EchoStar CORP
Form 10-Q
May 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015.

OR

o 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	**26-1232727**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
100 Inverness Terrace East, Englewood, Colorado	**80112-5308**
(Address of Principal Executive Offices)	(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 x No o

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 x No o

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 T	Accelerated filer £	Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

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

As of April 29, 2015, the Registrant s outstanding common stock consisted of 44,526,754 shares of Class A common stock and 47,687,039 shares of Class B common stock.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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, seek, believe, estimate, expect, predict, contir would, could, can, may and similar terms. These 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 (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
- 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.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ECHOSTAR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	As of March 31, 2015 (Unaudited)	As of December 31, 2014 (Audited)
Assets		
Current Assets:		
Cash and cash equivalents	$ 591,506	$ 549,053
Marketable investment securities	1,124,087	1,139,103
Trade accounts receivable, net of allowance for doubtful accounts of $13,796 and $14,188, respectively	153,410	163,232
Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero	275,209	251,669
Inventory	71,069	62,963
Prepaid expenses	68,814	67,164
Deferred tax assets	78,503	87,208
Other current assets	7,542	7,699
Total current assets	2,370,140	2,328,091
Noncurrent Assets:		
Restricted cash and marketable investment securities	19,991	18,945
Property and equipment, net of accumulated depreciation of $2,727,698 and $2,899,353, respectively	3,249,081	3,194,793
Regulatory authorizations, net	553,858	568,378
Goodwill	510,630	510,630
Other intangible assets, net	178,691	195,662
Other investments	158,213	159,962
Other receivable - DISH Network	90,449	90,241
Other noncurrent assets, net	185,578	187,296
Total noncurrent assets	4,946,491	4,925,907
Total assets	$ 7,316,631	$ 7,253,998
Liabilities and Stockholders Equity		
Current Liabilities:		
Trade accounts payable	$ 219,296	$ 188,282
Trade accounts payable - DISH Network	36,283	32,474
Current portion of long-term debt and capital lease obligations	31,475	41,912
Deferred revenue and prepayments	64,673	71,708
Accrued compensation	32,913	32,117
Accrued royalties	22,683	27,590
Accrued interest	44,065	8,905
Accrued expenses and other	103,882	114,745
Total current liabilities	555,270	517,733

Noncurrent Liabilities:				
Long-term debt and capital lease obligations, net of current portion		2,320,078		2,325,775
Deferred tax liabilities		684,709		679,524
Other noncurrent liabilities		104,761		107,328
Total noncurrent liabilities		3,109,548		3,112,627
Total liabilities		3,664,818		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 March 31, 2015 and December 31, 2014, respectively		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, 50,050,709 shares issued and 44,518,391 shares outstanding at March 31, 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 March 31, 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 March 31, 2015 and December 31, 2014				
Class D common stock, $.001 par value, 800,000,000 shares authorized, none issued and outstanding at each of March 31, 2015 and December 31, 2014				
Additional paid-in capital		3,731,890		3,706,122
Accumulated other comprehensive loss		(81,047)		(55,856)
Accumulated earnings (deficit)		10,358		(19,040)
Treasury stock, at cost		(98,162)		(98,162)
Total EchoStar stockholders equity		3,563,143		3,533,168
Noncontrolling interest in HSS Tracking Stock		78,288		80,457
Other noncontrolling interests		10,382		10,013
Total stockholders equity		3,651,813		3,623,638
Total liabilities and stockholders equity	$	7,316,631	$	7,253,998

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

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ECHOSTAR CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31, 2015	2014
Revenue:		
Equipment revenue - DISH Network	$ 223,959	$ 305,682
Equipment revenue - other	79,136	68,930
Services and other revenue - DISH Network	222,804	184,564
Services and other revenue - other	272,754	266,847
Total revenue	798,653	826,023
Costs and Expenses:		
Cost of sales - equipment (exclusive of depreciation and amortization)	260,223	320,670
Cost of sales - services and other (exclusive of depreciation and amortization)	208,240	210,093
Selling, general and administrative expenses	97,928	87,632
Research and development expenses	17,872	14,582
Depreciation and amortization	133,185	133,226
Total costs and expenses	717,448	766,203
Operating income	81,205	59,820
Other Income (Expense):		
Interest income	2,611	2,598
Interest expense, net of amounts capitalized	(35,308)	(46,044)
Realized gains on marketable investment securities and other investments (includes reclassification of realized gains on available-for-sale (AFS) securities out of accumulated other comprehensive loss of $9 and $28, respectively), net	9	28
Equity in losses of unconsolidated affiliates, net	(53)	(1,851)
Other, net	(2,465)	636
Total other expense, net	(35,206)	(44,633)
Income before income taxes	45,999	15,187
Income tax provision, net	(18,401)	(3,157)
Net income	27,598	12,030
Less: Net loss attributable to noncontrolling interest in HSS Tracking Stock	(2,169)	(324)
Less: Net income attributable to other noncontrolling interests	369	299
Net income attributable to EchoStar	29,398	12,055
Less: Net loss attributable to Hughes Retail Preferred Tracking Stock (Note 2)	(4,004)	(598)
Net income attributable to EchoStar common stock	$ 33,402	$ 12,653
Weighted-average common shares outstanding - Class A and B common stock:		
Basic	91,969	90,689
Diluted	93,357	92,336
Earnings per share - Class A and B common stock:		
Basic	$ 0.36	$ 0.14
Diluted	$ 0.36	$ 0.14

Comprehensive Income (Loss)		
Net income	$ 27,598	$ 12,030
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(26,400)	4,507
Unrealized gains on AFS securities and other	1,218	749
Recognition of previously unrealized gains on AFS securities in net income	(9)	(28)
Total other comprehensive income (loss), net of tax	(25,191)	5,228
Comprehensive income	2,407	17,258
Less: Comprehensive loss attributable to noncontrolling interest in HSS Tracking Stock	(2,169)	(324)
Less: Comprehensive income attributable to other noncontrolling interests	369	534
Comprehensive income attributable to EchoStar	$ 4,207	$ 17,048

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

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ECHOSTAR CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Three Months Ended March 31, 2015	2014
Cash Flows from Operating Activities:		
Net income	$ 27,598	$ 12,030
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	133,185	133,226
Equity in losses of unconsolidated affiliates, net	53	1,851
Realized gains on marketable investment securities and other investments, net	(9)	(28)
Stock-based compensation	4,175	3,557
Deferred tax provision	17,871	22
Changes in current assets and current liabilities, net	31,730	47,824
Changes in noncurrent assets and noncurrent liabilities, net	1,411	(7,134)
Other, net	5,548	10,124
Net cash flows from operating activities	221,562	201,472
Cash Flows from Investing Activities:		
Purchases of marketable investment securities	(250,861)	(299,563)
Sales and maturities of marketable investment securities	269,588	285,985
Purchases of property and equipment	(177,802)	(113,625)
Changes in restricted cash and marketable investment securities	(1,046)	(2,967)
Acquisition of regulatory authorization	(3,428)	
Purchase of strategic investments	(9)	(16)
Other, net	(4,929)	(2,818)
Net cash flows from investing activities	(168,487)	(133,004)
Cash Flows from Financing Activities:		
Repayment of long-term debt and capital lease obligations	(16,508)	(18,528)
Net proceeds from Class A common stock options exercised and stock issued under the Employee Stock Purchase Plan	8,039	5,588
Net proceeds from issuance of Tracking Stock (Note 2)		10,720
Other	3,521	514
Net cash flows from financing activities	(4,948)	(1,706)
Effect of exchange rates on cash and cash equivalents	(5,674)	1,126
Net increase in cash and cash equivalents	42,453	67,888
Cash and cash equivalents, beginning of period	549,053	634,119
Cash and cash equivalents, end of period	$ 591,506	$ 702,007
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest (including capitalized interest)	$ 10,848	$ 11,933
Capitalized interest	$ 12,485	$ 3,209
Cash paid for income taxes	$ 1,608	$ 3,487
Employee benefits paid in Class A common stock	$ 10,711	$ 10,310
Satellites and other assets financed under capital lease obligations	$ 2,682	$ 1,292
Increase (decrease) in capital expenditures included in accounts payable, net	$ (4,485)	$ 30,193
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.

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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 compar 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 Corporation and its subsidiaries (DISH Network). In addition, we provide our TVEverywhere technology through Slingboxes directly to consumers via retail outlets and online, as well as to the payTV 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 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.

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).

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. See Note 2 to our consolidated financial statements included in our Form 10-K for the year ended December 31, 2014 for a description of the rights and obligations of EchoStar, HSS and DISH Network with respect to the Tracking Stock, the initial recording of the Satellite and Tracking Stock Transaction and the satellites received from DISH Network as part of the Satellite and Tracking Stock Transaction. Set forth below is information about certain terms of the Tracking Stock.

Description of the Tracking Stock

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 (51.89% issued as EchoStar Tracking Stock and 28.11% issued as HSS Tracking Stock).

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 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. 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. 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.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

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 periodically attribute a portion of HSS net income or loss to the noncontrolling interest in HSS Tracking Stock with such portion equal to the 28.11% economic interest in the Hughes Retail Group 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. When we do not have the ability to significantly influence the operating decisions of the investee, the cost method is used. 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 property, equipment and intangible assets, goodwill impairment testing, royalty obligations, and allocations that affect the periodic determination of 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 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:

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

- 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 three months ended March 31, 2015 or 2014.

As of March 31, 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 March 31, 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 $85.1 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

The portion of our cost of sales, consisting of research and development funded by customers was approximately $14.8 million and $16.5 million for the three months ended March 31, 2015 and 2014, respectively. In addition, we incurred $17.9 million and $14.6 million for the three months ended March 31, 2015 and 2014, respectively, for research and development expenses not funded by customers, as reflected in our condensed consolidated statements of operations and comprehensive income (loss).

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 included 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

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

ensure that costs associated with programs that are no longer generating revenue are expensed. As of March 31, 2015 and December 31, 2014, the net carrying amount of externally marketed software was $51.9 million and $48.9 million, respectively. We capitalized $5.0 million of costs related to development of externally marketed software for each of the three months ended March 31, 2015 and 2014. For the three months ended March 31, 2015 and 2014, we recorded $1.9 million and $0.8 million, respectively, of amortization expense relating to our externally marketed software.

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. ASU 2014-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and may be applied either retrospectively to prior periods or as a cumulative-effect adjustment as of the date of adoption. Early adoption was not permitted. In April 2015, the FASB proposed an Accounting Standards Update that would defer for one year the effective date of the new revenue standard and also proposed to permit entities to early adopt the standard. Management has not selected a transition method and is 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 are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

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 $37.5 million and $39.1 million as of March 31, 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.

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, currently 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. For the three months ended March 31, 2015 and 2014, we allocated a net loss of $4.0 million and $0.6 million to the EchoStar Tracking Stock, respectively, 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 (loss) 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

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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% interest in 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 (loss) attributable to EchoStar by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if 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 1.2 million and 0.7 million shares for the three months ended March 31, 2015 and 2014, respectively. For the three months ended March 31, 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 March 31, 2015	2014
	(In thousands, except per share amounts)	
Net income attributable to EchoStar	$ 29,398	$ 12,055
Net loss attributable to EchoStar Tracking Stock	(4,004)	(598)
Net income attributable to EchoStar common stock	$ 33,402	$ 12,653
Weighted-average common shares outstanding :		
Class A and B common stock:		
Basic	91,969	90,689
Dilutive impact of stock awards outstanding	1,388	1,647
Diluted	93,357	92,336
Earnings per share:		
Class A and B common stock:		
Basic	$ 0.36	$ 0.14
Diluted	$ 0.36	$ 0.14

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 $90.2 million and $63.8 million as of March 31, 2015 and December 31, 2014, respectively.

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Note 6. Investment Securities

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

	As of March 31, 2015	As of December 31, 2014
	(In thousands)	
Marketable investment securities current:		
Corporate bonds	$ 1,052,390	$ 1,049,139
Strategic equity securities	41,962	41,705
Other	29,735	48,259
Total marketable investment securities current	1,124,087	1,139,103
Restricted marketable investment securities (1)	11,778	11,712
Total	1,135,865	1,150,815
Restricted cash and cash equivalents (1)	8,213	7,233
Other investments noncurrent:		
Cost method	31,174	31,174
Equity method	127,039	128,788
Total other investments noncurrent	158,213	159,962
Total marketable investment securities, restricted cash and cash equivalents, and other investments	$ 1,302,291	$ 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.

Marketable Investment Securities

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

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.

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 March 31, 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.

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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.

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 (In thousands)	Unrealized Losses	Estimated Fair Value
As of March 31, 2015				
Debt securities:				
Corporate bonds	$ 1,053,234	$ 99	$ (943)	$ 1,052,390
Other (including restricted)	41,494	19		41,513
Equity securities - strategic	32,081	11,816	(1,935)	41,962
Total marketable investment securities	$ 1,126,809	$ 11,934	$ (2,878)	$ 1,135,865
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 March 31, 2015, restricted and non-restricted marketable investment securities included debt securities of $942.5 million with contractual maturities of one year or less and $151.4 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.

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.

	As of			
	March 31, 2015		December 31, 2014	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)			
Less than 12 months	$ 848,813	$ (2,875)	$ 968,941	$ (4,929)
12 months or more	14,000	(3)		
Total	$ 862,813	$ (2,878)	$ 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 months ended March 31, 2015 and 2014. We recognized minimal and zero losses from the sales of our available-for-sale marketable investment securities for the three months ended March 31, 2015 and 2014, respectively.

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Proceeds from sales of our available-for-sale marketable investment securities totaled $87.1 million and $0.5 million for the three months ended March 31, 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 March 31, 2015 and December 31, 2014, we did not have investments that were categorized within Level 3 of the fair value hierarchy.

	As of					
	March 31, 2015			December 31, 2014		
	Total	Level 1	Level 2	Total	Level 1	Level 2
	(In thousands)					
Cash equivalents (including restricted)	$ 493,842	$ 122,072	$ 371,770	$ 437,886	$ 58,108	$ 379,778
Debt securities:						
Corporate bonds	$ 1,052,390	$	$ 1,052,390	$ 1,049,139	$	$ 1,049,139
Other (including restricted)	41,513	5,600	35,913	59,971	5,630	54,341
Equity securities - strategic	41,962	41,962		41,705	41,705	
Total marketable investment securities	$ 1,135,865	$ 47,562	$ 1,088,303	$ 1,150,815	$ 47,335	$ 1,103,480

Note 7. Trade Accounts Receivable

Our trade accounts receivable consisted of the following:

	As of	
	March 31, 2015	December 31, 2014
	(In thousands)	
Trade accounts receivable	$ 142,706	$ 160,886
Contracts in process, net	24,500	16,534
Total trade accounts receivable	167,206	177,420
Allowance for doubtful accounts	(13,796)	(14,188)
Trade accounts receivable - DISH Network	275,209	251,669
Total trade accounts receivable, net	$ 428,619	$ 414,901

As of March 31, 2015 and December 31, 2014, progress billings offset against contracts in process amounted to $2.9 million and $2.5 million, respectively.

Note 8. Inventory

Our inventory consisted of the following:

	As of	
	March 31, 2015	**December 31, 2014**
	(In thousands)	
Finished goods	$ 52,968	$ 49,038
Raw materials	7,863	6,192
Work-in-process	10,238	7,733
Total inventory	$ 71,069	$ 62,963

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Note 9. Property and Equipment

Property and equipment consisted of the following:

	Depreciable Life (In Years)	As of March 31, 2015	December 31, 2014
		(In thousands)	
Land		$ 42,885	$ 42,826
Buildings and improvements	1-40	376,333	375,920
Furniture, fixtures, equipment and other	1-12	1,226,213	1,223,807
Customer rental equipment	2-4	527,043	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		757,667	637,189
Total property and equipment		5,976,779	6,094,146
Accumulated depreciation		(2,727,698)	(2,899,353)
Property and equipment, net		$ 3,249,081	$ 3,194,793

Construction in progress consisted of the following:

	Segment	As of March 31, 2015	December 31, 2014
		(In thousands)	
Progress amounts for satellite construction, including prepayments under capital leases and launch costs:			
EchoStar XIX	Other	$ 365,813	$ 341,082
EchoStar XXI	Other	135,510	120,764
EchoStar XXIII	Other	83,701	63,072
EchoStar 105/SES-11	ESS	62,124	28,470
EUTELSAT 65 West A	Hughes	30,600	26,049
Other	Other/ESS	4,440	4,440
Uplinking equipment	ETC/Hughes	47,354	34,270
Other	ETC/Hughes/ESS	28,125	19,042
Construction in progress		$ 757,667	$ 637,189

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

	For the Three Months Ended March 31, 2015	2014
	(In thousands)	
Satellites	$ 49,087	$ 47,563
Furniture, fixtures, equipment and other	30,503	29,891
Customer rental equipment	30,187	27,892
Buildings and improvements	3,395	3,530
Total depreciation expense	$ 113,172	$ 108,876

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Satellites

As of March 31, 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.

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 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.

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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.

As of March 31, 2015, 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.

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 an OTT business with associated goodwill of $6.5 million. See Note 16 for a description of the Exchange Agreement. Prior to 2015, our OTT 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, this OTT 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.

Regulatory Authorizations

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

	As of March 31, 2015	As of December 31, 2014
	(In thousands)	
Finite useful lives:		
Cost	$ 89,175	$ 103,499
Accumulated amortization	(6,974)	(6,778)

Net		82,201		96,721
Indefinite lives		471,657		471,657
Total regulatory authorizations, net	$	553,858	$	568,378

Other Intangible Assets

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

	Weighted Average Useful life (in Years)	As of March 31, 2015 Cost	Accumulated Amortization	Carrying Amount	December 31, 2014 Cost	Accumulated Amortization	Carrying Amount
		(In thousands)					
Customer relationships	8	$ 293,932	$ (192,431)	$ 101,501	$ 293,932	$ (185,393)	$ 108,539
Contract-based	10	255,366	(238,676)	16,690	255,366	(233,009)	22,357
Technology-based	7	140,837	(104,540)	36,297	140,837	(100,940)	39,897
Trademark portfolio	20	29,700	(5,693)	24,007	29,700	(5,321)	24,379
Favorable leases	4	4,707	(4,511)	196	4,707	(4,217)	490
Total other intangible assets		$ 724,542	$ (545,851)	$ 178,691	$ 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, was $20.0 million and $24.3 million for the three months ended March 31, 2015 and 2014, respectively.

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Note 11. Debt and Capital Lease Obligations

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

	As of			
	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
6 1/2% Senior Secured Notes due 2019	$ 1,100,000	$ 1,203,422	$ 1,100,000	$ 1,177,000
7 5/8% Senior Notes due 2021	900,000	994,500	900,000	994,500
Other	1,807	1,807	1,240	1,240
Subtotal	2,001,807	$ 2,199,729	2,001,240	$ 2,172,740
Capital lease obligations	349,746		366,447	
Total debt and capital lease obligations	2,351,553		2,367,687	
Less: Current portion	(31,475)		(41,912)	
Long-term portion of debt and capital lease obligations	$ 2,320,078		$ 2,325,775	

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 $18.4 million for the three months ended March 31, 2015 compared to $3.2 million for the three months ended March 31, 2014. Our effective income tax rate was 40.0% for the three months ended March 31, 2015 compared to 20.8% 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 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 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, the increase in our valuation allowance associated with realized and unrealized losses that are capital in nature for tax purposes, 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 to acquire 82,000 and 190,000 shares of our Class A common stock for the three months ended March 31, 2015 and 2014, respectively.

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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 March 31, 2015	2014
	(In thousands)	
Research and development expenses	$ 762	$ 592
Selling, general and administrative expenses	3,413	2,965
Total stock-based compensation	$ 4,175	$ 3,557

As of March 31, 2015, total unrecognized stock-based compensation cost, net of estimated forfeitures, related to our unvested stock awards was $34.7 million.

Note 14. Commitments and Contingencies

Commitments

As of March 31, 2015, our satellite-related obligations were approximately $1.18 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. 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

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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 HopperTM set-top box that we design and sell to DISH Network, as well as certain of our Hughes segment s satellite broadband products and 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.

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 HopperTM 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.

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,

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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.

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, 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

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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 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

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the United States District Court for the Southern District of New York. The CBS claims in the New York action are 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.

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.

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., 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.

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.

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.

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,

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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. PMC also has informed us that it will not pursue at trial its claim for infringement of United States Patent No. 5,109,414. On November 17, 2014 we filed a motion to continue the trial, and the Court subsequently approved a joint request to move the trial date from January 12, 2015 to May 18, 2015.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could 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.

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 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. Ortolf, 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.

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

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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.

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 payTV operator market. Beginning in 2015, this segment also includes our OTT 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.

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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 OTT 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 OTT business to our EchoStar Technologies segment, where it continues to be managed and reported as a separate reporting unit.

Transactions between segments were not significant for the three months ended March 31, 2015 and 2014.

The following table presents revenue, EBITDA, and capital expenditures for each of our operating segments. All prior period amounts have been retrospectively adjusted to present operations of our OTT business in our EchoStar Technologies segment.

	EchoStar Technologies	Hughes	EchoStar Satellite Services (In thousands)	All Other and Eliminations	Consolidated Total
For the Three Months Ended March 31, 2015					
External revenue	$ 346,033	$ 324,950	$ 125,198	$ 2,472	$ 798,653
Intersegment revenue	$ 187	$ 330	$ 200	$ (717)	$
Total revenue	$ 346,220	$ 325,280	$ 125,398	$ 1,755	$ 798,653
EBITDA	$ 25,561	$ 91,273	$ 106,419	$ (9,572)	$ 213,681
Capital expenditures	$ 15,104	$ 64,527	$ 27,783	$ 70,388	$ 177,802
For the Three Months Ended March 31, 2014					
External revenue	$ 409,178	$ 314,371	$ 99,872	$ 2,602	$ 826,023
Intersegment revenue	$ 101	$ 400	$ 949	$ (1,450)	$
Total revenue	$ 409,279	$ 314,771	$ 100,821	$ 1,152	$ 826,023
EBITDA	$ 39,130	$ 81,939	$ 84,782	$ (13,967)	$ 191,884
Capital expenditures	$ 13,922	$ 45,972	$ 29	$ 53,702	$ 113,625

The following table reconciles total consolidated EBITDA to reported Net income attributable to EchoStar in our condensed consolidated statements of operations and comprehensive income (loss):

	For the Three Months Ended March 31, 2015	2014
	(In thousands)	
EBITDA	$ 213,681	$ 191,884
Interest income and expense, net	(32,697)	(43,446)
Depreciation and amortization	(133,185)	(133,226)
Income tax provision, net	(18,401)	(3,157)
Net income attributable to EchoStar	$ 29,398	$ 12,055

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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.

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.

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.

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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.

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.

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

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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 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 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