful life (in Years)	Cost	June 30, 2015 Accumulated Amortization	As of Carrying Amount	Cost	December 31, 2014 Accumulated Amortization	Carrying Amount
				(In thousands)			
Customer relationships	8	\$ 293,932	\$ (199,468)	\$ 94,464	\$ 293,932	\$ (185,393)	\$ 108,539
Contract-based	10	255,366	(243,746)	11,620	255,366	(233,009)	22,357
Technology-based	7	137,337	(104,640)	32,697	140,837	(100,940)	39,897
Trademark portfolio	20	29,700	(6,064)	23,636	29,700	(5,321)	24,379
Favorable leases	4	4,707	(4,707)	4,707	4,707	(4,217)	490
Total other intangible assets.		\$ 721,042	\$ (558,625)	\$ 162,417	\$ 724,542	\$ (528,880)	\$ 195,662

Customer relationships are amortized predominantly in relation to the expected contribution of cash flow to the business over the life of the intangible asset. Other intangible assets are amortized on a straight-line basis over the periods the assets are expected to contribute to our cash flows. Amortization expense, including amortization of regulatory authorizations with finite lives and externally marketed capitalized software,

Edgar Filing: EchoStar CORP - Form 10-Q

was \$19.4 million and \$23.5 million for the three months ended June 30, 2015 and 2014, respectively, and \$39.4 million and \$47.8 million for the six months ended June 30, 2015 and 2014, respectively.

Note 11. Debt and Capital Lease Obligations

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

	June 30, 2015		As of December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
6 1/2% Senior Secured Notes due 2019	\$ 990,000	\$ 1,079,595	\$ 1,100,000	\$ 1,177,000
7 5/8% Senior Notes due 2021	900,000	990,000	900,000	994,500
Other	1,067	1,067	1,240	1,240
Subtotal	1,891,067	\$ 2,070,662	2,001,240	\$ 2,172,740
Capital lease obligations	342,936		366,447	
Total debt and capital lease obligations	2,234,003		2,367,687	
Less: Current portion	(31,666)		(41,912)	
Long-term portion of debt and capital lease obligations	\$ 2,202,337		\$ 2,325,775	

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

On June 12, 2015, we redeemed \$110.0 million of HSS 6 1/2% Senior Secured Notes due 2019 at a redemption price equal to 103.0% of the principal amount plus related accrued interest. As a result, we recorded a \$5.0 million loss consisting of the \$3.3 million redemption premium and \$1.7 million representing the write-off of related deferred financing costs.

Note 12. Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to significant volatility due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, income and losses from investments, changes in tax laws and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

Income tax expense was approximately \$37.3 million and \$22.1 million for the six months ended June 30, 2015 and 2014, respectively. Our effective income tax rate was 38.9% and 34.6% for the six months ended June 30, 2015 and 2014, respectively. The variation in our current year effective tax rate from the U.S. federal statutory rate for the six months ended June 30, 2015 was primarily due to the increase in our valuation allowance associated with certain foreign losses as well as realized and unrealized losses that are capital in nature for tax purposes, partially offset by research and experimentation tax credits. For the six months ended June 30, 2014, the variation in our effective tax rate from the U.S. federal statutory rate was primarily due to the increase in our valuation allowance associated with realized and unrealized losses that are capital in nature for tax purposes, partially offset by research and experimentation tax credits and a lower state effective tax rate.

Note 13. Stock-Based Compensation

We maintain stock incentive plans to attract and retain officers, directors and key employees. Stock awards under these plans include both performance based and non-performance based stock incentives. We granted stock options to our employees and nonemployee directors to acquire 800,000 and 882,000 shares of our Class A common stock for the three and six months ended June 30, 2015, respectively. We granted stock options to our employees and nonemployee directors to acquire 25,000 and 215,000 shares of our Class A common stock for the three and six months ended June 30, 2014, respectively.

Edgar Filing: EchoStar CORP - Form 10-Q

On April 30, 2015, our board of directors approved the issuance of 100,000 restricted stock units (RSU) with a grant date of July 1, 2015. The RSUs vest based on the attainment of certain quarterly company performance criteria for the second, third, and fourth quarters of 2015 and will expire on March 31, 2016.

Our stock-based compensation expense was recorded in our condensed consolidated statements of operations and comprehensive income (loss) as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Research and development expenses	\$ 1,286	\$ 583	\$ 2,048	\$ 1,175
Selling, general and administrative expenses	4,827	3,038	8,240	6,003
Total stock-based compensation	\$ 6,113	\$ 3,621	\$ 10,288	\$ 7,178

As of June 30, 2015, total unrecognized stock-based compensation cost, net of estimated forfeitures, related to our unvested stock awards was \$44.8 million.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Note 14. Commitments and Contingencies

Commitments

As of June 30, 2015, our satellite-related obligations were approximately \$1.16 billion. Our satellite-related obligations primarily include payments pursuant to agreements for the construction of the EchoStar XIX, EchoStar XXI, EchoStar XXIII, EUTELSAT 65 West A and EchoStar 105/SES-11 satellites, payments pursuant to launch services contracts and regulatory authorizations, executory costs for our capital lease satellites, costs under satellite service agreements and in-orbit incentives relating to certain satellites, as well as commitments for long-term satellite operating leases and satellite service arrangements.

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 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.

Edgar Filing: EchoStar CORP - Form 10-Q

We record an accrual for litigation and other loss contingencies when we determine that a loss is probable and the amount of the loss can be reasonably estimated. Legal fees and other costs of defending litigation are charged to expense as incurred.

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 in management's opinion; (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 are involved (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.

California Institute of Technology

On October 1, 2013, the California Institute of Technology (Caltech) filed suit against two of our subsidiaries, Hughes Communications, Inc. and Hughes Network Systems, LLC, as well as against DISH Network, DISH Network L.L.C., and dishNET Satellite Broadband L.L.C., in the United States District Court for the Central District of California alleging infringement of United States Patent Nos. 7,116,710; 7,421,032; 7,916,781; and 8,284,833, each of which is entitled Serial Concatenation of Interleaved Convolutional Codes forming Turbo-Like Codes. Caltech asserted that encoding data as specified by the DVB-S2 standard infringes each of the asserted patents. In the operative Amended Complaint, served on March 6, 2014, Caltech claims that the Hopper™ set-top box that we design and sell to DISH Network, as well as certain of our Hughes segment's satellite broadband products and

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

services, infringe the asserted patents by implementing the DVB-S2 standard. On September 26, 2014, Caltech requested leave to amend its Amended Complaint to add us and our subsidiary, EchoStar Technologies L.L.C. as defendants, as well as to allege that a number of additional set-top boxes infringe the asserted patents. On November 7, 2014, the Court rejected that request. Additionally, on November 4, 2014, the Court ruled that the patent claims at issue in the suit are directed to patentable subject matter. On February 17, 2015, Caltech filed a second complaint in the same district against the same defendants alleging that Hughes Gen4 HT1000 and HT1100 products infringe the same patents asserted in the first case. We answered that second complaint on March 24, 2015. The trial for the first case which was scheduled to commence on April 20, 2015, was vacated by the Court on March 16, 2015 and a new trial date has yet to be set. On May 5, 2015, the Court granted summary judgment for us on a number of issues, finding that Caltech's damages theory improperly apportioned alleged damages, that allegations of infringement against DISH Network, DISH Network L.L.C., and dishNET Satellite Broadband L.L.C. should be dismissed from the case, and affirming that Caltech could not assert infringement under the doctrine of equivalents. The Court also granted motions by Caltech seeking findings that certain of its patents were not indefinite or subject to equitable estoppel. The Court otherwise denied motions for summary judgment, including a motion by Caltech seeking summary judgment of infringement. On May 14, 2015, the judge assigned to the case passed away. A new judge has not yet been formally assigned.

We intend to vigorously defend these cases. 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 our consumers. We cannot predict with any degree of certainty the outcome of the suits or determine the extent of any potential liability or damages.

ClearPlay, Inc.

On March 13, 2014, ClearPlay, Inc. (ClearPlay) filed a complaint against us and our subsidiary, EchoStar Technologies L.L.C., as well as against DISH Network and DISH Network L.L.C. in the United States District Court for the District of Utah. The complaint alleges infringement of United States Patent Nos. 6,898,799, entitled Multimedia Content Navigation and Playback ; 7,526,784, entitled Delivery of Navigation Data for Playback of Audio and Video Content ; 7,543,318, entitled Delivery of Navigation Data for Playback of Audio and Video Content ; 7,577,970, entitled Multimedia Content Navigation and Playback ; and 8,117,282, entitled Media Player Configured to Receive Playback Filters From Alternative Storage Mediums. ClearPlay alleges that the AutoHop feature of the Hopper™ set-top box infringes the asserted patents. On February 11, 2015, the Court stayed the case pending various third-party challenges before the U.S. Patent and Trademark Court regarding the validity of certain of the patents ClearPlay asserts.

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.

Edgar Filing: EchoStar CORP - Form 10-Q

CRFD Research, Inc. (a subsidiary of Marathon Patent Group, Inc.)

On January 17, 2014, CRFD Research, Inc. (CRFD) filed a complaint against us and our subsidiary, EchoStar Technologies L.L.C., as well as against DISH Network, DISH DBS Corporation and DISH Network L.L.C., in United States District Court for the District of Delaware, alleging infringement of United States Patent No. 7,191,233 (the 233 patent). The 233 patent is entitled System for Automated, Mid-Session, User-Directed, Device-to-Device Session Transfer System, and relates to transferring an ongoing software session from one device to another. CRFD alleges that certain of our set-top boxes infringe the 233 patent. On the same day, CRFD filed patent infringement complaints against AT&T Inc.; Comcast Corp.; DirecTV; Time Warner Cable Inc.; Cox Communications, Inc.; Level 3 Communications, Inc.; Akamai Technologies, Inc.; Cablevision Systems Corp. and Limelight Networks, Inc. On January 26, 2015, we and DISH Network filed a petition before the United States Patent and Trademark challenging the validity of the 233 patent. CRFD is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

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.

Elbit

On January 23, 2015, Elbit Systems Land and C4I LTD and Elbit Systems of America Ltd. (together referred to as *Elbit*) filed a complaint against our subsidiary Hughes Network Systems, LLC, as well as against Black Elk Energy Offshore Operations, LLC, Bluetide Communications, Inc. and Helm Hotels Group, in the United States District Court for the Eastern District of Texas, alleging infringement of United States Patent Nos. 6,240,073 (the *073* patent) and 7,245,874 (*874* patent). The *073* patent is entitled *Reverse Link for a Satellite Communication Network* and the *874* patent is entitled *Infrastructure for Telephony Network*. *Elbit* alleges that the *073* patent is infringed by broadband satellite systems that practice the Internet Protocol Over Satellite standard. *Elbit* alleges that the *874* patent is infringed by the manufacture and sale of broadband satellite systems that provide cellular backhaul service via connections to E1 or T1 interfaces at cellular backhaul base stations. On March 16, 2015, the defendants filed motions to dismiss portions of *Elbit*'s complaint. On April 2, 2015, *Elbit* responded to those motions to dismiss and further filed an amended complaint removing Helm Hotels Group as a defendant, but making similar allegations against a new defendant, Country Home Investments, Inc. On April 20, 2015, the defendants filed motions to dismiss portions of *Elbit*'s amended complaint.

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.

The Hopper Litigation

On May 24, 2012, DISH Network L.L.C., filed suit in the United States District Court for the Southern District of New York against American Broadcasting Companies, Inc. (*ABC*), CBS Corporation (*CBS*), Fox Entertainment Group, Inc., Fox Television Holdings, Inc., Fox Cable Network Services, L.L.C. (collectively, *Fox*) and NBCUniversal Media, LLC (*NBC*). The lawsuit seeks a declaratory judgment that DISH Network L.L.C is not infringing any defendant's copyright, or breaching any defendant's retransmission consent agreement, by virtue of the PrimeTime Anytime and AutoHop features of the Hopper set-top boxes we design and sell to DISH Network. A consumer can use the PrimeTime Anytime feature at his or her option, to record certain primetime programs airing on ABC, CBS, Fox, and/or NBC up to every night, and to store those recordings for up to eight days. A consumer can use the AutoHop feature at his or her option, to watch certain recordings the subscriber made with our PrimeTime Anytime feature, commercial-free, if played back at a certain point after the show's original airing.

Later on May 24, 2012, (i) Fox Broadcasting Company, Twentieth Century Fox Film Corp. and Fox Television Holdings, Inc. filed a lawsuit against DISH Network and DISH Network L.L.C. (collectively, DISH) in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature, the AutoHop feature, as well as DISH's use of Slingbox placeshifting functionality infringe their copyrights and breach their retransmission consent agreements, (ii) NBC Studios LLC, Universal Network Television, LLC, Open 4 Business Productions LLC and NBCUniversal Media, LLC filed a lawsuit against DISH in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature and the AutoHop feature infringe their copyrights, and (iii) CBS Broadcasting Inc., CBS Studios Inc. and Survivor Productions LLC filed a lawsuit against DISH in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature and the AutoHop feature infringe their copyrights.

As a result of certain parties' competing counterclaims and venue-related motions brought in both the New York and California actions, and certain networks filing various amended complaints, the claims have proceeded in the

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

following venues: (1) the copyright and contract claims regarding the ABC and CBS parties in New York; and (2) the copyright and contract claims regarding the Fox parties and NBC parties in California.

California Actions. On August 17, 2012, the NBC plaintiffs filed a first amended complaint in their California action adding us and our subsidiary EchoStar Technologies L.L.C. to the NBC litigation, alleging various claims of copyright infringement. We and our subsidiary answered on September 18, 2012.

On September 21, 2012, the United States District Court for the Central District of California heard the Fox plaintiffs motion for a preliminary injunction to enjoin the Hopper set-top box's PrimeTime Anytime and AutoHop features and, on November 7, 2012, entered an order denying the motion. The Fox plaintiffs appealed and on July 24, 2013, the United States Court of Appeals for the Ninth Circuit affirmed the denial of the Fox plaintiffs motion for a preliminary injunction as to the PrimeTime Anytime and AutoHop features. On August 7, 2013, the Fox plaintiffs filed a petition for rehearing and rehearing en banc, which was denied on January 24, 2014. The United States Supreme Court granted the Fox plaintiffs an extension until May 23, 2014 to file a petition for writ of certiorari, but they did not file. As a result, the stay of the NBC plaintiffs action expired. On August 6, 2014, at the request of the parties, the Central District of California granted a further stay of all proceedings in the action brought by the NBC plaintiffs, pending a final judgment on all claims in the Fox plaintiffs action. No trial date is currently set on the NBC claims.

In addition, on February 21, 2013, the Fox plaintiffs filed a second motion for preliminary injunction against: (i) DISH Network, seeking to enjoin the Hopper Transfers feature in the second-generation Hopper set-top box, alleging breach of a retransmission consent agreement; and (ii) EchoStar Technologies L.L.C. and DISH Network, seeking to enjoin the Slingbox placeshifting functionality in the second-generation Hopper set-top box, alleging copyright infringement by both defendants, and breach of the earlier-mentioned retransmission consent agreement by DISH Network. The Fox plaintiffs motion was denied on September 23, 2013. The Fox plaintiffs appealed, and on July 14, 2014, the United States Court of Appeals for the Ninth Circuit affirmed the denial of the Fox plaintiffs motion. On October 17, 2014, the California court heard oral argument on the Fox plaintiffs and our respective motions for summary judgment. On January 12, 2015, the Court entered an order ruling on the parties respective summary judgment motions, holding that: (a) the Slingbox placeshifting functionality and the PrimeTime Anytime, AutoHop and Hopper Transfers features do not violate copyright law; (b) certain quality assurance copies (which were discontinued in November 2012) did violate copyright law; and (c) the Slingbox placeshifting functionality, the Hopper Transfers feature and certain quality assurance copies breach DISH's retransmission consent agreement with Fox. The only issue remaining for trial is to the amount of damages, if any, on the claims upon which the Fox plaintiffs prevailed, but the Court ruled that the Fox plaintiffs could not pursue disgorgement as a remedy. At the parties joint request, the Court vacated the February 24, 2015 trial date, and has stayed the case until October 1, 2015 and no trial date has been set.

New York Actions. On October 9, 2012, the ABC plaintiffs filed copyright counterclaims in the New York action against

EchoStar Technologies, L.L.C., with the CBS plaintiffs filing similar copyright counterclaims in the New York action against EchoStar Technologies L.L.C. on October 12, 2012. Additionally, the CBS plaintiffs filed a counterclaim alleging that DISH Network fraudulently concealed the AutoHop feature when negotiating the renewal of its CBS retransmission consent agreement.

On November 23, 2012, the ABC plaintiffs filed a motion for a preliminary injunction to enjoin the Hopper set-top box's PrimeTime Anytime and AutoHop features. On September 18, 2013, the New York court denied that motion. The ABC plaintiffs appealed, and oral argument on the appeal was heard on February 20, 2014 before the United States Court of Appeals for the Second Circuit. Pursuant to a settlement between us and the ABC parties, on March 4, 2014, the ABC parties withdrew their appeal to the United States Court of Appeals for the Second Circuit, and, on March 6, 2014, we and the ABC parties dismissed without prejudice all of our respective claims pending in the United States District Court for the Southern District of New York. The CBS claims in the New York action were scheduled for trial on May 29, 2015. However, on December 6, 2014 the parties to the CBS case reached a settlement agreement and all claims pending in New York Court were dismissed with prejudice on December 10, 2014.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

We intend to vigorously prosecute and defend our position in these cases. In the event that a court ultimately determines that we infringe the asserted copyrights, we may be subject to substantial damages, and/or an injunction that could require us to materially modify certain features that we currently offer to DISH Network. An adverse decision against DISH Network could decrease the number of Sling enabled set-top boxes we sell to DISH Network, which could have an adverse impact on the business operations of our EchoStar Technologies segment. In addition, to the extent that DISH Network experiences fewer gross new subscriber additions, sales of our digital set-top boxes and related components to DISH Network may further decline, which in turn could have a material adverse effect on our financial position and results of operations. We cannot predict with any degree of certainty the outcome of these suits or determine the extent of any potential liability or damages.

Kappa Digital, LLC

On June 1, 2015, Kappa Digital LLC (Kappa) filed suit against our subsidiary Hughes Network Systems, LLC in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 6,349,135, entitled Method and System for a Wireless Digital Message Service. Kappa generally alleges that Hughes HughesNet Gen 4 residential internet service/systems and HughesNet Business Broadband service/systems infringe its asserted patent. Kappa is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

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 cause us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of this suit or determine the extent of any potential liability or damages.

LightSquared/Harbinger Capital Partners LLC (LightSquared Bankruptcy)

On August 6, 2013, Harbinger Capital Partners LLC and other affiliates of Harbinger (collectively, Harbinger), a shareholder of LightSquared Inc. (LightSquared), filed an adversary proceeding against us, DISH Network, L-Band Acquisition, LLC (LBAC), Charles W. Ergen (our Chairman), SP Special Opportunities, LLC (SPSO) (an entity controlled by Mr. Ergen), and certain other parties, in the LightSquared bankruptcy cases pending in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court), which cases are jointly administered under the caption In re LightSquared Inc., et. al., Case No. 12 12080 (SCC). Harbinger alleged, among other things, claims based on fraud, unfair competition, civil conspiracy and tortious interference with prospective economic advantage related to certain purchases of LightSquared secured debt by SPSO. Subsequently, LightSquared intervened to join in certain claims alleged against certain defendants other than us, DISH Network and LBAC.

Edgar Filing: EchoStar CORP - Form 10-Q

On October 29, 2013, the Bankruptcy Court dismissed all of the claims against us in Harbinger's complaint in their entirety, but granted leave for LightSquared to file its own complaint in intervention. On November 15, 2013, LightSquared filed its complaint, which included various claims against us, DISH Network, Mr. Ergen and SPSO. On December 2, 2013, Harbinger filed an amended complaint, asserting various claims against SPSO. On December 12, 2013, the Bankruptcy Court dismissed several of the claims asserted by LightSquared and Harbinger. The surviving claims included, among others, LightSquared's claims against SPSO for declaratory relief, breach of contract and statutory disallowance; LightSquared's tortious interference claim against us, DISH Network and Mr. Ergen; and Harbinger's claim against SPSO for statutory disallowance. These claims proceeded to a non-jury trial on January 9, 2014, which concluded on January 17, 2014. The parties submitted post-trial briefs and a hearing for closing arguments occurred on March 17, 2014. In its Post-Trial Findings of Fact and Conclusions of Law entered on June 10, 2014, the Bankruptcy Court rejected all claims against us and DISH Network, and it rejected some but not all claims against the other defendants. On July 7, 2015, the United States District Court for the Southern District of New York denied Harbinger's motion for an appeal of certain Bankruptcy Court orders in the adversary proceeding.

We intend to vigorously defend this proceeding and cannot predict with any degree of certainty the outcome of this proceeding or determine the extent of any potential liability or damages.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Michael Heskiaoff and Marc Langenohl

On July 10, 2015, Michael Heskiaoff and Marc Langenohl, purportedly on behalf of themselves and all other similarly situated, filed suit against our subsidiary Sling Media, Inc. in the United States District Court for the Southern District of New York. The complaint alleges that Sling Media Inc.'s display of advertising to its customers violates a number of state statutes dealing with consumer deception.

We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability.

Personalized Media Communications, Inc.

During 2008, Personalized Media Communications, Inc. (PMC) filed suit against EchoStar Corporation, DISH Network and Motorola Inc. in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent Nos. 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. On July 18, 2012, pursuant to a Court order, PMC filed a Second Amended Complaint that added Rovi Guides, Inc. (f/k/a/ Gemstar-TV Guide International, Inc.) and TVG-PMC, Inc. (collectively, Gemstar) as a party, and added a new claim against all defendants seeking a declaratory judgment as to the scope of Gemstar's license to the patents in suit, under which DISH Network and we are sublicensees. On August 12, 2014, in response to the parties' respective summary judgment motions related to the Gemstar license issues, the Court ruled in favor of PMC and dismissed all claims by or against Gemstar and entered partial final judgment in PMC's favor as to those claims. On September 16, 2014, we and DISH Network filed a notice of appeal of that partial final judgment, which is pending. On November 5, 2014, PMC supplemented its expert report on damages, dropping a higher value damages theory and disclosing that it seeks damages ranging from \$167 million to \$447 million as of September 30, 2014, excluding pre-judgment interest and possible treble damages under Federal law. On May 7, 2015, we, DISH Network and PMC entered into a settlement and release agreement that provided, among other things, for a license by PMC to us and DISH Network for certain patents and patent applications and the dismissal of all of PMC's claims in the action against us and DISH Network with prejudice. On June 4, 2015, the Court dismissed all of PMC's claims in the action against us and DISH Network with prejudice. We have recorded a loss related to the settlement within Selling, general and administrative expenses in our condensed consolidated statement of operations and comprehensive income (loss) of \$2.5 million and \$5.0 million for the three and six months ended June 30, 2015.

Phoenix Licensing, L.L.C./LPL Licensing, L.L.C.

On July 30, 2015, Phoenix Licensing, L.L.C. and LPL Licensing, L.L.C. (together referred to as Phoenix) filed a complaint against our subsidiary Hughes Network Systems, L.L.C. (Hughes) in the United States District Court for the Eastern District of Texas, alleging infringement

Edgar Filing: EchoStar CORP - Form 10-Q

of United States Patent Nos. 5,987,434, entitled Apparatus and Method for Transacting Marketing and Sales of Financial Products ; 7,890,366, entitled Personalized Communication Documents, System and Method for Preparing Same ; 8,352,317, entitled System for Facilitating Production of Variable Offer Communications ; 8,234,184, entitled Automated Reply Generation Direct Marketing System ; 6,999,938, entitled Automated Reply Generation Direct Marketing System ; 8,738,435, entitled Method and Apparatus for Presenting Personalized Content Relating to Offered Products and Services ; and 7,860,744, entitled System and Method for Automatically Providing Personalized Notices Concerning Financial Products and/or Services. Phoenix alleges that Hughes infringes the asserted patents by making and using products and services that generate customized marketing materials. Phoenix is an entity that seeks to license a patent portfolio without itself practicing any of the claims recited therein.

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 attorney's fees or pre-and-post-judgment interest, and/or an injunction that could require us to materially modify the manner in which Hughes markets 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.

Realtime Data LLC

On May 8, 2015, Realtime Data LLC (Realtime) filed suit against EchoStar Corporation and our subsidiary Hughes Network Systems, LLC in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent Nos. 7,378,992, entitled Content Independent Data Compression Method and System ; 7,415,530, entitled System and Methods for Accelerated Data Storage and Retrieval ; and 8,643,513, entitled Data Compression System and Methods. Realtime generally alleges that the asserted patents are infringed by certain Hughes data compression products and services. Realtime is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

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 supplemental damages, and/or an injunction that could cause 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.

Shareholder Derivative Litigation

On December 5, 2012, Greg Jacobi, purporting to sue derivatively on behalf of EchoStar Corporation, filed suit (the Jacobi Litigation) against Charles W. Ergen, Michael T. Dugan, R. Stanton Dodge, Tom A. Ortolf, C. Michael

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Schroeder, Joseph P. Clayton, David K. Moskowitz, and EchoStar Corporation in the United States District Court for the District of Nevada. The complaint alleges that a March 2011 attempted grant of 1.5 million stock options to Charles Ergen breached defendants' fiduciary duties, resulted in unjust enrichment, and constituted a waste of corporate assets.

On December 18, 2012, Chester County Employees' Retirement Fund, derivatively on behalf of EchoStar Corporation, filed a suit (the Chester County Litigation) against Charles W. Ergen, Michael T. Dugan, R. Stanton Dodge, Tom A. Ortolfo, C. Michael Schroeder, Anthony M. Federico, Pradman P. Kaul, Joseph P. Clayton, and EchoStar Corporation in the United States District Court for the District of Colorado. The complaint similarly alleges that the March 2011 attempted grant of 1.5 million stock options to Charles Ergen breached defendants' fiduciary duties, resulted in unjust enrichment, and constituted a waste of corporate assets.

On February 22, 2013, the Chester County Litigation was transferred to the District of Nevada, and on April 3, 2013, the Chester County Litigation was consolidated into the Jacobi Litigation. Oral argument on a motion to dismiss the Jacobi Litigation was held February 21, 2014. On April 11, 2014, the Chester County litigation was stayed pending resolution of the motion to dismiss. On March 30, 2015, the Court dismissed the Jacobi litigation, with leave for Jacobi to amend his complaint by April 20, 2015. On April 20, 2015, Jacobi filed an amended complaint, which on June 12, 2015, we moved to dismiss.

Of the attempted grant of 1.5 million options to Mr. Ergen in 2011, only 800,000 were validly granted and remain outstanding. We intend to vigorously defend these cases. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability.

Technology Development and Licensing, LLC

On January 22, 2009, Technology Development and Licensing, LLC (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. The case has been stayed since July 2009, pending two reexamination petitions before the United States 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 cause 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.

TQ Beta LLC

On June 30, 2014, TQ Beta LLC (TQ Beta) filed suit against DISH Network, DISH DBS Corporation, DISH Network L.L.C., as well as us and our subsidiaries, EchoStar Technologies, L.L.C, Hughes Satellite Systems Corporation, and Sling Media, Inc., in the United States District Court for the District of Delaware, alleging infringement of United States Patent No. 7,203,456 (the 456 patent), which is entitled Method and Apparatus for Time and Space Domain Shifting of Broadcast Signals. TQ Beta alleges that the Hopper, Hopper with Sling, ViP 722 and ViP 722k DVR devices, as well as the DISH Anywhere service and DISH Anywhere mobile application, infringe the 456 patent, but has not specified the amount of damages that it seeks. TQ Beta is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. Trial is set for January 12, 2016.

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.

Table of Contents

EHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Other

In addition to the above actions, we are subject to various other legal proceedings and claims which arise in the ordinary course of our 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.

Note 15. Segment Reporting

Operating segments are business components of an enterprise for which separate financial information is available and regularly evaluated by the chief operating decision maker (CODM), who for EchoStar is the Company's Chief Executive Officer. Under this definition, we operate three primary business segments.

- ***EchoStar Technologies*** which designs, develops and distributes digital set-top boxes and related products and technology, primarily for satellite TV service providers and telecommunication companies. 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. In addition, we provide our TVEverywhere technology through Slingboxes directly to consumers via retail outlets and online, as well as to the pay-TV operator market. Beginning in 2015, this segment also includes our Move Network business, which primarily provides support services to DISH Network's Sling TV operations.
- ***Hughes*** which provides satellite broadband internet access to North American consumers and broadband network services and equipment to domestic and international enterprise markets. The Hughes segment also provides managed services to large enterprises and solutions to customers for mobile satellite systems.
- ***EchoStar Satellite Services*** which uses certain of our owned and leased in-orbit satellites and related licenses to provide satellite services on a full-time and occasional-use basis primarily to DISH Network, Dish Mexico, U.S. government service providers, internet service providers, broadcast news organizations, programmers, and private enterprise customers.

The primary measure of segment profitability that is reported regularly to our CODM is earnings before interest, taxes, depreciation and amortization, or EBITDA. Our segment operating results do not include real estate and other activities, costs incurred in certain satellite development programs and other business development activities, expenses of various corporate departments, and our centralized treasury operations, including income from our investment portfolio and interest expense on our debt. These activities are accounted for in the All Other and Eliminations column in the table below. Total assets by segment have not been reported herein because the information is not provided to our CODM on a regular basis. The Hughes Retail Group is included in our Hughes segment and our CODM reviews separate HRG financial information only to the extent such information is included in our periodic filings with the SEC. Therefore, we do not consider HRG to be a separate operating segment.

Prior to 2015, our Move Network business, including certain assets distributed to us in August 2014 in connection with the Exchange Agreement with DISH Digital (see Notes 10 and 16), was managed separately from our existing operating segments and was reported within All Other and Eliminations. In the first quarter of 2015, we assigned management responsibility for our Move Network business to our EchoStar Technologies segment, where it continues to be managed and reported as a separate reporting unit. All prior period amounts have been retrospectively adjusted to present operations of our Move Network business in our EchoStar Technologies segment.

Transactions between segments were not significant for the three and six months ended June 30, 2015 and 2014.

Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

The following table presents revenue, EBITDA, and capital expenditures for each of our operating segments.

	EchoStar Technologies	Hughes	EchoStar Satellite Services (In thousands)	All Other and Eliminations	Consolidated Total
<u>For the Three Months Ended June 30, 2015</u>					
External revenue	\$ 331,766	\$ 334,554	\$ 124,402	\$ 2,873	\$ 793,595
Intersegment revenue	\$ 186	\$ 631	\$ 187	\$ (1,004)	\$
Total revenue	\$ 331,952	\$ 335,185	\$ 124,589	\$ 1,869	\$ 793,595
EBITDA	\$ 29,257	\$ 103,414	\$ 103,558	\$ (23,911)	\$ 212,318
Capital expenditures	\$ 9,151	\$ 70,527	\$ 24,468	\$ 74,962	\$ 179,108
<u>For the Three Months Ended June 30, 2014</u>					
External revenue	\$ 419,343	\$ 329,795	\$ 127,742	\$ 2,948	\$ 879,828
Intersegment revenue	\$ 137	\$ 463	\$ 797	\$ (1,397)	\$
Total revenue	\$ 419,480	\$ 330,258	\$ 128,539	\$ 1,551	\$ 879,828
EBITDA	\$ 42,410	\$ 90,316	\$ 112,228	\$ (12,051)	\$ 232,903
Capital expenditures	\$ 13,516	\$ 51,505	\$	\$ 91,071	\$ 156,092
<u>For the Six Months Ended June 30, 2015</u>					
External revenue	\$ 677,799	\$ 659,504	\$ 249,600	\$ 5,345	\$ 1,592,248
Intersegment revenue	\$ 373	\$ 961	\$ 387	\$ (1,721)	\$
Total revenue	\$ 678,172	\$ 660,465	\$ 249,987	\$ 3,624	\$ 1,592,248
EBITDA	\$ 54,818	\$ 194,687	\$ 209,977	\$ (33,483)	\$ 425,999
Capital expenditures	\$ 24,255	\$ 135,054	\$ 52,251	\$ 145,350	\$ 356,910
<u>For the Six Months Ended June 30, 2014</u>					
External revenue	\$ 828,521	\$ 644,166	\$ 227,614	\$ 5,550	\$ 1,705,851
Intersegment revenue	\$ 238	\$ 863	\$ 1,746	\$ (2,847)	\$
Total revenue	\$ 828,759	\$ 645,029	\$ 229,360	\$ 2,703	\$ 1,705,851
EBITDA	\$ 81,540	\$ 172,255	\$ 197,010	\$ (26,019)	\$ 424,786
Capital expenditures	\$ 27,438	\$ 97,477	\$ 29	\$ 144,773	\$ 269,717

The following table reconciles total consolidated EBITDA to reported Income before income taxes in our condensed consolidated statements of operations and comprehensive income (loss):

For the Three Months Ended June 30,		For the Six Months Ended June 30,	
2015	2014	2015	2014

Edgar Filing: EchoStar CORP - Form 10-Q

	(In thousands)							
EBITDA	\$	212,318	\$	232,903	\$	425,999	\$	424,786
Interest income and expense, net		(29,235)		(42,540)		(61,932)		(85,986)
Depreciation and amortization		(132,470)		(140,647)		(265,655)		(273,873)
Net loss attributable to noncontrolling interest in HSS Tracking Stock and other noncontrolling interests		(737)		(1,191)		(2,537)		(1,215)
Income before income taxes	\$	49,876	\$	48,525	\$	95,875	\$	63,712

Note 16. Related Party Transactions

DISH Network

Following the Spin-off, we and DISH Network have operated as separate publicly-traded companies. However, pursuant to the Satellite and Tracking Stock Transaction, described in Note 2 and below, DISH Network owns Hughes Retail Preferred Tracking Stock representing an aggregate 80.0% economic interest in the residential retail satellite broadband business of our Hughes segment, including certain operations, assets and liabilities attributed to such business. In addition, a substantial majority of the voting power of the shares of both companies is owned beneficially by Charles W. Ergen, our Chairman, and by certain trusts established by Mr. Ergen for the benefit of his family.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

In connection with and following the Spin-off, 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 the principal agreements that we have entered into with DISH Network that may have an impact on our financial position and results of operations.

Equipment revenue DISH Network

Receiver Agreement. Effective January 1, 2012, we and DISH Network entered into a receiver agreement (the 2012 Receiver Agreement), pursuant to which DISH Network has 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. The 2012 Receiver Agreement replaced the receiver agreement we entered into with DISH Network in connection with the Spin-off. The 2012 Receiver Agreement allows DISH Network to purchase digital set-top boxes, related accessories, and other equipment from us either: (i) at 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. We provide DISH Network with standard manufacturer warranties for the goods sold under the 2012 Receiver Agreement. Additionally, the 2012 Receiver Agreement includes an indemnification provision, whereby the parties indemnify each other for certain intellectual property matters. DISH Network is able to terminate the 2012 Receiver Agreement for any reason upon at least 60 days' notice to us. We are able to terminate the 2012 Receiver Agreement if certain entities acquire DISH Network. 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. On May 5, 2014, we received DISH Network's notice to extend the 2012 Receiver Agreement for one year to December 31, 2015.

Services and other revenue DISH Network

Broadcast Agreement. Effective January 1, 2012, we and DISH Network entered into a new broadcast agreement (the 2012 Broadcast Agreement) pursuant to which we provide certain broadcast services to DISH Network, including teleport services such as transmission and downlinking, channel origination services, and channel management services, for the period from January 1, 2012 to December 31, 2016. The 2012 Broadcast Agreement replaced the broadcast agreement that we entered into with DISH Network in connection with the Spin-off. The fees for the 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. DISH Network has 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 terminates the teleport services provided under the 2012 Broadcast Agreement for a reason other than our breach, DISH Network generally is obligated to reimburse us for any direct costs we incur related to any such termination that we cannot reasonably mitigate.

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 ten years. If DISH Network terminates this agreement for a reason other than our breach, DISH Network generally is 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.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Satellite Services Provided to DISH Network. Since the Spin-off, we have entered into certain satellite service agreements pursuant to which DISH Network receives satellite services on certain satellites owned or leased by us. The fees for the services provided under these satellite service agreements depend, among other things, upon the orbital location of the applicable satellite, the number of transponders that are providing services on the applicable satellite, and the length of the service arrangements. The terms of each service arrangement is set forth below:

EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV. As part of the Satellite and Tracking Stock Transaction discussed in Note 2, on March 1, 2014, we began providing certain satellite services to DISH Network on the EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV satellites. The term of each satellite services agreement generally terminates upon the earlier of: (i) the end of life of the satellite; (ii) the date the satellite fails; or (iii) a certain date, which depends upon, among other things, the estimated useful life of the satellite. DISH Network generally has the option to renew each satellite service agreement 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. DISH Network has elected not to renew the satellite services agreement relative to EchoStar I. The agreement will expire pursuant to its terms effective November 1, 2015.

EchoStar VIII. In May 2013, DISH Network began receiving satellite services from us on EchoStar VIII as an in-orbit spare. Effective March 1, 2014, this satellite services arrangement converted to a month-to-month service agreement. Both parties have the right to terminate this agreement upon 30 days' notice.

EchoStar IX. Effective January 2008, DISH Network began receiving satellite services from us on EchoStar IX. Subject to availability, DISH Network generally has the right to continue to receive satellite services from us on EchoStar IX on a month-to-month basis.

EchoStar XII. DISH Network receives satellite services from us on EchoStar XII. The term of the satellite services agreement terminates upon the earlier of: (i) the end of life of the satellite; (ii) the date the satellite fails or the date the transponder(s) on which the service was being provided under the agreement fails; or (iii) a certain date, which depends upon, among other things, the estimated useful life of the satellite. DISH Network generally has the option to renew the agreement 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.

EchoStar XVI. During December 2009, we entered into an initial ten-year transponder service agreement with DISH Network, pursuant to which DISH Network receives satellite services from us on EchoStar XVI. Effective December 21, 2012, we and DISH Network amended the transponder service agreement to, among other things, change the initial term to generally expire upon the earlier of: (i) the end-of-life or replacement of 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) four years following the actual service commencement date. Prior to expiration of the initial term, we, upon certain conditions, and DISH Network have the option to renew for an additional six-year period. If either we or DISH Network exercise our respective six-year renewal options, DISH Network has the option to renew for an additional five-year period prior to expiration of the then-current term. There can be no assurance that any option to renew this agreement will be exercised. We began to provide satellite services on EchoStar XVI to DISH Network in January 2013.

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, we also entered into a satellite service agreement (the DISH Nimiq 5 Agreement) with DISH Network, pursuant to which DISH Network receives satellite services 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 September 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

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

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 Latin America, which provides, among other things, for the provision by SES Latin America to us of service on 32 DBS transponders on the QuetzSat-1 satellite. Concurrently, in 2008, we entered into a transponder service agreement with DISH Network, pursuant to which DISH Network receives satellite services on 24 of the DBS transponders on QuetzSat-1. QuetzSat-1 was launched on September 29, 2011 and was placed into service during the fourth quarter of 2011 at the 67.1 degree west longitude orbital location. In the interim, we provided DISH Network with alternate capacity at the 77 degree west longitude orbital location. During the third quarter of 2012, we and DISH Network entered into an agreement pursuant to which we receive certain satellite services from DISH Network on five DBS transponders on the QuetzSat-1 satellite. In January 2013, QuetzSat-1 was moved to the 77 degree west longitude orbital location and DISH Network commenced commercial operations at such location in February 2013.

Under the terms of our contractual arrangements with DISH Network, we began to provide service to DISH Network on the QuetzSat-1 satellite in February 2013 and will continue to provide service 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 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.

103 Degree Orbital Location/SES-3. During May 2012, we entered into a spectrum development agreement (the "103 Spectrum Development Agreement") with Ciel Satellite Holdings Inc. ("Ciel") to develop certain spectrum rights at the 103 degree west longitude orbital location (the "103 Spectrum Rights"). During June 2013, we and DISH Network entered into a spectrum development agreement (the "DISH 103 Spectrum Development Agreement") pursuant to which DISH Network may use and develop the 103 Spectrum Rights. Unless earlier terminated under the terms and conditions of the DISH 103 Spectrum Development Agreement, the term generally will continue for the duration of the 103 Spectrum Rights Agreement.

In connection with the 103 Spectrum Development Agreement, during May 2012, we also entered into a ten-year service agreement with Ciel pursuant to which we receive certain satellite services from Ciel on the SES-3 satellite at the 103 degree orbital location (the "103 Service Agreement"). During June 2013, we and DISH Network entered into an agreement pursuant to which DISH Network receives certain satellite

Edgar Filing: EchoStar CORP - Form 10-Q

services from us on the SES-3 satellite (the DISH 103 Service Agreement). Under the terms of the DISH 103 Service Agreement, DISH Network makes certain monthly payments to us through the service term. Unless earlier terminated under the terms and conditions of the DISH 103 Service Agreement, the initial service term will expire on the earlier of: (i) the date the SES-3 satellite fails; (ii) the date the transponder(s) on which service was being provided under the agreement fails; or (iii) ten years following the actual service commencement date. Upon in-orbit failure or end of life of the SES-3 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 DISH Network will exercise its option to receive service on a replacement satellite.

Satellite and Tracking Stock Transaction. On February 20, 2014, we entered into agreements with DISH Network to implement a transaction pursuant to which, among other things: (i) on March 1, 2014, EchoStar and HSS issued shares of the Tracking Stock to DISH Network in exchange for five satellites owned by DISH Network (EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV) (including related in-orbit incentive obligations and interest payments of approximately \$58.9 million) and approximately \$11.4 million in cash; and (ii) on March 1, 2014, DISH Network began receiving certain satellite services on these five satellites from us. See Note 2 for further information.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

TT&C Agreement. Effective January 1, 2012, we entered into a telemetry, tracking and control (TT&C) agreement pursuant to which we provide TT&C services to DISH Network and its subsidiaries for a period ending on December 31, 2016 (the 2012 TT&C Agreement). The 2012 TT&C Agreement replaced the TT&C agreement we entered into with DISH Network in connection with the Spin-off. 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. DISH Network is able to terminate the 2012 TT&C Agreement for any reason upon 60 days notice.

In connection with the Satellite and Tracking Stock Transaction, on February 20, 2014, we amended the TT&C Agreement to cease the provision of TT&C services to DISH Network for the EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV satellites. Effective March 1, 2014, we provide TT&C services for the D-1 and EchoStar XV satellites; however, for the period that we receive satellite services on EchoStar XV from DISH Network, we have waived the fees for the TT&C services on EchoStar XV.

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 at the time of the lease, 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 original lease for certain space at 801 N. DISH Dr. in Gilbert, Arizona was a month to month lease and could be terminated by either party upon 30 days prior notice. The original lease was terminated in May 2014. Effective August 1, 2014, we began leasing this space to DISH Network under a new lease for a period ending July 31, 2016. DISH Network has renewal options for three additional one year terms.

Cheyenne Lease Agreement. The lease for certain space at 530 EchoStar Drive in Cheyenne, Wyoming is 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 from us (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 set-top boxes 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 is 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 receives certain services associated with an online video portal.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

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 successive one year terms and the agreement may be terminated by DISH Network for any reason upon at least 120 days notice to us. In October 2014, DISH Network exercised its right to renew this agreement for a one-year period ending on December 31, 2015.

DISH Remote Access Services Agreement. Effective February 23, 2010, we entered into an agreement with DISH Network pursuant to which DISH Network receives, among other things, certain remote digital video recorder (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 had an initial term of five years with automatic renewal for successive one year terms. This agreement automatically renewed on February 23, 2015 for an additional one-year period until February 23, 2016. The agreement may be terminated by DISH Network for any reason upon at least 120 days notice to us.

SlingService Services Agreement. Effective February 23, 2010, we entered into an agreement with DISH Network pursuant to which DISH Network receives certain services related to placeshifting. 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 had an initial term of five years with automatic renewal for successive one year terms. This agreement automatically renewed on February 23, 2015 for an additional one-year period until February 23, 2016. The agreement may be terminated by DISH Network for any reason upon at least 120 days notice to us.

Blockbuster Agreements. 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 acquisition of Hughes Communications, Inc. and its subsidiaries (the Hughes Acquisition). Hughes Network Systems, LLC (HNS), a wholly-owned subsidiary of Hughes Communications, Inc., provided certain broadband products and services to Blockbuster, Inc. (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 L.L.C. (Blockbuster) entered into a new agreement with HNS pursuant to which Blockbuster could continue to purchase broadband products and services from our Hughes segment (the Blockbuster VSAT Agreement).

Effective February 1, 2014, all services to all Blockbuster locations, including Blockbuster franchisee locations, terminated in connection with the closing of all of the Blockbuster retail locations.

Radio Access Network Agreement. On November 29, 2012, HNS entered into an agreement with DISH Network L.L.C. pursuant to which HNS constructed for DISH Network a ground-based satellite radio access network for a fixed fee. The parties mutually agreed to terminate this agreement in the fourth quarter of 2014.

TerreStar Agreement. On March 9, 2012, DISH Network completed its acquisition of substantially all the assets of TerreStar Networks Inc. (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.

Hughes Broadband Distribution Agreement. Effective October 1, 2012, HNS and dishNET Satellite Broadband L.L.C. (dishNET), a wholly-owned subsidiary of DISH Network, entered into a distribution agreement (the Distribution Agreement) pursuant to which dishNET has the right, but not the obligation, to market, sell and distribute the Hughes satellite internet service (the Hughes service). dishNET pays HNS a monthly per subscriber wholesale service fee for the Hughes service based upon a subscriber s service level, and, beginning January 1, 2014, based upon certain volume subscription thresholds. The Distribution Agreement also provides that dishNET has the right, but not the obligation, to purchase certain broadband equipment from us to support the sale of the Hughes service. The Distribution Agreement has an initial term of five years with automatic renewal for successive one year terms unless terminated by either party with a written notice at least 180 days before the expiration of the then-current term. On February 20, 2014, HNS and dishNET entered into an amendment to the Distribution Agreement which, among other things, extended the initial term of the Distribution Agreement through March 1,

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

2024. Upon expiration or termination of the Distribution Agreement, the parties will continue to provide the Hughes service to the then-current dishNET subscribers pursuant to the terms and conditions of the Distribution Agreement.

Set-Top Box Application Development Agreement. During the fourth quarter of 2012, we and DISH Network entered into a set-top box application development agreement (the Application Development Agreement) pursuant to which we provide DISH Network with certain services relating to the development of web-based applications for the period ending February 1, 2016. The Application Development Agreement renews automatically for successive one-year periods thereafter, unless terminated earlier by us or DISH Network at any time upon at least 90 days' notice. The fees for services provided under the Application Development Agreement are calculated at our cost of providing the relevant service plus a fixed margin, which will depend on the nature of the services provided.

XiP Encryption Agreement. During the third quarter of 2012, we entered into an encryption agreement with DISH Network for our whole-home HD DVR line of set-top boxes (the XiP Encryption Agreement) pursuant to which we provide certain security measures on our whole-home HD DVR line of set-top boxes to encrypt the content delivered to the set-top box via a smart card and secure the content between set-top boxes. The term of the XiP Encryption Agreement is to be contemporaneous with the 2012 Receiver Agreement. We and DISH Network each have the right to terminate the XiP Encryption Agreement for any reason upon at least 180 days' notice and 30 days' notice, respectively. The fees for the services provided under the XiP Encryption Agreement are calculated on a monthly basis based on the number of receivers utilizing such security measures each month.

DBSD North America Agreement. On March 9, 2012, DISH Network completed its acquisition of 100% of the equity of reorganized DBSD North America, Inc. (DBSD North America). Prior to DISH Network's acquisition of DBSD North America and our completion of the Hughes Acquisition, DBSD North America and HNS 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 automatically renewed for a one-year period ending on February 15, 2016, and will renew for one additional one-year period unless terminated by DBSD North America upon at least 30 days' notice prior to the expiration of any renewal term.

Sling TV Holding L.L.C. (formerly DISH Digital Holding L.L.C.) Effective July 1, 2012, we and DISH Network formed DISH Digital Holding L.L.C. (DISH Digital), which was owned two-thirds by DISH Network and one-third by EchoStar. DISH Digital was formed to develop and commercialize certain advanced technologies. At that time, we, DISH Network and DISH Digital entered into the following agreements with respect to DISH Digital: (i) a contribution

agreement pursuant to which we and DISH Network contributed certain assets in exchange for our respective ownership interests in DISH Digital; (ii) a limited liability company operating agreement (*Operating Agreement*), which provides for the governance of DISH Digital; and (iii) a commercial agreement (*Commercial Agreement*) pursuant to which, among other things, DISH Digital had: (a) certain rights and corresponding obligations with respect to its business; and (b) the right, but not the obligation, to receive certain services from us and DISH Network, respectively.

Effective August 1, 2014, we and DISH Digital entered into an exchange agreement (*Exchange Agreement*) pursuant to which, among other things, DISH Digital distributed certain assets to us and we reduced our interest in DISH Digital to a 10.0% non-voting interest. As a result, DISH Network has a 90.0% equity interest and a 100% voting interest in DISH Digital. In addition, we, DISH Network and DISH Digital amended and restated the *Operating Agreement*, primarily to reflect the changes implemented by the *Exchange Agreement*. Finally, we, DISH Network and DISH Digital amended and restated the *Commercial Agreement*, pursuant to which, among other things, DISH Digital: (1) continues to have certain rights and corresponding obligations with respect to its business; (2) continues to have the right, but not the obligation, to receive certain services from us and DISH Network; and (3) has a license from us to use certain of the assets distributed to us as part of the *Exchange Agreement*. DISH Digital changed its name to Sling TV Holding L.L.C.

Cost of sales equipment DISH Network

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

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(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 2014, we and DISH Network extended this agreement until December 31, 2015. 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 DISH Network.

Cost of sales services and other DISH Network

Satellite Services Received from DISH Network. Since the Spin-off, we entered into certain satellite services agreements pursuant to which we receive satellite services from DISH Network on certain satellites owned or leased by DISH Network. The fees for the services provided under these satellite services agreements depend, among other things, upon the orbital location of the applicable satellite, the number of transponders that are providing services on the applicable satellite and the length of the service term. The term of each satellite service agreement is set forth below:

D-1. In November 2012, HNS entered into a satellite service agreement pursuant to which HNS received satellite services from DISH Network on the D-1 satellite for research and development. This agreement terminated on June 30, 2014.

EchoStar XV. In May 2013, we began receiving satellite services from DISH Network on EchoStar XV and relocated the satellite to the 45 degree west longitude orbital location for testing pursuant to our Brazilian authorization. Effective March 1, 2014, this satellite services agreement converted to a month-to-month service agreement. Both parties have the right to terminate this agreement upon 30 days' notice.

General and administrative expenses DISH Network

Professional Services Agreement. 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 would 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), receive logistics, procurement and quality assurance services from us (previously provided under the Services Agreement) and other support services. The Professional Services Agreement automatically renewed on January 1, 2015 for an additional one-year period 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.

Real Estate Lease Agreements. Since the Spin-off, we have entered into lease agreements pursuant to which we lease certain real estate from DISH Network. 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 at the time of the lease, and we are responsible for our portion of the taxes, insurance, utilities and maintenance of the premises. The term of each of the leases is set forth below:

El Paso Lease Agreement. The lease for certain space at 1285 Joe Battle Blvd., El Paso, Texas is for an initial period ending on August 1, 2015, and provides us with renewal options for four consecutive three year terms. During the second quarter of 2015, we exercised our first renewal option for a period ending on August 1, 2018.

American Fork Occupancy License Agreement. The license for certain space at 796 East Utah Valley Drive in American Fork, Utah is for a period ending on July 31, 2017, subject to the terms of the underlying lease

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

agreement. In connection with the Exchange Agreement, this license was terminated during the fourth quarter of 2014.

Other agreements ***DISH Network***

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 Internal Revenue Code of 1986, as amended 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.

In light of the tax sharing agreement, among other things, and in connection with our consolidated federal income tax returns for certain tax years prior to and for the year of the Spin-off, during the third quarter of 2013, we and DISH Network agreed upon a supplemental allocation of the tax benefits arising from certain tax items resolved in the course of the IRS's examination of our consolidated tax returns. Prior to the agreement with DISH Network, the federal tax benefits of \$83.2 million were reflected as a deferred tax asset for depreciation and amortization, which was netted in our noncurrent deferred tax liabilities. The agreement requires DISH Network to pay us \$83.2 million of the federal tax benefit it receives at such time as we would have otherwise been able to realize such tax benefit, which we currently estimate would be after 2015. Accordingly, we recorded a noncurrent receivable from DISH Network for \$83.2 million in Other receivable - DISH Network and a corresponding increase in our net noncurrent deferred tax liabilities to reflect the effects of this agreement in the third quarter of 2013. In addition, during the third quarter of 2013, we and DISH Network agreed upon a tax sharing arrangement for filing certain combined state income tax returns and a method of allocating the respective tax liabilities between us and DISH Network for such combined returns, through the taxable period ending on December 31, 2017.

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 Network DVRs.

Under the settlement agreement, all pending litigation was dismissed with prejudice and all injunctions that permanently restrain, enjoin or compel any action by us or DISH Network were dissolved. We and DISH Network are jointly responsible for making payments to TiVo in the aggregate amount of \$500.0 million, including an initial payment of \$300.0 million and the remaining \$200.0 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 \$10.0 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.

Sling Trademark License Agreement. On December 31, 2014, DISH Digital (now known as Sling TV) entered into an agreement with Sling Media, Inc., our subsidiary, pursuant to which Sling TV has the right, for a fixed fee, to use certain trademarks, domain names and other intellectual property related to the Sling trademark through December 31, 2016.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

gTLD Bidding Agreement. In April 2015, we and DISH Network entered into a gTLD Bidding Agreement whereby, among other things: (i) DISH Network obtained rights from us to participate in a generic top level domain (gTLD) auction, assuming all rights and obligations from us related to our application with ICANN for a particular gTLD; (ii) DISH Network agreed to reimburse us for our ICANN application fee and certain out-of-pocket expenses related to the application and the auction; and (iii) we and DISH Network agreed to split equally the net proceeds obtained by DISH Network as the losing bidder in the auction, less such fee reimbursement and out-of-pocket expenses.

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 \$10.0 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 \$3.0 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 revenue 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.

PMC. During 2008, 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. 5,109,414; 4,965,825; 5,233,654; 5,335,277 and 5,887,243, which relate to satellite signal processing. On May 7, 2015, we, DISH Network and PMC entered into a settlement and release agreement that provided, among other things, for a license by PMC to us and DISH Network for certain patents and patent applications and the dismissal of all of PMC's claims in the action against us and DISH Network with prejudice. On June 4, 2015, the Court dismissed all of PMC's claims in the action against us and DISH Network with prejudice. See Note 14 for further discussion. In June 2015, we and DISH Network agreed that we would contribute a one-time payment of \$5.0 million towards the settlement under the agreements entered into in connection with the Spin-off and the 2012 Receiver Agreement.

TerreStar-2 Development Agreement. In August 2013, we and DISH Network entered into a development agreement (T2 Development Agreement) with respect to the EchoStar XXI satellite under which we reimburse DISH Network for amounts it pays pursuant to an authorization to proceed (T2 ATP) with SS/L in connection with the construction of the

EchoStar XXI satellite. In exchange, DISH Network granted us certain rights to purchase the EchoStar XXI satellite during the term of the T2 Development Agreement. The T2 Development Agreement was amended in December 2013 to provide for the ability to purchase DISH Network's rights and obligations under the T2 ATP and the related agreement for the construction of the EchoStar XXI satellite with SS/L. The purchase rights under the T2 Development Agreement were exercised in December 2014, and the agreement terminated pursuant to its terms.

Roger J. Lynch. In November 2009, Mr. Roger J. Lynch became employed by both us and DISH Network as Executive Vice President. Mr. Lynch was 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 consisted of cash and equity compensation and was borne by both DISH Network and us. Mr. Lynch's employment with us terminated on December 31, 2014.

Other Agreements

Hughes Systique Corporation (Hughes Systique)

We contract with Hughes Systique for software development services. In February 2008, HNS agreed to make available to Hughes Systique a term loan facility of up to \$1.5 million. Also in 2008, HNS funded an initial \$0.5 million to Hughes Systique pursuant to the term loan facility. In 2009, HNS funded the remaining \$1.0 million of its \$1.5 million commitment under the term loan facility. The loans bear interest at 6%, payable annually, and are

Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

convertible into shares of Hughes Systique upon non-payment or an event of default. In May 2014, Hughes and Hughes Systique entered into an amendment to the term loan facility to increase the interest rate from 6% to 8%, payable annually, to reflect current market conditions. The loans, as amended, matured on May 1, 2015. In April 2015, Hughes Systique repaid \$0.7 million of the outstanding principal of the loan and we extended the maturity date of the loan to May 1, 2016 on the same terms. In addition to our 44.1% ownership in Hughes Systique, Mr. 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 25.9%, on an undiluted basis, of Hughes Systique's outstanding shares as of June 30, 2015. Furthermore, Mr. Pradman Kaul serves on the board of directors of Hughes Systique. Hughes Systique is a variable interest entity and we are considered the primary beneficiary of Hughes Systique due to, among other factors, our ability to significantly influence and direct the operating and financial decisions of Hughes Systique. As a result, we consolidate Hughes Systique's financial statements in our condensed consolidated financial statements.

NagraStar L.L.C.

We own 50.0% 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. We account for our investment in NagraStar using the equity method. We made purchases from NagraStar totaling approximately \$4.0 million and \$6.4 million for the three months ended June 30, 2015 and 2014, respectively, and \$8.6 million and \$9.6 million for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and December 31, 2014, we had trade accounts payable to NagraStar totaling approximately \$1.8 million and \$3.2 million, respectively.

Dish Mexico

We own 49.0% of an entity that provides direct-to-home satellite services in Mexico known as Dish Mexico. We provide certain broadcast services and satellite services and sell hardware such as digital set-top boxes and related equipment to Dish Mexico.

The following table summarizes revenue from sales of hardware and services we provided to Dish Mexico.

For the Three Months Ended June 30,		For the Six Months Ended June 30,	
2015	2014	2015	2014
(In thousands)			
\$ 12,717	\$ 17,006	\$ 25,545	\$ 25,405

Edgar Filing: EchoStar CORP - Form 10-Q

Digital set-top boxes and related accessories					
Satellite services	\$	5,837	\$	5,837	\$ 11,674 \$ 11,674
Uplink services	\$	1,410	\$	1,510	\$ 2,951 \$ 3,215

		As of			
		June 30, 2015	December 31, 2014		
		(In thousands)			
Due from Dish Mexico	\$	19,959	\$ 11,012		

Deluxe/EchoStar LLC

We own 50% of Deluxe/EchoStar LLC (Deluxe), a joint venture that we entered into in 2010 to build an advanced digital cinema satellite distribution network targeting delivery to digitally equipped theaters in the U.S. and Canada. We account for our investment in Deluxe using the equity method. We recognized revenue from Deluxe for transponder services and the sale of broadband equipment of approximately \$0.7 million and \$0.8 million for the three months ended June 30, 2015 and 2014, respectively, and \$1.4 million and \$1.7 million for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and December 31, 2014, we had trade accounts receivable from Deluxe of approximately \$0.3 million and \$0.2 million, respectively.

Table of Contents

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

SmarDTV SA

In May 2015, we acquired a 22.5% interest in SmarDTV, which we account for using the equity method. Pursuant to a services agreement, we purchased engineering services from SmarDTV totaling \$1.0 million for the three and six months ended June 30, 2015. As of June 30, 2015, we had trade accounts payable to SmarDTV of \$1.0 million.

Table of Contents

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

Unless the context indicates otherwise, as used herein, the terms we, us, EchoStar, the Company and our refer to EchoStar Corporation and its subsidiaries. References to \$ are to United States dollars. The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes to our financial statements included elsewhere in this Quarterly Report on Form 10-Q. This management's discussion and analysis is intended to help provide an understanding of our financial condition, changes in our financial condition and our results of operations. Many of the statements in this management's discussion and analysis are forward-looking statements that involve assumptions and are subject to risks and uncertainties that are often difficult to predict and beyond our control. Actual results could differ materially from those expressed or implied by such forward-looking statements. See Disclosure Regarding Forward-Looking Statements in this Quarterly Report on Form 10-Q for further discussion. For a discussion of additional risks, uncertainties and other factors that could impact our results of operations or financial condition, see the caption Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014. Further, such forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and we undertake no obligation to update them.

EXECUTIVE SUMMARY

EchoStar is a global provider of satellite operations, video delivery solutions, and broadband satellite technologies and services for the home and office, delivering innovative network technologies, managed services, and solutions for enterprises and governments. We currently operate in three business segments, which are differentiated primarily by their operational focus: EchoStar Technologies, Hughes, and EchoStar Satellite Services. These segments are consistent with the way decisions regarding the allocation of resources are made, as well as how operating results are reviewed by our chief operating decision maker (CODM), who for EchoStar is the Company's Chief Executive Officer.

Our segment operating results do not include real estate and other activities, costs incurred in certain satellite development programs and other business development activities, expenses of various corporate departments, and our centralized treasury operations, including income from our investment portfolio and interest expense on our debt. These activities are accounted for in All Other and Eliminations.

Highlights from our financial results are as follows:

2015 Second Quarter Consolidated Results of Operations

- Revenue of \$793.6 million
- Operating income of \$94.3 million

- Net income attributable to EchoStar common stock of \$33.9 million and basic earnings per share of common stock of \$0.37
- EBITDA of \$212.3 million (see reconciliation of this non-GAAP measure in Note 15 to the condensed consolidated financial statements)

Consolidated Financial Condition as of June 30, 2015

- Total assets of \$7.23 billion
- Total liabilities of \$3.53 billion
- Total stockholders' equity of \$3.70 billion
- Cash, cash equivalents and current marketable investment securities of \$1.51 billion

Table of Contents

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

EchoStar Technologies Segment

Our EchoStar Technologies segment designs, develops and distributes digital set-top boxes and related products and technology, primarily for satellite TV service providers and telecommunication companies. The primary customer for our digital set-top boxes is DISH Network Corporation and its subsidiaries (DISH Network), and we also sell digital set-top boxes to Bell TV, a direct-to-home satellite service provider in Canada, Dish Mexico, S. de R.L. de C.V. (Dish Mexico), a joint venture that we entered into in 2008, and other international customers. We depend on DISH Network for a substantial portion of our EchoStar Technologies segment revenue and we expect that DISH Network will continue to be the primary source of revenue for our EchoStar Technologies segment. In addition, our equipment revenue from DISH Network depends on the timing of orders for set-top boxes and related accessories from DISH Network based on its actual and projected subscriber growth. Therefore, the results of operations of our EchoStar Technologies segment are, and are likely to continue to be, closely linked to the performance of DISH Network's pay-TV service.

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. In addition, we provide our TVEverywhere technology through Slingboxes directly to consumers via retail outlets and online, as well as to the pay-TV operator market.

Prior to 2015, Move Network, our live linear over-the-top platform (OTT) business, including certain assets that were distributed to us in August 2014 in connection with the Exchange Agreement with DISH Digital Holding L.L.C (Sling TV), (see Notes 10 and 16 in our notes to condensed consolidated financial statements), was managed separately from our operating segments and was reported within All Other and Eliminations. In the first quarter of 2015, we assigned management responsibility for our Move Network business to our EchoStar Technologies segment, where it continues to be managed and reported as a separate reporting unit. We have retrospectively adjusted our segment reporting to reflect our Move Network business as part of the EchoStar Technologies segment in prior periods (see Note 15).

During the second quarter of 2015, our EchoStar Technologies segment contributed several of its European subsidiaries to SmarDTV SA (SmarDTV), a Swiss subsidiary of Kudelski SA that offers set-top boxes and conditional access modules, in exchange for a 22.5% interest in the equity and subordinated debt of SmarDTV. In connection with our investment, we and SmarDTV entered into a services agreement pursuant to which our EchoStar Technologies segment purchases certain engineering services from SmarDTV.

We continue to focus on building and strengthening our brand recognition by providing unique and technologically advanced features and products. Products containing new technologies and features typically have higher initial selling prices, margins and volumes. As products mature and new products are in the late stages of development, volumes typically decrease as our customers, primarily DISH Network, increase deployment of refurbished set-top boxes as opposed to purchasing new units from us. The market for our digital set-top boxes, like other electronic products, has also been characterized by regular reductions in selling prices and production costs. Our ability to sustain or increase profitability also depends in large part on our ability to control or reduce our costs of producing digital set-top boxes. Based on our experience, we expect our cost of manufacturing a specific set-top box model to decline over time as our contract manufacturers generate efficiencies with scale of production and engineering cost reductions. Overall, our success depends heavily on our ability to bring advanced technologies to market to keep pace with our competitors.

Edgar Filing: EchoStar CORP - Form 10-Q

The number of potential new customers for our set-top box business in our EchoStar Technologies segment is small and may be limited as prospective customers that have been competitors of DISH Network may continue to view us as a competitor due to our common ownership with DISH Network. We believe that our best opportunities for developing potential new customers for our set-top box business over the near term lie in international markets, including through joint ventures. We have an exclusive equipment partnership with Bell TV through the end of 2015. Additionally, our joint venture with Dish Mexico continues to see growth. We are continuing to work with Dish Mexico on enhanced features and services that will help it respond to competitive pressures in Mexico.

With our expertise in connectivity, security, and video, we are exploring the potential of new product and service offerings including home security and automation, and facilitation of user-generated content along with other products intended to grow our EchoStar Technologies segment revenue over time.

Table of Contents

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

Hughes Segment

Our Hughes segment is a global provider of broadband satellite technologies and services for the home and office, delivering innovative network technologies, managed services, and solutions for consumers, enterprises and governments.

We continue our efforts in growing our consumer revenue, which depends on our success in adding new subscribers on our Hughes segment's satellite networks. The addition of new subscribers and the performance of our consumer service offering, primarily drive the revenue growth in our consumer business. Service costs related to ongoing support of our direct and indirect customers and partners are typically impacted most significantly by our growth. Long term trends continue to be influenced primarily by the subscriber growth in our consumer business. Additional capacity provided in this business by new satellite launches provides impetus for initial subscriber growth while we manage subscriber growth across our satellite platform. In March 2013, we entered into a contract for the design and construction of the EchoStar XIX satellite, which is expected to be launched in the fourth quarter of 2016. EchoStar XIX is a next-generation, high throughput geostationary satellite that will employ a multi-spot beam, bent pipe Ka-band architecture and will provide additional capacity for the Hughes broadband services to the consumer market in North America. Capital expenditures associated with the construction and launch of EchoStar XIX are included in All Other and Eliminations in our segment reporting.

Our Hughes segment also provides managed services, hardware, and satellite services to large enterprises. In addition, we provide gateway and terminal equipment to customers for mobile satellite systems. The fixed pricing nature of our long-term enterprise contracts minimizes significant quarter to quarter fluctuations; however, the growth of our enterprise business relies heavily on global economic conditions. We continue to monitor the competitive landscape for pricing in relation to our competitors and alternative technologies.

In April 2014, we entered into a satellite services agreement pursuant to which Eutelsat do Brasil will provide to Hughes Telecomunicações do Brasil Ltda., our subsidiary, fixed broadband service using the Ka-band capacity into Brazil on the EUTELSAT 65 West A satellite for a 15-year term. The satellite service agreement requires us to make prepayments while the satellite is under construction. The satellite is scheduled to be placed into service in the second quarter of 2016 and will deliver consumer satellite broadband services in Brazil as well as create a platform to potentially allow for further development of our spectrum in Brazil.

In June 2015, we purchased a noncontrolling equity investment in WorldVu Satellites Limited (WorldVu), a low-earth orbiting satellite company. In addition, our Hughes segment entered into an agreement with WorldVu to provide certain equipment and services in connection with the ground system for WorldVu's low-earth orbiting satellites.

As of June 30, 2015 and December 31, 2014, our Hughes segment had approximately 1,014,000 and 977,000 broadband subscribers, respectively. These subscribers include subscriptions with HughesNet services, through retail, wholesale and small/medium enterprise service channels. Gross subscriber additions decreased in the second quarter of 2015 compared to the same period in 2014 due primarily to satellite beams servicing certain areas reaching capacity. Our

average monthly subscriber churn for the second quarter of 2015 decreased as compared to the same period in 2014, however, total disconnects increased due to the increased number of total subscribers. As a result, for the quarter ended June 30, 2015, net subscriber additions of approximately 15,000 were lower than the same period last year primarily reflecting the decrease in gross subscriber additions and churn on the increasing base of subscribers.

As of June 30, 2015 and December 31, 2014, our Hughes segment had approximately \$1.18 billion and \$1.26 billion, respectively, of contracted revenue backlog. We define Hughes revenue backlog as our expected future revenue under customer contracts that are non-cancelable, excluding agreements with customers in our consumer market.

Table of Contents

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

EchoStar Satellite Services Segment

Our EchoStar Satellite Services segment operates its business using its 16 owned and leased in-orbit satellites. We provide satellite services on a full-time and occasional-use basis primarily to DISH Network, Dish Mexico, U.S. government service providers, internet service providers, broadcast news organizations, programmers and private enterprise customers.

We depend on DISH Network for a significant portion of the revenue for our EchoStar Satellite Services segment and we expect that DISH Network will continue to be the primary source of revenue for our EchoStar Satellite Services segment. Therefore, the results of operations of our EchoStar Satellite Services segment are linked to long-term changes in DISH Network's satellite capacity requirements. We continue to pursue expanding our business offerings by providing value added services such as telemetry, tracking and control services to third parties. Revenue growth in our EchoStar Satellite Services segment is a function of available satellite capacity to sell. EchoStar 105/SES-11, the satellite we currently have under construction, is expected to ultimately produce revenue once launched and placed into operation, and therefore, factors that interfere with our construction and launch schedules could impact our expected revenue growth. In addition, any disruption in planned renewals of our service arrangements could impact customer commitments and have an impact on our revenue and financial performance. Technical issues, regulatory and licensing issues, manufacturer performance/stability and availability of capital to continue to fund our programs also are factors in achieving our business plans for this segment.

In August 2014, we entered into: (i) a construction contract with Airbus Defence and Space SAS for the construction of the EchoStar 105/SES-11 satellite with C-band, Ku-band and Ka-band payloads; (ii) an agreement with SES Satellite Leasing Limited for the procurement of the related launch services; and (iii) an agreement with SES Americom Inc. (SES) pursuant to which we will transfer the title to the C-band and Ka-band payloads to SES Satellite Leasing Limited at launch and transfer the title to the Ku-band payload to SES following in-orbit testing of the satellite. Additionally, SES will provide to us satellite service on the entire Ku-band payload on EchoStar 105/SES-11 for an initial ten-year term, with an option for us to renew the agreement on a year-to-year basis.

As of June 30, 2015 and December 31, 2014, our EchoStar Satellite Services segment had contracted revenue backlog attributable to satellites currently in orbit of approximately \$1.52 billion and \$1.71 billion, respectively.

New Business Opportunities

We are selectively exploring opportunities to pursue partnerships, joint ventures and strategic acquisition opportunities, domestically and internationally, that we believe may allow us to increase our existing market share, expand into new markets, broaden our portfolio of products and intellectual property, and strengthen our relationships with our customers.

Edgar Filing: EchoStar CORP - Form 10-Q

In 2012, we acquired the right to use various frequencies at the 45 degree west longitude orbital location (Brazilian Authorization) from ANATEL, the Brazilian communications regulatory agency. The Brazilian Authorization provides us the rights to utilize Ku-band spectrum for broadcast satellite service (BSS), Ka-band spectrum and S-band spectrum. With regards to the Ku-band BSS spectrum, we continue to pursue various opportunities to support a Brazilian service and remain focused on delivering a pay-TV service to Brazil via a high-powered BSS satellite. We are exploring options for the Ka-band and S-band spectrums. In April 2014, we entered into an agreement with Space Systems Loral, LLC (SS/L) for the construction of the EchoStar XXIII satellite, a high powered BSS satellite, which will use some of the components from CMBStar, a satellite that we suspended construction of in 2008. EchoStar XXIII is expected to launch in the second half of 2016 and will be initially deployed at the 45 degree west longitude orbital location.

In December 2013, we acquired 100% of Solaris Mobile, which is based in Dublin, Ireland and licensed by the European Union (EU) and individual EU Member States to provide mobile satellite services (MSS) and complementary ground component (CGC) services covering the entire EU using S-band spectrum. We are in the process of developing commercial services, expected to begin in the second half of 2016, utilizing the operable transponders we own on the EUTELSAT 10A (also known as W2A) satellite, along with our EchoStar XXI S-band satellite. We are currently constructing, and have contracted to launch, EchoStar XXI to provide space

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued**

segment capacity to Solaris Mobile in the third quarter of 2016. We believe we are in a unique position to deploy a European wide MSS/CGC network and maximize the long-term value of our S-band spectrum in Europe and other regions within the scope of our licenses. Solaris Mobile changed its name to EchoStar Mobile Limited (EchoStar Mobile) in the first quarter of 2015.

Capital expenditures associated with the construction and launch of the EchoStar XXIII and EchoStar XXI satellites are included in All Other and Eliminations in our segment reporting.

RESULTS OF OPERATIONS**Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014**

Statements of Operations Data (1)	For the Three Months Ended June 30,		Variance Amount	%
	2015	2014 (Dollars in thousands)		
Revenue:				
Equipment revenue - DISH Network	\$ 196,134	\$ 302,734	\$ (106,600)	(35.2)
Equipment revenue - other	87,772	95,033	(7,261)	(7.6)
Services and other revenue - DISH Network	235,953	209,053	26,900	12.9
Services and other revenue - other	273,736	273,008	728	0.3
Total revenue	793,595	879,828	(86,233)	(9.8)
Costs and Expenses:				
Cost of sales - equipment	238,623	337,376	(98,753)	(29.3)
% of Total equipment revenue	84.1%	84.8%		
Cost of sales - services and other	217,765	204,269	13,496	6.6
% of Total services and other revenue	42.7%	42.4%		
Selling, general and administrative expenses	90,704	90,492	212	0.2
% of Total revenue	11.4%	10.3%		
Research and development expenses	19,685	14,574	5,111	35.1
% of Total revenue	2.5%	1.7%		
Depreciation and amortization	132,470	140,647	(8,177)	(5.8)
Total costs and expenses	699,247	787,358	(88,111)	(11.2)
Operating income	94,348	92,470	1,878	2.0
Other Income (Expense):				
Interest income	2,723	2,147	576	26.8
Interest expense, net of amounts capitalized	(31,958)	(44,687)	12,729	(28.5)
Loss from partial redemption of debt	(5,044)		(5,044)	*
Gains (losses) and impairment on marketable investment securities, net	(6,262)	6	(6,268)	*
Equity in losses of unconsolidated affiliates, net	(203)	(1,210)	1,007	(83.2)

Edgar Filing: EchoStar CORP - Form 10-Q

Other, net	(3,728)	(201)	(3,527)	*
Total other expense, net	(44,472)	(43,945)	(527)	1.2
Income before income taxes	49,876	48,525	1,351	2.8
Income tax provision, net	(18,863)	(18,911)	48	(0.3)
Net income	31,013	29,614	1,399	4.7
Less: Net loss attributable to noncontrolling interest in HSS Tracking Stock	(1,165)	(1,619)	454	(28.0)
Less: Net income attributable to other noncontrolling interests	428	428		
Net income attributable to EchoStar	\$ 31,750	\$ 30,805	\$ 945	3.1
Other Data:				
EBITDA	\$ 212,318	\$ 232,903	\$ (20,585)	(8.8)
Subscribers, end of period	1,014,000	935,000	79,000	8.4

* Percentage is not meaningful.

(1) An explanation of our key metrics is included on pages 61 and 62 under the heading Explanation of Key Metrics and Other Items.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued**

Equipment revenue DISH Network. Equipment revenue DISH Network totaled \$196.1 million for the three months ended June 30, 2015, a decrease of \$106.6 million, or 35.2%, compared to the same period in 2014.

Equipment revenue DISH Network from our EchoStar Technologies segment for the three months ended June 30, 2015 decreased by \$103.1 million, or 34.8%, to \$193.3 million compared to the same period in 2014. Our EchoStar Technologies segment offers multiple set-top boxes with different price points depending on their capabilities and functionalities. The revenue and associated margins we earn on sales are determined largely through our Receiver Agreement with DISH Network which could result in prices reflecting, among other things, the set-top boxes and other equipment that meet DISH Network's current sales and marketing priorities, the product and service alternatives available from other equipment suppliers, our ability to respond to DISH Network's requirements, and our ability to differentiate ourselves from other equipment suppliers on bases other than pricing. In addition, products containing new technologies and features typically have higher initial prices, which reduce over time as a result of manufacturing efficiencies. Volume of unit sales could reduce over time as a result of demand decreases or as DISH Network increases the deployment of refurbished units as opposed to new units purchased from us. The decrease in revenue for the three months ended June 30, 2015 was primarily due to a decrease in the sales of set-top boxes and related accessories. The decrease in revenue of set-top boxes was due to a 33.8% decrease in the volume of unit sales and a 12.8% decrease in the weighted average price of the set-top boxes sold. The decrease in revenue of related accessories was due to a 13.3% decrease in the weighted average price and a 11.8% decrease in the volume of unit sales of related accessories sold.

Equipment revenue DISH Network from our Hughes segment for the three months ended June 30, 2015 decreased by \$3.5 million, or 55.4%, to \$2.8 million compared to the same period in 2014. The decrease was primarily due to the decrease in unit sales of broadband equipment to dishNET Satellite Broadband L.L.C. (dishNET). Sales of broadband equipment to dishNET have been decreasing as a result of lower gross new broadband subscriber activations and dishNET increasing the deployment of refurbished units as opposed to new units purchased from us.

Equipment revenue other. Equipment revenue other totaled \$87.8 million for the three months ended June 30, 2015, a decrease of \$7.3 million or 7.6%, compared to the same period in 2014.

Equipment revenue other from our EchoStar Technologies segment for the three months ended June 30, 2015 decreased by \$7.2 million, or 17.5%, to \$34.1 million compared to the same period in 2014. The decrease was attributable to a 38.5% decrease in the volume of unit sales of set-top boxes primarily related to sales to Dish Mexico as well as a result of the contribution of several of our European subsidiaries for a 22.5% equity interest in SmarDTV SA and a 16.8% decrease in the volume of unit sales of related accessories primarily to Bell TV and Dish Mexico. These decreases were partially offset by a 33.5% increase in the weighted average price of set-top boxes for the three months ended June 30, 2015 compared to the same period in 2014. The weighted average price of related accessories remained

consistent for the three months ended June 30, 2015 compared to the same period in 2014.

Services and other revenue DISH Network. Services and other revenue DISH Network totaled \$236.0 million for the three months ended June 30, 2015, an increase of \$26.9 million or 12.9%, compared to the same period in 2014.

Services and other revenue DISH Network from our EchoStar Technologies segment for the three months ended June 30, 2015 increased by \$24.3 million, or 31.5%, to \$101.6 million compared to the same period in 2014. The increase was primarily due to an increase of \$14.4 million in support services sold to Sling TV as a result of the amended commercial agreement with DISH Network and Sling TV, effective August 1, 2014. The increase was also due to increased sales of satellite uplink/downlink services of \$8.2 million and an increase of \$2.1 million in revenue earned for engineering services.

Services and other revenue DISH Network from our Hughes segment for the three months ended June 30, 2015 increased by \$3.7 million, or 19.0%, to \$23.3 million compared to the same period in 2014. The increase was primarily attributable to an increase in wholesale subscribers receiving services pursuant to our Distribution Agreement with dishNET.

Table of Contents

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

Services and other revenue – DISH Network from our EchoStar Satellite Services segment for the three months ended June 30, 2015 decreased by \$1.1 million, or 1.0%, to \$108.2 million compared to the same period in 2014. The decrease was mainly due a decrease in services provided to DISH Network on a certain satellite.

Services and other revenue – other. Services and other revenue – other totaled \$273.7 million for the three months ended June 30, 2015, an increase of \$0.7 million, or 0.3%, compared to the same period in 2014.

Services and other revenue – other from our EchoStar Technologies segment for the three months ended June 30, 2015 decreased by \$1.6 million, or 34.9%, to \$2.9 million compared to the same period in 2014. The decrease was primarily attributable to a decrease of \$1.2 million in revenue from system integration services no longer being provided to customers.

Services and other revenue – other from our Hughes segment for the three months ended June 30, 2015 increased by \$4.7 million, or 1.9%, to \$255.5 million compared to the same period in 2014. The increase was primarily attributable to an increase of \$13.7 million in sales of broadband services to our consumer market, partially offset by a decrease of \$7.3 million in sales of broadband services to our international customers primarily due to fluctuating foreign exchange rates in certain markets.

Services and other revenue – other from our EchoStar Satellite Services segment for the three months ended June 30, 2015 decreased by \$2.8 million, or 14.7%, to \$16.4 million compared to the same period in 2014. The decrease was primarily attributable to a decrease in sales of transponder services in the second quarter of 2015 compared to the same period in 2014.

Cost of sales – equipment. Cost of sales – equipment totaled \$238.6 million for the three months ended June 30, 2015, a decrease of \$98.8 million, or 29.3%, compared to the same period in 2014.

Cost of sales – equipment from our EchoStar Technologies segment for the three months ended June 30, 2015 decreased by \$94.6 million, or 33.2%, to \$190.0 million compared to the same period in 2014. The decrease was primarily attributable to a decrease in equipment costs of \$88.2 million directly related to the decrease in the volume of sales of set-top boxes and related accessories sold to DISH Network and a decrease of \$7.5 million in cost of sales related to the decrease in the volume of sales of set-top boxes and related accessories to Dish Mexico and our other international customers.

Edgar Filing: EchoStar CORP - Form 10-Q

Cost of sales equipment from our Hughes segment for the three months ended June 30, 2015 decreased by \$4.1 million, or 7.8%, to \$48.6 million compared to the same period in 2014. The decrease was primarily attributable to a \$2.5 million decrease in sales of broadband equipment to DISH Network, primarily related to our Distribution Agreement with dishNET, a decrease in the cost of sales of mobile satellite system equipment of \$3.2 million, and a \$0.6 million decrease in the cost of sales of broadband equipment to our international market. The decreases were partially offset by an increase in cost of sales of broadband equipment to the domestic enterprise market of \$3.4 million.

Cost of sales services and other. Cost of sales services and other totaled \$217.8 million for the three months ended June 30, 2015, an increase of \$13.5 million, or 6.6%, compared to the same period in 2014.

Cost of sales services and other from our EchoStar Technologies segment for the three months ended June 30, 2015 increased by \$14.3 million, or 25.1%, to \$71.3 million compared to the same period in 2014. The increase was primarily due to an increase in support costs related to engineering and uplink services provided to DISH Network and SlingTV in the second quarter of 2015 compared to the same period in 2014.

Cost of sales services and other from our Hughes segment for the three months ended June 30, 2015 decreased by \$5.7 million, or 4.7%, to \$114.4 million compared to the same period in 2014. The decrease was primarily attributable to a \$4.1 million decrease in costs of our broadband services provided to our international customers primarily due to lower in country costs denominated in local currency. Additionally, the cost

Table of Contents

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

of sales related to our domestic broadband services decreased by \$0.9 million due to the decrease of Ku-band space segment costs as customers either terminated services or migrated to the Ka-band platform.

Cost of sales services and other from our EchoStar Satellite Services segment for the three months ended June 30, 2015 increased by \$4.7 million, or 33.5%, to \$18.6 million compared to the same period in 2014. The increase was primarily due to an increase in cost of sales related to the commencement of AMC-15 and AMC-16 operating leases in the fourth quarter of 2014 and the first quarter of 2015, respectively.

Research and development. Research and development expenses totaled \$19.7 million for the three months ended June 30, 2015, an increase of \$5.1 million or 35.1%, compared to the same period in 2014. The increase was primarily related to an increase in research and development expense of \$3.3 million and \$1.9 million in our EchoStar Technologies segment and Hughes segment, respectively. The Company's research and development activities vary based on the activity level and scope of other engineering and customer related development contracts.

Depreciation and amortization. Depreciation and amortization expenses totaled \$132.5 million for the three months ended June 30, 2015, a decrease of \$8.2 million or 5.8%, compared to the same period in 2014. The decrease was attributable to a decrease of \$4.1 million in amortization expense from certain of our fully amortized other intangible assets, a decrease in depreciation expense of \$3.7 million relating to the fully depreciated EchoStar VIII satellite as of September 2014, and a decrease in depreciation expense of \$1.9 million relating to the fully depreciated EchoStar XII satellite as of December 2014. The decreases were partially offset by an increase in depreciation expense of \$1.5 million relating to customer rental equipment.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized totaled \$32.0 million for the three months ended June 30, 2015, a decrease of \$12.7 million or 28.5%, compared to the same period in 2014. The decrease was due to higher capitalized interest of \$10.6 million associated with the construction of the EchoStar XIX, EchoStar XXI, EchoStar XXIII, EUTELSAT 65 West A and EchoStar 105/SES-11 satellites and a decrease in interest expense of \$0.6 million relating to the expiration of capital leases for the AMC-15 and AMC-16 satellites.

Loss from partial redemption of debt. Loss from partial redemption of debt totaled \$5.0 million for the three months ended June 30, 2015, which was due to the loss recorded on the partial redemption of the outstanding \$1.10 billion principal amount of the HSS 6 1/2% Senior Secured Notes due 2019 (the Senior Secured Notes) in the second quarter of 2015. The \$5.0 million loss from the partial redemption of the Senior Secured Notes included a \$3.3 million redemption premium and a \$1.7 million write off of related unamortized financing costs.

Gains (losses) and impairment on marketable investment securities, net. Gains (losses) and impairment on marketable investment securities, net totaled \$6.3 million in losses for the six months ended June 30, 2015, an increase in loss of \$6.3 million compared to the same period in 2014. The increase in loss was primarily due to an other-than-temporary impairment loss of \$4.6 million on a strategic equity security in our available-for-sale securities portfolio and an increase of \$1.6 million in unrealized holding losses on our trading securities.

Other, net. Other, net totaled \$3.7 million in expenses for the three months ended June 30, 2015, an increase of \$3.5 million, compared to the same period in 2014. The increase was primarily related to an expense of \$3.0 million attributable to Federal Communications Commission (FCC) regulatory fees and an increase in foreign exchange losses of \$1.6 million, offset partially by a gain of \$1.7 million on the exchange of accounts receivables for certain trading securities in the second quarter of 2015.

Earnings before interest, taxes, depreciation and amortization. EBITDA was \$212.3 million for the three months ended June 30, 2015, a decrease of \$20.6 million, or 8.8%, compared to the same period in 2014. The decrease was primarily due to a decrease in operating income, excluding depreciation and amortization, of \$6.3 million for the three months ended June 30, 2015 primarily related to our EchoStar Technologies segment due to a decrease in equipment revenue with DISH Network of \$103.1 million, partially offset by a \$94.6 million decrease in cost of sales - equipment, a loss of \$5.0 million from partial redemption of the Senior Secured Notes, an other-than-temporary impairment loss of \$4.6 million on a strategic equity security in our available-for-sale securities portfolio, and an expense of \$3.0 million attributable to FCC regulatory fees.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued**

EBITDA is a non-GAAP financial measure and is described under Explanation of Key Metrics and Other Items below. The following table reconciles EBITDA to Net income attributable to EchoStar, the most directly comparable GAAP measure in the accompanying financial statements.

	For the Three Months Ended June 30,		Amount	Variance	%
	2015	2014			
	(Dollars in thousands)				
EBITDA	\$ 212,318	\$ 232,903	\$ (20,585)		(8.8)
Interest income and expense, net	(29,235)	(42,540)	13,305		(31.3)
Depreciation and amortization	(132,470)	(140,647)	8,177		(5.8)
Net loss attributable to noncontrolling interest in HSS					
Tracking Stock and other noncontrolling interests	(737)	(1,191)	454		(38.1)
Income before income taxes	\$ 49,876	\$ 48,525	\$ 1,351		2.8

Income tax provision, net. Income tax expense was \$18.9 million for the three months ended June 30, 2015 and 2014. Our effective income tax rate was 37.8% for the three months ended June 30, 2015 compared to 39.0% for the same period in 2014. The variation in our current year effective tax rate from the U.S. federal statutory rate for the current period was primarily due to the increase in our valuation allowance associated with certain foreign losses and realized and unrealized losses that are capital in nature for tax purposes, partially offset by research and experimentation tax credits. For the same period in 2014, the variation in our effective tax rate from the U.S. federal statutory rate was primarily due to research and experimentation tax credits and the increase in our valuation allowance associated with realized and unrealized losses that are capital in nature for tax purposes.

Net income attributable to EchoStar. Net income attributable to EchoStar was \$31.8 million for the three months ended June 30, 2015, a decrease of \$0.9 million, or 3.1%, compared to the same period in 2014. The decrease was primarily attributable to a loss of \$5.0 million from partial redemption of the Senior Secured Notes, an other-than-temporary impairment loss of \$4.6 million on a strategic equity security in our available-for-sale securities portfolio, and an expense of \$3.0 million attributable to FCC regulatory fees. These decreases were partially offset by an increase in capitalization of interest expense of \$10.6 million associated with the construction of the EchoStar XIX, EchoStar XXI, EchoStar XXIII, EUTELSAT 65 West A and EchoStar 105/SES-11 satellites.

Segment Operating Results and Capital Expenditures**Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014**

Edgar Filing: EchoStar CORP - Form 10-Q

	EchoStar Technologies	Hughes	EchoStar Satellite Services (In thousands)	All Other and Eliminations	Consolidated Total
<u>For the Three Months Ended June 30,</u>					
<u>2015</u>					
Total revenue	\$ 331,952	\$ 335,185	\$ 124,589	\$ 1,869	\$ 793,595
Capital expenditures	\$ 9,151	\$ 70,527	\$ 24,468	\$ 74,962	\$ 179,108
EBITDA	\$ 29,257	\$ 103,414	\$ 103,558	\$ (23,911)	\$ 212,318
<u>For the Three Months Ended June 30,</u>					
<u>2014</u>					
Total revenue	\$ 419,480	\$ 330,258	\$ 128,539	\$ 1,551	\$ 879,828
Capital expenditures	\$ 13,516	\$ 51,505	\$	\$ 91,071	\$ 156,092
EBITDA	\$ 42,410	\$ 90,316	\$ 112,228	\$ (12,051)	\$ 232,903

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued****EchoStar Technologies Segment**

	For the Three Months Ended June 30,		Variance		%
	2015	2014	Amount		
	(Dollars in thousands)				
Total revenue	\$ 331,952	\$ 419,480	\$ (87,528)		(20.9)
Capital expenditures	\$ 9,151	\$ 13,516	\$ (4,365)		(32.3)
EBITDA	\$ 29,257	\$ 42,410	\$ (13,153)		(31.0)

Revenue

EchoStar Technologies segment total revenue for the three months ended June 30, 2015 decreased by \$87.5 million, or 20.9%, compared to the same period in 2014, primarily resulting from a decrease of \$103.1 million in equipment revenue from DISH Network, a decrease of \$7.2 million in equipment revenue - other and a decrease of \$1.6 million in service revenue - other, partially offset by an increase of \$24.3 million in service revenue from DISH Network.

Capital Expenditures

EchoStar Technologies segment capital expenditures for the three months ended June 30, 2015 decreased by \$4.4 million, or 32.3%, compared to the same period in 2014, primarily due to decreased expenditures related to our digital broadcast centers of \$5.6 million.

EBITDA

EchoStar Technologies segment EBITDA for the three months ended June 30, 2015 was \$29.3 million, a decrease of \$13.2 million, or 31.0%, compared to the same period in 2014. The decrease in EBITDA for our EchoStar Technologies segment was primarily driven by a decrease of \$7.3 million in gross margin which we define as total revenue less total cost of sales, primarily related to a decrease in sales of set-top boxes and related accessories to DISH Network. The decrease was also a result of an increase of \$3.3 million in research and development expense, a loss of \$2.6 million related to the deconsolidation of certain of our European subsidiaries in connection with our investment in SmarDTV, and a \$2.5 million expense related to a certain litigation settlement.

Hughes Segment

	For the Three Months Ended June 30,		Variance		%
	2015	2014	Amount		
	(Dollars in thousands)				
Total revenue	\$ 335,185	\$ 330,258	\$ 4,927		1.5
Capital expenditures	\$ 70,527	\$ 51,505	\$ 19,022		36.9
EBITDA	\$ 103,414	\$ 90,316	\$ 13,098		14.5

Revenue

Hughes segment total revenue for the three months ended June 30, 2015 increased by \$4.9 million, or 1.5%, compared to the same period in 2014. The increase was primarily due to increases in sales of broadband services to our consumer markets of \$13.7 million and sales of broadband services to DISH Network pursuant to our Distribution Agreement with dishNET of \$4.1 million. The increase was partially offset by a decrease in sales of broadband services to our international customers of \$7.3 million, a decrease in sales of mobile satellite systems equipment and services of \$3.7 million, and a decrease in sales of broadband equipment to dishNET of \$1.8 million.

Capital Expenditures

Hughes segment capital expenditures for the three months ended June 30, 2015 increased by \$19.0 million, or 36.9%, compared to the same period in 2014, primarily as a result of an increase in expenditures on EUTELSAT 65 West A and EchoStar XIX ground infrastructure.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued***EBITDA*

Hughes segment EBITDA for the three months ended June 30, 2015 was \$103.4 million, an increase of \$13.1 million, or 14.5%, compared to the same period in 2014. The increase was primarily as a result of an increase in service revenue of \$8.4 million and a decrease in cost of sales services of \$5.7 million.

EchoStar Satellite Services Segment

	For the Three Months Ended June 30,		Variance	
	2015	2014	Amount	%
	(Dollars in thousands)			
Total revenue	\$ 124,589	\$ 128,539	\$ (3,950)	(3.1)
Capital expenditures	\$ 24,468	\$	\$ 24,468	*
EBITDA	\$ 103,558	\$ 112,228	\$ (8,670)	(7.7)

Revenue

EchoStar Satellite Services segment total revenue for the three months ended June 30, 2015 decreased by \$4.0 million, or 3.1%, compared to the same period in 2014, primarily due to a decrease of \$2.8 million in services and other revenue and a \$1.1 million decrease in service revenue from DISH Network primarily related to a decrease in services provided to DISH Network on the EchoStar XII satellite.

Capital Expenditures

EchoStar Satellite Services segment capital expenditures for the three months ended June 30, 2015 increased by \$24.5 million, compared to the same period in 2014, primarily related to the increase in expenditures on the EchoStar 105/SES-11 satellite.

EBITDA

Edgar Filing: EchoStar CORP - Form 10-Q

EchoStar Satellite Services segment EBITDA for the three months ended June 30, 2015 was \$103.6 million, a decrease of \$8.7 million, or 7.7%, compared to the same period in 2014. The decrease in EBITDA for our EchoStar Satellite Services segment was primarily due to a decrease in revenue of \$4.0 million and a \$4.7 million increase in cost of services primarily related to the commencement of the AMC-15 and AMC-16 operating leases in the fourth quarter of 2014 and first quarter of 2015.

All Other and Eliminations

All Other and Eliminations accounts for certain items and activities in our condensed consolidated financial statements that have not been assigned to our operating segments. These include without limitation real estate and other activities, costs incurred in satellite development programs and other business development activities, expenses of various corporate departments, and our centralized treasury activities, including without limitation income from our investment portfolio and interest expense on our debt.

Capital Expenditures

For the three months ended June 30, 2015, All Other and Eliminations capital expenditures decreased by \$16.1 million, or 17.7% compared to the same period in 2014, primarily related to the decrease in capital expenditures related to the EchoStar XIX satellite of \$40.4 million and the EchoStar XXI satellite of \$19.0 million, offset partially by an increase in satellite expenditures on the EchoStar XXIII satellite of \$43.6 million. The EchoStar XIX satellite is expected to be used in the operations of our Hughes segment in providing satellite broadband services, the EchoStar XXI satellite is intended to be used by EchoStar Mobile in providing mobile satellite services in the European Union, and EchoStar XXIII will be initially deployed at the 45 degree west longitude orbital location providing services in Brazil.

Edgar Filing: EchoStar CORP - Form 10-Q

Net income	58,611	41,644	16,967	40.7
Less: Net loss attributable to noncontrolling interest in HSS				
Tracking Stock	(3,334)	(1,943)	(1,391)	71.6
Less: Net income attributable to other noncontrolling interests	797	728	69	9.5
Net income attributable to EchoStar	\$ 61,148	\$ 42,859	\$ 18,289	42.7
Other Data:				
EBITDA	\$ 425,999	\$ 424,786	\$ 1,213	0.3
Subscribers, end of period	1,014,000	935,000	79,000	8.4

* Percentage is not meaningful.

(1) An explanation of our key metrics is included on pages 61 and 62 under the heading Explanation of Key Metrics and Other Items.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued**

Equipment revenue DISH Network. Equipment revenue DISH Network totaled \$420.1 million for the six months ended June 30, 2015, a decrease of \$188.3 million, or 31.0%, compared to the same period in 2014.

Equipment revenue DISH Network from our EchoStar Technologies segment for the six months ended June 30, 2015 decreased by \$174.3 million, or 29.5%, to \$416.2 million compared to the same period in 2014. Our EchoStar Technologies segment offers multiple set-top boxes with different price points depending on their capabilities and functionalities. The revenue and associated margins we earn on sales are determined largely through our Receiver Agreement with DISH Network which could result in prices reflecting, among other things, the set-top boxes and other equipment that meet DISH Network's current sales and marketing priorities, the product and service alternatives available from other equipment suppliers, our ability to respond to DISH Network's requirements, and our ability to differentiate ourselves from other equipment suppliers on bases other than pricing. In addition, products containing new technologies and features typically have higher initial prices, which reduce over time as a result of manufacturing efficiencies. Volume of unit sales could reduce over time as a result of demand decreases or as DISH Network increases the deployment of refurbished units as opposed to new units purchased from us. The decrease in revenue for the six months ended June 30, 2015 was primarily due to a decrease in the sales of set-top boxes and related accessories. The decrease in revenue of set-top boxes was due to a 25.4% decrease in the volume of unit sales and a 14.9% decrease in the weighted average price of the set-top boxes sold. The decrease in revenue of related accessories was due to an 11.5% decrease in the weighted average price and a 8.6% decrease in the volume of unit sales of related accessories sold.

Equipment revenue DISH Network from our Hughes segment for the six months ended June 30, 2015 decreased by \$14.0 million, or 78.3%, to \$3.9 million compared to the same period in 2014. The decrease was primarily due to the decrease in unit sales of broadband equipment to dishNET Satellite Broadband L.L.C. (dishNET). Sales of broadband equipment to dishNET have been decreasing as a result of lower new gross subscriber activations and as dishNET increases the deployment of refurbished units as opposed to new units purchased from us.

Equipment revenue other. Equipment revenue other totaled \$166.9 million for the six months ended June 30, 2015, an increase of \$2.9 million or 1.8%, compared to the same period in 2014.

Equipment revenue other from our EchoStar Technologies segment for the six months ended June 30, 2015 decreased by \$3.2 million, or 4.6%, to \$65.3 million compared to the same period in 2014. The decrease was attributable to a 25.3% decrease in the volume of unit sales of related accessories primarily related to sales to Dish Mexico and a 7.7% decrease in the volume of unit sales of set-top boxes primarily as a result of the contribution of several of our European subsidiaries for a 22.5% equity interest in SmarDTV SA. These decreases were partially offset by a 13.2% increase in weighted average price of set-top boxes primarily to our international customers and a 6.8% increase in the weighted average

price of related accessories to Dish Mexico and Bell TV for the six months ended June 30, 2015 compared to the same period in 2014.

Equipment revenue other from our Hughes segment for the six months ended June 30, 2015 increased by \$6.2 million, or 6.5%, to \$101.6 million compared to the same period in 2014. The increase was mainly due to a \$5.4 million increase in domestic sales of mobile satellite systems equipment and an increase of \$3.8 million in sales of broadband equipment to our international customers, partially offset by a decrease of \$2.3 million in sales of broadband equipment to our domestic consumer market.

Services and other revenue DISH Network. Services and other revenue DISH Network totaled \$458.8 million for the six months ended June 30, 2015, an increase of \$65.1 million or 16.5%, compared to the same period in 2014.

Services and other revenue DISH Network from our EchoStar Technologies segment for the six months ended June 30, 2015 increased by \$30.5 million, or 19.1%, to \$190.5 million compared to the same period in 2014. The increase was primarily due to an increase of \$19.0 million in support services sold to Sling TV as a result of the amended commercial agreement with DISH Network and Sling TV, effective

Table of Contents

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

August 1, 2014. The increase was also due to increased sales of satellite uplink/downlink services of \$9.1 million and an increase of \$2.9 million in revenue earned for engineering services.

Services and other revenue – DISH Network from our Hughes segment for the six months ended June 30, 2015 increased by \$8.4 million, or 22.4%, to \$46.0 million compared to the same period in 2014. The increase was primarily attributable to an increase in wholesale subscribers receiving services pursuant to our Distribution Agreement with dishNET.

Services and other revenue – DISH Network from our EchoStar Satellite Services segment for the six months ended June 30, 2015 increased by \$26.4 million, or 13.9%, to \$216.9 million compared to the same period in 2014. The increase was mainly due to an increase of \$29.6 million in revenue recognized from certain satellite services provided to DISH Network for the five satellites transferred to us from DISH Network as part of the Satellite and Tracking Stock Transaction, partially offset by a decrease of \$2.3 million in services provided to DISH Network on a certain satellite.

Services and other revenue – other. Services and other revenue – other totaled \$546.5 million for the six months ended June 30, 2015, an increase of \$6.6 million, or 1.2%, compared to the same period in 2014.

Services and other revenue – other from our EchoStar Technologies segment for the six months ended June 30, 2015 decreased by \$3.6 million, or 37.2%, to \$6.2 million compared to the same period in 2014. The decrease was primarily attributable to a decrease of \$2.2 million in revenue from system integration services no longer being provided to customers and a decrease of \$1.1 million in revenue from non-recurring engineering projects.

Services and other revenue – other from our Hughes segment for the six months ended June 30, 2015 increased by \$14.9 million, or 3.0%, to \$508.9 million compared to the same period in 2014. The increase was primarily attributable to an increase of \$26.2 million in sales of broadband services to our domestic consumer and enterprise markets, partially offset by a decrease of \$10.3 million in sales of broadband services to our international customers, primarily due to fluctuating foreign exchange rates in certain markets.

Services and other revenue – other from our EchoStar Satellite Services segment for the six months ended June 30, 2015 decreased by \$5.7 million, or 14.7%, to \$33.1 million compared to the same period in 2014. The decrease was primarily attributable to a decrease in sales of transponder services in the first half of 2015 compared to the same period in 2014.

Cost of sales equipment. Cost of sales equipment totaled \$498.8 million for the six months ended June 30, 2015, a decrease of \$159.2 million, or 24.2%, compared to the same period in 2014.

Cost of sales equipment from our EchoStar Technologies segment for the six months ended June 30, 2015 decreased by \$152.8 million, or 27.4%, to \$405.1 million compared to the same period in 2014. The decrease was primarily attributable to a decrease in equipment costs of \$150.8 million directly related to the decrease in the volume of sales of set-top boxes and related accessories sold to DISH Network and a decrease of \$4.0 million in cost of sales related to the decrease in the volume of sales of set-top boxes and related accessories to Dish Mexico and our other international customers.

Cost of sales equipment from our Hughes segment for the six months ended June 30, 2015 decreased by \$6.4 million, or 6.4%, to \$93.8 million compared to the same period in 2014. The decrease was primarily attributable to a decrease in sales volume of broadband equipment to DISH Network, primarily related to our Distribution Agreement with dishNET. The decrease was partially offset by the increase in the cost of sales of broadband equipment to our domestic consumer and enterprise markets.

Table of Contents

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

Cost of sales services and other. Cost of sales services and other totaled \$426.0 million for the six months ended June 30, 2015, an increase of \$11.6 million, or 2.8%, compared to the same period in 2014.

Cost of sales services and other from our EchoStar Technologies segment for the six months ended June 30, 2015 increased by \$15.8 million, or 13.1%, to \$136.0 million compared to the same period in 2014. The increase was primarily due to an increase in support costs related to engineering and uplink services to DISH Network and SlingTV provided in the first half of 2015 compared to the same period in 2014.

Cost of sales services and other from our Hughes segment for the six months ended June 30, 2015 decreased by \$12.2 million, or 5.1%, to \$227.3 million compared to the same period in 2014. The decrease was primarily attributable to a \$7.7 million decrease in service costs of our broadband services provided to our international customers primarily due to lower in country costs denominated in local currency. Additionally, the cost of sales related to our domestic broadband services decreased \$2.7 million due to the decrease of Ku-band space segment costs as customers either terminated services or migrated to the Ka-band platform.

Cost of sales services and other from our EchoStar Satellite Services segment for the six months ended June 30, 2015 increased by \$8.0 million, or 28.2%, to \$36.2 million compared to the same period in 2014. The increase was primarily due to an increase in cost of sales related to the commencement of the AMC-15 and AMC-16 operating leases in the fourth quarter of 2014 and the first quarter of 2015, respectively.

Selling, general and administrative expenses. Selling, general and administrative expenses totaled \$188.6 million for the six months ended June 30, 2015, an increase of \$10.5 million or 5.9%, compared to the same period in 2014. The increase was mainly due to a \$6.6 million increase in marketing and promotional expenses primarily in our Hughes segment and a \$5.4 million increase in personnel and other employee-related expenses.

Research and development. Research and development expenses totaled \$37.6 million for the six months ended June 30, 2015, an increase of \$8.4 million or 28.8%, compared to the same period in 2014. The increase was primarily related to an increase in research and development expense of \$5.5 million and \$2.9 million in our EchoStar Technologies segment and Hughes segment, respectively. The Company's research and development activities vary based on the activity level and scope of other engineering and customer related development contracts.

Depreciation and amortization. Depreciation and amortization expenses totaled \$265.7 million for the six months ended June 30, 2015, a decrease of \$8.2 million or 3.0%, compared to the same period in 2014. The decrease was attributable to a decrease of \$8.6 million in amortization expense from certain of our fully amortized other intangible assets, a decrease in depreciation expense of \$7.3 million relating to the fully depreciated EchoStar VIII satellite as of September 2014, and a decrease in depreciation expense of \$3.8 million relating to the fully depreciated EchoStar XII satellite as of December 2014. The decreases were partially offset by increases in the depreciation of \$7.9 million from our EchoStar Satellite Services segment, primarily due to the depreciation of the five satellites we received from DISH Network as part of the Satellite and Tracking Stock Transaction and an increase in depreciation expense of \$3.8 million on customer rental equipment in our Hughes segment.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized totaled \$67.3 million for the six months ended June 30, 2015, a decrease of \$23.5 million or 25.9%, compared to the same period in 2014. The decrease was due to higher capitalized interest of \$19.9 million related to the construction of the EchoStar XIX, EchoStar XXI, EchoStar XXIII, EUTELSAT 65 West A and EchoStar 105/SES-11 satellites and a decrease in interest expense of \$1.4 million relating to the expiration of capital leases for the AMC-15 and AMC-16 satellites.

Loss from partial redemption of debt. Loss from partial redemption of debt totaled \$5.0 million for the six months ended June 30, 2015, which was due to the loss recorded on the partial redemption of the outstanding \$1.10 billion principal amount of the HSS Senior Secured Notes in the second quarter of 2015. The \$5.0 million loss from the partial redemption of the Senior Secured Notes included a \$3.3 million redemption premium and a \$1.7 million write off of related unamortized financing costs.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued**

Gains (losses) and impairment on marketable investment securities, net. Gains (losses) and impairment on marketable investment securities, net totaled \$6.3 million in losses for the six months ended June 30, 2015, an increase in loss of \$6.3 million compared to the same period in 2014. The increase in loss was primarily due to an other-than-temporary impairment loss of \$4.6 million on a strategic equity security in our available-for-sale securities portfolio and an increase of \$1.6 million in unrealized holding losses on our trading securities.

Other, net. Other, net totaled \$6.2 million in expenses for the six months ended June 30, 2015 compared to \$0.4 million in income for the same period in 2014, a decrease in other income of \$6.6 million. The decrease was primarily related to a loss of \$6.8 million attributable to FCC regulatory fees and a loss of \$2.6 million related to the deconsolidation of certain of our European subsidiaries in connection with our investment in SmarDTV. The decrease was partially offset by a \$4.5 million reduction of the capital lease obligation for the AMC-15 and AMC-16 satellites in the first quarter of 2015 and a gain of \$1.7 million on the exchange of accounts receivable for certain trading securities in the second quarter of 2015.

Earnings before interest, taxes, depreciation and amortization. EBITDA was \$426.0 million for the six months ended June 30, 2015, an increase of \$1.2 million, or 0.3%, compared to the same period in 2014. The increase was primarily due to an increase in operating income, excluding depreciation and amortization, of \$15.0 million and a \$4.5 million reduction of the capital lease obligation for AMC-15 and AMC-16 satellites in the first quarter of 2015. These increases were partially offset by a loss of \$6.8 million attributable to FCC regulatory fees, a loss of \$5.0 million from partial redemption of the Senior Secured Notes, and an other-than-temporary impairment loss of \$4.6 million on a strategic equity security in our available-for-sale securities portfolio. EBITDA is a non-GAAP financial measure and is described under Explanation of Key Metrics and Other Items below. The following table reconciles EBITDA to Net income attributable to EchoStar, the most directly comparable GAAP measure in the accompanying financial statements.

	For the Six Months Ended June 30,		Amount	Variance	%
	2015	2014			
	(Dollars in thousands)				
EBITDA	\$ 425,999	\$ 424,786	\$ 1,213		0.3
Interest income and expense, net	(61,932)	(85,986)	24,054		(28.0)
Depreciation and amortization	(265,655)	(273,873)	8,218		(3.0)
Net loss attributable to noncontrolling interest in HSS					
Tracking Stock and other noncontrolling interests	(2,537)	(1,215)	(1,322)		*
Income before income taxes	\$ 95,875	\$ 63,712	\$ 32,163		50.5

*Percentage is not meaningful.

Income tax provision, net. Income tax expense was \$37.3 million for the six months ended June 30, 2015, compared to \$22.1 million for the same period in 2014. Our effective income tax rate was 38.9% for the six months ended June 30, 2015 compared to 34.6% for the same period in 2014. The variation in our current year effective tax rate from the U.S. federal statutory rate for the current period was primarily due to the increase in our valuation allowance associated with certain foreign losses and realized and unrealized losses that are capital in nature for tax purposes, partially offset by research and experimentation tax credits. For the same period in 2014, the variation in our effective tax rate from the U.S. federal statutory rate was primarily due to the increase in our valuation allowance associated with realized and unrealized losses that are capital in nature for tax purposes, partially offset by research and experimentation tax credits and a lower state effective tax rate.

Net income attributable to EchoStar. Net income attributable to EchoStar was \$61.1 million for the six months ended June 30, 2015, an increase of \$18.3 million, or 42.7%, compared to the same period in 2014. The increase was primarily attributable to an increase in operating income, including depreciation and amortization, of \$23.3 million and an increase in capitalization of interest expense of \$19.9 million associated with the construction of the EchoStar XIX, EchoStar XXI, EchoStar XXIII, EUTELSAT 65 West A and EchoStar 105/SES-11 satellites. These increases were partially offset by an increase of \$15.2 million in income tax expense, a loss of \$5.0 million from partial redemption of the Senior Secured Notes, and an other-than-temporary impairment loss of \$4.6 million on a strategic equity security in our available-for-sale securities portfolio.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued****Segment Operating Results and Capital Expenditures****Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014**

	EchoStar Technologies	Hughes	EchoStar Satellite Services (In thousands)	All Other and Eliminations	Consolidated Total
<u>For the Six Months Ended June 30, 2015</u>					
Total revenue	\$ 678,172	\$ 660,465	\$ 249,987	\$ 3,624	\$ 1,592,248
Capital expenditures	\$ 24,255	\$ 135,054	\$ 52,251	\$ 145,350	\$ 356,910
EBITDA	\$ 54,818	\$ 194,687	\$ 209,977	\$ (33,483)	\$ 425,999
<u>For the Six Months Ended June 30, 2014</u>					
Total revenue	\$ 828,759	\$ 645,029	\$ 229,360	\$ 2,703	\$ 1,705,851
Capital expenditures	\$ 27,438	\$ 97,477	\$ 29	\$ 144,773	\$ 269,717
EBITDA	\$ 81,540	\$ 172,255	\$ 197,010	\$ (26,019)	\$ 424,786

EchoStar Technologies Segment

	For the Six Months Ended June 30,		Variance	
	2015	2014	Amount	%
	(Dollars in thousands)			
Total revenue	\$ 678,172	\$ 828,759	\$ (150,587)	(18.2)
Capital expenditures	\$ 24,255	\$ 27,438	\$ (3,183)	(11.6)
EBITDA	\$ 54,818	\$ 81,540	\$ (26,722)	(32.8)

Revenue

EchoStar Technologies segment total revenue for the six months ended June 30, 2015 decreased by \$150.6 million, or 18.2%, compared to the same period in 2014, primarily resulting from a decrease of \$174.3 million in equipment revenue from DISH Network, a decrease of \$3.6 million in service revenue - other and a decrease of \$3.2 million in equipment revenue - other, partially offset by an increase of \$30.5 million in service revenue from DISH Network.

Capital Expenditures

EchoStar Technologies segment capital expenditures for the six months ended June 30, 2015 decreased by \$3.2 million, or 11.6%, compared to the same period in 2014, primarily due to decreased expenditures related to our digital broadcast centers of \$5.6 million, partially offset by increased expenditures related to the support of our Move Network business of \$1.5 million and engineering services of \$1.0 million.

EBITDA

EchoStar Technologies segment EBITDA for the six months ended June 30, 2015 was \$54.8 million, a decrease of \$26.7 million, or 32.8%, compared to the same period in 2014. The decrease in EBITDA for our EchoStar Technologies segment was primarily driven by a decrease of \$13.6 million in gross margin primarily as a result of the decrease in sales of set-top boxes and related accessories to DISH Network. The decrease in EBITDA was also the result of an increase of \$5.5 million in research and development expense, a \$5.0 million expense related to a certain litigation settlement, and a loss of \$2.6 million related to the deconsolidation of certain of our European subsidiaries in connection with our investment in SmarDTV.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued****Hughes Segment**

	For the Six Months Ended June 30,		Variance		%
	2015	2014	Amount		
	(Dollars in thousands)				
Total revenue	\$ 660,465	\$ 645,029	\$ 15,436		2.4
Capital expenditures	\$ 135,054	\$ 97,477	\$ 37,577		38.5
EBITDA	\$ 194,687	\$ 172,255	\$ 22,432		13.0

Revenue

Hughes segment total revenue for the six months ended June 30, 2015 increased by \$15.4 million, or 2.4%, compared to the same period in 2014. The increase was primarily due to an increase in sales of broadband services to our consumer markets of \$24.8 million and to dishNET of \$8.4 million, as well as an increase in sales of broadband equipment to our international market of \$3.8 million. These increases were partially offset by a decrease in sales of broadband services to our international customers of \$10.3 million and a decrease in sales of broadband equipment to dishNET of \$10.7 million.

Capital Expenditures

Hughes segment capital expenditures for the six months ended June 30, 2015 increased by \$37.6 million, or 38.5%, compared to the same period in 2014, primarily the result of an increase in expenditures on EUTELSAT 65 West A and EchoStar XIX ground infrastructure.

EBITDA

Hughes segment EBITDA for the six months ended June 30, 2015 was \$194.7 million, an increase of \$22.4 million, or 13.0%, compared to the same period in 2014. The increase was primarily as a result of an increase in service revenue of \$23.3 million and a decrease in cost of sales services of \$12.2 million, partially offset by a \$7.1 million increase in selling, general and administrative expenses, a \$2.9 million increase in research and development expenses and an increase of \$1.6 million in foreign exchange losses.

EchoStar Satellite Services Segment

Edgar Filing: EchoStar CORP - Form 10-Q

	For the Six Months Ended June 30,		Variance		%
	2015	2014	Amount		
	(Dollars in thousands)				
Total revenue	\$ 249,987	\$ 229,360	\$ 20,627		9.0
Capital expenditures	\$ 52,251	\$ 29	\$ 52,222		*
EBITDA	\$ 209,977	\$ 197,010	\$ 12,967		6.6

Revenue

EchoStar Satellite Services segment total revenue for the six months ended June 30, 2015 increased by \$20.6 million, or 9.0%, compared to the same period in 2014, primarily due to a \$26.4 million increase in service revenue primarily related to satellite services provided to DISH Network on the five satellites we received as part of the Satellite and Tracking Stock Transaction, partially offset by a decrease of \$5.7 million in other service revenue.

Capital Expenditures

EchoStar Satellite Services segment capital expenditures for the six months ended June 30, 2015 increased by \$52.2 million, compared to the same period in 2014, primarily related to the increase in expenditures on the EchoStar 105/SES-11 satellite.

Table of Contents

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

EBITDA

EchoStar Satellite Services segment EBITDA for the six months ended June 30, 2015 was \$210.0 million, an increase of \$13.0 million, or 6.6%, compared to the same period in 2014. The increase in EBITDA for our EchoStar Satellite Services segment was primarily due to an increase of \$26.4 million in service revenue primarily to DISH Network as a result of the Satellite and Tracking Stock Transaction, partially offset by a decrease in service revenue - other of \$5.7 million attributable to a decrease in sales of transponder services and an increase in cost of sales - services of \$8.0 million related to the commencement of the AMC-15 and AMC-16 operating leases.

All Other and Eliminations

All Other and Eliminations accounts for certain items and activities in our condensed consolidated financial statements that have not been assigned to our operating segments. These include without limitation real estate and other activities, costs incurred in satellite development programs and other business development activities, expenses of various corporate departments, and our centralized treasury activities, including without limitation income from our investment portfolio and interest expense on our debt.

Capital Expenditures

For the six months ended June 30, 2015, All Other and Eliminations capital expenditures increased by \$0.6 million, compared to the same period in 2014, primarily related to the increase in satellite expenditures on the EchoStar XXIII satellite of \$64.2 million, offset partially by a decrease in satellite expenditures on the EchoStar XIX satellite of \$54.4 million and the EchoStar XXI satellite of \$7.2 million. The EchoStar XIX satellite is expected to be used in the operations of our Hughes segment in providing satellite broadband services, the EchoStar XXI satellite is intended to be used by EchoStar Mobile in providing mobile satellite services in the European Union, and EchoStar XXIII will be initially deployed at the 45 degree west longitude orbital location providing services in Brazil.

EBITDA

For the six months ended June 30, 2015, All Other and Eliminations EBITDA was a loss of \$33.5 million, compared a loss of \$26.0 million for the same period in 2014. The \$7.5 million decrease in EBITDA was primarily related to a loss of \$5.0 million from partial redemption of the Senior Secured Notes and an other-than-temporary impairment loss of \$4.6 million on a strategic equity security in our available-for-sale

securities portfolio.

LIQUIDITY AND CAPITAL RESOURCES

Cash, Cash Equivalents and Current Marketable Investment Securities

We consider all liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. See Note 6 to our condensed consolidated financial statements for further discussion regarding our marketable investment securities. As of June 30, 2015 and December 31, 2014, our cash, cash equivalents and current marketable investment securities totaled \$1.51 billion.

We have investments in various debt and equity instruments including corporate bonds, corporate equity securities, government bonds, and variable rate demand notes. Our other current marketable investment securities portfolio consists primarily of corporate and government bonds. As of June 30, 2015 and December 31, 2014, we held \$954.0 million and \$1.10 billion, respectively, of marketable investment securities.

The following discussion highlights our cash flow activities for the three months ended June 30, 2015.

Cash flows from operating activities. We typically reinvest the cash flow from operating activities in our business. For the six months ended June 30, 2015, we reported net cash inflows from operating activities of \$382.7 million, an increase of \$10.8 million, compared to the same period in 2014. The increase was primarily attributable to higher net income of \$35.8 million adjusted to exclude: (i) Depreciation and amortization; (ii) Equity in losses of unconsolidated affiliates, net; (iii) Loss from partial redemption of debt, (iv) Loss (gains) and impairment on marketable investment securities, net; (v) Stock-based compensation; (vi) Deferred tax provision; and

Table of Contents

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

(vii) Other, net, partially offset by a decrease of \$25.0 million resulting from changes in operating assets and liabilities related to timing differences between the incurrence of expense and cash payments.

Cash flows from investing activities. Our investing activities generally include purchases and sales of marketable investment securities, capital expenditures, acquisitions and strategic investments. For the six months ended June 30, 2015, we reported net cash outflows from investing activities of \$304.2 million, an increase in cash outflow of \$15.7 million compared to the same period in 2014. The increase in cash outflows primarily related to an \$87.2 million increase in capital expenditures in 2015 when compared to the same period in 2014, a \$64.7 million increase in investments in WorldVu and SmarDTV, and the acquisition of a regulatory authorization in the first half of 2015 of \$3.4 million. The increase in cash outflows was partially offset by a decrease of \$139.3 million in purchases of marketable investment securities, net of sales and maturities.

Cash flows from financing activities. Our financing activities generally include proceeds related to the issuance of long-term debt and cash used for the repurchase, redemption or payment of long-term debt and capital lease obligations. For the six months ended June 30, 2015, we reported net cash outflows from financing activities of \$122.2 million, an increase in cash outflow of \$111.5 million, compared to the same period in 2014. The increase in cash outflows was primarily due to the partial redemption of HSS Senior Secured Notes of \$110.0 million, including the premium cost of \$3.3 million, partially offset by proceeds of \$11.4 million, net of offering costs of \$1.3 million from the issuance of Hughes Retail preferred tracking stock received in 2014 and a decrease of \$13.1 million in capital lease obligation payments relating to the expiration of capital leases for the AMC-15 and AMC-16 satellites, effective December 2014 and February 2015, respectively.

Obligations and Future Capital Requirements

Contractual Obligations

As of June 30, 2015, our satellite-related obligations were approximately \$1.16 billion. Our satellite-related obligations include payments pursuant to agreements for the construction of the EchoStar XIX, EchoStar XXI, EchoStar XXIII, EUTELSAT 65 West A and EchoStar 105/SES-11 satellites, payments pursuant to launch services contracts and regulatory authorizations, executory costs for our capital lease satellites, costs under satellite service agreements and in-orbit incentives relating to certain satellites, as well as commitments for long-term satellite operating leases and satellite service arrangements.

Off-Balance Sheet Arrangements

Other than the transactions below, we generally do not engage in off-balance sheet financing activities or use derivative financial instruments for hedge accounting or speculative purposes.

As of June 30, 2015, we had \$46.8 million of letters of credit and insurance bonds. Of this amount, \$18.3 million was secured by restricted cash; \$13.2 million related to insurance bonds; and \$15.3 million was issued under credit arrangements available to our foreign subsidiaries. Certain letters of credit are secured by assets of our foreign subsidiaries.

As of June 30, 2015, we had foreign currency forward contracts with a notional value of \$3.9 million in place to partially mitigate foreign currency exchange risk. From time to time, we may enter into foreign currency forward contracts, or take other measures, to mitigate risks associated with foreign currency denominated assets, liabilities, commitments and anticipated foreign currency transactions.

Satellite Insurance

We generally do not carry insurance for any of the in-orbit satellites that we use because we believe that the premium costs are uneconomical relative to the risk of satellite failure. 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 and in-orbit insurance for SPACEWAY 3, EchoStar XVI, and EchoStar XVII. Although we are not required to maintain in-orbit insurance pursuant to our service agreement with DISH Network for EchoStar XV, we are liable for any damage caused by our use of the satellite and therefore we carry third-party

Table of Contents

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

insurance on EchoStar XV. The loss of a satellite or other satellite malfunctions or anomalies could have a material adverse effect on our financial performance, which we may not be able to mitigate by using available capacity on other satellites. 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. In addition, the loss of a satellite or other satellite malfunctions or anomalies could affect our ability to comply with FCC and other regulatory obligations and our ability to fund the construction or acquisition of replacement satellites for our in-orbit fleet in a timely fashion, or at all.

Future Capital Requirements

We primarily rely on our existing cash and marketable investment securities balances, as well as cash flow generated through our operations to fund our investment needs. Since we currently depend on DISH Network for a substantial portion of our revenue, our cash flow from operations depends heavily on DISH Network's needs for equipment and services. To the extent that DISH Network's gross new subscriber activations decrease or DISH Network experiences a net loss of subscribers, sales of our digital set-top boxes and related components as well as broadband services provided to DISH Network may decline, which in turn could have a material adverse effect on our financial position and results of operations. There can be no assurance that we will have positive cash flows from operations. Furthermore, if we experience negative cash flows, our existing cash and marketable investment securities balances may be reduced.

We have a significant amount of outstanding indebtedness. As of June 30, 2015, our total indebtedness was \$2.23 billion, of which \$342.9 million related to capital lease obligations. Our liquidity requirements will be significant, primarily due to our debt service requirements. In addition, our future capital expenditures are likely to increase if we make additional investments in infrastructure necessary to support and expand our business, or if we decide to purchase one or more additional satellites. Other aspects of our business operations may also require additional capital. We periodically evaluate various strategic initiatives, the pursuit of which could also require us to raise significant additional capital.

Satellites

As our satellite fleet ages, we will be required to evaluate replacement alternatives such as acquiring, leasing or constructing additional satellites, with or without customer commitments for capacity. We may also construct or lease additional satellites in the future to provide satellite services at additional orbital locations or to improve the quality of our satellite services.

Stock Repurchases

Pursuant to a stock repurchase plan approved by our Board of Directors, we are authorized to repurchase up to \$500.0 million of our outstanding shares of Class A common stock through December 31, 2015. As of June 30, 2015, we have not repurchased any common stock under this plan.

Seasonality

For our EchoStar Technologies segment, we are affected by seasonality to the extent it impacts our customers as a result of their sales and promotion activities, which can vary from year to year. Although the seasonal impacts have not been significant, historically, the first half of the year generally produces fewer new subscribers for the pay-TV industry than the second half of the year. However, we cannot provide assurance that this trend will continue in the future.

For our Hughes segment, service revenue is generally not impacted by seasonal fluctuations other than those associated with fluctuations related to sales and promotional activities. However, like many communications infrastructure equipment vendors, a higher amount of our hardware revenue occurs in the second half of the year due to our customers' annual procurement and budget cycles. Large enterprises and operators often allocate their capital expenditure budgets at the beginning of their fiscal year (which often coincides with the calendar year). The typical sales cycle for large complex system procurements is six to 12 months, which often results in the customer expenditure occurring towards the end of the year. Customers often seek to expend the budgeted funds prior to the end of the year and the next budget cycle. In the Hughes consumer business, we see a similar seasonality for

Table of Contents

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

consumer acquisitions, and therefore hardware revenue, as is seen in the consumer and retail sectors where the first and fourth calendar quarters tend to be higher than the second and third quarters.

Our EchoStar Satellite Services segment is not generally affected by seasonal impacts.

Inflation

Inflation has not materially affected our operations during the past three years. We believe that our ability to increase the prices charged for our products and services in future periods will depend primarily on competitive pressures or contractual terms.

EXPLANATION OF KEY METRICS AND OTHER ITEMS

Equipment revenue DISH Network. Equipment revenue DISH Network primarily includes sales of digital set-top boxes and related components, including Slingbox products and related hardware products, and sales of satellite broadband equipment and related equipment, primarily related to the Hughes service, to DISH Network.

Equipment revenue other. Equipment revenue other primarily includes sales of digital set-top boxes and related components to Bell TV, Dish Mexico and other domestic and international customers, including sales of Slingbox products and related hardware products, and sales of broadband equipment and networks to customers in our enterprise and consumer markets.

Services and other revenue DISH Network. Services and other revenue DISH Network primarily includes revenue associated with satellite and transponder services, satellite uplinking/downlinking, signal processing, conditional access management, telemetry, tracking and control, development of web-based applications for set-top boxes, professional services, facilities rental revenue and other services provided to DISH Network. Services and other revenue DISH Network also includes subscriber wholesale service fees for the Hughes service sold to dishNET.

Services and other revenue other. Services and other revenue other primarily includes the sales of enterprise and consumer broadband services, as well as maintenance and other contracted services. Services and other revenue other also includes revenue associated with satellite and transponder services, satellite uplinking/downlinking and other services provided to customers other than DISH Network.

Cost of sales equipment. Cost of sales equipment principally includes costs associated with digital set-top boxes and related components sold to DISH Network, Bell TV, Dish Mexico and other domestic and international customers, including costs associated with Slingbox products and related hardware products. Cost of sales equipment also includes the cost of broadband equipment and networks sold to customers in our enterprise and consumer markets, and to DISH Network.

Cost of sales services and other. Cost of sales services and other primarily includes the cost of broadband services provided to our enterprise and consumer customers, and to DISH Network, as well as the cost of providing maintenance and other contracted services. Cost of sales services and other also includes the costs associated with satellite and transponder services, satellite uplinking/downlinking, signal processing, conditional access management, telemetry, tracking and control, product support and development of applications for set-top boxes, professional services, facilities rental costs, and other services provided to our customers, including DISH Network.

Research and development expenses. Research and development expenses primarily includes costs associated with the design and development of products to support future growth and provide new technology and innovation to our customers.

Selling, general and administrative expenses. Selling, general and administrative expenses primarily includes selling and marketing costs and employee-related costs associated with administrative services (e.g., information systems, human resources and other services), including stock-based compensation expense. It also includes professional fees (e.g. legal, information systems and accounting services) and other items associated with facilities and administrative services provided by DISH Network and other third parties.

Table of Contents

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

Interest income. Interest income primarily includes interest earned on our cash, cash equivalents and marketable investment securities, including premium amortization and discount accretion on debt securities.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized primarily includes interest expense associated with our long-term debt and capital lease obligations (net of capitalized interest), and amortization of debt issuance costs.

Loss from partial redemption of debt. Loss from partial redemption of debt primarily includes the loss from the partial redemption of HSS Senior Secured Notes due 2019 representing the redemption premium that the Company paid to the holders of its Senior Secured Notes and the write-off of related unamortized debt issuance costs.

Gains (losses) and impairment on marketable investment securities and other investments, net. Realized gains on marketable investment securities and other investments, net primarily includes gains, net of any losses, on the sale or exchange of investments and other-than-temporary impairment on certain of our marketable investment securities.

Equity in earnings (losses) of unconsolidated affiliates, net. Equity in earnings (losses) of unconsolidated affiliates, net includes earnings or losses from our investments accounted for under the equity method.

Other, net. Other, net primarily includes foreign exchange gains and losses, dividends received from our marketable investment securities, and other non-operating income or expense items that are not appropriately classified elsewhere in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA is defined as Net income (loss) attributable to EchoStar excluding Interest expense, net of amounts capitalized, Interest income, Income tax benefit (provision), net, and Depreciation and amortization. EBITDA is not a measure determined in accordance with GAAP. This non-GAAP measure is reconciled to Income (loss) before income taxes in our discussion of Results of Operations above. EBITDA should not be considered in isolation or as 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 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 the performance of companies in our industry.

Subscribers. Subscribers include customers that subscribe to our Hughes segment's HughesNet broadband services, through retail, wholesale and small/medium enterprise service channels.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks Associated with Financial Instruments and Foreign Currency

Our investments and debt are exposed to market risks, discussed below.

Cash, Cash Equivalents and Current Marketable Investment Securities

As of June 30, 2015, our cash, cash equivalents and current marketable investment securities had a fair value of \$1.51 billion. Of this amount, a total of \$1.46 billion was invested in: (a) cash; (b) commercial paper and corporate notes with an overall average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; (c) VRDNs convertible into cash at par value plus accrued interest generally in five business days or less; (d) debt instruments of the U.S. government and its agencies; and/or (e) instruments with similar risk, duration and credit quality characteristics to the commercial paper and corporate obligations described above. The primary purpose of these investing activities has been to preserve principal until the cash is required to, among other things, fund operations, make strategic investments and expand the business. Consequently, the size of this portfolio fluctuates significantly as cash is received and used in our business. The value of this portfolio may be negatively impacted by credit losses; however, this risk is mitigated through diversification that limits our exposure to any one issuer.

Interest Rate Risk

A change in interest rates would not affect the fair value of our cash, or materially affect the fair value of our cash equivalents due to their maturities of less than 90 days. A change in interest rates would affect the fair value of our current marketable debt securities portfolio; however, we normally hold these investments to maturity. Based on our current non-strategic investment portfolio of \$1.46 billion as of June 30, 2015, a hypothetical 10% change in average interest rates during 2015 would not have a material impact on the fair value of our cash, cash equivalents and debt securities portfolio due to the limited duration of our investments.

Our cash, cash equivalents and current marketable debt securities had an average annual rate of return for the three months ended June 30, 2015 of 0.8%. A change in interest rates would affect our future annual interest income from this portfolio, since funds would be re-invested at different rates as the instruments mature. A hypothetical 10% decrease in average interest rates during 2015 would have resulted in a decrease of approximately \$1.0 million in annual interest income.

Strategic Marketable Investment Securities

Edgar Filing: EchoStar CORP - Form 10-Q

As of June 30, 2015, we held current strategic investments in the publicly traded common stock of several companies with a fair value of \$55.4 million. These investments, which are held for strategic and financial purposes, are concentrated in a small number of companies, are highly speculative and have experienced and continue to experience volatility. The fair value of these investments can be significantly impacted by the risk of adverse changes in securities markets generally, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair value due to the volatility of the securities markets and of the underlying businesses. In general, our strategic marketable investment securities portfolio is not significantly impacted by interest rate fluctuations as it currently consists solely of equity securities, the value of which is more closely related to factors specific to the underlying business. A hypothetical 10% adverse change in the market price of our public strategic equity investments would result in a decrease of approximately \$5.5 million in the fair value of these investments.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Continued

Restricted Cash and Marketable Investment Securities and Other Investments

Restricted Cash and Marketable Investment Securities

As of June 30, 2015, we had \$20.5 million of restricted cash and marketable investment securities invested in: (a) cash; (b) VRDNs convertible into cash at par value plus accrued interest generally in five business days or less; (c) debt instruments of the U.S. government and its agencies; (d) commercial paper and corporate notes with an overall average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; and (e) instruments with similar risk, duration and credit quality characteristics to the commercial paper described above. Based on our investment portfolio as of June 30, 2015, a hypothetical 10% increase in average interest rates would not have a material impact on the fair value of our restricted cash and marketable investment securities.

Other Investments

As of June 30, 2015, we had \$226.7 million of noncurrent equity instruments that we hold for strategic business purposes and account for under the cost or equity methods of accounting. The fair value of these instruments is not readily determinable. We periodically review these investments and estimate fair value when there are indications of impairment. A hypothetical 10% adverse change in the value of these debt and equity instruments would result in a decrease of approximately \$22.7 million in the value of these investments.

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.

Foreign Currency Exchange Risk

We generally conduct our business in U.S. dollars. Our international business is conducted in a variety of foreign currencies and it is therefore exposed to fluctuations in foreign currency exchange rates.

Our objective in managing our exposure to foreign currency changes is to reduce earnings and cash flow volatility associated with foreign exchange rate fluctuations. Accordingly, we may enter into foreign exchange contracts to mitigate risks associated with foreign currency denominated assets, liabilities, commitments and anticipated foreign currency transactions. As of June 30, 2015, we had \$4.1 million of foreign currency denominated receivables and payables outstanding and foreign currency forward contracts with a

notional value of \$3.9 million in place to partially mitigate foreign currency exchange risk. The estimated fair values of the foreign exchange contracts were not material as of June 30, 2015. The impact of a hypothetical 10% adverse change in exchange rates on the carrying amount of the net assets and liabilities of our foreign subsidiaries would be an estimated loss of \$22.5 million as of June 30, 2015.

Derivative Financial Instruments

We generally do not use derivative financial instruments for speculative purposes and we generally do not apply hedge accounting treatment to our derivative financial instruments. We evaluate our derivative financial instruments from time to time but there can be no assurance that we will not enter into additional foreign currency forward contracts, or take other measures, in the future to mitigate our foreign exchange risk.

Table of Contents

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report such that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15 d-15(f) under the Securities Exchange Act of 1934) that occurred during the second quarter of 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We continue to review our internal control over financial reporting, and may from time to time make changes aimed at enhancing its effectiveness and to ensure that our systems evolve with our business.

Table of Contents

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Part I, Item 1. Financial Statements Note 14 Commitments and Contingencies Litigation in this Form 10-Q.

Item 1A. RISK FACTORS

Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2014 includes a detailed discussion of our risk factors. Except as provided below, for the six months ended June 30, 2015, there were no material changes in our risk factors as previously disclosed.

The preferred tracking stock in our capital structure may create conflicts of interest for our board of directors and management, and our board of directors may make decisions that could adversely affect only one group of holders.

Our preferred tracking stock capital structure could give rise to occasions when the interests of holders of stock of one group might diverge or appear to diverge from the interests of holders of stock of the other group and our board of directors or officers could make decisions that could adversely affect only one group of holders. Nevada law requires that our board of directors and officers act in good faith and with a view to the interest of the company and are not required to consider, as a dominant factor, the effect of a proposed corporate action upon any particular group of stockholders. Decisions deemed to be in the interest of our company may not always align with the best interest of a particular group of our stockholders when considered independently. Examples include, but are not limited to:

- decisions as to the terms of any business relationships that may be created between the EchoStar Group and the Hughes Retail Group and the terms of any reattributions of assets between the groups;
- decisions as to the allocation of corporate opportunities between the groups, especially where the opportunities might meet the strategic business objectives of both groups;
- decisions as to operational and financial matters that could be considered detrimental to one group but beneficial to the other;
- decisions as to the internal or external financing attributable to businesses or assets attributed to either of our groups;
- decisions as to the payment of dividends on our common stock or preferred tracking stock; and

- decisions as to the disposition of assets of either of our groups.

In addition, as the Tracking Stock is currently held by DISH Network, questions relating to conflicts of interest may also arise between DISH Network and us due to our common ownership and management.

Provisions of Nevada law and our articles of incorporation may protect decisions of our board of directors and officers that have a disparate impact on one group of holders. Our stockholders may have limited or no legal remedies under Nevada law with respect to such decisions even if the actions of our directors or officers adversely affect the market value of our common stock.

The preferred tracking stock results in vote dilution for existing holders of common stock.

Each share of preferred tracking stock is entitled to one-tenth (1/10th) of one vote per share. This voting right will cause a reduction in the relative voting power of our exiting common stock holders. As a result of the dilutive effect of the preferred tracking stock, the ability of existing holders of common stock to elect our directors or to control all other matters requiring the approval of our stockholders may be reduced.

Table of Contents

We generally may dispose of assets of the Hughes Retail Group without shareholder approval.

Nevada law requires stockholder approval only for a sale or other disposition of all or substantially all of the assets of the Company, taken as a whole, and our amended articles of incorporation do not require a separate class vote in the case of a sale of a significant amount of assets of any of our groups. As long as the assets attributed to the Hughes Retail Group proposed to be disposed of represent less than substantially all of our assets, we may approve sales and other dispositions of any amounts of the assets of such group without any shareholder approval. Based on the composition of the Hughes Retail Group, we believe that a sale of all or substantially all of the assets of the Hughes Retail Group would not be considered a sale of substantially all of the assets of our company requiring stockholder approval. Our board of directors would determine how best to proceed in any such sale consistent with its fiduciary duties to all of our shareholders. Ultimately, however, our board of directors is not required under Nevada law to select the option that would result in the highest value to holders of any group of our common stock.

The market value of our common stock could be adversely affected by events involving the assets and businesses attributed to only the Hughes Retail Group.

Because we are the issuer of common stock and preferred tracking stock, events relating to the assets and businesses attributed to the Hughes Retail Group, such as earnings announcements or announcements of new products or services, or acquisitions or dispositions that the market does not view favorably, may cause an adverse reaction to our common stock. This could occur even if the triggering event is not material to us as a whole.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

There were no repurchases of our Class A common stock for the six months ended June 30, 2015.

Item 3. DEFAULTS UPON SECURITIES

Not applicable

Item 4. MINE SAFETY DISCLOSURES

Not applicable

Item 5. OTHER INFORMATION

None

Table of Contents

Item 6. EXHIBITS

Exhibit No.	Description
31.1(H)	Section 302 Certification of Chief Executive Officer.
31.2(H)	Section 302 Certification of Chief Financial Officer.
32.1(I)	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer.
99.1(H)	Unaudited Condensed Attributed Financial Information and Notes for Hughes Retail Group.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

(H) Filed herewith.

(I) Furnished herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ECHOSTAR CORPORATION

Date: August 6, 2015

By:

/s/ Michael T. Dugan
Michael T. Dugan
Chief Executive Officer, President and Director
(Principal Executive Officer)

Date: August 6, 2015

By:

/s/ David J. Rayner
David J. Rayner
Executive Vice President, Chief Financial Officer and
Treasurer
(Principal Financial and Accounting Officer)