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)		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.

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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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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		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	Unrealized Losses	Estimated Fair Value
		(In thousands)		
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	As of 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	As of 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	$		