Stone West Mary E
Form 4
March 12, 2012

# FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

| OMB APPROVAL | |
|---|---|
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Stone West Mary E

(Last) (First) (Middle)

KRAFT FOODS INC., THREE LAKES DRIVE

(Street)

NORTHFIELD, IL 60093

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
KRAFT FOODS INC [KFT]

3. Date of Earliest Transaction (Month/Day/Year)
03/08/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP - Chief Cat & Mkt Off

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Class A Common Stock | 03/08/2012 | | M | | 40,720 | A | $ 29.485 | 133,246 | D | |
| Class A Common Stock | 03/08/2012 | | M | | 36,850 | A | $ 23.638 | 170,096 | D | |
| Class A Common Stock | 03/08/2012 | | S | | 84,219 | D | $ 37.921 | 85,877 | D | |
| Class A Common | 03/08/2012 | | G | | 9,788 | D | $ 0 | 76,089 | D | |

Stock

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares |
| Stock Option (right to buy) | $ 29.485 | 03/08/2012 | | M | | | 40,720 | 02/04/2011 | 02/02/2018 | Class A Common Stock | 40,720 |
| Stock Option (right to buy) | $ 23.638 | 03/08/2012 | | M | | | 36,850 | 02/17/2012 | 02/20/2019 | Class A Common Stock | 36,850 |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| Stone West Mary E<br>KRAFT FOODS INC.<br>THREE LAKES DRIVE<br>NORTHFIELD, IL 60093 | | | EVP - Chief Cat & Mkt Off | |

# Signatures

| /s/ Phuong Lam, by Power of Attorney | 03/12/2012 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ;">

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11,310

$

3,781,642

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

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**ECHOSTAR CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

| | For the Years Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash Flows from Operating Activities: | | | |
| Net income | $ 149,371 | $ 147,549 | $ 3,401 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | | |
| Depreciation and amortization | 528,158 | 556,676 | 507,111 |
| Equity in losses (earnings) of unconsolidated affiliates, net | (1,895) | (8,198) | 5,024 |
| Loss from partial redemption of debt | 5,044 | | |
| Losses (gains) and other-than-temporary impairment on marketable investment securities, net | 17,669 | (41) | (38,341) |
| Impairment of long-lived assets | 2,400 | | 38,415 |
| Stock-based compensation | 21,839 | 14,683 | 18,353 |
| Deferred tax provision (benefit) | 56,132 | 31,742 | (35,780) |
| Changes in current assets and current liabilities, net: | | | |
| Trade accounts receivable | (36,749) | (18,023) | 42,580 |
| Allowance for doubtful accounts | (1,703) | 950 | (2,995) |
| Trade accounts receivable - DISH Network | (25,490) | 104,051 | (77,790) |
| Inventory | (4,906) | 2,608 | 16,529 |
| Other current assets | 6,499 | 9,930 | 5,182 |
| Trade accounts payable | 37,228 | (22,230) | (76,497) |
| Trade accounts payable - DISH Network | (7,792) | (26,508) | 28,783 |
| Accrued expenses and other | 1,477 | 26,469 | 38,085 |
| Changes in noncurrent assets and noncurrent liabilities, net | 1,616 | (8,305) | (41,650) |
| Other, net | 27,553 | 28,778 | 20,097 |
| Net cash flows from operating activities | 776,451 | 840,131 | 450,507 |
| Cash Flows from Investing Activities: | | | |
| Purchases of marketable investment securities | (536,430) | (1,523,514) | (1,080,437) |
| Sales and maturities of marketable investment securities | 1,057,034 | 1,353,157 | 912,030 |
| Purchases of property and equipment | (809,270) | (680,026) | (391,873) |
| Refunds and other receipts related to capital expenditures | 105,750 | | |
| Changes in restricted cash and marketable investment securities | (2,057) | (2,808) | 12,908 |
| Investments in unconsolidated entities | (64,655) | | |
| Acquisition of regulatory authorization | (3,428) | | (41,748) |
| Proceeds from asset transfers to DISH Network | | | 40,398 |
| Capital contribution to Sling TV Holding | | (18,569) | (7,000) |
| Expenditures for externally marketed software | (22,327) | (22,955) | (17,215) |
| Other, net | 72 | 7,125 | 2,648 |
| Net cash flows from investing activities | (275,311) | (887,590) | (570,289) |
| Cash Flows from Financing Activities: | | | |
| Repayment of 6 1/2% Senior Secured Notes due 2019 and related premium | (113,300) | | |
| Repayment of other long-term debt and capital lease obligations | (44,804) | (63,122) | (68,225) |
| Net proceeds from Class A common stock options exercised and stock issued under the Employee Stock Purchase Plan | 38,729 | 28,857 | 71,247 |
| Net proceeds from issuance of Tracking Stock (Note 4) | | 7,526 | |
| Excess tax benefit from stock option exercises | 3,929 | (7,252) | 12,663 |
| Other, net | (4,811) | (1,105) | 2,641 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net cash flows from financing activities | | (120,257) | | (35,096) | | 18,326 |
| Effect of exchange rates on cash and cash equivalents | | (5,696) | | (2,511) | | 3,961 |
| Net increase (decrease) in cash and cash equivalents | | 375,187 | | (85,066) | | (97,495) |
| Cash and cash equivalents, beginning of period | | 549,053 | | 634,119 | | 731,614 |
| Cash and cash equivalents, end of period | $ | 924,240 | $ | 549,053 | $ | 634,119 |
| | | | | | | |
| **Supplemental Disclosure of Cash Flow Information:** | | | | | | |
| Cash paid for interest (including capitalized interest) | $ | 179,114 | $ | 188,087 | $ | 188,331 |
| Capitalized interest | $ | 63,808 | $ | 23,774 | $ | 3,968 |
| Cash paid for income taxes | $ | 6,394 | $ | 14,221 | $ | 16,728 |
| Employee benefits paid in Class A common stock | $ | 10,711 | $ | 10,316 | $ | 4,761 |
| Satellites and other assets financed under capital lease obligations | $ | 8,604 | $ | 3,312 | $ | 5,316 |
| Increase (decrease) in capital expenditures included in accounts payable, net | $ | (7,123) | $ | 11,436 | $ | (8,921) |
| Noncash assets contributed to SmarDTV (Note 6) | $ | 6,651 | $ | | $ | |
| Net noncash assets transferred from DISH Network in exchange for Tracking Stock (Note 4) | $ | | $ | 386,691 | $ | |
| Noncash assets received from Sling TV Holding (Note 6) | $ | | $ | 34,075 | $ | |
| Capitalized in-orbit incentive obligations | $ | | $ | | $ | 18,000 |
| Reduction of capital lease obligation for AMC-15 and AMC-16 | $ | 4,500 | $ | | $ | 6,694 |
| Liabilities assumed in regulatory authorization acquisition | $ | | $ | | $ | 10,304 |

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

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## Note 1. Organization and Business Activities

**Principal Business**

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

We currently operate in the following three business segments:

- ***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 Technologies ( ETC )*** which designs, develops and distributes secure end-to-end video technology solutions including 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 ) and Dish Mexico, S. de R.L. de C.V. ( Dish Mexico ), a joint venture we entered into in 2008. In addition, we provide our TV Anywhere technology through Slingbox® units directly to consumers via retail outlets and online, as well as to the pay-TV operator market. Beginning in 2015, this segment also includes Move Networks, our over-the-top ( OTT ), Streaming Video on Demand ( SVOD ) platform business, which includes assets acquired from Sling TV Holding L.L.C. (formerly DISH Digital Holding L.L.C.) ( Sling TV Holding ), and primarily provides support services to DISH Network s Sling TV operations. In 2016, we plan to introduce a security and home automation solution provided directly to consumers.

- ***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, 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, 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 Note 17.

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 its 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 4, 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 CONSOLIDATED FINANCIAL STATEMENTS - Continued**

## Note 2. Summary of Significant Accounting Policies

### Principles of Consolidation and Basis of Presentation

We consolidate all entities in which we have controlling financial interest. We are deemed to have a controlling financial interest in variable interest entities where we are the primary beneficiary. We are deemed to have a controlling financial interest in other entities when we own more than 50 percent of the outstanding voting shares and other shareholders do not have substantive rights to participate in management. 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. As of December 31, 2015 and 2014, noncontrolling interests consist primarily of HSS Tracking Stock owned by DISH Network (see Note 4). All significant intercompany balances and transactions have been eliminated in consolidation.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States ( 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 consolidated financial statements. Estimates are used in accounting for, among other things, amortization periods for 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 stock-based compensation awards, fair value of assets and liabilities acquired in business combinations, lease classifications, asset impairment testing, useful lives and methods for depreciation and amortization of long-lived assets, and certain royalty obligations. 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 consolidated financial statements. Changing 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.

### Foreign Currency

The functional currency for certain of our foreign operations is determined to be the local currency. Accordingly, we translate assets and liabilities of these foreign entities from their local currencies to U.S. dollars using period-end exchange rates and translate income and expense accounts at monthly average rates. The resulting translation adjustments are recorded in other comprehensive income (loss) as Foreign currency translation adjustments in our consolidated statements of operations and comprehensive income (loss). We have not recorded deferred income taxes related to our foreign currency translation adjustments.

Gains and losses resulting from re-measurement of assets and liabilities denominated in foreign currencies into the functional currency are recognized in Other, net in our consolidated statements of operations and comprehensive income (loss). We recognized net foreign currency transaction losses of $7.7 million, $3.0 million and $1.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Cash and Cash Equivalents**

We consider all liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Cash equivalents as of December 31, 2015 and 2014 primarily consisted of money market funds, government bonds, corporate notes, and commercial paper. The amortized cost of these investments approximates their fair value.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Marketable Investment Securities**

We classify our marketable investment securities as available-for-sale, except in certain instances where we have accounted for certain securities as trading securities. We report our marketable investment securities at fair value and generally recognize the difference between fair value and amortized cost as Unrealized gains (losses) on marketable investment securities and other in our consolidated statements of operations and comprehensive income (loss). Declines in the fair value of marketable investment securities that are determined to be other than temporary are recognized in earnings, thus establishing a new cost basis for the investment. Interest and dividend income from marketable investment securities is reported in Interest income and Other, net, respectively, in our consolidated statements of operations and comprehensive income (loss). Dividend income is recognized on the ex-dividend date.

We evaluate our marketable investment securities portfolio on a quarterly basis to determine whether declines in the fair value of these securities are other than temporary. Our evaluation consists of reviewing, among other things:

- the fair value of each security compared to its amortized cost;
- the length of time and the extent to which the fair value of a security has been lower than amortized cost;
- the historical volatility of the price of each security;
- any market and company-specific factors related to each security; and
- our intent and ability to hold the investment to recovery.

Where the fair value of a debt security has declined below its amortized cost, we consider the decline to be other than temporary if any of the following factors apply:

- we intend to sell the security,

- it is more likely than not that we will be required to sell the security before maturity or recovery, or

- we do not expect to recover the security s entire amortized cost basis, even if there is no intent to sell the security.

We use the first-in, first-out ( FIFO ) method to determine the cost basis on sales of marketable investment securities.

**Investments in Unconsolidated Entities Cost and Equity Method**

We use the equity method to account for equity investments in entities that we do not control but have the ability to significantly influence the operating decisions of the investee. We use the cost method when we do not have the ability to significantly influence the operating decisions of the entity.

Generally, our equity investments accounted for using either the equity method or cost method are not publicly traded and it is not practicable to regularly estimate the fair value of such investments. We evaluate these equity investments on a quarterly basis to determine whether an event or changes in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. As part of our evaluation, we review available information such as business plans and current financial statements of these companies for factors that may indicate an impairment of our investments. Such factors may include, but are not limited to, unprofitable operations, negative cash flow, material litigation, violations of debt covenants, bankruptcy and changes in business strategy. When we determine that an investment is impaired, and the impairment is other than temporary, we adjust the carrying amount of the investment to its estimated fair value and recognize the impairment loss in earnings.

Generally, equity method investments are initially recorded at cost and subsequently adjusted for our proportionate share of the net earnings or loss of the investee, which is reported in Equity in earnings (losses) of unconsolidated affiliates, net in our consolidated statements of operations and comprehensive income (loss). The carrying amount of our investments may include a component of goodwill if the cost of our investment exceeds the fair value of the underlying identifiable assets and liabilities of the investee. Dividends received from equity method investees reduce the carrying amount of the investment. We defer, to the extent of our ownership interest in the investee,

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

recognition of intra-entity profits on sales of equipment to the investee until the investee has charged the cost of the equipment to expense in a subsequent sale to a third party or through depreciation. In these circumstances, we report the gross amounts of revenue and cost of sales in the statement of operations and include the intra-entity profit eliminations within Equity in earnings (losses) of unconsolidated affiliates, net.

**Accounts Receivable**

We estimate allowances for the potential non-collectability of accounts receivable based upon past collection experience and consideration of other relevant factors. Past experience may not be indicative of future collections and therefore additional adjustments could be recognized in the future to reflect differences between estimated and actual collections.

**Inventory**

Inventory is stated at the lower of cost, determined using the FIFO method, or net realizable value. Cost of inventory consists primarily of materials, direct labor and indirect overhead incurred in the procurement and manufacturing of our products. We use standard costing methodologies in determining the cost of certain of our finished goods and work-in-process inventories. We determine net realizable value using our best estimates of future use or recovery, considering the aging and composition of inventory balances, the effects of technological and/or design changes, forecasted future product demand based on firm or near-firm customer orders, and alternative means of disposition of excess or obsolete items.

**Property and Equipment**

Property and equipment is stated at cost, less accumulated depreciation. The cost of our satellites includes construction costs, including the present value of in-orbit incentives payable to the satellite manufacturer, launch costs, capitalized interest, and related insurance premiums. Depreciation is recorded on a straight-line basis over lives ranging from one to 40 years. Repair and maintenance costs are charged to expense when incurred. Costs of renewals and betterments are capitalized.

**Impairment of Long-lived Assets**

We review our long-lived assets for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.  For assets held and used in operations, the asset is not recoverable if the carrying amount of the asset exceeds its undiscounted estimated future net cash flows.  When an asset is not recoverable, we adjust the carrying amount of such asset to its estimated fair value and recognize the impairment loss in earnings.  Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**Goodwill**

Goodwill represents the excess of the cost of acquired businesses over the estimated fair value assigned to the identifiable assets acquired and liabilities assumed.  We do not amortize goodwill, but test goodwill for impairment annually, or more frequently if circumstances indicate impairment may exist.  Our goodwill as of December 31, 2015 consists primarily of goodwill assigned to reporting units of our Hughes segment.  We test Hughes goodwill for impairment in the second fiscal quarter.  There are two steps to the goodwill impairment test.  Step one compares the fair value of a reporting unit with its carrying amount, including goodwill.  We typically estimate fair value of the reporting units using discounted cash flow techniques, which includes significant assumptions about prospective financial information, terminal value and discount rates (Level 3 inputs).  If the reporting unit s carrying amount exceeds its estimated fair value, it is necessary to perform the second step of the impairment test, which compares the implied fair value of reporting unit goodwill with the carrying amount of such goodwill to determine the amount of impairment loss.  We may bypass the two-step goodwill impairment test if we determine, based on a qualitative assessment, that it is more likely than not that the fair value of a reporting unit exceeds its carrying amount including goodwill.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Regulatory Authorizations and Other Intangible Assets**

At acquisition and periodically thereafter, we evaluate our intangible assets to determine whether their useful lives are finite or indefinite. We consider our intangible assets to have indefinite lives when no significant legal, regulatory, contractual, competitive, economic, or other factors limit the useful life.

Intangible assets that have finite lives are amortized over their estimated useful lives, ranging from approximately one to 30 years. When we expect to incur significant costs to renew or extend finite-lived intangible assets, we amortize the total initial and estimated renewal costs over the combined initial and expected renewal terms. In such instances, actual renewal costs are capitalized when they are incurred. We test intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable, as discussed above under Impairment of Long-lived Assets.

We do not amortize our indefinite-lived intangible assets, but test those assets for impairment annually or more frequently if circumstances indicate that it is more likely than not that the asset may be impaired. Costs incurred to maintain or renew indefinite-lived intangible assets are expensed as incurred.

Our indefinite-lived intangible assets include Federal Communications Commission ( FCC ) authorizations and certain other contractual or regulatory rights to use spectrum at specified orbital locations (collectively Regulatory Authorizations ). We have determined that our FCC authorizations generally have indefinite useful lives due to the following:

- FCC authorizations are non-depleting assets;
- renewal satellite applications generally are authorized by the FCC subject to certain conditions, without substantial cost under a stable regulatory, legislative, and legal environment;
- expenditures required to maintain the authorization are not significant; and
- we intend to use these authorizations indefinitely.

Our non-FCC regulatory authorizations consist primarily of authorizations in Europe and Brazil that we acquired in 2013 and 2012, respectively. We have determined that those Regulatory Authorizations have finite lives due to uncertainties about the regulatory environments.

**Income Taxes**

We recognize a provision or benefit for income taxes currently payable or receivable and for income tax amounts deferred to future periods. Deferred tax assets and liabilities are recorded for the estimated future tax effects of differences that exist between the financial reporting carrying amount and tax basis of assets and liabilities. Deferred tax assets are offset by valuation allowances when we determine it is more likely than not that such deferred tax assets will not be realized in the foreseeable future.

From time to time, we engage in transactions where the income tax consequences are uncertain. We recognize tax benefits when, in management s judgment, a tax filing position is more likely than not to be sustained if challenged by the tax authorities. For tax positions that meet the more-likely-than-not threshold, we may not recognize a portion of a tax benefit depending on management s assessment of how the tax position will ultimately be settled. Unrecognized tax benefits generally are netted against the deferred tax assets associated with our net operating loss carryforwards. We adjust our estimates periodically based on ongoing examinations by and settlements with various taxing authorities, as well as changes in tax laws, regulations and precedent. We classify interest and penalties, if any, associated with our unrecognized tax benefits as a component of income tax provision or benefit.

As discussed below under New Accounting Pronouncements, in 2015 we changed our method for classifying deferred income taxes in our consolidated balance sheets in connection with our adoption of ASU 2015-17.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Fair Value Measurements**

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

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

- Level 2, defined as observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

- Level 3, defined as unobservable inputs for which little or no market data exists, consistent with characteristics of the asset or liability that would be considered by market participants in a transaction to purchase or sell the asset or liability.

Transfers between levels in the fair value hierarchy are considered to occur at the beginning of the quarterly accounting period. There were no transfers between levels for each of the years ended December 31, 2015 or 2014.

As of December 31, 2015 and 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 December 31, 2015 and 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 $79.3 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.

**Revenue Recognition**

Revenue from the sale of equipment and services generally is recognized when persuasive evidence of an arrangement exists, prices are fixed or determinable, collectability is reasonably assured, and the goods have been delivered or services have been rendered. If any of these criteria are not met, revenue recognition is deferred until such time as all of the criteria are met. Revenue from equipment sales generally is recognized upon shipment to customers. Revenue from recurring services generally is recognized ratably over the service term. Upfront fees collected in connection with services to consumer subscribers in our Hughes segment are deferred and recognized as revenue over the estimated subscriber life. We may offer rebates to qualifying new consumer subscribers in our Hughes segment. We reduce related revenue at inception of the subscriber contract based on an estimate of the number of rebates that will be redeemed. Our estimates are based on historical experience and actual sales during the promotion.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

Services and other revenue includes revenue from leases of satellite capacity and equipment. We typically determine based on applicable criteria that our leasing arrangements are operating leases and recognize related revenue on a straight-line basis over the lease term.

In situations where customer offerings represent an arrangement for both services and equipment, revenue elements with standalone value to the customer are separated for revenue recognition purposes based on their selling prices if sold separately. We determine selling prices under a hierarchy that considers vendor-specific objective evidence ( VSOE ), third-party evidence and estimated selling prices. Typically, we derive VSOE from service renewal rates and optional equipment prices specified in customer contracts or we estimate prices based on the gross margin that we ordinarily realize in transactions with similarly situated customers.

In addition to equipment and service offerings, our Hughes segment also enters into contracts to design, develop, and deliver complex telecommunication networks to customers in its enterprise and mobile satellite systems markets. Those contracts require significant effort to develop and construct the network over an extended time period. Revenue from such contracts is recognized using the percentage-of-completion method. Depending on the nature of the arrangement, we measure progress toward contract completion using the cost-to-cost method or the units-of-delivery method. Under the cost-to-cost method, revenue reflects the ratio of costs incurred to estimated total costs at completion multiplied by the total estimated contract revenue. Under the units-of-delivery method, revenue and related costs are recognized as products are delivered based on the expected profit for the entire agreement. Profit margins on long-term contracts are based on estimates of revenue and costs at completion. We review and revise our estimates periodically and recognize related adjustments in the period in which the revisions are made. Estimated losses on contracts are recorded in the period in which they are identified.

We report revenue net of sales taxes imposed on our goods and services in our consolidated statements of operations and comprehensive income (loss). Since we primarily act as an agent for the governmental authorities, the amount charged to the customer is collected and remitted directly to the appropriate jurisdictional entity.

**Debt Issuance Costs**

Costs of issuing debt generally are deferred and amortized utilizing the effective interest method with amortization included in Interest expense, net of amounts capitalized in our consolidated statements of operations and comprehensive income (loss).

**Cost of Sales - Equipment and Services**

Cost of sales - equipment primarily consists of inventory costs, including freight and royalties. Cost of sales - equipment generally is recognized as products are delivered to customers and related revenue is recognized. Cost of sales - services primarily consists of costs of digital broadcast operations, satellite capacity and services, hub infrastructure, customer care, wireline and wireless capacity, and direct labor costs associated with the services provided. Costs of sales - services generally are charged to expense as incurred.

**Research and Development**

Costs incurred in research and development activities generally are expensed as incurred. A significant portion of our research and development costs are incurred in connection with the specific requirements of a customer s order. In such instances, the amounts for these customer funded development efforts are included in cost of sales.

Cost of sales for the years ended December 31, 2015, 2014 and 2013 includes research and development costs of approximately $59.2 million, $68.4 million and $65.3 million, respectively. In addition, we incurred $78.3 million, $60.9 million and $67.9 million for the years ended December 31, 2015, 2014 and 2013, respectively, for other research and development expenses.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Subscriber Acquisition Costs**

Subscriber Acquisition Costs ( SAC ) consists of costs paid to third-party dealers and customer service representative commissions on new service activations and hardware upgrades and, in certain cases, the cost of hardware and installation services provided to non-wholesale consumer customers at the inception of service or hardware upgrade. SAC is deferred when a customer enters into a service agreement and is subsequently amortized over the service agreement term in proportion to when the related service revenue is recognized. We monitor the recoverability of deferred SAC and are entitled to an early termination fee if the subscriber cancels service prior to the end of the service agreement term. The recoverability of deferred SAC is reasonably assured through the monthly service fee charged to customers, our ability to recover the equipment, and/or our ability to charge an early termination fee. Deferred SAC is included in Other noncurrent assets, net in our consolidated balance sheets.

**Capitalized Software Costs**

Costs related to the procurement and development of 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 consolidated balance sheets. Externally marketed software is generally installed in the equipment we sell to customers. We conduct software program reviews for externally marketed capitalized software costs at least annually, or as events and circumstances warrant such a review, to determine if capitalized software development costs are recoverable and to ensure that costs associated with programs that are no longer generating revenue are expensed. As of December 31, 2015 and 2014, the net carrying amount of externally marketed software was $62.8 million and $48.9 million, respectively. For the years ended December 2015, 2014 and 2013, we capitalized costs of $22.4 million, $23.1 million and $17.0 million, respectively, related to the development of externally marketed software. For the years ended December 31, 2015, 2014 and 2013, we recorded amortization expense relating to the development of externally marketed software of $8.4 million, $5.4 million and $1.7 million, respectively. The weighted average useful life of our externally marketed software was approximately four years as of December 31, 2015.

**Stock-based Compensation Expense**

Stock-based compensation expense is recognized based on the fair value of stock awards ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Compensation expense for awards with service conditions only is recognized on a straight-line basis over the requisite service period for the entire award. Compensation expense for awards subject to performance conditions is recognized only when satisfaction of the performance condition is probable.

**Advertising Costs**

Advertising costs are expensed as incurred and are included in Selling, general and administrative expenses in our consolidated statements of operations and comprehensive income (loss). For the years ended December 31, 2015, 2014 and 2013, we incurred advertising expense of $49.9 million, $50.8 million and $47.4 million, respectively.

**New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ( ASU 2014-09 ). It outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, which deferred by one year the mandatory effective date of ASU 2014-09. As a result, public entities are required to adopt the new revenue standard in annual periods beginning after December 15, 2017 and in interim periods within those annual periods. The standard may be applied either retrospectively to prior periods or as a cumulative-effect adjustment as of the date of adoption.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

Early adoption is permitted, but not before annual periods beginning after December 15, 2016. We have not determined when we will adopt the new revenue standard or selected the transition method that we will apply upon adoption. We are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

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

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs ( ASU 2015-03 ). This standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. ASU 2015-03 is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, and requires a retrospective approach to adoption. Early adoption is permitted. Based on our preliminary assessment, upon adoption of this standard, we expect to present unamortized deferred costs in other noncurrent assets with a carrying amount of $31.3 million and $39.1 million as of December 31, 2015 and 2014, respectively, as a reduction of our long-term debt balances. We will adopt this standard on the effective date.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes ( ASU 2015-17 ). This standard requires that deferred income tax liabilities and assets be presented as noncurrent assets or liabilities in the balance sheet. ASU 2015-17 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early adoption is permitted. We adopted this standard early on a prospective basis in our consolidated balance sheet as of December 31, 2015.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ( ASU 2016-01 ). This update substantially revises standards for the recognition, measurement and presentation of financial instruments. This standard revises an entity s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted for certain requirements. We are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

## Note 3. 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 (see Note 4 for definitions and a further discussion of the preferred tracking stock, the EchoStar Group and the Hughes Retail Group) 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, represented by 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. Moreover, because the reported amount of Net income attributable to EchoStar in our consolidated statements of operations and comprehensive income (loss) excludes DISH Network s 28.11% economic interest (represented by the HSS Tracking Stock) in the net loss of the Hughes Retail Group (reported as a noncontrolling interest), the

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

amount of consolidated net income or loss allocated to holders of Class A and Class B common stock effectively excludes an aggregate 80.0% of the attributed net loss of the Hughes Retail Group.

Basic EPS for our Class A and Class B common stock excludes potential dilution and is computed by dividing Net income attributable to EchoStar common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if our common stock awards were exercised. The potential dilution from common stock awards was computed using the treasury stock method based on the average market value of our Class A common stock during the period. The calculation of our diluted weighted-average common shares outstanding excluded options to purchase shares of our Class A common stock, whose effect would be anti-dilutive, of 2.3 million, 2.3 million and 2.7 million shares for the years ended December 31, 2015, 2014 and 2013, respectively. The calculation also excluded 0.7 million shares of our Class A common stock that were issuable pursuant to our performance based stock incentive plans contingent upon meeting a company-specific performance measure by March 31, 2015, that was not achieved and which resulted in the expiration of such awards 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 Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2015 | | 2014 | | 2013 |
| | (In thousands, except per share amounts) | | | | | |
| Net income attributable to EchoStar | $ | 153,357 | $ | 152,874 | $ | 2,525 |
| Less: Net loss attributable to EchoStar Tracking Stock | | (10,343) | | (12,394) | | |
| Net income attributable to EchoStar common stock | $ | 163,700 | $ | 165,268 | $ | 2,525 |
| | | | | | | |
| **Weighted-average common shares outstanding :** | | | | | | |
| **Class A and B common stock:** | | | | | | |
| Basic | | 92,397 | | 91,190 | | 89,405 |
| Dilutive impact of stock awards outstanding | | 1,069 | | 1,426 | | 1,547 |
| Diluted | | 93,466 | | 92,616 | | 90,952 |
| | | | | | | |
| **Earnings per share:** | | | | | | |
| **Class A and B common stock:** | | | | | | |
| Basic | $ | 1.77 | $ | 1.81 | $ | 0.03 |
| Diluted | $ | 1.75 | $ | 1.78 | $ | 0.03 |

## Note 4. Hughes Retail Preferred Tracking Stock

**Satellite and Tracking Stock Transaction**

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

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

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

**Description of the Tracking Stock**

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

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

The EchoStar Tracking Stock is a series of preferred stock consisting of 13,000,000 authorized shares with a par value of $0.001 per share, of which 6,290,499 shares were issued to DISH Network on March 1, 2014. The HSS Tracking Stock is a series of HSS preferred stock consisting of 300 authorized shares with a par value of $0.001 per share, of which 81.128 shares were issued to DISH Network on March 1, 2014. Following the issuance of the shares of the EchoStar Tracking Stock and the HSS Tracking Stock, DISH Network held 6.5% and 7.5% of the aggregate number of outstanding shares of EchoStar and HSS capital stock, respectively. As of December 31, 2015, DISH Network held 6.3% and 7.5% of the aggregate number of outstanding shares of EchoStar and HSS capital stock, respectively.

Holders of shares of the Tracking Stock vote with holders of the outstanding shares of common stock of its respective issuer, as a single class, with respect to any and all matters presented to stockholders for their action or consideration. Each share of the Tracking Stock is entitled to one-tenth (1/10th) of one vote, which resulted in a relative loss of voting power for our Class A and Class B common stockholders. In the event of a liquidation of EchoStar, holders of shares of EchoStar Class A common stock, EchoStar Class B common stock and the EchoStar Tracking Stock are entitled to receive their respective proportionate interests in the net assets of EchoStar, if any, remaining for distribution upon liquidation, pro rata based upon the aggregate market value of outstanding shares of

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

the EchoStar Tracking Stock (determined by an independent appraisal to the extent such shares are not then listed or quoted on any U.S. national or regional securities exchange or quotation system) as compared to the aggregate market value of outstanding shares of EchoStar Class A common stock and EchoStar Class B common stock. Similarly, in the event of a liquidation of HSS, holders of shares of HSS common stock and HSS Tracking Stock are entitled to receive their respective proportionate interests in the net assets of HSS, if any, remaining for distribution upon liquidation, pro rata based upon the aggregate market value of outstanding shares of HSS Tracking Stock as compared to the aggregate market value of outstanding shares of HSS common stock. Market values of HSS Tracking Stock and HSS common stock are to be determined by an independent appraisal to the extent such shares are not then listed or quoted on any U.S. national or regional securities exchange or quotation system.

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

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

**Investor Rights Agreement**

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

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

Tracking Stock so that the Tracking Stock will be convertible or exchangeable for shares of EchoStar Class A common stock with equivalent market value.

**Initial Recording of the Satellite and Tracking Stock Transaction**

EchoStar and DISH Network are entities under common control. In accordance with accounting principles that apply to transfers of assets between entities under common control, EchoStar and HSS recorded the net assets received from DISH Network in the Satellite and Tracking Stock Transaction at their historical carrying amounts as reflected in DISH Network s consolidated financial statements as of February 28, 2014, the day prior to the effective date of the Satellite and Tracking Stock Transaction. DISH Network transferred the EchoStar I, EchoStar VII, and EchoStar X satellites to HSS and transferred the EchoStar XI and EchoStar XIV satellites to EchoStar. The historical carrying amounts of net assets transferred to EchoStar and HSS were as follows:

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

| | EchoStar(1) | HSS (In thousands) | Total |
|---|---|---|---|
| Cash | $ | $ 11,404 | $ 11,404 |
| Property and equipment, net | 349,243 | 82,837 | 432,080 |
| Current liabilities | (3,479) | (3,076) | (6,555) |
| Noncurrent liabilities | (30,121) | (8,713) | (38,834) |
| Transferred net assets | $ 315,643 | $ 82,452 | $ 398,095 |

(1) All of the net assets received by EchoStar as part of the Satellite and Tracking Stock Transaction were immediately transferred to HSS and are being used by our EchoStar Satellite Services segment.

The transferred net assets increased EchoStar stockholders equity and HSS shareholders equity by amounts that reflect the carrying amounts of net assets that would be distributed to holders of the Tracking Stock and common stock in a hypothetical liquidation, which would be in proportion to the relative market values (as defined in applicable agreements) of each class of stock. The amounts credited to equity were reduced by direct costs of the Tracking Stock issuance and deferred income tax liabilities arising from differences between the financial reporting carrying amounts and the tax bases of the transferred satellites.

The net amounts credited to EchoStar stockholders equity for the EchoStar Tracking Stock (primarily additional paid-in capital) and the noncontrolling interest in the HSS Tracking Stock were as follows:

| | EchoStar Stockholders | Noncontrolling Interest (In thousands) | Total |
|---|---|---|---|
| Transferred net assets | $ 315,643 | $ 82,452 | $ 398,095 |
| Offering costs , net of tax | (2,302) | (610) | (2,912) |
| Deferred income taxes | (114,525) | (29,971) | (144,496) |
| Reallocation based on relative liquidation values | (35,300) | 35,300 | |
| Net increase in stockholders equity | $ 163,516 | $ 87,171 | $ 250,687 |

## 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 marketable investment 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 $124.3 million, $63.8 million and $32.1 million as of December 31, 2015, 2014 and 2013, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

Reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2015, 2014 and 2013 were as follows:

| | **Affected Line Item in our Condensed Consolidated** | **For the Years Ended December 31,** | | |
|---|---|---|---|---|
| | | | **(In thousands)** | |
| Recognition of realized gains on marketable investment securities in net income (1) | Gains (losses) on marketable investment securities, net | $ (35) | $ (41) | $ (36,312) |
| Recognition of other-than-temporary impairment loss on marketable investment securities in net income (2) | Other-than-temporary impairment loss on marketable investment securities | 11,226 | | |
| Recognition of foreign currency translation losses in net income (3) | Other, net | 1,889 | | |
| Total reclassifications, net of tax and noncontrolling interests | | $ 13,080 | $ (41) | $ (36,312) |

(1) When marketable investment securities are sold, the related unrealized gains and losses that were previously recognized in other comprehensive income (loss) are reclassified and recognized as Gains (losses) on marketable investment securities, net, in our consolidated statement of operations and comprehensive income (loss).

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

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

## Note 6. Investment Securities

Our marketable investment securities, restricted cash and cash equivalents, and investments in unconsolidated entities consisted of the following:

| | **As of December 31,** | |
|---|---|---|
| | **2015** | **2014** |

| | | (In thousands) | | |
|---|---|---|---|---|
| **Marketable investment securities current:** | | | | |
| Corporate bonds | $ | 562,236 | $ | 1,049,139 |
| Strategic equity securities | | 38,864 | | 41,705 |
| Other | | 11,238 | | 48,259 |
| Total marketable investment securities current | | 612,338 | | 1,139,103 |
| Restricted marketable investment securities (1) | | 13,227 | | 11,712 |
| Total | | 625,565 | | 1,150,815 |
| | | | | |
| Restricted cash and cash equivalents (1) | | 7,775 | | 7,233 |
| | | | | |
| **Investments in unconsolidated entities noncurrent:** | | | | |
| Cost method | | 81,174 | | 31,174 |
| Equity method | | 128,090 | | 128,788 |
| Total investments in unconsolidated entities noncurrent | | 209,264 | | 159,962 |
| Total marketable investment securities, restricted cash and cash equivalents, and investments in unconsolidated entities | $ | 842,604 | $ | 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 consolidated balance sheets.

**Marketable Investment Securities**

Our marketable investment securities portfolio consists of various debt and equity instruments, which generally are classified as available-for-sale. As of December 31, 2015, certain of our equity securities were classified as trading securities in order to reflect our investment strategy for those securities. The value of our investment portfolio depends on the value of such securities and other instruments comprising the portfolio.

***Corporate Bonds***

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

***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. We did not receive any dividend income for the years ended December 31, 2015, 2014 and 2013.

As of December 31, 2015 and 2014, our strategic equity securities included shares of common stock of one of our customers that we received in satisfaction of certain milestone payments that were required to be paid to us under an existing long-term contract. For the year ended December 31, 2015, Other-than-temporary impairment loss on marketable investment securities included a $6.1 million other-than-temporary impairment of such common stock in our marketable investment portfolio. For the year ended December 31, 2015, Gains (losses) on marketable investment securities, net includes $6.5 million in losses on such common stock in our trading securities portfolio, which had a fair value of $10.3 million as of December 31, 2015. Other-than-temporary impairment losses for the year ended December 31, 2015 also includes a $5.1 million impairment of our shares of common stock in another company that experienced a severe decline in market value during the third and fourth quarters of 2015. We did not record any other-than-temporary impairment losses during the years ended December 31, 2014 or 2013.

***Other***

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

***Restricted Cash and Marketable Investment Securities***

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

**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 December 31, 2015** | | | | |
| Debt securities: | | | | |
| Corporate bonds | $ 562,849 | $ 10 | $ (623) | $ 562,236 |
| Other (including restricted) | 24,495 | | (30) | 24,465 |
| Equity securities - strategic | 20,855 | 7,748 | (82) | 28,521 |
| Total marketable investment securities | $ 608,199 | $ 7,758 | $ (735) | $ 615,222 |
| **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 December 31, 2015, restricted and non-restricted marketable investment securities included debt securities of $519.3 million with contractual maturities of one year or less and $67.4 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.

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**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 changes in the estimated fair values of these securities are primarily related to temporary market conditions as of December 31, 2015.

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | |
| Less than 12 months | $ 364,160 | $ (609) | $ 968,941 | $ (4,929) |
| 12 months or more | 149,889 | (126) | | |
| Total | $ 514,049 | $ (735) | $ 968,941 | $ (4,929) |

**Sales of Marketable Investment Securities**

We recognized de minimis gains from the sales of our available-for-sale securities for the year ended December 31, 2015 and $0.1 million and $36.3 million for the years ended December 31, 2014 and 2013, respectively. We recognized de minimis losses from the sales of our available-for-sale securities for each of the years ended December 31, 2015, 2014 and 2013, respectively.

Proceeds from sales of our available-for-sale securities totaled $111.5 million, $190.5 million and $177.5 million for the years ended December 31, 2015, 2014 and 2013, 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 December 31, 2015 and 2014, we did not have investments that were categorized within Level 3 of the fair value hierarchy.

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |

| | Total | Level 1 | Level 2 | Total | Level 1 | Level 2 |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| Cash equivalents (including restricted) | $ 840,950 | $ 38,771 | $ 802,179 | $ 437,886 | $ 58,108 | $ 379,778 |
| Debt securities: | | | | | | |
| Corporate bonds | $ 562,236 | $ | $ 562,236 | $ 1,049,139 | $ | $ 1,049,139 |
| Other (including restricted) | 24,465 | 12,078 | 12,387 | 59,971 | 5,630 | 54,341 |
| Equity securities - strategic | 38,864 | 38,864 | | 41,705 | 41,705 | |
| Total marketable investment securities | $ 625,565 | $ 50,942 | $ 574,623 | $ 1,150,815 | $ 47,335 | $ 1,103,480 |

**Investments in Unconsolidated Entities Noncurrent**

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

In June 2015, we purchased an equity investment in WorldVu Satellites Limited ( OneWeb ), a low-earth orbit satellite company. OneWeb plans to develop and operate a global network of low-earth orbit Ku-band satellites to provide internet access to fixed and mobile terminals. We do not exercise significant influence over the management of OneWeb; accordingly, we account for the investment using the cost method.

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In May 2015, we acquired a 22.5% interest in the equity and subordinated debt of SmarDTV SA ( SmarDTV ), a Swiss subsidiary of Kudelski SA that offers set-top boxes and conditional access modules, in exchange for cash of $13.9 million and the contribution of several of our European subsidiaries to SmarDTV. We recorded our initial investment in SmarDTV at $20.0 million, representing our estimate of the investment s fair value using discounted cash flow techniques. Our estimate included significant unobservable inputs related to SmarDTV s future operations and is categorized within Level 3 of the fair value hierarchy. As of the acquisition date, we deconsolidated the contributed entities and recognized a $2.6 million loss within Other income (expense) in our consolidated statement of operations and comprehensive income (loss), consisting of: (i) a $0.7 million loss resulting from our initial investment (at fair value) being less than the sum of our $13.9 million cash payment and the carrying amount of the net assets of the deconsolidated entities and (ii) the reclassification from accumulated other comprehensive loss of $1.9 million in foreign currency translation adjustments related to the deconsolidated entities. The net assets of the deconsolidated entities included property and equipment of $6.7 million and cash of $0.8 million. We have the ability to exercise significant influence over SmarDTV and therefore account for our investment using the equity method. We and SmarDTV also entered into a services agreement pursuant to which our EchoStar Technologies segment purchases certain engineering services from SmarDTV. See Note 19 for information about our related party transactions with SmarDTV subsequent to the date of our initial investment.

On August 8, 2014, an option providing for an unrelated party to acquire a 51.0% equity interest in Dish Mexico was terminated. Although we have owned 49.0% of the equity of Dish Mexico since its inception in 2008, we accounted for our investment as a 24.0% equity interest using the equity method based on assumed dilution that would occur upon the exercise of the option. Upon termination of the option, we recorded a $10.3 million adjustment to increase Equity in earnings (losses) of unconsolidated affiliates to reflect an increase from 24.0% to 49.0% in our interest in Dish Mexico s inception-to-date net income. For periods subsequent to the date of the termination of the option, we account for our investment in Dish Mexico as a 49.0% equity interest using the equity method.

As of December 31, 2013, our equity method investments included $18.0 million for our investment in DISH Digital Holding, L.L.C. (now known as Sling TV Holding L.L.C., Sling TV Holding ), a joint venture between us and DISH Network. The carrying amount of our investment reflected the $44.7 million aggregate carrying amount of cash and certain noncash assets that we contributed to Sling TV Holding upon its formation on July 1, 2012 in exchange for a one-third equity interest in Sling TV Holding, less our equity in the net loss of Sling TV Holding of $16.5 million and $10.2 million for the years ended December 31, 2013 and 2012, respectively. Effective August 1, 2014, we and Sling TV Holding entered into an exchange agreement (the Exchange Agreement ) pursuant to which, we exchanged our one-third voting interest in Sling TV Holding, which we accounted for using the equity method, for a 10.0% non-voting interest in Sling TV Holding, which we account for using the cost method. As part of this transaction, we received a distribution of certain noncurrent assets associated with Move Networks, including property and equipment, technology-related intangible assets and goodwill. Because we and Sling TV Holding are entities under common control, we recorded the distributed assets at their carrying amounts in Sling TV Holding s accounts, which totaled $34.1 million at the date of distribution, and we recorded our non-voting interest at $1.1 million, which represents 10.0% of the carrying amount of the remaining equity in Sling TV Holding. These amounts exceeded the carrying amount of our existing equity method investment by $8.8 million, which was credited to additional paid-in capital because gain recognition generally is precluded by GAAP in exchanges between entities under common control. In connection with our obligations associated with our interest prior to the Exchange Agreement, we contributed $18.6 million in cash to Sling TV Holding during the third quarter of 2014. We have no obligation to contribute additional capital to Sling TV Holding. See Note 19 for more information regarding the Exchange Agreement with Sling TV Holding.

**Investment in TerreStar**

In 2008, we invested in certain debt securities ( Exchangeable Notes ) of TerreStar Networks Inc. ( TerreStar ), which subsequently filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in 2010. We accounted for our investment in the Exchangeable Notes using the fair value method and, as of December 31, 2011, our investment was stated at its estimated fair value of zero. Effective March 29, 2012, the Exchangeable Notes were cancelled pursuant to TerreStar s Chapter 11 plan of reorganization. In December 2014 and January 2016, we received $5.8 million and $0.8 million, respectively, in cash distributions from the indenture trustee in satisfaction of

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

our claims related to the Exchangeable Notes. We accrued a receivable as of December 31, 2015 for the 2016 receipt and recognized the distributions as gains in Other, net within Other Income (Expense) in our consolidated statement of operations and comprehensive income (loss) and we reported the 2014 cash receipt in Other, net within Cash Flows from Investing Activities in our consolidated statement of cash flows for the year ended December 31, 2014.

## Note 7. Trade Accounts Receivable

Our trade accounts receivable consisted of the following:

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (In thousands) | |
| Trade accounts receivable | $ 168,714 | $ 160,886 |
| Contracts in process, net | 23,011 | 16,534 |
| Total trade accounts receivable | 191,725 | 177,420 |
| Allowance for doubtful accounts | (12,485) | (14,188) |
| Trade accounts receivable - DISH Network | 277,159 | 251,669 |
| Total trade accounts receivable, net | $ 456,399 | $ 414,901 |

As of December 31, 2015 and 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 December 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (In thousands) | |
| Finished goods | $ 52,839 | $ 49,038 |
| Raw materials | 9,042 | 6,192 |
| Work-in-process | 5,129 | 7,733 |
| Total inventory | $ 67,010 | $ 62,963 |

## Note 9. Property and Equipment

Property and equipment consisted of the following:

| | Depreciable Life (In Years) | As of December 31, 2015 | 2014 |
|---|---|---|---|
| | | (In thousands) | |
| Land | | $ 41,457 | $ 42,826 |
| Buildings and improvements | 1-40 | 367,947 | 375,920 |
| Furniture, fixtures, equipment and other | 1-12 | 1,254,325 | 1,223,807 |
| Customer rental equipment | 2-4 | 588,430 | 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 | | 1,112,267 | 637,189 |
| Total property and equipment | | 6,411,064 | 6,094,146 |
| Accumulated depreciation | | (2,998,074) | (2,899,353) |
| Property and equipment, net | | $ 3,412,990 | $ 3,194,793 |

As of December 31, 2015 and 2014, accumulated depreciation included amounts for satellites acquired under capital leases of $268.1 million and $481.5 million, respectively. In August 2014, our then existing capital lease

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

agreements for the AMC-15 and AMC-16 satellites were extended and are being accounted for as operating leases for their extended terms.

In December 2015, we recognized an impairment loss of $2.4 million related to certain building and equipment in our EchoStar Technologies segment.

Construction in progress consisted of the following:

| | As of December 31, 2015 | | 2014 | |
|---|---|---|---|---|
| | (In thousands) | | | |
| Progress amounts for satellite construction, including prepayments under capital leases and launch services costs | $ | 963,103 | $ | 583,877 |
| Satellite related equipment | | 126,373 | | 34,270 |
| Other | | 22,791 | | 19,042 |
| Construction in progress | $ | 1,112,267 | $ | 637,189 |

For the years ended December 31, 2015, 2014 and 2013, we recorded $63.8 million, $23.8 million and $4.0 million, respectively, of capitalized interest related to our satellites and satellite payloads under construction.

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

| | For the Years Ended December 31, 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| Satellites | $ | 197,469 | $ | 210,763 | $ | 180,517 |
| Furniture, fixtures, equipment and other | | 135,536 | | 123,360 | | 126,625 |
| Customer rental equipment | | 105,725 | | 116,685 | | 98,076 |
| Buildings and improvements | | 13,513 | | 13,734 | | 13,449 |
| Total depreciation expense | $ | 452,243 | $ | 464,542 | $ | 418,667 |

Satellites depreciation expense includes amortization of satellites under capital lease agreements of $56.2 million, $59.7 million and $59.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Satellites**

As of December 31, 2015, we utilized in support of our operations, 18 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 their respective lease terms. We utilized two satellites that were accounted for as operating leases and are not included in property and equipment as of December 31, 2015.

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Our operating satellite fleet consists of both owned and leased satellites detailed in the table below as of December 31, 2015.

| Satellites | Segment | Launch Date | Nominal Degree Orbital Location (Longitude) | Depreciable Life (In Years) |
|---|---|---|---|---|
| **Owned:** | | | | |
| SPACEWAY 3 (1) | Hughes | August 2007 | 95 W | 12 |
| EchoStar XVII | Hughes | July 2012 | 107 W | 15 |
| EchoStar I (2)(3)(4) | ESS | December 1995 | 77 W | |
| EchoStar III (4) | ESS | October 1997 | 61.5 W | 12 |
| EchoStar VI (4) | ESS | July 2000 | 96.2 W | 12 |
| EchoStar VII (2)(3) | ESS | February 2002 | 119 W | 3 |
| EchoStar VIII (2)(4) | ESS | August 2002 | 77 W | 12 |
| EchoStar IX (2)(4) | ESS | August 2003 | 121 W | 12 |
| EchoStar X (2)(3) | ESS | February 2006 | 110 W | 7 |
| EchoStar XI (2)(3) | ESS | July 2008 | 110 W | 9 |
| EchoStar XII (2)(4)(5) | ESS | July 2003 | 61.5 W | 2 |
| EchoStar XIV (2)(3) | ESS | March 2010 | 119 W | 11 |
| EchoStar XVI (2) | ESS | November 2012 | 61.5W | 15 |
| EUTELSAT 10A ( W2A ) (6) | Other | April 2009 | 10 E | |
| **Capital Leases:** | | | | |
| Nimiq 5 (2) | ESS | September 2009 | 72.7 W | 15 |
| QuetzSat-1 (2) | ESS | September 2011 | 77 W | 10 |
| **Operating Leases:** | | | | |
| AMC-15 | ESS | October 2004 | 105 W | |
| AMC-16 (7) | ESS | December 2004 | 85 W | |

(1) Depreciable life represents the remaining useful life as of June 8, 2011, the date EchoStar completed its acquisition of Hughes Communications, Inc. and its subsidiaries.

(2) See Note 19 for discussion of related party transactions with DISH Network.

(3) Depreciable life represents the remaining useful life as of March 1, 2014, the effective date of our receipt of the satellites from DISH Network as part of the Satellite and Tracking Stock Transaction (See Note 4).

(4) Fully depreciated assets.

(5) Depreciable life represents the remaining useful life as of June 30, 2013, the date the EchoStar XII satellite was impaired.

(6) The Company acquired the S-band payload on this satellite, which prior to the acquisition in December 2013, experienced an anomaly at the time of the launch. As a result, the S-band payload is not fully operational.

(7) Operating lease expired in February 2016.

Our owned and leased satellites under construction as of December 31, 2015 are presented below.

| Satellites | Segment | Expected Launch Date |
|---|---|---|
| EUTELSAT 65 West A (1) | Hughes | First quarter of 2016 |
| EchoStar XXI | Other | Second quarter of 2016 |
| EchoStar XXIII | Other | Third quarter of 2016 |
| EchoStar XIX | Other | Fourth quarter of 2016 |
| EchoStar 105/SES-11 | ESS | Fourth quarter of 2016 |
| Telesat T19V ( 63 West ) (1) | Hughes | Second quarter of 2018 |

(1) We entered into satellite services agreements for certain capacity on these satellites once launched, but are not parties to the construction contracts.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Recent Developments**

***63 West Agreements.*** In September 2015, we entered into satellite services agreements pursuant to which affiliates of Telesat Canada ( Telesat ) will provide to us fixed broadband service into South America using the Ka-band capacity on a satellite to be located at the 63 degree west longitude orbital location for a 15-year term. The satellite services agreements require us to make prepayments while the satellite is under construction. We expect the satellite to be launched in the second quarter of 2018 to deliver consumer satellite broadband services into South America as well as create a platform to potentially allow for further development of our business in South America.

***Satellite Construction Launch Services Costs.*** In the third quarter of 2015, we mutually agreed with a vendor to cancel an existing launch services agreement for the launch of the EchoStar XIX satellite. Pursuant to the cancellation, we received a refund of prior payments related to the launch services, and credited the refund amount to construction in progress in the third quarter of 2015. Also in the third quarter of 2015, we entered into an agreement with a different vendor to provide for the launch of the satellite, which is expected to be launched in the fourth quarter of 2016.

***AMC-15 and AMC-16.*** In August 2014, in connection with the execution of agreements related to the EchoStar 105/SES-11 satellite, we entered into amendments that extend the terms of our existing agreements with SES Americom Colorado, Inc. ( SES ) for satellite services on the AMC-15 and AMC-16 satellites. As amended, the term of our agreement for satellite services on certain transponders on the AMC-15 satellite was extended from December 2014 through the in-service date of the EchoStar 105/SES-11 satellite and is being accounted for as an operating lease. The amended agreement for the AMC-16 satellite services extended 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 and the agreement terminated according to its terms in February 2016.

As a result of anomalies that affected the operation of the AMC-15 and AMC-16 satellites, our monthly recurring payments were reduced under the related capital lease agreements. We have accounted for these lease modifications generally by reducing the carrying amounts of the satellite and related capital lease obligation by the present value of the payment reduction. In such instances where the carrying amount of the satellite had been reduced to zero as a result of accumulated depreciation or impairments, we have recognized the reductions in the capital lease obligations as gains in Other, net in our consolidated statements of operations and comprehensive income (loss). For the years ended December 31, 2015, 2014 and 2013, we recognized such gains of $4.5 million, zero, and $6.7 million, respectively.

**Satellite Anomalies and Impairments**

Our satellites may experience anomalies from time to time, some of which may have a significant adverse impact on their remaining useful lives, the commercial operation of the satellites or our operating results. We are not aware of any anomalies with respect to our owned or leased satellites that have had any such material adverse effect during the year ended December 31, 2015. There can be no assurance, however, that anomalies will not have any such adverse impacts in the future. 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 or use commercial insurance to mitigate the potential financial impact of launch or in-orbit failures because we believe that the cost of insurance is uneconomical relative to the risk of such failures. Therefore, we generally bear the risk of any uninsured launch or 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 our SPACEWAY 3, EchoStar XVI, and EchoStar XVII satellites. In addition, although we were not required to maintain in-orbit insurance pursuant to our service agreement with DISH Network for the EchoStar XV satellite, we would have been liable for any damage caused by our use of the satellite and therefore we carried third-party insurance on the EchoStar XV satellite until the termination of our service agreement with DISH Network for the EchoStar XV satellite in November 2015.

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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.

***EchoStar XII.*** Prior to 2013, our EchoStar XII satellite experienced anomalies resulting in the loss of electrical power available from its solar arrays, which reduced the number of transponders that could be operated. The satellite is currently leased to DISH Network pursuant to an agreement that entitles DISH Network to a reduction in its monthly recurring lease payments in the event of a partial loss of satellite capacity or complete failure of the satellite. In the second quarter of 2013, we determined that the carrying amount of the satellite was not recoverable as a result of expected reductions in the monthly recurring lease payments due to future capacity loss. Consequently, in the second quarter of 2013, we recognized a $34.7 million impairment loss within our EchoStar Satellite Services segment to reduce the carrying amount of the satellite to its estimated fair value of $11.3 million as of June 30, 2013. Our fair value estimate was determined using probability weighted discounted cash flow techniques and is categorized within Level 3 of the fair value hierarchy. Our estimate included significant unobservable inputs related to predicted electrical power levels and the number of billable transponders that can be supported by predicted available power. In connection with our impairment analysis, we revised our estimate of the useful life of the satellite to reflect a remaining estimated useful life of 18 months. As of December 31, 2015 and 2014, the EchoStar XII satellite was fully depreciated.

## 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.

Changes in the carrying amount of our goodwill by reportable segment for the years ended December 31, 2015 and 2014 are as follows:

| | Hughes | ETC |
|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | Consolidated Total |
| | | (In thousands) | | | | |
| Balance as of December 31, 2013 | $ | 504,173 | $ | | $ | 504,173 |
| Sling TV Holding exchange | | | | 6,457 | | 6,457 |
| Balance as of December 31, 2014 | | 504,173 | | 6,457 | | 510,630 |
| Balance as of December 31, 2015 | $ | 504,173 | $ | 6,457 | $ | 510,630 |

As of December 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.  Based on our qualitative assessment of impairment of such goodwill in the second quarter of 2015, we determined that it was not more likely than not that the fair values of the Hughes segment reporting units were less than the corresponding carrying amounts.

In August 2014, we and Sling TV Holding entered into the Exchange Agreement pursuant to which, among other things, Sling TV Holding distributed certain assets to us at their carrying amounts, including our Move Networks business with associated goodwill of $6.5 million.  See Note 19 for information about the Exchange Agreement.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Regulatory Authorizations**

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

| | As of December 31, 2014 | Additions | Currency Translation Adjustment | As of December 31, 2015 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Finite useful lives: | | | | |
| Cost | $ 103,499 | $ | $ (21,492) | $ 82,007 |
| Accumulated amortization | (6,778) | (4,741) | 1,667 | (9,852) |
| Net | 96,721 | (4,741) | (19,825) | 72,155 |
| Indefinite lives | 471,657 | | | 471,657 |
| Total regulatory authorizations, net | $ 568,378 | $ (4,741) | $ (19,825) | $ 543,812 |

In December 2013, we acquired 100.0% of Solaris Mobile which is based in Dublin, Ireland and licensed by the European Union and its member states ( EU ) to provide mobile satellite services and a complementary ground component services covering the entire EU using S-band spectrum. Solaris Mobile changed its name to EchoStar Mobile Limited ( EchoStar Mobile ) in the first quarter of 2015. On the acquisition date, EchoStar Mobile lacked certain inputs and processes that would be necessary to be considered a business. Accordingly, we accounted for the transaction as an acquisition of net assets. The primary acquired asset was an EU regulatory authorization for S-band frequencies, which had a cost of $51.8 million, consisting of $43.4 million in cash payments and $10.3 million in assumed liabilities. The cost of the regulatory authorization is being amortized using the straight-line method over the remaining term of the authorization ending in May 2027.

In June 2013 we entered into an agreement with DISH Network pursuant to which we conveyed to DISH Network certain of our rights under a Canadian regulatory authorization to develop certain spectrum rights at the 103 degree west longitude orbital location, which we acquired for $20.0 million in cash in 2012. In the third quarter of 2013, we received $23.1 million from DISH Network in exchange for these rights. In accordance with accounting principles that apply to transfers of assets between companies under common control, we did not recognize any gain on this transaction. Rather, we increased our additional paid-in capital to reflect the excess of the cash payment over the carrying amount of the derecognized intangible asset, net of related income taxes.

Amortization expense for the regulatory authorizations with finite lives was $4.7 million, $6.1 million and $1.5 million for the years ended December 31, 2015, 2014 and 2013.

**Other Intangible Assets**

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

| | Weighted Average Useful life (in Years) | As of December 31, 2015 Cost | 2015 Accumulated Amortization | 2015 Carrying Amount | 2014 Cost | 2014 Accumulated Amortization | 2014 Carrying Amount |
|---|---|---|---|---|---|---|---|
| | | (In thousands) | | | | | |
| Customer relationships | 8 | $ 293,932 | $ (213,543) | $ 80,389 | $ 293,932 | $ (185,393) | $ 108,539 |
| Contract-based | 10 | 255,366 | (251,493) | 3,873 | 255,366 | (233,009) | 22,357 |
| Technology-based | 7 | 137,337 | (111,840) | 25,497 | 140,837 | (100,940) | 39,897 |
| Trademark portfolio | 20 | 29,700 | (6,806) | 22,894 | 29,700 | (5,321) | 24,379 |
| Favorable leases | 4 | 4,707 | (4,707) | | 4,707 | (4,217) | 490 |
| Total other intangible assets | | $ 721,042 | $ (588,389) | $ 132,653 | $ 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. For the years ended December 31, 2015, 2014 and 2013, intangible asset amortization expense was $75.9 million, $92.1 million and $88.4 million, respectively, including amortization of regulatory authorizations with finite lives and externally marketed capitalized software.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Future Amortization**

As of December 31, 2015, our estimated future amortization of intangible assets, including regulatory authorizations with finite lives, was as follows:

| | Amount (In thousands) |
|---|---|
| **For the Years Ending December 31,** | |
| 2016 | $ 48,913 |
| 2017 | 30,040 |
| 2018 | 22,325 |
| 2019 | 21,111 |
| 2020 | 15,774 |
| Thereafter | 69,996 |
| Total | $ 208,159 |

## Note 11. Debt and Capital Lease Obligations

As of December 31, 2015 and 2014, our debt primarily consisted of our Senior Secured Notes and Senior Unsecured Notes, as defined below, and our capital lease obligations.  The Notes are registered with the Securities and Exchange Commission.

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

| | | As of December 31, | | | |
|---|---|---|---|---|---|
| | | 2015 | | 2014 | |
| | Interest Rates | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | | (In thousands) | | | |
| 6 1/2% Senior Secured Notes due 2019 | 6.500% | $ 990,000 | $ 1,071,675 | $ 1,100,000 | $ 1,177,000 |
| 7 5/8% Senior Unsecured Notes due 2021 | 7.625% | 900,000 | 954,000 | 900,000 | 994,500 |
| Other | 5.5 - 13.25% | 803 | 803 | 1,240 | 1,240 |
| Subtotal | | 1,890,803 | $ 2,026,478 | 2,001,240 | $ 2,172,740 |
| Capital lease obligations | | 332,838 | | 366,447 | |
| Total debt and capital lease obligations | | 2,223,641 | | 2,367,687 | |
| Less: Current portion | | (35,698) | | (41,912) | |
| Long-term portion of debt and capital lease obligations | | $ 2,187,943 | | $ 2,325,775 | |

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

**6 1/2% Senior Secured Notes due 2019 and 7 5/8% Senior Unsecured Notes due 2021**

On June 1, 2011, our subsidiary, Hughes Satellite Systems Corporation ( HSS ), issued $1.10 billion aggregate principal amount of 6 1/2% Senior Secured Notes (the Senior Secured Notes ) at an issue price of 100.0%, pursuant to a Secured Indenture dated June 1, 2011, (as amended the Secured Indenture ). The Senior Secured Notes mature on June 15, 2019. Interest accrues at an annual rate of 6 1/2% and is payable semi-annually in cash, in arrears on June 15 and December 15 of each year. As of December 31, 2015, the outstanding principal balance on the Senior Secured Notes was $990.0 million.

On June 1, 2011, HSS also issued $900.0 million aggregate principal amount of 7 5/8% Senior Unsecured Notes (the Senior Unsecured Notes, and together with the Senior Secured Notes, the Notes ) at an issue price of 100.0%, pursuant to an Unsecured Indenture dated June 1, 2011, (as amended the Unsecured Indenture , and together with the Secured Indenture , the Indentures ). The Senior Unsecured Notes mature on June 15, 2021. Interest accrues at an annual rate of 7 5/8% and is payable semi-annually in cash, in arrears on June 15 and December 15 of each

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

year.  As of December 31, 2015, the outstanding principal balance on the Senior Unsecured Notes was $900.0 million.

The Notes are redeemable, in whole or in part, at any time at a redemption price equal to 100.0% of the principal amount thereof plus a make-whole premium, as defined in the Indentures, together with accrued and unpaid interest, if any, to the date of redemption.  On June 12, 2015, we redeemed $110.0 million of the Senior Secured Notes at a redemption price equal to 103.0% of the principal amount plus related and unpaid accrued interest.  As a result, we recorded a $5.0 million loss consisting of the $3.3 million redemption premium and a $1.7 million write-off of related deferred financing costs.

The Senior Secured Notes are:

- general secured obligations of HSS;
- secured by a first priority security interest in substantially all of the assets of HSS and certain of its subsidiaries, subject to certain exceptions and permitted liens as provided in the Secured Indenture;
- effectively junior to HSS obligations that are secured by assets that are not part of the collateral that secures the Senior Secured Notes, in each case to the extent of the value of the collateral securing such obligations;
- effectively senior to HSS existing and future unsecured obligations to the extent of the value of the collateral securing the Senior Secured Notes, after giving effect to permitted liens as provided in the Secured Indenture;
- senior in right of payment to all existing and future obligations of HSS that are expressly subordinated to the Senior Secured Notes;
- structurally junior to any existing and future obligations of any of HSS subsidiaries that do not guarantee the Senior Secured Notes; and

- unconditionally guaranteed, jointly and severally, on a general senior secured basis by certain of HSS subsidiaries that guarantee the Senior Secured Notes.

The Senior Unsecured Notes are:

- general unsecured obligations of HSS;

- effectively junior to HSS obligations that are secured to the extent of the value of the collateral securing such obligations;

- senior in right of payment to all existing and future obligations of HSS that are expressly subordinated to the Senior Unsecured Notes;

- structurally junior to any existing and future obligations of any of HSS subsidiaries that do not guarantee the Senior Unsecured Notes; and

- unconditionally guaranteed, jointly and severally, on a general senior basis by certain of HSS subsidiaries that guarantee the Senior Unsecured Notes.

Subject to certain exceptions, the Indentures contain restrictive covenants that, among other things, impose limitations on the ability of HSS and, in certain instances, the ability of certain of its subsidiaries, to:

- pay dividends or make distributions on capital stock or repurchase capital stock;

- incur additional debt;

- make certain investments;

- create liens or enter into sale and leaseback transactions;

- merge or consolidate with another company;
- transfer or sell assets;

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

- enter into transactions with affiliates; and

- allow to exist certain restrictions on the ability of certain subsidiaries of HSS to pay dividends, make distributions, make other payments, or transfer assets to us.

In the event of a change of control, as defined in the Indentures, HSS would be required to make an offer to repurchase all or any part of a holder s Notes at a purchase price equal to 101.0% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon to the date of repurchase.

As discussed above, HSS and certain of its subsidiaries have granted a first priority security interest in substantially all of their assets, subject to certain exceptions and permitted liens, to secure HSS obligations under the Senior Secured Notes and related guarantees.

**Debt Issuance Costs**

As of December 31, 2015 we had not early adopted ASU 2015-03 (see Note 2) and unamortized debt issuance costs associated with our Notes were reported in Other noncurrent assets in our consolidated balance sheets. For the years ended December 31, 2015, 2014 and 2013, we amortized $6.0 million, $5.8 million and $5.4 million of debt issuance costs, respectively, which are included in Interest expense, net of amounts capitalized in our consolidated statements of operations and comprehensive income (loss).

**Capital Lease Obligations**

Our capital lease obligations reflect the present value of future minimum lease payments under noncancelable lease agreements, primarily for certain of our satellites (see Note 9). These agreements require monthly recurring payments, which generally include principal, interest, an amount for use of the orbital location and estimated executory costs, such as insurance and maintenance. The monthly recurring payments generally are subject to reduction in the event of failures that reduce the satellite transponder capacity. Certain of these agreements provide for extension of the initial lease term at our option. The effective interest rates for our satellite capital lease obligations range from 9.1% to 11.2%, with a weighted average of 10.5% as of December 31, 2015.

Our capital lease obligations consist primarily of our payment obligations under agreements for the Nimiq 5 and QuetzSat-1 satellites, which have remaining noncancelable terms ending in September 2024 and November 2021, respectively. As discussed in Note 19, we have subleased transponders on these satellites to DISH Network. As discussed in Note 9, in August 2014, our then existing capital lease agreements for the AMC-15 and AMC-16 satellites were extended. The AMC-15 agreement is being accounted for as an operating lease. The amended agreement for the AMC-16 satellite services extended 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 and the agreement terminated according to its terms in February 2016.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

Future minimum lease payments under our capital lease obligations, together with the present value of the net minimum lease payments as of December 31, 2015, are as follows:

| | | Amount (In thousands) |
|---|---|---|
| **For the Years Ending December 31,** | | |
| 2016 | $ | 94,008 |
| 2017 | | 90,144 |
| 2018 | | 88,182 |
| 2019 | | 87,930 |
| 2020 | | 87,818 |
| Thereafter | | 257,999 |
| Total minimum lease payments | | 706,081 |
| Less: Amount representing lease of the orbital location and estimated executory costs (primarily insurance and maintenance) including profit thereon, included in total minimum lease payments | | (214,242) |
| Net minimum lease payments | | 491,839 |
| Less: Amount representing interest | | (159,001) |
| Present value of net minimum lease payments | | 332,838 |
| Less: Current portion | | (34,895) |
| Long-term portion of capital lease obligations | $ | 297,943 |

For the years ended December 31, 2015, 2014 and 2013, we received rental income of approximately $132.4 million, $132.4 million and $126.7 million, respectively, from the sublease of our capital lease satellites. As of December 31, 2015, our future minimum sublease rental income was $613.3 million, relating to such satellites.

## Note 12. Income Taxes

The components of income (loss) before income taxes are as follows:

| | For the Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 (In thousands) | | 2013 | |
| Domestic | $ | 224,058 | $ | 172,276 | $ | (50,551) |
| Foreign | | (2,486) | | 6,057 | | 16,515 |
| Total income (loss) before income taxes | $ | 221,572 | $ | 178,333 | $ | (34,036) |

The components of the benefit (provision) for income taxes are as follows:

| | For the Years Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (In thousands) | |
| **Current benefit (provision):** | | | |
| Federal | $ (165) | $ (2,593) | $ 1,118 |
| State | (9,601) | 9,006 | 6,531 |
| Foreign | (6,303) | (5,455) | (5,992) |
| Total current benefit (provision) | (16,069) | 958 | 1,657 |
| **Deferred benefit (provision):** | | | |
| Federal | (62,572) | (31,905) | 26,511 |
| State | 4,818 | (1,283) | 10,074 |
| Foreign | 1,622 | 1,446 | (805) |
| Total deferred (provision) benefit | (56,132) | (31,742) | 35,780 |
| Total income tax (provision) benefit, net | $ (72,201) | $ (30,784) | $ 37,437 |

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

The actual tax provisions for the years ended December 31, 2015, 2014 and 2013 reconcile to the amounts computed by applying the statutory federal tax rate to income (loss) before income taxes as shown below:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of Federal benefit | 2.1% | (0.2)% | 21.0% |
| Permanent differences | 3.6% | 0.6% | (10.7)% |
| Tax credits | (10.1)% | (18.6)% | 48.7% |
| Valuation allowance | 2.8% | (0.9)% | 14.2% |
| Other | (0.8)% | 1.4% | 1.8% |
| Total effective tax rate | 32.6% | 17.3% | 110.0% |

The components of the deferred tax assets and liabilities are as follows:

| | As of December 31, | | | |
|---|---|---|---|---|
| | | **2015** | | **2014** |
| | (In thousands) | | | |
| **Deferred tax assets:** | | | | |
| Net operating losses, credit and other carryforwards | $ | 315,924 | $ | 412,744 |
| Unrealized losses on investments, net | | 47,678 | | 30,248 |
| Accrued expenses | | 34,037 | | 34,632 |
| Stock-based compensation | | 13,345 | | 8,445 |
| Other asset | | 9,534 | | 12,157 |
| Total deferred tax assets | | 420,518 | | 498,226 |
| Valuation allowance | | (72,131) | | (73,664) |
| Deferred tax assets after valuation allowance | | 348,387 | | 424,562 |
| | | | | |
| **Deferred tax liabilities:** | | | | |
| Depreciation and amortization | | (993,326) | | (1,014,812) |
| Other liabilities | | (1,412) | | (748) |
| Total deferred tax liabilities | | (994,738) | | (1,015,560) |
| Total net deferred tax liabilities (1) | $ | (646,351) | $ | (590,998) |
| | | | | |
| Current portion of net deferred tax assets (1) | $ | | $ | 87,208 |
| Noncurrent portion of net deferred tax liabilities | | (646,351) | | (678,206) |
| Total net deferred tax liabilities | $ | (646,351) | $ | (590,998) |

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(1) In 2015, we early adopted ASU 2015-17 (see Note 2), which resulted in the classification of all of our deferred taxes as noncurrent as of December 31, 2015. We did not retrospectively reclassify our current deferred tax balances as of December 31, 2014.

Deferred tax assets and liabilities reflect the effects of tax losses, credits, and the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

We evaluate our deferred tax assets for realization and record a valuation allowance when we determine that it is more likely than not that the amounts will not be realized.  Overall, our net deferred tax assets were offset by a valuation allowance of $72.1 million and $73.7 million as of December 31, 2015 and 2014, respectively.  The change in the valuation allowance primarily relates to a decrease in realized and unrealized gains that are capital in nature, partially offset by an increase in the net operating loss carryforwards of certain foreign subsidiaries.

Tax benefits of net operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances.  As of December 31, 2015, we had net operating loss carryforwards of $768.8 million, including $92.7 million of foreign net operating loss carryforwards.  A substantial portion of these net operating loss carryforwards will begin to expire in 2029.  As of December 31, 2015, we have tax credit carryforwards of $96.9 million and $30.6 million for federal

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

and state income tax purposes, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in 2026 and the state tax credit carryforwards will begin to expire in 2016.

Additionally, tax benefits from excess tax deductions attributable to stock-based compensation has resulted in $38.4 million of net operating loss carryforwards that will not be recognized as a credit to additional paid in capital until such deductions reduce taxes payable. We follow the tax law ordering rules, which assume that stock option deductions are realized when they have been used for tax purposes.

As of December 31, 2015, we had undistributed earnings attributable to foreign subsidiaries for which no provision for U.S. income taxes or foreign withholding taxes has been made because it is expected that such earnings will be reinvested outside the U.S. indefinitely. It is not practicable to determine the amount of the unrecognized deferred tax liability at this time.

**Accounting for Uncertainty in Income Taxes**

In addition to filing U.S. federal income tax returns, we file income tax returns in all states that impose an income tax. As of December 31, 2015, we are currently under a U.S. federal income tax examination for fiscal years 2009 and 2010. We also file income tax returns in the United Kingdom, Brazil, India and a number of other foreign jurisdictions. We generally are open to income tax examination in these foreign jurisdictions for taxable years beginning in 2003. As of December 31, 2015, we are currently being audited by the Indian tax authorities for fiscal years 2003 through 2012. We have no other on-going significant income tax examinations in process in our foreign jurisdictions.

A reconciliation of the beginning and ending amount of unrecognized income tax benefits is as follows:

| | For the Years Ended December 31, (In thousands) | | |
|---|---|---|---|
| **Unrecognized tax benefit** | **2015** | **2014** | **2013** |
| Balance as of beginning of period | $ 44,839 | $ 43,319 | $ 34,677 |
| Additions based on tax positions related to the current year | 11,748 | 3,806 | 81 |
| Additions based on tax positions related to prior years | 5,779 | 4,643 | 9,929 |
| Reductions based on tax positions related to prior years | | (81) | (1,253) |
| Reductions based on tax settlements | | (6,848) | (115) |
| Balance as of end of period | $ 62,366 | $ 44,839 | $ 43,319 |

As of December 31, 2015, we had $62.4 million of unrecognized income tax benefits, all of which, if recognized, would affect our effective tax rate. As of December 31, 2014, we had $44.8 million of unrecognized income tax benefits, all of which if recognized, would affect our effective tax rate. We do not believe that the total amount of unrecognized income tax benefits will significantly increase or decrease within the next twelve months due to the lapse of statute of limitations or settlement with tax authorities.

For the years ended December 31, 2015, 2014 and 2013, our income tax provision or benefit included an insignificant amount of interest and penalties.

Estimates of our uncertain tax positions are made based upon prior experience and are updated in light of changes in facts and circumstances. However, due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of audits may result in liabilities which could be materially different from these estimates. In such an event, we will record additional income tax provision or benefit in the period in which such resolution occurs.

**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

## Note 13. Stockholders Equity

### Preferred Stock

Our board of directors is authorized to divide the preferred stock into series and, with respect to each series, to determine the preferences and rights and the qualifications, limitations or restrictions of the series, including the dividend rights, conversion rights, voting rights, redemption rights and terms, liquidation preferences, sinking fund provisions, the number of shares constituting the series, and the designation of such series. Our board of directors may, without stockholder approval, issue additional preferred stock of existing or new series with voting and other rights that could adversely affect the voting power of the holders of common stock and could have certain anti-takeover effects.

In February 2014, our board of directors authorized 13,000,000 shares of Hughes Retail Preferred Tracking Stock with a par value of $0.001 per share, of which 6,290,499 shares were issued to DISH Network on March 1, 2014 and remain outstanding as of December 31, 2015. See Note 4 for a discussion of the Hughes Retail Preferred Tracking Stock.

### Common Stock

Our Class A, Class B, and Class C common stock are equivalent except for voting rights. Holders of Class A and Class C common stock are entitled to one vote per share and holders of Class B common stock are entitled to 10 votes per share. Upon a change in control of the Company, each holder of outstanding shares of Class C common stock is entitled to 10 votes for each share of Class C common stock held. Each share of Class B and Class C common stock is convertible, at the option of the holder, into one share of Class A common stock. Our principal stockholder owns the majority of all outstanding Class B common stock and, together with all other stockholders, owns outstanding Class A common stock. There are no shares of Class C common stock outstanding.

Any holder of Class D common stock is not entitled to a vote on any matter or to convert the shares of Class D common stock into any other class of common stock. There are no shares of Class D common stock outstanding.

Each share of common stock is entitled to receive its pro rata share, based upon the number of shares of common stock held, of dividends and distributions upon liquidation.

### Common Stock Repurchase Program

Pursuant to a stock repurchase program approved by our board of directors, we are authorized to repurchase up to $500.0 million of our outstanding shares of Class A common stock through and including December 31, 2016. For the years ended December 31, 2015, 2014 and 2013, we did not repurchase any common stock under this program.

## Note 14. Employee Benefit Plans

### Employee Stock Purchase Plan

We have an employee stock purchase plan (the ESPP ), under which we are authorized to issue 2.5 million shares of Class A common stock. As of December 31, 2015, we had 0.8 million shares of Class A common stock which remain available for issuance under this plan. Substantially all full-time employees who have been employed by us for at least one calendar quarter are eligible to participate in the ESPP. Employee stock purchases are made through payroll deductions. Under the terms of the ESPP, employees may not deduct an amount which would permit such employee to purchase our capital stock under all of our stock purchase plans at a rate which would exceed $25,000 in fair value of capital stock in any one year. The purchase price of the stock is 85.0% of the closing price of the Class A common stock on the last business day of each calendar quarter in which such shares of Class A common stock are deemed sold to an employee under the ESPP. For the years ended December 31, 2015, 2014 and 2013, employee purchases of Class A common stock through the ESPP totaled 362,000 shares, 283,000 shares and 268,000 shares, respectively.

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**401(k) Employee Savings Plans**

Under the EchoStar 401(k) Plan ( the Plan ), eligible employees were entitled to contribute up to 75.0% of their compensation subject to the Internal Revenue Service ( IRS ) limit of $18,000 (or $24,000 for employees eligible to make Catch-Up contributions) in 2015. We amended the Plan in October 2015 to provide eligible employees with the option to make after-tax contributions ( Roth 401(k) contributions ) to the Plan so that they may contribute up to 75% of their compensation on a pre-tax and/or after-tax basis subject to the IRS limit. For Roth 401(k) contributions, earnings receive favorable tax treatment upon distribution as long as certain conditions are met. All employee contributions to the Plan are immediately vested. The Company will match 50 cents on the dollar for the first 6.0% of each employee s salary contributions to the Plan for a total of 3.0% match on a pre-tax basis up to a maximum of $7,500 annually. The Company match is calculated each pay period there is an employee contribution. Company contributions under the Plan vest at 20.0% per year and are 100.0% vested after an eligible employee has completed five years of service. Forfeitures of unvested participant balances which were retained by the EchoStar 401(k) Plan may be used to fund matching and discretionary contributions. Our board of directors may also authorize an annual discretionary contribution to the Plan to be made in cash or our stock, subject to the maximum deductible limit provided by the Internal Revenue Code of 1986, as amended.

For the years ended December 31, 2015, 2014 and 2013, we recognized matching contributions, net of forfeitures, of $7.4 million, $6.8 million and $6.1 million, respectively, and made discretionary contributions of shares of our Class A common stock, net of forfeitures, with a fair value of $10.4 million, $10.2 million and $10.3 million, respectively (approximately 204,000, 207,000 and 139,000 shares, respectively), to the Plan.

## Note 15. Stock-Based Compensation

**Stock Incentive Plans**

We maintain stock incentive plans to attract and retain officers, directors and key employees. Stock awards under these plans include both performance-based and non-performance based stock incentives. As of December 31, 2015, we had outstanding under these plans stock options to acquire 5.9 million shares of our Class A common stock and approximately 57,000 restricted stock units. Stock options granted prior to and on December 31, 2015 were granted with exercise prices equal to or greater than the market value of our Class A common stock at the date of grant and with a maximum term of ten years. While generally we issue stock awards subject to vesting, typically over three to five years, some stock awards have been granted with immediate vesting and other stock awards vest only upon the achievement of certain performance objectives. As of December 31, 2015, we had 4.3 million shares of our Class A common stock available for future grant under our stock incentive plans.

Exercise prices for stock options outstanding and exercisable as of December 31, 2015 are as follows:

| Price Range | Options Outstanding Number Outstanding as of December 31, 2015 | Weighted-Average Remaining Contractual Term (In Years) | | Weighted-Average Exercise Price | Options Exercisable Number Exercisable as of December 31, 2015 | Weighted-Average Remaining Contractual Term (In Years) | | Weighted-Average Exercise Price |
|---|---|---|---|---|---|---|---|---|
| $0.00 - $10.00 | 686 | 1 | $ | 2.12 | 686 | 1 | $ | 2.12 |
| $10.01 - $15.00 | 84,329 | 3 | $ | 14.83 | 84,329 | 3 | $ | 14.83 |
| $15.01 - $20.00 | 246,524 | 4 | $ | 18.96 | 246,524 | 4 | $ | 18.96 |
| $20.01 - $25.00 | 496,947 | 4 | $ | 20.29 | 480,947 | 4 | $ | 20.25 |
| $25.01 - $30.00 | 305,415 | 4 | $ | 28.12 | 227,415 | 3 | $ | 28.64 |
| $30.01 - $35.00 | 403,001 | 7 | $ | 34.04 | 349,001 | 6 | $ | 34.02 |
| $35.01 - $40.00 | 2,378,839 | 6 | $ | 37.90 | 1,440,839 | 6 | $ | 37.70 |
| $40.01 and above | 1,977,500 | 9 | $ | 49.42 | 252,500 | 8 | $ | 48.09 |
| | 5,893,241 | 7 | $ | 38.38 | 3,082,241 | 5 | $ | 32.61 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Stock Award Activity**

Our stock option activity was as follows:

| | For the Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 | |
| | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price |
| Total options outstanding, beginning of period | 6,669,614 | $ 34.02 | 6,271,058 | $ 30.43 | 7,908,300 | $ 27.21 |
| Granted | 929,000 | $ 51.59 | 1,161,000 | $ 47.84 | 1,190,000 | $ 38.75 |
| Exercised | (894,071) | $ 27.78 | (697,544) | $ 24.87 | (2,494,893) | $ 24.65 |
| Forfeited and cancelled | (811,302) | $ 29.45 | (64,900) | $ 32.65 | (332,349) | $ 27.01 |
| Total options outstanding, end of period | 5,893,241 | $ 38.38 | 6,669,614 | $ 34.02 | 6,271,058 | $ 30.43 |
| Performance-based options outstanding, end of period (1) | | $ | 623,100 | $ 25.27 | 629,300 | $ 25.27 |
| Exercisable at end of period | 3,082,241 | $ 32.61 | 3,013,114 | $ 29.66 | 2,712,891 | $ 28.69 |

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

We realized total tax benefits from stock options exercised of $7.9 million, $7.2 million and $21.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Our restricted stock unit activity was as follows:

| | For the Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 | |
| | Restricted Stock Units | Weighted-Average Grant Date Fair Value | Restricted Stock Units | Weighted-Average Grant Date Fair Value | Restricted Stock Units | Weighted-Average Grant Date Fair Value |
| Total restricted stock units outstanding, beginning of | 96,768 | $ 29.29 | 121,877 | $ 29.93 | 151,683 | $ 30.18 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| period | | | | | | | | | |
| Granted | 100,000 | $ | 50.00 | | $ | | | $ | |
| Vested | (83,992) | $ | 45.72 | (22,877) | $ | 33.08 | (22,876) | $ | 33.08 |
| Forfeited and cancelled | (55,448) | $ | 27.01 | (2,232) | $ | 25.51 | (6,930) | $ | 24.88 |
| Total restricted stock units outstanding, end of period | 57,328 | $ | 42.31 | 96,768 | $ | 29.29 | 121,877 | $ | 29.93 |
| Restricted Performance Units outstanding, end of period | 33,334 | $ | 50.00 | 55,448 | $ | 27.00 | 57,680 | $ | 26.94 |

We granted 100,000 restricted stock units ( RSUs ) for the year ended December 31, 2015. The RSUs vest based on the attainment of certain quarterly company performance criteria for the second, third and fourth quarters of 2015 and will expire on March 31, 2016. For the year ended December 31, 2015, 66,666 of the RSUs vested and vesting of the remaining 33,334 RSUs is probable.

***2005 LTIP.*** During 2005, DISH Network adopted a long-term, performance-based stock incentive plan (the 2005 LTIP ). The 2005 LTIP provided stock options and RSUs, either alone or in combination, with vesting over seven years at the rate of 10.0% per year during the first four years, and at the rate of 20.0% per year thereafter. In connection with the Spin-off, those stock options and RSUs were converted into EchoStar stock options and RSUs with the same terms and obligations as were provided under the 2005 LTIP. As of December 31, 2014, all outstanding awards under the terms of the 2005 LTIP had satisfied applicable time-based vesting requirements and were subject only to a performance condition that a company-specific goal is achieved by March 31, 2015. In 2015 we determined that the company-specific goal was no longer achievable under the terms of the 2005 LTIP. Accordingly, the 2005 LTIP and all outstanding awards under the terms of the 2005 LTIP were cancelled and terminated during 2015.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Stock-Based Compensation**

Total non-cash, stock-based compensation expense for all of our employees is shown in the following table for the years ended December 31, 2015, 2014 and 2013 and was assigned to the same expense categories as the base compensation for such employees:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | | (In thousands) | |
| Research and development expenses | $ 4,570 | $ 2,403 | $ 3,478 |
| Selling, general and administrative expenses | 17,269 | 12,280 | 14,875 |
| Total stock-based compensation | $ 21,839 | $ 14,683 | $ 18,353 |

As of December 31, 2015, total unrecognized stock-based compensation cost, net of estimated forfeitures, related to our unvested stock awards was $33.1 million.  This cost is based on an estimated future forfeiture rate of approximately 2.0% per year and will be recognized over a weighted-average period of approximately two years.

**Valuation of Stock Options**

The fair value of each stock option granted for the years ended December 31, 2015, 2014 and 2013 was estimated at the date of the grant using a Black-Scholes option valuation model.  The estimated grant-date fair values and related assumptions were as follows:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| **Assumptions:** | **2015** | **2014** | **2013** |
| Risk-free interest rate | 1.38% - 1.80% | 1.72% - 1.85% | 0.99% - 1.54% |
| Volatility factor | 27.16% - 27.85% | 29.05% - 35.02% | 37.54% - 42.23% |
| Expected term of options in years | 5.3 - 5.4 | 5.2 - 5.3 | 5.4 - 5.5 |
| Weighted-average grant-date fair value | $12.25 - $15.05 | $13.79 - $17.21 | $15.59 - $17.20 |

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

Based on the closing market price of our Class A common stock on December 31, 2015, the aggregate intrinsic value of our stock options was $24.7 million for options outstanding and $22.3 million for options exercisable as of December 31, 2015.

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## Note 16. Commitments and Contingencies

**Commitments**

The following table summarizes our contractual obligations at December 31, 2015:

| | Payments Due in the Year Ending December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter |
| | (In thousands) | | | | | | |
| Long-term debt | $ 1,890,803 | $ 803 | $ | $ | $ 990,000 | $ | $ 900,000 |
| Capital lease obligations | 332,838 | 34,895 | 34,502 | 36,287 | 40,143 | 44,558 | 142,453 |
| Interest on long-term debt and capital lease obligations | 761,689 | 166,086 | 162,805 | 159,265 | 123,191 | 86,697 | 63,645 |
| Satellite-related obligations | 1,134,217 | 534,871 | 165,992 | 119,976 | 55,654 | 53,662 | 204,062 |
| Operating lease obligations | 100,274 | 26,324 | 19,469 | 11,919 | 9,800 | 8,543 | 24,219 |
| Purchase and other obligations | 227,028 | 225,361 | 1,667 | | | | |
| Total | $ 4,446,849 | $ 988,340 | $ 384,435 | $ 327,447 | $ 1,218,788 | $ 193,460 | $ 1,334,379 |

Satellite-related obligations primarily include payments pursuant to agreements for the construction of the EchoStar XIX, EchoStar XXI, EchoStar XXIII, 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. We incurred satellite-related expenses of $160.8 million, $178.8 million and $181.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Our Purchase and other obligations primarily consists of binding purchase orders for digital set-top boxes and related components. Our purchase obligations can fluctuate significantly from period to period due to, among other things, management s control of inventory levels, and can materially impact our future operating asset and liability balances, and our future working capital requirements.

The table above does not include amounts related to deferred tax liabilities, unrecognized tax positions and certain other amounts recorded in our noncurrent liabilities as the timing of any payments is uncertain. The table also excludes long-term deferred revenue and other long-term liabilities that do not require future cash payments.

In certain circumstances, the dates on which we are obligated to pay our contractual obligations could change.

**Rent Expense**

For the years ended December 31, 2015, 2014 and 2013, we recorded $22.0 million, $21.3 million and $22.6 million, respectively, of operating lease expense relating to the leases of office space, equipment, and other facilities.

**Contingencies**

***Patents and Intellectual Property***

Many entities, including some of our competitors, have or may in the future obtain patents and other intellectual property rights that cover or affect products or services directly or indirectly related to those that we offer. We may not be aware of all patents and other intellectual property rights that our products and services may potentially infringe. Damages in patent infringement cases can be substantial, and in certain circumstances can be trebled. Further, we cannot estimate the extent to which we may be required in the future to obtain licenses with respect to intellectual property rights held by others and the availability and cost of any such licenses. Various parties have asserted patent and other intellectual property rights with respect to components within our DBS products and services. We cannot be certain that these persons do not own the rights they claim, that these rights are not valid or that our products and services do not infringe on these rights. Further, we cannot be certain that we would be able to

**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

obtain licenses from these persons on commercially reasonable terms or, if we were unable to obtain such licenses, that we would be able to redesign our products and services to avoid infringement.

***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/or 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. 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. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of possible loss or range of loss can be made. There can be no assurance that legal proceedings against us will be resolved in amounts that will not differ from the amounts of our recorded accruals. Legal fees and other costs of defending litigation are charged to expense as incurred.

For certain cases described below, management is unable to predict with any degree of certainty the outcome or 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 or specified; (iii) damages are unsupported, indeterminate and/or exaggerated in management s opinion; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; and/or (vi) there are novel legal issues or unsettled legal theories to be presented or a large number of parties are involved (as with many patent-related cases). For these cases, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on our financial condition, operating results or cash flows, though there is no assurance that the resolution and outcomes of these proceedings, individually or in the aggregate, will not be material to our financial condition, operating results or cash flows for any particular period, depending, in part, upon the operating results for such period.

We intend to vigorously defend the proceedings against us. In the event that a court ultimately rules against us, we may be subject to adverse consequences, including, without limitation, substantial damages, which may include treble damages, fines, penalties, compensatory damages and/or other equitable or injunctive relief that could require us to materially modify our business operations or certain products or services that we offer to our consumers. In addition, adverse decisions against DISH Network in the proceedings described below could decrease the number of products and components we sell to DISH Network, which could have a material adverse effect on our business operations and our financial condition, results of operation and cash flows.

*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 ( HNS ), 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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

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 EchoStar Corporation 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 HNS Gen4 HT1000 and HT1100 products infringe the same patents asserted in the first case. We answered that second complaint on March 24, 2015. The trial for the first case which was scheduled to commence on April 20, 2015, was vacated by the Court on March 16, 2015 and a new trial date has yet to be set. On May 5, 2015, the Court granted summary judgment for us on a number of issues, finding that Caltech s damages theory improperly apportioned alleged damages, that allegations of infringement against DISH Network, DISH Network L.L.C., and dishNET Satellite Broadband L.L.C. should be dismissed from the case, and affirming that Caltech could not assert infringement under the doctrine of equivalents. The Court also granted motions by Caltech seeking findings that certain of its patents were not indefinite or subject to equitable estoppel. The Court otherwise denied motions for summary judgment, including a motion by Caltech seeking summary judgment of infringement. On May 14, 2015, the judge assigned to the case passed away. A new judge has not yet been formally assigned. The parties are discussing resolving these cases without further litigation. There can be no assurance that a settlement agreement will be reached. If a settlement agreement is not reached, we cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages and we intend to vigorously defend these cases.

*ClearPlay, Inc.*

On March 13, 2014, ClearPlay, Inc. ( ClearPlay ) filed a complaint against EchoStar Corporation 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 United States Patent and Trademark Office regarding the validity of certain of the patents ClearPlay asserted in the case.

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

On January 17, 2014, CRFD Research, Inc. ( CRFD ) filed a complaint against EchoStar Corporation and our subsidiary, EchoStar Technologies L.L.C., as well as against DISH Network, DISH DBS Corporation and DISH Network L.L.C., in United States District Court for the District of Delaware, alleging infringement of United States Patent No. 7,191,233 (the 233 patent ). The 233 patent is entitled System for Automated, Mid-Session, User-Directed, Device-to-Device Session Transfer System, and relates to transferring an ongoing software session from one device to another. CRFD alleges that certain of our set-top boxes infringe the 233 patent. On the same day, CRFD filed patent infringement complaints against AT&T Inc.; Comcast Corp.; DirecTV; Time Warner Cable Inc.; Cox Communications, Inc.; Level 3 Communications, Inc.; Akamai Technologies, Inc.; Cablevision Systems Corp. and Limelight Networks, Inc. On January 26, 2015, we and DISH Network filed a petition before the United States Patent and Trademark Office challenging the validity of the 233 patent, which was subsequently instituted along with two third-party petitions also challenging the validity of the 233 patent. On June 4, 2015, the litigation in the District Court was ordered stayed pending resolution of our petition before the United States Patent and Trademark Office, and on January 16, 2016, the United States Patent and Trademark Office held oral arguments on the merits of the petition. CRFD is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

*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 HNS, 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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

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 April 2, 2015, Elbit filed an amended complaint removing Helm Hotels Group as a defendant, but making similar allegations against a new defendant, Country Home Investments, Inc. On April 20, 2015, the defendants filed motions to dismiss portions of Elbit s amended complaint. On January 15, 2016, the defendants filed a petition challenging the validity of the 073 patent and the 874 patent.

*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 unit s placeshifting functionality infringe their copyrights and breach their retransmission consent agreements, (ii) NBC Studios LLC, Universal Network Television, LLC, Open 4 Business Productions LLC and NBCUniversal Media, LLC filed a lawsuit against DISH in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature and the AutoHop feature infringe their copyrights, and (iii) CBS Broadcasting Inc., CBS Studios Inc. and Survivor Productions LLC filed a lawsuit against DISH in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature and the AutoHop feature infringe their copyrights.

As a result of certain parties competing counterclaims and venue-related motions brought in both the New York and California actions, as described below, 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 and NBC parties in California.

*California Actions.* On August 17, 2012, the NBC plaintiffs filed a first amended complaint in their California action adding EchoStar Corporation 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 November 7, 2012, the California court denied the Fox plaintiffs motion for a preliminary injunction to enjoin the Hopper set-top box s PrimeTime Anytime and AutoHop features, and the Fox plaintiffs appealed. On March 27, 2013, at the request of the parties, the Central District of California granted a stay of all proceedings in the action brought by the NBC plaintiffs, pending resolution of the appeal by the Fox plaintiffs. 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. As discussed below, the Fox action was dismissed on February 11, 2016. As a result, the parties to the NBC action have until February 26, 2016 to file a status report indicating their intended course of action. No trial date is currently set on the NBC claims.

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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 unit s 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 unit s 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 unit s placeshifting functionality, the Hopper Transfers feature and certain quality assurance copies breach DISH s retransmission consent agreement with Fox. At the parties joint request, the Court had stayed the case until January 15, 2016. Pursuant to a settlement agreement between us, DISH Network and the Fox plaintiffs, on February 10, 2016, we, DISH Network and the Fox plaintiffs filed a motion to dismiss with prejudice all of our respective claims pending in the California Court. That motion was granted on February 11, 2016.

*New York Actions.* On October 9, 2012, the ABC plaintiffs filed copyright counterclaims in the New York action against EchoStar Technologies, L.L.C., with the CBS plaintiffs filing similar copyright counterclaims in the New York action against EchoStar Technologies L.L.C. on October 12, 2012. Additionally, the CBS plaintiffs filed a counterclaim alleging that DISH Network fraudulently concealed the AutoHop feature when negotiating the renewal of its CBS retransmission consent agreement.

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

*Kappa Digital, LLC*

On June 1, 2015, Kappa Digital LLC ( Kappa ) filed suit against our subsidiary HNS in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 6,349,135, entitled Method and System for a Wireless Digital Message Service. Kappa generally alleges that HNS HughesNet Gen 4 residential internet service/systems and HughesNet Business Broadband service/systems infringe its asserted patent. Kappa is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. On February 1, 2016, Kappa filed a motion to dismiss its claims with prejudice and on February 2, 2016, the action was dismissed accordingly.

*LightSquared/Harbinger Capital Partners LLC (LightSquared Bankruptcy)*

On August 6, 2013, Harbinger Capital Partners LLC and other affiliates of Harbinger (collectively, Harbinger ), a shareholder of LightSquared Inc. ( LightSquared ), filed an adversary proceeding against EchoStar Corporation, 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

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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. On July 7, 2015, the United States District Court for the Southern District of New York denied Harbinger s motion for an appeal of certain Bankruptcy Court orders in the adversary proceeding.

*Michael Heskiaoff, Marc Langenohl, and Rafael Mann*

On July 10, 2015, Messrs. Michael Heskiaoff and Marc Langenohl, purportedly on behalf of themselves and all others similarly situated, filed suit against our subsidiary Sling Media, Inc. in the United States District Court for the Southern District of New York. The complaint alleges that Sling Media Inc. s display of advertising to its customers violates a number of state statutes dealing with consumer deception. On September 25, 2015, the plaintiffs filed an amended complaint, and Mr. Rafael Mann, purportedly on behalf of himself and all others similarly situated, filed an additional complaint alleging similar causes of action. On November 16, 2015, the cases were consolidated.

*Personalized Media Communications, Inc.*

During 2008, Personalized Media Communications, Inc. ( PMC ) filed suit against EchoStar Corporation, DISH Network and Motorola Inc. in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent Nos. 5,109,414; 4,965,825; 5,233,654; 5,335,277; and 5,887,243, which relate to satellite signal processing. PMC is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. Subsequently, Motorola Inc. settled with PMC, leaving DISH Network and us as defendants. On July 18, 2012, pursuant to a Court order, PMC filed a Second Amended Complaint that added Rovi Guides, Inc. (f/k/a/ Gemstar-TV Guide International, Inc.) and TVG-PMC, Inc. (collectively, Gemstar ) as a party, and added a new claim against all defendants seeking a declaratory judgment as to the scope of Gemstar s license to the patents in suit, under which DISH Network and we are sublicensees. On August 12, 2014, in response to the parties respective summary judgment motions related to the Gemstar license issues, the Court ruled in favor of PMC and dismissed all claims by or against Gemstar and entered partial final judgment in PMC s favor as to those claims. On September 16, 2014, we and DISH Network filed a notice of appeal of that partial final judgment, which is pending. On November 5, 2014, PMC supplemented its expert report on damages, dropping a higher value damages theory and disclosing that it seeks damages ranging from $167 million to $447 million as of September 30, 2014, excluding pre-judgment interest and possible treble damages under Federal law. On May 7, 2015, we, DISH Network and PMC entered into a settlement and release agreement that provided, among other things, for a license by PMC to us and DISH Network for certain patents and patent applications and the dismissal of all of PMC s claims in the action against us and DISH Network with prejudice. In June 2015, we and DISH Network agreed that we would contribute a one-time payment of $5.0 million towards the settlement under the agreements entered into in connection with the Spin-off and the 2012 Receiver Agreement. On June 4, 2015, the Court dismissed all of PMC s claims in the action against us and DISH Network with prejudice. We have recorded a loss related to the settlement within Selling, general and administrative expenses in our consolidated statement of operations and comprehensive income (loss) of $5.0 million for the year ended December 31, 2015.

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

On July 30, 2015, Phoenix Licensing, L.L.C. and LPL Licensing, L.L.C. (together referred to as Phoenix ) filed a complaint against our subsidiary HNS in the United States District Court for the Eastern District of Texas, alleging infringement of United States Patent Nos. 5,987,434, entitled Apparatus and Method for Transacting Marketing and Sales of Financial Products ; 7,890,366, entitled Personalized Communication Documents, System and Method for Preparing Same ; 8,352,317, entitled System for Facilitating Production of Variable Offer Communications ; 8,234,184, entitled Automated Reply Generation Direct Marketing System ; 6,999,938, entitled Automated Reply Generation Direct Marketing System ; 8,738,435, entitled Method and Apparatus for Presenting Personalized Content Relating to Offered Products and Services ; and 7,860,744, entitled System and Method for Automatically Providing Personalized Notices Concerning Financial Products and/or Services. Phoenix alleged that HNS infringes the asserted patents by making and using products and services that generate customized marketing materials. Phoenix is an entity that seeks to license a patent portfolio without itself practicing any of the claims recited therein against us. On October 16, 2015, Phoenix moved to dismiss the litigation against us without prejudice pursuant to a settlement agreement, and on November 3, 2015, the action was dismissed accordingly.

*Realtime Data LLC*

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

*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, which on June 12, 2015, we moved to dismiss.

Of the attempted grant of 1.5 million options to Mr. Ergen in 2011, only 800,000 were validly granted and remain outstanding.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

*Technology Development and Licensing, LLC*

On January 22, 2009, Technology Development and Licensing, LLC ( TDL ) filed suit against EchoStar Corporation 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, which concluded in August 2015 resulting in 42 out of the 53 claims of the 952 patent being cancelled. As a result, the case resumed in August 2015. A trial date has not been set.

*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 EchoStar Corporation and our subsidiaries, EchoStar Technologies, L.L.C, HSS, 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. During August 2015, EchoStar Corporation and DISH Network L.L.C. filed petitions before the United States Patent and Trademark Office challenging the validity of the 456 patent. Trial is scheduled to commence on December 12, 2016.

*Two-Way Media Ltd*

On February 17, 2016, Two-Way Media Ltd ( TWM ) filed a complaint against EchoStar Corporation and our subsidiaries EchoStar Technologies L.L.C., EchoStar Satellite Services L.L.C., and Sling Media, Inc., as well as against DISH Network Corporation, DISH DBS Corporation, DISH Network L.L.C., DISH Network Service L.L.C., Sling TV Holding L.L.C., Sling TV L.L.C., and Sling TV Purchasing L.L.C. TWM brought the suit in the United States District Court for the District of Colorado, alleging infringement of United States Patent Nos. 5,778,187; 5,983,005; 6,434,622; and 7,266,686, each entitled Multicasting Method and Apparatus ; and 9,124,607, entitled Methods and Systems for Playing Media. TWM alleges that the SlingTV, Sling International, DISH Anywhere, and DISHWorld services, as well as the Slingbox units and Sling-enabled DISH DVRs, infringe the asserted patents. TWM is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

*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. As part of our ongoing operations, the Company is subject to various inspections, audits, inquiries, investigations and similar actions by third parties, as well as by governmental/regulatory authorities responsible for enforcing the laws and regulations to which the Company is subject. Further, under the federal False Claims Act, private parties have the right to bring qui tam, or whistleblower, suits against companies that submit false claims for payments to, or improperly retain overpayments from, the federal government. Some states have adopted similar state whistleblower and false claims provisions. In addition, the Company from time to time receives inquiries from federal, state and foreign agencies regarding compliance with various laws and regulations.

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 cash flows, though the resolutions and outcomes, individually or in the aggregate, could be material to our financial position, operating results or cash flows for any particular period, depending, in part, upon the operating results for such period.

The Company indemnifies its directors, officers and employees for certain liabilities that might arise from the performance of their responsibilities for the Company. Additionally, in the normal course of its business, the Company enters into contracts pursuant to which the Company may make a variety of representations and warranties and indemnify the counterparty for certain losses. The Company s possible exposure under these arrangements cannot be reasonably estimated as this involves the resolution of claims made, or future claims that may be made, against the Company or its officers, directors or employees, the outcomes of which are unknown and not currently predictable or estimable.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

## Note 17. 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 the following three primary business segments:

- ***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 Technologies ( ETC )*** which designs, develops and distributes secure end-to-end video technology solutions including 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 and Dish Mexico. In addition, we provide our TV Anywhere technology through Slingbox® units directly to consumers via retail outlets and online, as well as to the pay-TV operator market. Beginning in 2015, this segment also includes Move Networks, our over-the-top ( OTT ), Streaming Video on Demand ( SVOD ) platform 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. In 2016, we plan to introduce a security and home automation solution provided directly to consumers.

- ***EchoStar Satellite Services*** which uses certain of our owned and leased in-orbit satellites and related licenses to provide satellite services on a full-time and occasional-use basis primarily to DISH Network, Dish Mexico, U.S. government service providers, internet service providers, broadcast news organizations, programmers, and private enterprise customers.

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

Prior to 2015, our Move Networks business, including certain assets distributed to us in August 2014 in connection with the Exchange Agreement with Sling TV Holding (see Notes 6, 10 and 19), was managed separately from our existing operating segments and was reported within All Other and Eliminations. In the first quarter of 2015, we assigned management responsibility for our Move Networks business to our EchoStar Technologies segment, where it continues to be managed and reported as a separate reporting unit. All prior period amounts have been retrospectively adjusted to present operations of our Move Networks business in our EchoStar Technologies segment.

For the years ended December 31, 2015, 2014 and 2013, transactions between segments were not significant.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

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

| | Hughes | EchoStar Technologies | EchoStar Satellite Services (In thousands) | All Other and Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| **For the Year Ended December 31, 2015** | | | | | |
| External revenue | $ 1,344,945 | $ 1,297,510 | $ 489,842 | $ 11,417 | $ 3,143,714 |
| Intersegment revenue | $ 2,395 | $ 688 | $ 749 | $ (3,832) | $ |
| Total revenue | $ 1,347,340 | $ 1,298,198 | $ 490,591 | $ 7,585 | $ 3,143,714 |
| EBITDA | $ 396,684 | $ 106,745 | $ 412,607 | $ (50,683) | $ 865,353 |
| Capital expenditures | $ 285,499 | $ 50,593 | $ 101,215 | $ 266,213 | $ 703,520 |
| | | | | | |
| **For the Year Ended December 31, 2014** | | | | | |
| External revenue | $ 1,325,887 | $ 1,626,826 | $ 481,579 | $ 11,286 | $ 3,445,578 |
| Intersegment revenue | $ 1,831 | $ 540 | $ 2,876 | $ (5,247) | $ |
| Total revenue | $ 1,327,718 | $ 1,627,366 | $ 484,455 | $ 6,039 | $ 3,445,578 |
| EBITDA | $ 356,871 | $ 154,786 | $ 419,442 | $ (28,518) | $ 902,581 |
| Capital expenditures | $ 218,607 | $ 48,616 | $ 28,734 | $ 384,069 | $ 680,026 |
| | | | | | |
| **For the Year Ended December 31, 2013** | | | | | |
| External revenue | $ 1,215,783 | $ 1,730,433 | $ 326,828 | $ 9,408 | $ 3,282,452 |
| Intersegment revenue | $ 2,343 | $ 412 | $ 3,349 | $ (6,104) | $ |
| Total revenue | $ 1,218,126 | $ 1,730,845 | $ 330,177 | $ 3,304 | $ 3,282,452 |
| EBITDA | $ 281,513 | $ 136,537 | $ 235,993 | $ (3,946) | $ 650,097 |
| Capital expenditures | $ 186,561 | $ 56,935 | $ 12,700 | $ 135,677 | $ 391,873 |

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

| | For the Years Ended December 31, 2015 | 2014 (In thousands) | 2013 |
|---|---|---|---|
| EBITDA | $ 865,353 | $ 902,581 | $ 650,097 |
| Interest income and expense, net | (111,637) | (162,247) | (177,898) |
| Depreciation and amortization | (528,158) | (556,676) | (507,111) |
| Net income (loss) attributable to noncontrolling interests | (3,986) | (5,325) | 876 |
| Income (loss) before income taxes | $ 221,572 | $ 178,333 | $ (34,036) |

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Geographic Information and Transactions with Major Customers**

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

| | As of December 31, | |
|---|---|---|
| **Long-lived assets:** | **2015** | **2014** |
| | (In thousands) | |
| North America: | | |
| United States | $ 4,440,590 | $ 4,313,649 |
| Other | 1,242 | 585 |
| All other | 158,253 | 155,229 |
| Total | $ 4,600,085 | $ 4,469,463 |

| | For the Years Ended December 31, | | |
|---|---|---|---|
| **Revenue:** | **2015** | **2014** | **2013** |
| | | (In thousands) | |
| North America: | | | |
| United States | $ 2,685,665 | $ 2,958,539 | $ 2,819,968 |
| Other | 203,813 | 220,122 | 215,787 |
| All other | 254,236 | 266,917 | 246,697 |
| Total | $ 3,143,714 | $ 3,445,578 | $ 3,282,452 |

***Transactions with Major Customers***. For the years ended December 31, 2015, 2014 and 2013, our revenue included sales to one major customer. The following table summarizes sales to this customer and its percentage of total revenue.

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | | (In thousands) | |
| **Total revenue:** | | | |
| DISH Network: | | | |
| Hughes segment | $ 105,181 | $ 112,692 | $ 113,869 |
| EchoStar Technologies segment | 1,141,435 | 1,443,419 | 1,560,905 |
| EchoStar Satellite Services segment | 423,465 | 407,236 | 247,174 |
| Other | 11,404 | 11,244 | 9,687 |
| Total DISH Network | 1,681,485 | 1,974,591 | 1,931,635 |

| | | | |
|---|---|---|---|
| All other | 1,462,229 | 1,470,987 | 1,350,817 |
| Total revenue | $ 3,143,714 | $ 3,445,578 | $ 3,282,452 |
| | | | |
| **Percentage of total revenue:** | | | |
| DISH Network | 53.5% | 57.3% | 58.8% |
| All other | 46.5% | 42.7% | 41.2% |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

## Note 18. Quarterly Financial Data (Unaudited)

Our quarterly results of operations are summarized as follows:

| | For the Three Months Ended March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | |
| **Year ended December 31, 2015:** | | | | |
| Total revenue | $ 798,653 | $ 793,595 | $ 760,879 | $ 790,587 |
| Operating income | $ 81,205 | $ 94,348 | $ 88,607 | $ 91,873 |
| Net income attributable to EchoStar common stock | $ 33,402 | $ 33,900 | $ 30,102 | $ 66,296 |
| Basic earnings per share | $ 0.36 | $ 0.37 | $ 0.33 | $ 0.71 |
| Diluted earnings per share | $ 0.36 | $ 0.36 | $ 0.32 | $ 0.71 |
| | | | | |
| **Year ended December 31, 2014:** | | | | |
| Total revenue | $ 826,023 | $ 879,828 | $ 895,840 | $ 843,887 |
| Operating income | $ 59,820 | $ 92,470 | $ 92,277 | $ 83,523 |
| Net income attributable to EchoStar common stock | $ 12,653 | $ 33,794 | $ 64,055 | $ 54,766 |
| Basic earnings per share | $ 0.14 | $ 0.37 | $ 0.70 | $ 0.60 |
| Diluted earnings per share | $ 0.14 | $ 0.36 | $ 0.69 | $ 0.59 |

For the quarter ended December 31, 2015, our effective income tax rate decreased due primarily to the re-enactment of federal research and experimentation tax credits in December 2015. The decrease in our effective tax rate resulted in a $23.2 million decrease in our quarterly tax provision.

For the quarter ended December 31, 2014, our operating results included a gain of $5.8 million related to our investment in TerreStar (See Note 6).

## Note 19. 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 4 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.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

***Equipment revenue DISH Network***

***Receiver Agreement***. Effective January 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 2012 to December 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. In May 2014, we received DISH Network s notice to extend the 2012 Receiver Agreement for one year to December 2015, and in November 2015, we amended the 2012 Receiver Agreement with DISH Network to extend the term of the 2012 Receiver Agreement for one year to December 2016.

***Services and other revenue DISH Network***

***Broadcast Agreement***. Effective January 2012, we and DISH Network entered into a 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 2012 to December 2016. The 2012 Broadcast Agreement replaced the broadcast agreement that we entered into with DISH Network in connection with the Spin-off. The fees for the services provided under the 2012 Broadcast Agreement are calculated at either: (a) our cost of providing the relevant service plus a fixed dollar fee, which is subject to certain adjustments; or (b) our cost of providing the relevant service plus a fixed margin, which will depend on the nature of the services provided. DISH Network has the ability to terminate channel origination services and channel management services for any reason and without any liability upon at least 60 days notice to us. If DISH Network terminates the teleport services provided under the 2012 Broadcast Agreement for a reason other than our breach, DISH Network generally is obligated to reimburse us for any direct costs we incur related to any such termination that we cannot reasonably mitigate.

***Broadcast Agreement for Certain Sports Related Programming***. In 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 4, in March 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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

a year-to-year basis through the end of the respective satellite s life. There can be no assurance that any options to renew such agreements will be exercised. DISH Network has elected not to renew the satellite services agreement relative to the EchoStar I satellite. The agreement for the EchoStar I satellite expired pursuant to its terms effective November 2015. In December 2015, DISH Network renewed the satellite services agreement relative to the EchoStar VII satellite for one year to June 2017.

*EchoStar VIII.* In May 2013, DISH Network began receiving satellite services from us on the EchoStar VIII satellite as an in-orbit spare. Effective March 2014, this satellite services arrangement converted to a month-to-month service agreement with both parties having the right to terminate upon 30 days notice. The agreement terminated in accordance with its terms effective November 2015.

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

*EchoStar XII.* DISH Network receives satellite services from us on the EchoStar XII satellite. 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) September 2017. 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.* In December 2009, we entered into an initial ten-year transponder service agreement with DISH Network, pursuant to which DISH Network has received satellite services from us on the EchoStar XVI satellite since January 2013. Effective December 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. In the event that we or DISH Network does not exercise the six-year renewal option or DISH does not exercise the five-year renewal options, DISH Network has the option to purchase the EchoStar XVI satellite for a certain price. If DISH Network does not elect to purchase the EchoStar XVI satellite at that time, we may sell the EchoStar XVI satellite to a third party and DISH Network is required to pay us a certain amount in the event we are not able to sell the EchoStar XVI satellite for more than a certain amount.

***Nimiq 5 Agreement***. In September 2009, we entered into a fifteen-year satellite service agreement with 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 ). In September 2009, we also entered into a satellite service agreement (the DISH Nimiq 5 Agreement ) with DISH Network, pursuant to which DISH Network receives satellite services from us on all 32 of the DBS transponders covered by the Telesat Transponder Agreement.

Under the terms of the DISH Nimiq 5 Agreement, DISH Network makes certain monthly payments to us that commenced in September 2009, when the Nimiq 5 satellite was placed into service, and continue through the service term. Unless earlier terminated under the terms and conditions of the DISH Nimiq 5 Agreement, the service term will expire ten years following the date the Nimiq 5 satellite 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***. In November 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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

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 the QuetzSat-1 satellite. The QuetzSat-1 satellite was launched in September 2011 and was placed into service during November 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. In February 2013, 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, the QuetzSat-1 satellite 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.*** In 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 ). In 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.

In connection with the 103 Spectrum Development Agreement, in 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. In June 2013, we and DISH Network entered into an agreement pursuant to which DISH Network receives certain satellite services from us commencing in June 2013 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 service commencement date. Upon in-orbit failure or end of life of the SES-3 satellite, and in certain other circumstances, DISH Network has certain rights to receive service from us on a replacement satellite. There can be no assurance that DISH Network will exercise its option to receive service on a replacement satellite.

***Satellite and Tracking Stock Transaction***. In February 2014, we entered into agreements with DISH Network to implement a transaction pursuant to which, among other things: (i) in March 2014, EchoStar and HSS issued shares of the Tracking Stock to DISH Network in exchange for five satellites owned by DISH Network (EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV) (including assumption of related in-orbit incentive obligations) and approximately $11.4 million in cash; and (ii) in March 2014, DISH Network began receiving certain satellite services on these five satellites from us. See Note 4 for further information.

***TT&C Agreement***. Effective January 2012, we entered into a telemetry, tracking and control ( TT&C ) agreement pursuant to which we provide TT&C services to DISH Network and its subsidiaries for a period ending in December 2016 (the 2012 TT&C Agreement ). The 2012 TT&C Agreement replaced the TT&C agreement we entered into with DISH Network in connection with the Spin-off. The fees for services provided under the 2012 TT&C Agreement are calculated at either: (i) a fixed fee or (ii) cost plus a fixed margin, which will vary depending on the nature of the services provided. DISH Network is able to terminate the 2012 TT&C Agreement for any reason upon 60 days notice.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

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

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

*Inverness Lease Agreement*. The lease for certain space at 90 Inverness Circle East in Englewood, Colorado is for a period ending in December 2016. This agreement can be terminated by either party upon six months prior notice. This agreement may be extended by mutual consent, in which case this agreement will be converted to a month-to-month lease agreement. Upon such extension, both parties have the right to terminate this agreement upon 30 days notice. In February 2016, DISH Network provided us notice to terminate this lease effective August 10, 2016.

*Meridian Lease Agreement*. The lease for all of 9601 S. Meridian Blvd. in Englewood, Colorado is for a period ending in December 2016. This agreement may be extended by mutual consent, in which case this agreement will be converted to a month-to-month lease agreement. Upon extension, both parties have the right to terminate this agreement upon 30 days notice.

*Santa Fe Lease Agreement*. The lease for all of 5701 S. Santa Fe Dr. in Littleton, Colorado is for a period ending in December 2016. This agreement may be extended by mutual consent, in which case this agreement will be converted to a month-to-month lease agreement. Upon extension, both parties have the right to terminate this agreement upon 30 days notice.

*EchoStar Data Networks Sublease Agreement*. The sublease for certain space at 211 Perimeter Center in Atlanta, Georgia is for a period ending in October 2016. DISH Network may extend this agreement for an additional five years.

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

*Cheyenne Lease Agreement*. The lease for certain space at 530 EchoStar Drive in Cheyenne, Wyoming is for a period ending in December 2031. This agreement may be extended by mutual consent, in which case this agreement will be converted to a month-to-month lease agreement. Upon extension, both parties have the right to terminate this agreement upon 30 days notice.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

***DISHOnline.com Services Agreement***. Effective January 2010, DISH Network entered into a two-year agreement with us pursuant to which DISH Network receives certain services associated with an online video portal. The fees for the services provided under this services agreement depend, among other things, upon the cost to develop and operate such services. DISH Network has the option to renew this agreement for successive one year terms and the agreement may be terminated by DISH Network for any reason upon at least 120 days notice to us. In October 2014, DISH Network exercised its right to renew this agreement for a one-year period ending in December 2015, and in November 2015, DISH Network exercised its right to renew this agreement for an additional one-year period ending in December 2016.

***DISH Remote Access Services Agreement***. Effective February 2010, we entered into an agreement with DISH Network pursuant to which DISH Network receives, among other things, certain remote digital video recorder ( DVR ) management services. The fees for the services provided under this services agreement depend, among other things, upon the cost to develop and operate such services. This agreement had an initial term of five years with automatic renewal for successive one year terms. This agreement automatically renewed in February 2016 for an additional one-year period until February 2017. The agreement may be terminated by DISH Network for any reason upon at least 120 days notice to us.

***SlingService Services Agreement***. Effective February 2010, we entered into an agreement with DISH Network pursuant to which DISH Network receives certain services related to placeshifting. The fees for the services provided under this services agreement depend, among other things, upon the cost to develop and operate such services. This agreement had an initial term of five years with automatic renewal for successive one year terms. This agreement automatically renewed in February 2016 for an additional one-year period until February 2017. The agreement may be terminated by DISH Network for any reason upon at least 120 days notice to us.

***Blockbuster Agreements***. In April 2011, DISH Network acquired substantially all of the assets of Blockbuster, Inc. (the Blockbuster Acquisition ). In June 2011, we completed the acquisition of Hughes Communications, Inc. and its subsidiaries (the Hughes Acquisition ). HNS, a wholly-owned subsidiary of Hughes Communications, Inc., provided certain broadband products and services to Blockbuster, Inc. (with its subsidiaries, Blockbuster ) pursuant to an agreement that was entered into prior to the Blockbuster Acquisition and the Hughes Acquisition. Subsequent to both the Blockbuster Acquisition and the Hughes Acquisition, Blockbuster entered into a new agreement with HNS pursuant to which Blockbuster could continue to purchase broadband products and services from our Hughes segment.

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

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

***TerreStar Agreement***. In March 2012, DISH Network completed its acquisition of substantially all the assets of TerreStar Networks Inc. ( TerreStar ). Prior to DISH Network s acquisition of substantially all the assets of TerreStar and our completion of the Hughes Acquisition, TerreStar and HNS entered into various agreements pursuant to which our Hughes segment provides, among other things, hosting, operations and maintenance services for TerreStar s satellite gateway and associated ground infrastructure. These agreements generally may be terminated by DISH Network at any time for convenience.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

expiration of the then-current term. In February 2014, HNS and dishNET entered into an amendment to the Distribution Agreement which, among other things, extended the initial term of the Distribution Agreement through March 2024. Upon expiration or termination of the Distribution Agreement, the parties will continue to provide the Hughes service to the then-current dishNET subscribers pursuant to the terms and conditions of the Distribution Agreement.

***Set-Top Box Application Development Agreement.*** During November 2012, we and DISH Network entered into a set-top box application development agreement (the Application Development Agreement ) pursuant to which we provide DISH Network with certain services relating to the development of web-based applications for set-top boxes for the period ending in February 2016. The Application Development Agreement automatically renewed in February 2016 for a one-year period ending in February 2017, and renews automatically for successive one-year periods thereafter, unless terminated earlier by us or DISH Network at any time upon at least 90 days notice. The fees for services provided under the Application Development Agreement are calculated at our cost of providing the relevant service plus a fixed margin, which will depend on the nature of the services provided.

***XiP Encryption Agreement.*** In July 2012, we entered into an encryption agreement with DISH Network for our whole-home HD DVR line of set-top boxes (the XiP Encryption Agreement ) pursuant to which we provide certain security measures on our whole-home HD DVR line of set-top boxes to encrypt the content delivered to the set-top box via a smart card and secure the content between set-top boxes. The XiP Encryption Agreement s term ends on the same day as the 2012 Receiver Agreement and therefore was automatically extended until December 2016 when we and DISH Network extended the 2012 Receiver Agreement in November 2015. We and DISH Network each have the right to terminate the XiP Encryption Agreement for any reason upon at least 180 days notice and 30 days notice, respectively. The fees for the services provided under the XiP Encryption Agreement are calculated on a monthly basis based on the number of receivers utilizing such security measures each month.

***DBSD North America Agreement***. In March 2012, DISH Network completed its acquisition of 100% of the equity of reorganized DBSD North America, Inc. ( DBSD North America ). Prior to DISH Network s acquisition of DBSD North America and our completion of the Hughes Acquisition, DBSD North America and HNS entered into an agreement pursuant to which our Hughes segment provides, among other things, hosting, operations and maintenance services of DBSD North America s satellite gateway and associated ground infrastructure. This agreement will expire in February 2017.

***Sling TV Holding L.L.C. (formerly DISH Digital Holding L.L.C.) ( Sling TV Holding ).*** Effective July 2012, we and DISH Network formed Sling TV Holding, which was owned two-thirds by DISH Network and one-third by us. Sling TV Holding was formed to develop and commercialize certain advanced technologies. At that time, we, DISH Network and Sling

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

***Cost of sales equipment DISH Network***

***Remanufactured Receiver Agreement***. In connection with the Spin-off, we entered into a remanufactured receiver agreement with DISH Network pursuant to which we have the right, but not the obligation, to purchase remanufactured receivers and related components from DISH Network at cost plus a fixed margin, which varies depending on the nature of the equipment purchased. In November 2014, we and DISH Network extended this agreement for a one-year period ending in December 2015, and in November 2015, we and DISH Network extended this agreement for a one-year period ending in December 2016. We may terminate the remanufactured receiver agreement for any reason upon at least 60 days notice to DISH Network. DISH Network may also terminate this agreement if certain entities acquire DISH Network.

***Cost of sales services and other DISH Network***

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

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

*EchoStar XV.* In May 2013, we began receiving satellite services from DISH Network on the EchoStar XV satellite and relocated the satellite to the 45 degree west longitude orbital location for testing pursuant to our Brazilian authorization. Effective March 2014, this satellite services agreement converted to a month-to-month service agreement with both parties having the right to terminate this agreement upon 30 days notice. In October 2015, we provided DISH Network a notice to terminate this agreement effective in November 2015, and the agreement was terminated according to its terms in November 2015.

***General and administrative expenses DISH Network***

***Professional Services Agreement***. In connection with the Spin-off, we entered into various agreements with DISH Network including the Transition Services Agreement, Satellite Procurement Agreement and Services Agreement, which all expired in January 2010 and were replaced by a Professional Services Agreement. In January 2010, we and DISH Network agreed that we shall continue to have the right, but not the obligation, to receive the following services from DISH Network, among others, certain of which were previously provided under the Transition Services Agreement: information technology, travel and event coordination, internal audit, legal, accounting and tax, benefits administration, program acquisition services and other support services. Additionally, we and DISH Network agreed that DISH Network would continue to have the right, but not the obligation, to engage us to manage the process of procuring new satellite capacity for DISH Network (previously provided under the Satellite Procurement Agreement), receive logistics, procurement and quality assurance services from us (previously provided under the Services Agreement) and other support services. The Professional Services Agreement automatically renewed in January 2016 for an additional one-year period until January 2017 and renews automatically for successive one-year periods thereafter, unless terminated earlier by either party upon at least 60 days notice. However, either party may terminate the Professional Services Agreement in part with respect to any particular service it receives for any reason upon at least 30 days notice.

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

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

*El Paso Lease Agreement*. The lease for certain space at 1285 Joe Battle Blvd., El Paso, Texas was for an initial period ending in August 2015, and provided us with renewal options for four consecutive three year terms. Effective August 2015, we exercised our first renewal option for a period ending in August 2018.

*American Fork Occupancy License Agreement*. The license for certain space at 796 East Utah Valley Drive in American Fork, Utah is for a period ending in July 2017, subject to the terms of the underlying lease agreement. In connection with the Exchange Agreement, this license was terminated in August 2014.

***Other agreements DISH Network***

***Tax Sharing Agreement***. In connection with the Spin-off, we entered into a tax sharing agreement with DISH Network which governs our respective rights, responsibilities and obligations after the Spin-off with respect to taxes for the periods ending on or before the Spin-off. Generally, all pre-Spin-off taxes, including any taxes that are incurred as a result of restructuring activities undertaken to implement the Spin-off, are borne by DISH Network, and DISH Network will indemnify us for such taxes. However, DISH Network is not liable for and will not indemnify us for any taxes that are incurred as a result of the Spin-off or certain related transactions failing to qualify as tax-free distributions pursuant to any provision of Section 355 or Section 361 of the Internal Revenue Code of 1986, as amended because of: (i) a direct or indirect acquisition of any of our stock, stock options or assets; (ii) any action that we take or fail to take; or (iii) any action that we take that is inconsistent with the information and representations furnished to the IRS in connection with the request for the private letter ruling, or to counsel in connection with any opinion being delivered by counsel with respect to the Spin-off or certain related transactions. In such case, we will be solely liable for, and will indemnify DISH Network for, any resulting taxes, as well as any losses, claims and expenses. The tax sharing agreement will only terminate after the later of the full period of all applicable statutes of limitations, including extensions, or once all rights and obligations are fully effectuated or performed.

In light of the tax sharing agreement, among other things, and in connection with our consolidated federal income tax returns for certain tax years prior to and for the year of the Spin-off, in September 2013, we and DISH Network agreed upon a supplemental allocation of the tax benefits arising from certain tax items resolved in the course of the IRS s examination of our consolidated tax returns. Prior to the agreement with DISH Network, the federal tax benefits of $83.2 million were reflected as a deferred tax asset for depreciation and amortization, which was netted in our noncurrent deferred tax liabilities. The agreement requires DISH Network to pay us $83.2 million of the federal tax benefit it receives at such time as we would have otherwise been able to realize such tax benefit, which we currently estimate would be after 2016. Accordingly, we recorded a noncurrent receivable from DISH Network for $83.2 million in Other receivable DISH Network and a corresponding increase in our net noncurrent deferred tax liabilities to reflect the effects of this agreement in September 2013. In addition, in September 2013, we and DISH Network agreed upon a tax sharing arrangement for filing certain combined state income tax returns and a method of allocating the respective tax liabilities between us and DISH Network for such combined returns, through the taxable period ending on December 31, 2017.

We and DISH Network file combined income tax returns in certain states. In 2014 and 2015, we earned and recognized a tax benefit for certain state income tax credits that we would be unable to utilize currently if we had filed separately from DISH Network. DISH Network expects to utilize these tax credits to reduce its state income tax payable. Consistent with accounting principles that apply to transfers of assets between entities under common control, we recorded a charge of $3.0 million and $5.3 million in additional paid-in capital for the years ended December 31, 2015 and 2014, respectively, representing the amount that we estimate is more likely than not to be realized by DISH Network as a result of its utilization of the tax credits that we earned. We expect to increase additional paid-in capital upon receipt of any consideration paid to us by DISH Network in exchange for these tax credits.

***TiVo***. In April 2011, we and DISH Network entered into a settlement agreement with TiVo, Inc. ( TiVo ). The settlement resolved all pending litigation between us and DISH Network, on the one hand, and TiVo, on the other hand, including litigation relating to alleged patent infringement involving certain DISH Network DVRs. Under the settlement agreement, all pending litigation was dismissed with prejudice and all injunctions that permanently restrain, enjoin or compel any action by us or DISH Network were dissolved. We and DISH Network are jointly responsible for making payments to TiVo in the aggregate amount of $500.0 million, including an initial payment of

**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

$300.0 million and the remaining $200.0 million in six equal annual installments between 2012 and 2017. Pursuant to the terms and conditions of the agreements entered into in connection with the Spin-off, DISH Network made the initial payment to TiVo in May 2011, except for the contribution from us totaling approximately $10.0 million, representing an allocation of liability relating to our sales of DVR-enabled receivers to an international customer. Subsequent payments are allocated between us and DISH Network based on historical sales of certain licensed products, with EchoStar being responsible for 5% of each annual payment.

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

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

***Patent Cross-License Agreements***. In December 2011, we and DISH Network entered into separate patent cross-license agreements with the same third party whereby: (i) we and such third party licensed our respective patents to each other subject to certain conditions; and (ii) DISH Network and such third party licensed their respective patents to each other subject to certain conditions (each, a Cross-License Agreement ). Each Cross-License Agreement covers patents acquired by the respective party prior to January 2017 and aggregate payments under both Cross-License Agreements total less than $10.0 million. Each Cross-License Agreement also contains an option to extend each Cross-License Agreement to include patents acquired by the respective party prior to January 2022. If both options are exercised, the aggregate additional payments to such third party would total less than $3.0 million. However, we and DISH Network may elect to extend our respective Cross-License Agreement independently of each other. Since the aggregate payments under both Cross-License Agreements were based on the combined annual revenue of us and DISH Network, we and DISH Network agreed to allocate our respective payments to such third party based on our respective percentage of combined total revenue.

***PMC***. In 2008, PMC filed suit against us, DISH Network and Motorola Inc., in the United States District Court for the Eastern District of Texas, alleging infringement of United States Patent Nos. 5,109,414; 4,965,825; 5,233,654; 5,335,277 and 5,887,243, which relate to satellite signal processing. In May 2015, we, DISH Network and PMC entered into a settlement and release agreement that provided, among other things, for a license by PMC to us and DISH Network for certain patents and patent applications and the dismissal of all of PMC s claims in the action against us and DISH Network with prejudice. In June 2015, the Court dismissed all of PMC s claims in the action against us and DISH Network with prejudice. See Note 16 for further discussion. In June 2015, we and DISH Network agreed that we would contribute a one-time payment of $5.0 million towards the settlement under the agreements entered into in connection with the Spin-off and the 2012 Receiver Agreement.

***TerreStar-2 Development Agreement***. In August 2013, we and DISH Network entered into a development agreement ( T2 Development Agreement ) with respect to the EchoStar XXI satellite under which we reimburse DISH Network for amounts it pays pursuant to an authorization to proceed ( T2 ATP ) with SS/L in connection with the construction of the EchoStar XXI satellite. In exchange, DISH Network granted us a right of first refusal and right of first offer to purchase the EchoStar XXI satellite during the term of the T2 Development Agreement. The T2 Development Agreement was amended in December 2013 to provide for the right and option to purchase DISH Network s rights and obligations under the T2 ATP and the related agreement for the construction of the EchoStar XXI satellite with SS/L. In December 2014, we exercised our option to purchase DISH Network s rights and obligations under the T2 Development Agreement for $55.0 million in cash and the agreement terminated pursuant to its terms. In accordance with accounting principles that apply to transfers of assets between companies under common control, we recorded a $9.6 million charge to additional-paid-in-capital, net of related deferred income taxes.

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**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

***Roger J. Lynch.*** In November 2009, Mr. Roger J. Lynch became employed by both us and DISH Network as Executive Vice President. Mr. Lynch was responsible for the development and implementation of advanced technologies that are of potential utility and importance to both us and DISH Network. Mr. Lynch s compensation consisted of cash and equity compensation and was borne by both DISH Network and us. Mr. Lynch s employment with us terminated in December 2014.

***Other Agreements***

**Hughes Systique Corporation ( Hughes Systique )**

We contract with Hughes Systique for software development services. In February 2008, HNS agreed to make available to Hughes Systique a term loan facility of up to $1.5 million. Also in 2008, HNS funded an initial $0.5 million to Hughes Systique pursuant to the term loan facility. In 2009, HNS funded the remaining $1.0 million of its $1.5 million commitment under the term loan facility. The loans bear interest at 6%, payable annually, and are convertible into shares of Hughes Systique upon non-payment or an event of default. In May 2014, Hughes and Hughes Systique amended the term loan facility to increase the interest rate from 6% to 8%, payable annually, to reflect current market conditions. The loans, as amended, matured on May 1, 2015. In April 2015, we extended the maturity date of the loans to May 1, 2016 on the same terms. In 2015, Hughes Systique repaid $1.5 million of the outstanding principal of the loans. As of December 31, 2015, the principal outstanding amount of the loans was $0.7 million. In addition to our 44.0% ownership in Hughes Systique, Mr. Pradman Kaul, the President of Hughes Communications, Inc. and a member of our board of directors and his brother, who is the CEO and President of Hughes Systique, in the aggregate, owned approximately 25.8%, on an undiluted basis, of Hughes Systique s outstanding shares as of December 31, 2015. Furthermore, Mr. Pradman Kaul serves on the board of directors of Hughes Systique. Hughes Systique is a variable interest entity and we are considered the primary beneficiary of Hughes Systique due to, among other factors, our ability to direct the activities that most significantly impact the economic performance of Hughes Systique. As a result, we consolidate Hughes Systique s financial statements in our consolidated financial statements.

**NagraStar L.L.C.**

We own 50.0% of NagraStar L.L.C. ( NagraStar ), a joint venture that is our primary provider of encryption and related security technology used in our set-top boxes. We account for our investment in NagraStar using the equity method. We made purchases from NagraStar totaling approximately $19.6 million, $22.6 million and $14.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, we had trade accounts payable to NagraStar totaling approximately $2.6 million and $3.2 million, respectively.

**Dish Mexico**

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

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

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | | (In thousands) | |
| Digital set-top boxes and related accessories | $ 66,779 | $ 60,464 | $ 36,929 |
| Satellite services | $ 23,347 | $ 23,327 | $ 22,638 |
| Uplink services | $ 4,996 | $ 6,251 | $ 6,735 |
| Other services | $ | $ | $ 127 |

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (In thousands) | |
| Due from Dish Mexico | $ 32,906 | $ 11,012 |

**ECHOSTAR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**Deluxe/EchoStar LLC**

We own 50.0% of Deluxe/EchoStar LLC ( Deluxe ), a joint venture that we entered into in 2010 to build an advanced digital cinema satellite distribution network targeting delivery to digitally equipped theaters in the U.S. and Canada. We account for our investment in Deluxe using the equity method. For the years ended December 31, 2015, 2014 and 2013, we recognized revenue from Deluxe for transponder services and the sale of broadband equipment of approximately $2.7 million, $3.3 million and $1.8 million, respectively. As of December 31, 2015 and 2014, we had trade accounts receivable from Deluxe of approximately $0.1 million and $0.2 million, respectively.

**SmarDTV**

In May 2015, we acquired a 22.5% interest in SmarDTV, which we account for using the equity method. Pursuant to a services agreement, we purchased engineering services from SmarDTV totaling $3.6 million for the year ended December 31, 2015. As of December 31, 2015, we had trade accounts payable to SmarDTV of $0.9 million and a $0.5 million current note receivable from SmarDTV arising from a working capital adjustment pursuant to the acquisition agreement.

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**ECHOSTAR CORPORATION**

**SCHEDULE I**

We have corrected errors in the presentation of certain assets and liabilities as of December 31, 2014 and in the presentation of related cash flows for the years ended December 31, 2014 and 2013 in the following condensed financial information of the registrant (parent company information only). We do not believe these errors were material to the condensed financial information. The errors were limited to the condensed financial information of registrant and did not affect any other reported amounts or disclosures in our consolidated financial statements.

[redacted]

| | | | | | |
|---|---|---|---|---|---|
| **Condensed Balance Sheet Data** | | | | | [redacted] |
| [redacted] | | | | | |
| Investments in consolidated subsidiaries, including intercompany balances | $ | 2,547,478 | $ | 2,034,447 | [redacted] |
| [redacted] | | | | | |
| Total assets | $ | 4,042,822 | $ | 3,535,981 | [redacted] |
| [redacted] | | | | | |
| Total liabilities | $ | 509,654 | $ | 2,813 | [redacted] |
| [redacted] | | | | | |

| | For the Years Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2014 | | | | December 31, 2013 | | | |
| | As previously reported | | As adjusted | | As previously reported | | As adjusted | |
| | (In thousands) | | | | | | | |
| **Condensed Statement of Cash Flows Data** | | | | | | | | |
| Deferred tax provision (benefit) | $ | (267,175) | $ | (1,105) | $ | 33,380 | $ | 7,473 |
| Changes in current assets and current liabilities, net | $ | 298,661 | $ | 6,389 | $ | 88,677 | $ | 11,426 |
| Changes in noncurrent assets and noncurrent liabilities, net | $ | (975) | $ | 35 | $ | (88,874) | $ | |
| Net cash flows from operating activities | $ | 63,114 | $ | 37,922 | $ | 55,205 | $ | 40,921 |
| Contributions to subsidiaries and affiliates, net | $ | (300,737) | $ | (275,545) | $ | (98,387) | $ | (84,103) |
| Net cash flows from investing activities | $ | (215,088) | $ | (189,896) | $ | (198,434) | $ | (184,150) |

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**CONDENSED BALANCE SHEETS**

(Parent Company Information Only See notes to consolidated financial statements)

(In thousands, except per share amounts)

| | As of December 31, 2015 | As of December 31, 2014 (As adjusted) |
|---|---|---|
| **Assets** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 530,678 | $ 273,646 |
| Marketable investment securities | 358,995 | 744,112 |
| Other current assets | 2,560 | 6,796 |
| Total current assets | 892,233 | 1,024,554 |
| **Noncurrent Assets:** | | |
| Investments in consolidated subsidiaries, including intercompany balances | 2,446,916 | 2,034,447 |
| Restricted cash and marketable investment securities | 862 | 1,293 |
| Deferred tax assets | 245,457 | 340,246 |
| Other intangible assets, net | 5,221 | 22,185 |
| Investments in unconsolidated entities | 26,476 | 25,319 |
| Other receivable - DISH Network | 88,503 | 87,937 |
| Total noncurrent assets | 2,813,435 | 2,511,427 |
| Total assets | $ 3,705,668 | $ 3,535,981 |
| | | |
| **Liabilities and Stockholders Equity** | | |
| **Current Liabilities:** | | |
| Accrued expenses and other | 10,190 | 2,813 |
| Total current liabilities | 10,190 | 2,813 |
| Total liabilities | 10,190 | 2,813 |
| Commitments and Contingencies | | |
| | | |
| **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 December 31, 2015 and 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, 51,087,839 shares issued and 45,555,521 shares outstanding at December 31, 2015 49,576,247 shares issued and 44,043,929 shares outstanding at December 31, 2014 | 51 | 50 |
| Class B common stock, $.001 par value, 800,000,000 shares authorized, 47,687,039 shares issued and outstanding at each of December 31, 2015 and 2014 | 48 | 48 |
| Class C common stock, $.001 par value, 800,000,000 shares authorized, none issued and outstanding at each of December 31, 2015 and 2014 | | |
| Class D common stock, $.001 par value, 800,000,000 shares authorized, none issued and outstanding at each of December 31, 2015 and 2014 | | |
| Additional paid-in capital | 3,776,451 | 3,706,122 |
| Accumulated other comprehensive loss | (117,233) | (55,856) |
| Accumulated earnings (deficit) | 134,317 | (19,040) |
| Treasury stock, at cost | (98,162) | (98,162) |
| Total stockholders equity | 3,695,478 | 3,533,168 |
| Total liabilities and stockholders equity | $ 3,705,668 | $ 3,535,981 |

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**ECHOSTAR CORPORATION**

**CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

(Parent Company Information Only See notes to consolidated financial statements)

(In thousands)

| | For the Years Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| **Costs and Expenses:** | | | |
| Selling, general and administrative expenses | $ 1,482 | $ 1,536 | $ 1,598 |
| Depreciation and amortization | 16,964 | 16,965 | 16,964 |
| Total costs and expenses | 18,446 | 18,501 | 18,562 |
| Operating loss | (18,446) | (18,501) | (18,562) |
| | | | |
| **Other Income (Expense):** | | | |
| Interest income and expense, net | 7,941 | 8,880 | 7,197 |
| Gains (losses) and impairment on marketable investment securities, net | (5,067) | 73 | 36,280 |
| Equity in earnings (losses) of unconsolidated affiliates, net | 6,157 | (4,389) | (12,068) |
| Other, net | 790 | 5,835 | (598) |
| Total other income, net | 9,821 | 10,399 | 30,811 |
| Income (loss) before income taxes and equity in earnings of consolidated subsidiaries, net | (8,625) | (8,102) | 12,249 |
| Equity in earnings (losses) of consolidated subsidiaries, net | 166,731 | 159,871 | (2,251) |
| Income tax benefit (provision), net | (4,749) | 1,105 | (7,473) |
| Net income | $ 153,357 | $ 152,874 | $ 2,525 |
| | | | |
| **Comprehensive Income (Loss):** | | | |
| Net income | $ 153,357 | $ 152,874 | $ 2,525 |
| Other comprehensive loss, net of tax: | | | |
| Foreign currency translation adjustments | (62,411) | (31,698) | (15,508) |
| Recognition of foreign currency translation loss in net income | 1,889 | | |
| Unrealized gains (losses) on marketable investment securities and other | (12,046) | (9,462) | 18,413 |
| Recognition of other-than-temporary loss on marketable investment securities in net income | 11,226 | | |
| Recognition of realized gains on marketable investment securities in net income | (35) | (41) | (36,312) |
| Total other comprehensive loss, net of tax | (61,377) | (41,201) | (33,407) |
| Comprehensive income (loss) | $ 91,980 | $ 111,673 | $ (30,882) |

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**ECHOSTAR CORPORATION**

**CONDENSED STATEMENTS OF CASH FLOWS**

(Parent Company Information Only See notes to consolidated financial statements)

(In thousands)

| | For the Years Ended December 31, 2015 | 2014 (As adjusted) | 2013 (As adjusted) |
|---|---|---|---|
| Cash Flows from Operating Activities: | | | |
| Net income | $ 153,357 | $ 152,874 | $ 2,525 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | | |
| Depreciation and amortization | 16,964 | 16,965 | 16,964 |
| Equity in losses (earnings) of unconsolidated affiliates, net | (6,157) | 4,389 | 12,068 |
| Equity in losses (earnings) of consolidated subsidiaries, net | (166,731) | (159,871) | 2,251 |
| Gains (losses) and impairment on marketable investment securities, net | 5,067 | (73) | (36,280) |
| Deferred tax provision (benefit) | 4,749 | (1,105) | 7,473 |
| Changes in current assets and current liabilities, net | 7,205 | 6,389 | 11,426 |
| Changes in noncurrent assets and noncurrent liabilities, net | (566) | 35 | |
| Other, net | 12,705 | 18,319 | 24,494 |
| Net cash flows from operating activities | 26,593 | 37,922 | 40,921 |
| | | | |
| Cash Flows from Investing Activities: | | | |
| Purchases of marketable investment securities | (327,610) | (1,013,699) | (957,142) |
| Sales and maturities of marketable investment securities | 701,832 | 1,118,187 | 857,139 |
| Contributions to subsidiaries and affiliates, net | (182,943) | (275,545) | (84,103) |
| Capital contribution to Sling TV Holding | | (18,569) | |
| Changes in restricted cash and marketable investment securities | 431 | (270) | (44) |
| Net cash flows from investing activities | 191,710 | (189,896) | (184,150) |
| | | | |
| Cash Flows from Financing Activities: | | | |
| Net proceeds from Class A common stock options exercised and stock issued under the Employee Stock Purchase Plan | 38,729 | 28,857 | 71,247 |
| Other | | (3,075) | |
| Net cash flows from financing activities | 38,729 | 25,782 | 71,247 |
| | | | |
| Net increase (decrease) in cash and cash equivalents | 257,032 | (126,192) | (71,982) |
| Cash and cash equivalents, beginning of period | 273,646 | 399,838 | 471,820 |
| Cash and cash equivalents, end of period | $ 530,678 | $ 273,646 | $ 399,838 |

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**ECHOSTAR CORPORATION**

**SCHEDULE II**

**VALUATION AND QUALIFYING ACCOUNTS**

Our valuation and qualifying accounts as of December 31, 2015, 2014 and 2013 were as follows:

| Allowance for doubtful accounts | Balance at Beginning of Year | Charged to Costs and Expenses | Deductions | Balance at End of Year |
|---|---|---|---|---|
| | | (In thousands) | | |
| For the years ended: | | | | |
| December 31, 2015 | $ 14,188 | $ 6,712 | $ (8,415) | $ 12,485 |
| December 31, 2014 | $ 13,237 | $ 7,242 | $ (6,291) | $ 14,188 |
| December 31, 2013 | $ 16,894 | $ 7,662 | $ (11,319) | $ 13,237 |