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EchoStar CORP

Form 10-Q

November 08, 2018

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2018-07-01 2018-09-30 0001415404 2017-01-01 2017-09-30 0001415404 2017-07-01 2017-09-30 0001415404

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sats:DISHNetworkMember 2018-07-01 2018-09-30 0001415404 us-gaap:ProductMember 2017-01-01 2017-09-30

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us-gaap:CommonStockMember 2017-09-30 0001415404 sats:OtherNoncontrollingInterestsMember 2018-07-01

2018-09-30 0001415404 us-gaap:CommonStockMember 2017-07-01 2017-09-30 0001415404

us-gaap:AdditionalPaidInCapitalMember 2018-07-01 2018-09-30 0001415404

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sats:OtherNoncontrollingInterestsMember 2018-06-30 0001415404 us-gaap:RetainedEarningsMember 2017-06-30

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2017-09-30 0001415404 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-07-01 2017-09-30

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2017-01-01 0001415404 sats:OtherNoncontrollingInterestsMember 2017-01-01 2017-09-30 0001415404

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sats:PreferredTrackingStockMember 2017-01-01 0001415404 2017-01-01 2017-01-01 0001415404  
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us-gaap:AccountingStandardsUpdate201409Member  
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0001415404 us-gaap:OtherDebtSecuritiesMember 2017-12-31 0001415404 us-gaap:CorporateBondSecuritiesMember 2018-09-30 0001415404 sats:DebtSecuritiesExcludingFairValueOptionMember 2018-09-30 0001415404 sats:CorporateBondSecuritiesExcludingFairValueOptionMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001415404 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001415404 us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001415404 us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2018-09-30 0001415404 us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:OtherDebtSecuritiesMember 2017-12-31 0001415404 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:OtherDebtSecuritiesMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2017-12-31 0001415404 us-gaap:FairValueMeasurementsRecurringMember us-gaap:OtherDebtSecuritiesMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:OtherDebtSecuritiesMember 2018-09-30 0001415404 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2017-12-31 0001415404 us-gaap:FairValueMeasurementsRecurringMember us-gaap:OtherDebtSecuritiesMember 2017-12-31 0001415404 us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2017-12-31 0001415404 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:OtherDebtSecuritiesMember 2017-12-31 0001415404 us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2017-12-31 0001415404 us-gaap:EquitySecuritiesMember us-gaap:OtherNonoperatingIncomeExpenseMember 2017-01-01 2017-09-30 0001415404 us-gaap:EquitySecuritiesMember us-gaap:GainLossOnInvestmentsMember1 2018-01-01 2018-09-30 0001415404 us-gaap:EquitySecuritiesMember 2017-12-31 0001415404 us-gaap:CorporateBondSecuritiesMember 2018-01-01 2018-09-30 0001415404 us-gaap:CorporateBondSecuritiesMember 2017-09-30 0001415404 us-gaap:EquitySecuritiesMember us-gaap:GainLossOnInvestmentsMember1 2017-07-01 2017-09-30 0001415404 us-gaap:CorporateBondSecuritiesMember 2018-07-01 2018-09-30 0001415404 us-gaap:EquitySecuritiesMember us-gaap:GainLossOnInvestmentsMember1 2018-07-01 2018-09-30 0001415404 us-gaap:EquitySecuritiesMember 2017-09-30 0001415404 us-gaap:EquitySecuritiesMember us-gaap:GainLossOnInvestmentsMember1 2017-01-01 2017-09-30 0001415404 us-gaap:FairValueInputsLevel3Member 2018-09-30 0001415404 us-gaap:FairValueInputsLevel3Member 2017-12-31 0001415404 sats:SatellitesLeasedMember 2018-09-30 0001415404 sats:SatellitesMember 2018-01-01 2018-09-30 0001415404 sats:EchoStarXMMember 2017-01-01 2017-11-30 0001415404 sats:EchoStarXMMember 2018-07-01 2018-09-30 0001415404 sats:SatellitesOwnedMember 2018-01-01 2018-09-30 0001415404 us-gaap:OtherCurrentAssetsMember sats:EchoStar105SES11Member 2017-10-01 2017-10-31 0001415404 sats:EchoStarXMMember 2018-01-01 2018-09-30 0001415404 sats:EchoStarXMMember 2017-12-01 2017-12-31 0001415404 sats:EchoStarXMMember 2017-12-31 0001415404 sats:ProgressAmountsForSatelliteConstructionIncludingPrepaymentsUnderCapitalLeasesAndLaunchCostsMember 2017-12-31 0001415404 sats:SatelliteRelatedEquipmentMember 2018-09-30 0001415404 sats:ConstructionInProgressOtherMember 2018-09-30 0001415404 sats:SatelliteRelatedEquipmentMember 2017-12-31 0001415404 sats:ProgressAmountsForSatelliteConstructionIncludingPrepaymentsUnderCapitalLeasesAndLaunchCostsMember 2018-09-30 0001415404 sats:ConstructionInProgressOtherMember 2017-12-31 0001415404 us-gaap:LandMember 2018-09-30 0001415404 sats:FurnitureFixturesEquipmentAndOtherMember 2017-12-31 0001415404 sats:SatellitesMember 2018-09-30 0001415404 us-gaap:BuildingAndBuildingImprovementsMember 2018-09-30 0001415404 sats:CustomerRentalEquipmentMember 2017-12-31 0001415404 sats:CustomerRentalEquipmentMember 2018-09-30 0001415404 sats:SatellitesMember 2017-12-31 0001415404

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sats:FurnitureFixturesEquipmentAndOtherMember 2018-09-30 0001415404  
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us-gaap:ResearchAndDevelopmentExpenseMember 2018-07-01 2018-09-30 0001415404  
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sats:term

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

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018.**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number: 001-33807**

## EchoStar Corporation

(Exact name of registrant as specified in its charter)

### Nevada

(State or other jurisdiction of incorporation or organization)

**26-1232727**

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

**100 Inverness Terrace East, Englewood, Colorado 80112-5308**

(Address of principal executive offices)

(Zip Code)

**(303) 706-4000**

(Registrant's telephone number, including area code)

### Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

outstanding common stock consisted of 48,548,092 shares of Class A common stock and 47,687,039 shares of Class B common stock, each \$0.001 par value.

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**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

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

- significant risks related to the construction, launch and operation of our satellites, such as the risk of not being able to timely complete the construction of or material malfunction on one or more of our satellites, risks resulting from potentially missing our regulatory milestones, changes in the space weather environment that could interfere with the operation of our satellites and our general lack of commercial insurance coverage on our satellites;
- our reliance on DISH Network Corporation and its subsidiaries (“DISH Network”) for a significant portion of our revenue;
- our ability to realize the anticipated benefits of our current satellites and any future satellite we may construct or acquire;
- our ability to implement and realize benefits of our domestic and/or international investments, commercial alliances, partnerships, joint ventures, acquisitions and other strategic initiatives;
- the failure of third-party providers of components, manufacturing, installation services and customer support services to appropriately deliver the contracted goods or services;
- our ability to bring advanced technologies to market to keep pace with our customers and competitors; and
- risk related to our foreign operations and other uncertainties associated with doing business internationally, including changes in foreign exchange rates between foreign currencies and the United States (“U.S.”) dollar, economic instability and political disturbances.

Other factors that could cause or contribute to such differences include, but are not limited to, those discussed under the caption Risk Factors in Part II, Item 1A of this Form 10-Q and in Part I, Item 1A of our most recent Annual Report on Form 10-K (“Form 10-K”) filed with the Securities and Exchange Commission (“SEC”), those discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Form 10-Q and in Part II, Item 7 of our Form 10-K and those discussed in other documents we file with the SEC.

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

required by law.

Although we believe that the expectations reflected in any forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievements. We do not assume responsibility for the accuracy and completeness of any forward-looking statements. We assume no responsibility for updating forward-looking information contained or incorporated by reference herein or in any documents we file with the SEC, except as required by law.

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Should one or more of the risks or uncertainties described herein or in any documents we file with the SEC occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

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

(In thousands, except share amounts)

	<b>As of</b>	
	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,597,295	\$ 2,431,456
Marketable investment securities, at fair value	1,842,875	814,161
Trade accounts receivable and contract assets, net (Note 3)	217,524	196,840
Trade accounts receivable - DISH Network	11,065	43,295
Inventory	70,061	83,595
Prepays and deposits	56,149	54,533
Other current assets	17,222	91,671
Total current assets	3,812,191	3,715,551
<b>Noncurrent assets:</b>		
Property and equipment, net	3,442,537	3,465,471
Regulatory authorizations, net	525,595	536,936
Goodwill	504,173	504,173
Other intangible assets, net	47,912	58,955
Investments in unconsolidated entities	160,669	161,427
Other receivables - DISH Network	94,503	92,687
Other noncurrent assets, net	262,866	214,814
Total noncurrent assets	5,038,255	5,034,463
Total assets	\$ 8,850,446	\$ 8,750,014
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable	\$ 119,235	\$ 108,406
Trade accounts payable - DISH Network	1,411	4,753
Current portion of long-term debt and capital lease obligations	1,030,088	40,631
Contract liabilities	74,135	65,959
Accrued interest	57,589	47,616
Accrued compensation	41,341	47,756
Accrued taxes	16,681	16,122
Accrued expenses and other	72,464	82,647
Total current liabilities	1,412,944	413,890
<b>Noncurrent liabilities:</b>		
Long-term debt and capital lease obligations, net	2,582,819	3,594,213
Deferred tax liabilities, net	471,259	436,023
Other noncurrent liabilities	124,694	128,503
Total noncurrent liabilities	3,178,772	4,158,739
Total liabilities	4,591,716	4,572,629
Commitments and contingencies (Note 15)		



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### Stockholders' equity:

Preferred stock, \$.001 par value, 20,000,000 shares authorized, none issued and outstanding at each of September 30, 2018 and December 31, 2017	—	—
Common stock, \$.001 par value, 4,000,000,000 shares authorized:		
Class A common stock, \$.001 par value, 1,600,000,000 shares authorized, 54,080,228 shares issued and 48,547,910 shares outstanding at September 30, 2018 and 53,663,859 shares issued and 48,131,541 shares outstanding at December 31, 2017	54	54
Class B convertible common stock, \$.001 par value, 800,000,000 shares authorized, 47,687,039 shares issued and outstanding at each of September 30, 2018 and December 31, 2017	48	48
Class C convertible common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding at each of September 30, 2018 and December 31, 2017	—	—
Class D common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding at each of September 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	3,694,682	3,669,461
Accumulated other comprehensive loss	(160,947 )	(130,154 )
Accumulated earnings	808,330	721,316
Treasury stock, at cost	(98,162 )	(98,162 )
Total EchoStar Corporation stockholders' equity	4,244,005	4,162,563
Other noncontrolling interests	14,725	14,822
Total stockholders' equity	4,258,730	4,177,385
Total liabilities and stockholders' equity	\$8,850,446	\$8,750,014

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

Table of Contents**ECHOSTAR CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
<b>Revenue:</b>				
Services and other revenue - DISH Network	\$87,859	\$111,135	\$291,835	\$339,824
Services and other revenue - other	388,248	310,973	1,118,733	865,817
Equipment revenue	56,846	59,125	150,134	173,819
Total revenue	532,953	481,233	1,560,702	1,379,460
<b>Costs and expenses:</b>				
Cost of sales - services and other (exclusive of depreciation and amortization)	152,011	143,048	451,913	416,463
Cost of sales - equipment (exclusive of depreciation and amortization)	46,318	47,644	127,254	141,839
Selling, general and administrative expenses	107,490	91,003	313,839	263,820
Research and development expenses	6,544	8,302	20,328	23,444
Depreciation and amortization	150,555	134,822	444,558	379,939
Total costs and expenses	462,918	424,819	1,357,892	1,225,505
Operating income	70,035	56,414	202,810	153,955
<b>Other income (expense):</b>				
Interest income	21,349	12,012	56,237	30,342
Interest expense, net of amounts capitalized	(62,086 )	(55,646 )	(186,371 )	(156,498 )
Gains and losses on investments, net	4,693	20,090	33,426	30,664
Equity in earnings (losses) of unconsolidated affiliates, net	416	4,381	(2,651 )	15,620
Other, net	(5,069 )	4,686	(5,201 )	8,211
Total other income (expense), net	(40,697 )	(14,477 )	(104,560 )	(71,661 )
Income from continuing operations before income taxes	29,338	41,937	98,250	82,294
Income tax provision, net	(12,836 )	(6,082 )	(25,235 )	(9,073 )
Net income from continuing operations	16,502	35,855	73,015	73,221
Net income (loss) from discontinued operations	—	(654 )	—	6,454
Net income	16,502	35,201	73,015	79,675
Less: Net income attributable to noncontrolling interests	450	532	1,292	351
Net income attributable to EchoStar Corporation	16,052	34,669	71,723	79,324
Less: Net loss attributable to Hughes Retail Preferred Tracking Stock (Note 1)	—	—	—	(1,209 )
Net income attributable to EchoStar Corporation common stock	\$16,052	\$34,669	\$71,723	\$80,533
<b>Earnings per share - Class A and B common stock:</b>				
Basic earnings from continuing operations per share	\$0.17	\$0.37	\$0.75	\$0.78
Total basic earnings per share	\$0.17	\$0.36	\$0.75	\$0.84
Diluted earnings from continuing operations per share	\$0.17	\$0.36	\$0.74	\$0.77
Total diluted earnings per share	\$0.17	\$0.36	\$0.74	\$0.83

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

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Table of Contents**ECHOSTAR CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(In thousands)

(Unaudited)

	<b>For the three months ended September 30, 2018</b>		<b>For the nine months ended September 30, 2017</b>	
<b>Comprehensive income (loss):</b>				
Net income	\$16,502	\$35,201	\$73,015	\$79,675
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(7,405 )	9,373	(42,540 )	33,162
Unrealized gains (losses) on available-for-sale securities and other	(120 )	(12,037 )	(105 )	2,369
Amounts reclassified to net income:				
Realized gains on available-for-sale securities	(1 )	—	(4 )	(2,758 )
Other-than-temporary impairment loss on available-for-sale securities	—	—	—	3,298
Total other comprehensive income (loss), net of tax	(7,526 )	(2,664 )	(42,649 )	36,071
Comprehensive income	8,976	32,537	30,366	115,746
Less: Comprehensive income (loss) attributable to noncontrolling interests	(140 )	532	(97 )	351
Comprehensive income attributable to EchoStar Corporation	\$9,116	\$32,005	\$30,463	\$115,395

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

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**ECHOSTAR CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

(In thousands)

(Unaudited)

	Class A and B Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Treasury Stock	Other Noncontrolling Interests	Total
<b>Balance, June 30, 2017</b>	\$ 101	\$3,654,139	\$(86,068 )	\$ 373,410	\$(98,162 )	\$ 13,304	\$3,856,724
Issuances of Class A common stock:							
Exercise of stock options	1	1,155	—	—	—	—	1,156
Employee Stock Purchase Plan	—	2,398	—	—	—	—	2,398
Stock-based compensation	—	3,261	—	—	—	—	3,261
R&D tax credits utilized by DISH Network	—	(257 )	—	—	—	—	(257 )
Other comprehensive loss	—	—	(2,664 )	—	—	—	(2,664 )
Net income	—	—	—	34,669	—	532	35,201
<b>Balance, September 30, 2017</b>	\$ 102	\$3,660,696	\$(88,732 )	\$ 408,079	\$(98,162 )	\$ 13,836	\$3,895,819
<b>Balance, June 30, 2018</b>	\$ 102	\$3,689,180	\$(154,011 )	\$ 792,278	\$(98,162 )	\$ 14,865	\$4,244,252
Issuances of Class A common stock:							
Exercise of stock options	—	360	—	—	—	—	360
Employee Stock Purchase Plan	—	2,542	—	—	—	—	2,542
Stock-based compensation	—	2,661	—	—	—	—	2,661
R&D tax credits utilized by DISH Network	—	(61 )	—	—	—	—	(61 )
Other comprehensive loss	—	—	(6,936 )	—	—	(590 )	(7,526 )
Net income	—	—	—	16,052	—	450	16,502
<b>Balance, September 30, 2018</b>	\$ 102	\$3,694,682	\$(160,947 )	\$ 808,330	\$(98,162 )	\$ 14,725	\$4,258,730

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

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**ECHOSTAR CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

(In thousands)

(Unaudited)

	Class A and B Common Stock	Hughes Preferred Tracking Stock	Retail Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Treasury Stock	Noncontrolling Interest in HSS Tracking Stock	Other Noncontrolling Interests	Total
<b>Balance, December 31, 2016</b>	\$ 100	\$ 6	\$ 3,828,677	\$ (124,803 )	\$ 314,247	\$ (98,162 )	\$ 73,910	\$ 12,830	\$ 4,006,805
Cumulative effect of adoption of ASU No. 2016-09 as of January 1, 2017	—	—	—	—	14,508	—	—	—	14,508
<b>Balance, January 1, 2017</b>	100	6	3,828,677	(124,803 )	328,755	(98,162 )	73,910	12,830	4,021,313
Issuances of Class A common stock:									
Exercise of stock options	2	—	34,104	—	—	—	—	—	34,106
Employee benefits	—	—	11,200	—	—	—	—	—	11,200
Employee Stock Purchase Plan	—	—	6,938	—	—	—	—	—	6,938
Stock-based compensation	—	—	7,169	—	—	—	—	—	7,169
Reacquisition and retirement of Tracking Stock pursuant to Share Exchange Agreement (Note 1)	—	(6 )	(226,815 )	—	—	—	(73,255 )	—	(300,076 )
R&D tax credits utilized by DISH Network	—	—	(577 )	—	—	—	—	—	(577 )
Other comprehensive income	—	—	—	36,071	—	—	—	—	36,071
Net income (loss)	—	—	—	—	79,324	—	(655 )	1,006	79,675
<b>Balance, September 30, 2017</b>	\$ 102	\$ —	\$ 3,660,696	\$ (88,732 )	\$ 408,079	\$ (98,162 )	\$ —	\$ 13,836	\$ 3,895,819
<b>Balance, December 31, 2017</b>	\$ 102	\$ —	\$ 3,669,461	\$ (130,154 )	\$ 721,316	\$ (98,162 )	\$ —	\$ 14,822	\$ 4,177,385
Cumulative effect of adoption of ASU No. 2014-09 and ASU No. 2016-01 as of January 1, 2018 (Note 2)	—	—	—	10,467	14,658	—	—	—	25,125
<b>Balance, January 1, 2018</b>	102	—	3,669,461	(119,687 )	735,974	(98,162 )	—	14,822	4,202,510
Issuances of Class A common stock:									
Exercise of stock options	—	—	4,405	—	—	—	—	—	4,405
Employee benefits	—	—	7,605	—	—	—	—	—	7,605
Employee Stock Purchase Plan	—	—	7,428	—	—	—	—	—	7,428
Stock-based compensation	—	—	7,771	—	—	—	—	—	7,771
R&D tax credits utilized by DISH Network	—	—	(1,859 )	—	—	—	—	—	(1,859 )
Other comprehensive loss	—	—	—	(41,260 )	—	—	—	(1,389 )	(42,649 )
Net income	—	—	—	—	71,723	—	—	1,292	73,015
Other	—	—	(129 )	—	633	—	—	—	504
<b>Balance, September 30, 2018</b>	\$ 102	\$ —	\$ 3,694,682	\$ (160,947 )	\$ 808,330	\$ (98,162 )	\$ —	\$ 14,725	\$ 4,258,730

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



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

(In thousands)

(Unaudited)

	<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Net income	\$ 73,015	\$ 79,675
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	444,558	391,598
Equity in (earnings) losses of unconsolidated affiliates, net	2,651	(14,461 )
Amortization of debt issuance costs	5,910	5,479
Gains and losses on investments, net	(33,524 )	(30,664 )
Stock-based compensation	7,771	7,169
Deferred tax provision	22,357	7,924
Dividends received from unconsolidated entity	5,000	15,000
Proceeds from sale of trading securities	—	8,922
Changes in current assets and current liabilities, net:		
Trade accounts receivable, net	(35,811 )	5,088
Trade accounts receivable - DISH Network	32,323	225,963
Inventory	10,667	(26,231 )
Other current assets	(5,569 )	(11,392 )
Trade accounts payable	2,536	(64,553 )
Trade accounts payable - DISH Network	(3,342 )	2,534
Accrued expenses and other	19,450	13,268
Changes in noncurrent assets and noncurrent liabilities, net	(16,123 )	(23,474 )
Other, net	12,043	91
Net cash flows from operating activities	543,912	591,936
Cash flows from investing activities:		
Purchases of marketable investment securities	(2,323,090 )	(319,912 )
Sales and maturities of marketable investment securities	1,331,225	375,890
Expenditures for property and equipment	(415,253 )	(422,661 )
Refunds and other receipts related to property and equipment	77,524	—
Sale of investment in unconsolidated entity	1,558	17,781
Expenditures for externally marketed software	(24,568 )	(25,447 )
Other	(991 )	—
Net cash flows from investing activities	(1,353,595 )	(374,349 )
Cash flows from financing activities:		
Repayment of debt and capital lease obligations	(27,764 )	(26,394 )
Net proceeds from Class A common stock options exercised	4,424	33,156
Net proceeds from Class A common stock issued under the Employee Stock Purchase Plan	7,428	6,938
Cash exchanged for Tracking Stock (Note 1)	—	(651 )
Repayment of in-orbit incentive obligations	(4,601 )	(4,583 )
Other, net	(530 )	201
Net cash flows from financing activities	(21,043 )	8,667
Effect of exchange rates on cash and cash equivalents	(3,449 )	1,014
Net increase (decrease) in cash and cash equivalents, including restricted amounts	(834,175 )	227,268

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Cash and cash equivalents, including restricted amounts, beginning of period	2,432,249	2,571,866
Cash and cash equivalents, including restricted amounts, end of period	\$ 1,598,074	\$ 2,799,134

**Supplemental disclosure of cash flow information:**

Cash paid for interest, net of amounts capitalized	\$ 170,303	\$ 137,955
Cash paid for income taxes	\$ 3,369	\$ 10,071

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

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**ECHOSTAR CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1. ORGANIZATION AND BUSINESS ACTIVITIES**

**Principal Business**

EchoStar Corporation (which, together with its subsidiaries, is referred to as “EchoStar,” the “Company,” “we,” “us” and/or “our”) is a holding company that was organized in October 2007 as a corporation under the laws of the State of Nevada. We are a global provider of broadband satellite technologies, broadband internet services for home and small office customers, satellite operations and satellite services. We also deliver innovative network technologies, managed services and various communications solutions for aeronautical, enterprise and government customers. Our Class A common stock is publicly traded on the Nasdaq Global Select Market under the symbol “SATS.”

We primarily operate in the following two business segments:

**Hughes** — which provides broadband satellite technologies and broadband internet services to domestic and international home and small office customers and broadband network technologies, managed services, equipment, hardware, satellite services and communication solutions to domestic and international consumers and aeronautical, enterprise and government customers. The Hughes segment also designs, provides and installs gateway and terminal equipment to customers for other satellite systems. In addition, our Hughes segment designs, develops, constructs and provides telecommunication networks comprising satellite ground segment systems and terminals to mobile system operators and our enterprise customers.

**EchoStar Satellite Services (“ESS”)** — which uses certain of our owned and leased in-orbit satellites and related licenses to provide satellite operations and satellite services on a full-time and/or occasional-use basis primarily to DISH Network, Dish Mexico, S. de R.L. de C.V., a joint venture we entered into in 2008 (“Dish Mexico”), U.S. government service providers, internet service providers, broadcast news organizations, content providers and private enterprise customers.

Our operations also include various corporate departments (primarily Executive, Treasury, Strategic Development, Human Resources, IT, Finance, Real Estate, Accounting and Legal) and other activities that have not been assigned to our operating segments such as costs incurred in certain satellite development programs and other business development activities, and gains or losses from certain of our investments. These activities, costs and income, as well as eliminations of intersegment transactions, are accounted for in Corporate and Other in our segment reporting.

EchoStar Corporation and DISH Network Corporation (“DISH”) have operated as separate publicly-traded companies since DISH Network completed its distribution to us in 2008 of its digital set-top box business, certain infrastructure, and other assets and related liabilities, including certain satellites, uplink and satellite transmission assets and real estate (the “Spin-off”). A substantial majority of the voting power of the shares of each of EchoStar Corporation and DISH is owned beneficially by Charles W. Ergen, our Chairman, and by certain entities established by Mr. Ergen for the benefit of his family.

On January 31, 2017, EchoStar Corporation and certain of our subsidiaries entered into a Share Exchange Agreement (the “Share Exchange Agreement”) with DISH and certain of its subsidiaries. Pursuant to the

Share Exchange Agreement, on February 28, 2017, among other things, we received all of the shares of the Hughes Retail Preferred Tracking Stock issued by EchoStar Corporation (the “EchoStar Tracking Stock”) and the Hughes Retail Preferred Tracking Stock issued by our subsidiary Hughes Satellite Systems Corporation (“HSS”) (the “HSS Tracking Stock”, together with the EchoStar Tracking Stock, the “Tracking Stock”) in exchange for 100% of the equity interests of certain EchoStar subsidiaries that held substantially all of our former EchoStar Technologies businesses and certain other assets (collectively, the “Share Exchange”). The EchoStar Technologies businesses designed, developed and distributed 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, and provided digital broadcast operations, including satellite uplinking/downlinking, transmission services, signal processing, conditional

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**ECHOSTAR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

access management and other services. The Tracking Stock tracked the economic performance of 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”), and represented an aggregate 80.0% economic interest in the Hughes Retail Group. Following the consummation of the Share Exchange, we no longer operate the EchoStar Technologies businesses, the Tracking Stock was retired and is no longer outstanding, and all agreements, arrangements and policy statements with respect to the Tracking Stock terminated. As a result of the Share Exchange, the operating results of the EchoStar Technologies businesses have been presented as discontinued operations and as such, have been excluded from continuing operations and segment results for all periods presented in our accompanying condensed consolidated financial statements. See Note 4 for further discussion of our discontinued operations.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these financial statements do not include all of the information and notes required for complete financial statements prepared in conformity with U.S. GAAP. In our opinion, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. However, our results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2017.

**Principles of Consolidation**

We consolidate all entities in which we have a 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% 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. Prior to consummation of the Share Exchange, noncontrolling interests consisted primarily of the HSS Tracking Stock owned by DISH Network as described in Notes 1 and 4. All significant intercompany balances and transactions have been eliminated in consolidation.

**Reclassification**

Certain prior period amounts have been reclassified to conform with the current period presentation.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. 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 financial statements. Estimates are used in accounting for, among other things, (i) amortization periods for deferred contract acquisition costs, (ii) inputs used to recognize revenue over time, (iii) allowances for doubtful accounts, (iv) warranty obligations, (v) self-insurance obligations, (vi) deferred taxes and related valuation allowances, (vii) uncertain tax positions, (viii) loss contingencies, (ix) fair value of financial instruments, (x) fair value of stock-based compensation awards, (xi) fair value of assets and liabilities acquired in business combinations, (xii) lease classifications, (xiii) asset impairment testing and (xiv) useful lives and methods for depreciation and amortization of long-lived assets.

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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 financial statements. Additionally, 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 thereto are reflected in the period they occur or prospectively if the revised estimate affects future periods.

**Fair Value Measurements**

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

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

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

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

Fair values of our 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 Level 1 measurements that reflect quoted prices for identical securities in active markets. Fair values of our investments in other marketable debt securities are generally based on Level 2 measurements, as the markets for such debt securities are less active. We consider trades of identical debt securities on or near the measurement date as a strong indication of fair value and matrix pricing techniques that consider par value, coupon rate, credit quality, maturity and other relevant features may also be used to determine fair value of our investments in marketable debt securities. Fair values for our outstanding debt (see Note 12) are based on quoted market prices in less active markets and are categorized as Level 2 measurements. Additionally, we use fair value measurements from time to time in connection with asset 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.

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 nine-month periods ended September 30, 2018 and 2017.

As of September 30, 2018 and December 31, 2017, the carrying amounts of our cash and cash equivalents, trade and other receivables, net of allowance for doubtful accounts, accounts payable and

accrued liabilities were equal to or approximated their fair value due to their short-term nature or proximity to current market rates.



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**ECHOSTAR CORPORATION**  
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**Revenue Recognition**

*Overview*

We account for our sales and services revenue in accordance with *Accounting Standards Codification Topic 606, Revenue from Contracts with Customers* (“*Topic 606*”), which we adopted on January 1, 2018, using the modified retrospective approach to contracts not completed as of the adoption date. Topic 606 provides a five-step revenue recognition model that we apply to our customer contracts. Under this model we (i) identify the contract with the customer, (ii) identify our performance obligations in the contract, (iii) determine the transaction price for the contract, (iv) allocate the transaction price to our performance obligations and (v) recognize revenue when or as we satisfy our performance obligations.

Revenue is recognized upon transfer of control of the promised goods or our performance of the services to our customers in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We enter into contracts that may include various combinations of products and services, which are generally distinct and accounted for as separate performance obligations.

Additionally, a significant portion of our revenue is derived from leases of property and equipment that is reported in *Services and other revenue - other* and *Services and other revenue - DISH Network* in our Condensed Consolidated Statements of Operations. Certain of our customer contracts contain embedded equipment leases, which we separate from non-lease components of the contract based on the relative standalone selling prices of the lease and non-lease components.

*Hughes*

Our Hughes segment provides various communication and networking services to consumer and enterprise customers in both domestic and international markets. Our service contracts typically obligate us to provide substantially the same services on a recurring basis in exchange for fixed recurring fees over the term of the contract. We satisfy such performance obligations over time and generally recognize revenue ratably as services are rendered over the service period. Certain of our contracts with service obligations provide for fees based on usage, capacity or volume. We satisfy these performance obligations and generally recognize the related revenue at the point in time or over the period when the services are rendered. Our Hughes segment also sells and leases communications equipment to its customers. Revenue from equipment sales generally is recognized upon shipment of the equipment. Our equipment sales contracts typically include standard product warranties, but generally do not provide for returns or refunds. Revenue for extended warranties is generally recognized ratably over the extended warranty period. For contracts with multiple performance obligations, we typically allocate the contract’s transaction price to each performance obligation based on their relative standalone selling prices. When the standalone selling price is not observable, our primary method used to estimate standalone selling price is the expected cost plus a margin. Our contracts generally require customer payments to be made at or shortly after the time we transfer control of goods or perform the services.

In addition to equipment and service offerings, our Hughes segment also enters into long-term contracts to design, develop, construct and install complex telecommunication networks to customers in its enterprise and mobile satellite systems markets. Revenue from such contracts is generally recognized over time at a measure of progress that depicts the transfer of control of the goods or services to the customer.

Depending on the nature of the arrangement, we measure progress toward contract completion using an appropriate input method or output method. Under the input method, we recognize the transaction price as revenue based on the ratio of costs incurred to estimated total costs at completion. Under the output method, revenue and cost of sales are recognized as products are delivered based on the expected profit for the entire agreement. Profit margins on long-term contracts generally 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 generally receive interim payments as work progresses, although for some contracts, we may be entitled to receive an advance payment.

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*ESS*

Our ESS segment provides satellite operations through leasing arrangements and satellite services on a full-time and/or occasional-use basis to DISH Network and Dish Mexico, as well as government service providers, internet service providers, broadcast news organizations, content providers and private enterprise customers. Our ESS segment also provides telemetry, tracking and control (“TT&C”) services for satellites owned by DISH Network and technical consulting services that are billed by the hour. Generally, our service contracts with customers contain a single performance obligation and therefore there is no need to allocate the transaction price. We transfer control and recognize revenue for satellite services at the point in time or over the period when the services are rendered.

*Other*

Sales and Value Added Taxes, Universal Service Fees and other taxes that we collect concurrent with revenue producing activities are excluded from revenue.

Shipping and handling costs associated with outbound freight are accounted for as a fulfillment cost after control over a product has transferred to the customer and are included in *Cost of sales - equipment* at the time of shipment.

**Contract Balances**

*Trade Accounts Receivable*

Trade accounts receivable includes amounts billed and currently due from customers and represents our unconditional rights to consideration arising from our performance under our customer contracts. Trade accounts receivable also includes amounts due from customers under our leasing arrangements. We make ongoing estimates relating to the collectibility of our trade accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make the required payments. In determining the amount of the allowance, we consider historical levels of credit losses and make judgments about the creditworthiness of our customers based on ongoing credit evaluations. Past due trade accounts receivable balances are written off when our internal collection efforts have been unsuccessful. Bad debt expense related to our trade accounts receivable and other contract assets is included in *Selling, general and administrative expenses* in our Condensed Consolidated Statements of Operations.

*Contract Assets and Contract Liabilities*

Contract assets represent revenue that we have recognized in advance of billing the customer and are included in *Trade accounts receivable and contract assets, net* or *Other noncurrent assets, net* in our Condensed Consolidated Balance Sheets based on the expected timing of customer payment. Our contract assets include amounts that we referred to as Contracts in Process in prior periods. Our contract assets typically relate to our long-term contracts where we recognize revenue using the cost-based input method and the revenue recognized exceeds the amount billed to the customer.

Contract liabilities consist of advance payments and billings in excess of revenue recognized under customer contracts and are included in *Contract liabilities* or *Other noncurrent liabilities* in our Condensed Consolidated Balance Sheets based on the timing of when we expect to recognize revenue. *Contract liabilities* include amounts that we referred to as deferred revenue in prior periods. We recognize contract liabilities as revenue after all revenue recognition criteria have been met.

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**ECHOSTAR CORPORATION**  
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**Contract Acquisition and Fulfillment Costs**

*Contract Acquisition Costs*

Our contract acquisition costs represent incremental direct costs of obtaining a contract and consist primarily of sales incentives paid to employees and third-party representatives. When we determine that our contract acquisition costs are recoverable, we defer and amortize the costs over the contract term, or over the estimated life of the customer relationship if anticipated renewals are expected and the incentives payable upon renewal are not commensurate with the initial incentive. We amortize contract acquisition costs in proportion to the revenue to which the costs relate. We expense sales incentives as incurred if the expected amortization period is one year or less. Unamortized contract acquisition costs are included in *Other noncurrent assets, net* in our Condensed Consolidated Balance Sheets and related amortization expense is included in *Selling, general and administrative expenses* in our Condensed Consolidated Statements of Operations.

*Contract Fulfillment Costs*

We recognize costs to fulfill a contract as an asset when the costs relate directly to a specific contract, the costs generate or enhance our resources that will be used in satisfying future performance obligations and the costs are expected to be recovered. We may incur such costs on certain contracts that require initial setup activities in advance of the transfer of goods or services to the customer. We amortize these costs in proportion to the revenue to which the costs relate. Unamortized contract fulfillment costs are included in *Other noncurrent assets, net* in our Condensed Consolidated Balance Sheets and related amortization expense is included in *Cost of sales - services and other* in our Condensed Consolidated Statements of Operations.

**Capitalized Software Costs**

*Internal-Use Software*

Costs related to the procurement and development of software for internal-use 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* in our Condensed Consolidated Balance Sheets.

*Externally Marketed Software*

Costs related to the procurement and development of software for 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 externally marketed software are included in *Other noncurrent assets, net* in our Condensed Consolidated Balance Sheets. Externally marketed software generally is 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.

## **Marketable Investment Securities**

Our marketable investment securities portfolio consists of investments in debt and equity instruments with readily determinable fair values.

### *Debt Securities*

We classify all of our debt securities as available for sale based on our investment strategy for the securities. Generally, we recognize periodic changes in the difference between fair value and amortized cost in *Unrealized gains (losses) on available-for-sale securities and other* in our Condensed Consolidated Statements of Comprehensive Income (Loss).

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**ECHOSTAR CORPORATION**

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**(Unaudited)**

Realized gains and losses upon sales of debt securities are reclassified from other comprehensive income (loss) and recognized on the trade date in *Gains and losses on investments, net* in our Condensed Consolidated Statements of Operations. We use the first-in, first-out method to determine the cost basis on sales of debt securities. Interest income from debt securities is reported in *Interest income* in our Condensed Consolidated Statements of Operations. We could realize proceeds from certain investments prior to their contractual maturity if we actually sell these securities before such maturity.

We evaluate our available-for-sale debt securities portfolio periodically to determine whether declines in the fair value of these securities are other than temporary. Our evaluation considers, among other things, the length of time and the extent to which the fair value of such security has been lower than amortized cost, market and company-specific factors related to the security and our intent and ability to hold the investment to maturity or when it recovers its value. We generally consider a decline to be other than temporary when: (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before maturity or when it recovers its value, or (iii) we do not expect to recover the amortized cost of the security at maturity. Declines in the fair value of available-for-sale debt securities that are determined to be other than temporary are reclassified from other comprehensive income (loss) and recognized in net income, thus establishing a new cost basis for the investment.

From time to time we make strategic investments in corporate debt securities. Generally, we elect to account for these debt securities using the fair value option because it results in consistency in accounting for unrealized gains and losses for all securities in our portfolio of strategic investments. When we elect the fair value option for investments in debt securities, we recognize periodic changes in fair value of these securities in *Gains (losses) on investments, net* in our Condensed Consolidated Statements of Operations. Interest income from these securities is reported in *Interest income* in our Condensed Consolidated Statements of Operations.

*Equity Securities*

Prior to January 1, 2018, we classified our marketable equity securities as available for sale or trading securities, depending on our investment strategy for the securities. For available-for-sale securities, we recognized periodic changes in the difference between fair value and cost in *Unrealized gains (losses) on available-for-sale securities and other* in our Condensed Consolidated Statements of Comprehensive Income (Loss). Realized gains and losses upon sale of available-for-sale securities were reclassified from other comprehensive income (loss) and recognized on the trade date in *Gains and losses on investments, net* in our Condensed Consolidated Statements of Operations. We used the first-in, first-out method to determine the cost basis on sales of available-for-sale securities. For trading securities, we recognized periodic changes in the fair value of the securities in *Gains and losses on investments, net* in our Condensed Consolidated Statements of Operations.

Effective January 1, 2018, we adopted *Accounting Standards Update ("ASU") No. 2016-01, Financial Instruments (the "New Investment Standard")*, which established new requirements for investments in equity securities in *ASC Topic 321, Investments - Equity Securities*. Accordingly, beginning in 2018, we recognize periodic changes in the fair value of all of our equity securities with a readily determinable fair value that are not accounted for using the equity method in *Gains and losses on investments, net* in our Condensed Consolidated Statements of Operations. We recognize dividend income on equity securities on the ex-dividend date and report such income in *Other, net* in our Condensed Consolidated Statements of

Operations.

*Restricted Marketable Investment Securities*

Restricted marketable investment securities that are pledged as collateral for our letters of credit or surety bonds are included in *Other noncurrent assets, net* in our Condensed Consolidated Balance Sheets.

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**ECHOSTAR CORPORATION**  
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**Investments in Unconsolidated Entities**

Our investments in unconsolidated entities consist of investments in equity securities that are not publicly traded and do not have readily determinable fair values.

*Equity Method*

We use the equity method to account for investments when we have the ability to exercise significant influence on the operating decisions of the investee. Such investments in unconsolidated entities 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 Condensed Consolidated Statements of Operations. The carrying amount of such 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, 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 Condensed Consolidated Statements of Operations and include the intra-entity profit eliminations within *Equity in earnings (losses) of unconsolidated affiliates, net*.

*Other Investments*

Prior to January 1, 2018, we accounted for other investments without a readily determinable fair value using the cost method. In connection with our adoption of the New Investment Standard as of January 1, 2018, we have elected to measure such investments at cost, adjusted for changes resulting from impairments and observable price changes in orderly transactions for identical or similar securities of the same issuer. We consider information in periodic financial statements and other documentation provided by our investees and we may make inquiries of investee management to determine whether observable price changes have occurred.

*Impairment Considerations*

We evaluate all of our investments in unconsolidated entities periodically to determine whether events or changes in circumstances have 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, we adjust the carrying amount of the investment to its estimated fair value and recognize the impairment loss in *Gains and losses on investments, net*.

**Research and Development**

Costs incurred in research and development activities are generally 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 - equipment*.

**Other Significant Accounting Policies**

See Note 2, Summary of Significant Accounting Policies to our consolidated financial statements included in our Form 10-K for the year ended December 31, 2017 for a summary of our other significant accounting policies.

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**ECHOSTAR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**Recently Adopted Accounting Pronouncements**

*Revenue Recognition and Financial Instruments*

On January 1, 2018, we adopted *ASU No. 2014-09, Revenue from Contracts with Customers and related amendments (collectively, the "New Revenue Standard")*. The New Revenue Standard established a comprehensive new model for revenue recognition, which is codified in Topic 606 (see Revenue Recognition above), and provided guidance for certain costs associated with customer contracts. We adopted the New Revenue Standard using the modified retrospective method for contracts that were not completed as of January 1, 2018. Accordingly, comparative information for prior periods has not been restated and continues to be reported under the accounting standards in effect for those periods. Upon adoption of the New Revenue Standard, we recognized the cumulative effect of its initial application as a net increase to accumulated earnings of \$25.1 million, net of related income taxes. The adoption of the New Revenue Standard also impacted the timing of recognition of certain fees charged to our customers in our consumer markets; however, the adoption has not had, and we do not expect it to have, a material impact on the overall timing or amount of revenue recognition.

The primary impacts of the New Revenue Standard on our operating results relate to how we account for sales incentive costs. Historically, we charged sales incentives to expense as incurred, except for incentives related to the consumer business in our Hughes segment, which were initially deferred and subsequently amortized over the related service agreement term. Under the New Revenue Standard, we continue to defer incentives for our consumer business; however, we now amortize those incentives over the estimated customer life, which includes expected contract renewal periods. In addition, we now defer certain sales incentives related to other businesses in our Hughes segment and amortize those incentives over the related service agreement term. As a result of these changes, we have recognized additional contract assets on our Condensed Consolidated Balance Sheets and the costs generally are recognized as expenses over a longer period of time in our Condensed Consolidated Statements of Operations. The adoption of the New Revenue Standard by one of our unconsolidated entities had a similar impact on our investment in the unconsolidated entity, which we account for using the equity method.

Additionally, on January 1, 2018, we prospectively adopted the applicable requirements of the New Investment Standard. The New Investment Standard substantially revises standards for the recognition, measurement and presentation of financial instruments, including requiring all equity investments, except for investments in consolidated subsidiaries and investments accounted for using the equity method, to be measured at fair value with changes in the fair value recognized through earnings. The New Investment Standard permits an entity to elect to measure an equity security without a readily determinable fair value at its cost, adjusted for changes resulting from impairments and observable price changes in orderly transactions for identical or similar securities of the same issuer. It also amends certain disclosure requirements associated with equity investments and the fair value of financial instruments. Upon adoption of the New Investment Standard on January 1, 2018, we recorded a \$10.5 million charge to accumulated earnings to include net unrealized losses on our marketable equity securities then designated as available for sale, which previously were recorded in *Accumulated other comprehensive loss* in our Condensed Consolidated Balance Sheets. For our equity investments without a readily determinable fair value that were previously accounted for using the cost method, we have elected to measure such securities at cost, adjusted for impairments and observable price changes. We expect our future net income or loss to be more volatile as a result of these changes in accounting for our investments in equity securities that were

previously accounted for as available for sale or using the cost method.

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The cumulative effects of changes to the impacted line items on our Condensed Consolidated Balance Sheet as of January 1, 2018 for the adoption of these standards were as follows:

	Balance at December 31, 2017	Adjustments Due to		Balance at January 1, 2018
		New Revenue Standard	New Investment Standard	
(In thousands)				
<b>Assets:</b>				
Trade accounts receivable and contract assets, net	\$ 196,840	\$(7,103 )	\$ —	\$ 189,737
Other current assets	\$ 91,671	\$ 533	\$ —	\$ 92,204
Investments in unconsolidated entities	\$ 161,427	\$ 6,917	\$ —	\$ 168,344
Other noncurrent assets, net	\$ 214,814	\$ 22,545	\$ —	\$ 237,359
Total assets	\$ 8,750,014	\$ 22,892	\$ —	\$ 8,772,906
<b>Liabilities:</b>				
Contract liabilities	\$ 65,959	\$(1,542 )	\$ —	\$ 64,417
Accrued expenses and other	\$ 82,647	\$ 255	\$ —	\$ 82,902
Deferred tax liabilities, net	\$ 436,023	\$ 3,122	\$ —	\$ 439,145
Other noncurrent liabilities	\$ 128,503	\$(4,068 )	\$ —	\$ 124,435
Total liabilities	\$ 4,572,629	\$(2,233 )	\$ —	\$ 4,570,396
<b>Stockholders' Equity:</b>				
Accumulated other comprehensive income (loss)	\$(130,154 )	\$ —	\$ 10,467	\$(119,687 )
Accumulated earnings (losses)	\$ 721,316	\$ 25,125	\$(10,467 )	\$ 735,974
Total EchoStar Corporation stockholders' equity	\$ 4,177,385	\$ 25,125	\$ —	\$ 4,202,510
Total liabilities and stockholders' equity	\$ 8,750,014	\$ 22,892	\$ —	\$ 8,772,906

Our adoption of these standards impacted the referenced line items on our Condensed Consolidated Balance Sheet, Statement of Operations and Statements of Comprehensive Income (Loss) as follows:

Balance Sheet	As of September 30, 2018			
	As Reported	Adjustments Due to the New Revenue Standard	New Investment Standard	Balances If We Had Not Adopted the New Standards
(In thousands)				
<b>Assets:</b>				
Trade accounts receivable and contract assets, net	\$ 217,524	\$ 8,511	\$ —	\$ 226,035
Other current assets	\$ 17,222	\$(533 )	\$ —	\$ 16,689
Investments in unconsolidated entities	\$ 160,669	\$(6,071 )	\$ —	\$ 154,598
Other noncurrent assets, net	\$ 262,866	\$(33,310 )	\$ —	\$ 229,556
Total assets	\$ 8,850,446	\$(31,403 )	\$ —	\$ 8,819,043
<b>Liabilities:</b>				
Contract liabilities	\$ 74,135	\$ 971	\$ —	\$ 75,106
Accrued expenses and other	\$ 72,464	\$(255 )	\$ —	\$ 72,209
Deferred tax liabilities, net	\$ 471,259	\$(4,713 )	\$ —	\$ 466,546
Other noncurrent liabilities	\$ 124,694	\$ 2,234	\$ —	\$ 126,928
Total liabilities	\$ 4,591,716	\$(1,763 )	\$ —	\$ 4,589,953
<b>Stockholders' Equity:</b>				

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Accumulated other comprehensive loss	\$(160,947 )	\$—	\$ 40,407	\$(120,540 )
Accumulated earnings	\$808,330	\$(29,640 )	\$(40,407 )	\$738,283
Total EchoStar Corporation stockholders' equity	\$4,258,730	\$(29,640 )	\$—	\$4,229,090
Total liabilities and stockholders' equity	\$8,850,446	\$(31,403 )	\$—	\$8,819,043

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2018

Statement of Operations	As Reported	Adjustments Due to the		Balances If We Had Not Adopted the New Standards
		New Revenue Standard	New Investment Standard	
(In thousands)				
<b>Revenue:</b>				
Services and other revenue - other	\$388,248	\$(99 )	\$ —	\$ 388,149
Total revenue	\$532,953	\$(99 )	\$ —	\$ 532,854
<b>Costs and expenses:</b>				
Cost of sales - services and other (exclusive of depreciation and amortization)	\$152,011	\$951	\$ —	\$ 152,962
Selling, general and administrative expenses	\$107,490	\$970	\$ —	\$ 108,460
Total costs and expenses	\$462,918	\$1,921	\$ —	\$ 464,839
Operating income (loss)	\$70,035	\$(2,020 )	\$ —	\$ 68,015
<b>Other income (expense):</b>				
Interest expense, net of amounts capitalized	\$(62,086 )	\$156	\$ —	\$(61,930 )
Gains and losses on investments, net	\$4,693	\$—	\$(217 )	\$ 4,476
Equity in earnings (losses) of unconsolidated affiliates, net	\$416	\$169	\$ —	\$ 585
Total other income (expense), net	\$(40,697 )	\$325	\$(217 )	\$(40,589 )
Income (loss) from continuing operations before income taxes	\$29,338	\$(1,695 )	\$(217 )	\$ 27,426
Income tax benefit (provision)	\$(12,836 )	\$394	\$ —	\$(12,442 )
Net income (loss)	\$16,502	\$(1,301 )	\$(217 )	\$ 14,984
Net income (loss) attributable to EchoStar Corporation common stock	\$16,052	\$(1,301 )	\$(217 )	\$ 14,534
<b>Earnings (losses) per share:</b>				
Basic	\$0.17	\$(0.01 )	\$ —	\$ 0.15
Diluted	\$0.17	\$(0.01 )	\$ —	\$ 0.15

For the three months ended September 30,  
2018

Statement of Comprehensive Income (Loss)	As Reported	Adjustments Due to the		Balances If We Had Not Adopted the New Standards
		New Revenue Standard	New Investment Standard	
(In thousands)				
Net income (loss)	\$16,502	\$(1,301 )	\$(217 )	\$ 14,984
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available-for-sale securities and other	\$(120 )	\$—	\$ 217	\$ 97
Total other comprehensive income (loss), net of tax	\$(7,526 )	\$—	\$ 217	\$(7,309 )
Comprehensive income (loss)	\$8,976	\$(1,301 )	\$ —	\$ 7,675
Comprehensive income (loss) attributable to EchoStar Corporation	\$9,116	\$(1,301 )	\$ —	\$ 7,815

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For the nine months ended September 30, 2018

Statement of Operations	As Reported	Adjustments Due to		Balances If We Had Not Adopted the New Standards
		New Revenue Standard	New Investment Standard	
(In thousands)				
<b>Revenue:</b>				
Services and other revenue - other	\$1,118,733	\$1,927	\$—	\$1,120,660
Total revenue	\$1,560,702	\$1,927	\$—	\$1,562,629
<b>Costs and expenses:</b>				
Cost of sales - services and other (exclusive of depreciation and amortization)	\$451,913	\$3,428	\$—	\$455,341
Selling, general and administrative expenses	\$313,839	\$5,825	\$—	\$319,664
Total costs and expenses	\$1,357,892	\$9,253	\$—	\$1,367,145
Operating income (loss)	\$202,810	\$(7,326)	\$—	\$195,484
<b>Other income (expense):</b>				
Interest expense, net of amounts capitalized	\$(186,371)	\$374	\$—	\$(185,997)
Gains and losses on investments, net	\$33,426	\$—	\$(50,874)	\$(17,448)
Equity in earnings (losses) of unconsolidated affiliates, net	\$(2,651)	\$846	\$—	\$(1,805)
Total other income (expense), net	\$(104,560)	\$1,220	\$(50,874)	\$(154,214)
Income (loss) from continuing operations before income taxes	\$98,250	\$(6,106)	\$(50,874)	\$41,270
Income tax benefit (provision)	\$(25,235)	\$1,591	\$—	\$(23,644)
Net income (loss)	\$73,015	\$(4,515)	\$(50,874)	\$17,626
Net income (loss) attributable to EchoStar Corporation common stock	\$71,723	\$(4,515)	\$(50,874)	\$16,334
<b>Earnings (losses) per share:</b>				
Basic	\$0.75	\$(0.05)	\$(0.53)	\$0.17
Diluted	\$0.74	\$(0.05)	\$(0.52)	\$0.17

For the nine months ended September 30, 2018

Statement of Comprehensive Income (Loss)	As Reported	Adjustments Due to		Balances If We Had Not Adopted the New Standards
		New Revenue Standard	New Investment Standard	
(In thousands)				
Net income (loss)	\$73,015	\$(4,515)	\$(50,874)	\$17,626
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available-for-sale securities and other	\$(105)	\$—	\$13,858	\$13,753
Other-than-temporary impairment loss on available-for-sale securities in net income	\$—	\$—	\$37,016	\$37,016
Total other comprehensive income (loss), net of tax	\$(42,649)	\$—	\$50,874	\$8,225
Comprehensive income (loss)	\$30,366	\$(4,515)	\$—	\$25,851
Comprehensive income (loss) attributable to EchoStar Corporation	\$30,463	\$(4,515)	\$—	\$25,948

*Restricted Cash and Cash Equivalents*



*ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash* requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents in our Statement of Cash Flows. We adopted ASU No. 2016-18 as of January 1, 2018. As a result, the beginning and ending balances of cash and cash equivalents presented in our Condensed Consolidated Statements of Cash Flows include amounts for restricted cash and cash equivalents, which historically were not included in such balances, and receipts and payments of restricted cash and cash equivalents, exclusive of transfers to and from unrestricted accounts, are reported in our Condensed Consolidated Statements of Cash Flows. The adoption of this accounting standard d

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id not have a material impact on our Statements of Cash Flows and related disclosures.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

*Lease Standard*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued *ASU No. 2016-02, Leases (Topic 842)*. This standard requires lessees to recognize assets and liabilities for all leases with lease terms more than 12 months, including leases classified as operating leases. The standard also modifies the definition of a lease and the criteria for classifying leases as operating leases or finance leases and requires certain additional disclosures. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new standard, as amended in July 2018, may be applied either on a modified retrospective basis to the earliest period presented in our consolidated financial statements or as of the adoption date without restating prior periods, with certain practical expedients available. We plan to adopt the new standard as of January 1, 2019 without restating prior periods. We expect to elect certain transitional practical expedients upon adoption.

We anticipate this new standard will have a material impact on our consolidated balance sheets and may have a material impact on our consolidated income statements. While we are continuing to assess the potential impacts of the new standard, we currently expect the most significant impact will be the recognition of right-of-use assets and lease liabilities for operating leases. We expect our accounting for capital leases to remain substantially unchanged. We also expect in certain circumstances that our classifications of new and modified leases may be impacted by the new standard and affect our future operating results. We continue to evaluate the impact of this new standard on our consolidated financial statements and related disclosures and are not able to reasonably estimate such impacts at this time.

*Credit Losses*

In June 2016, the FASB issued *ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments*, which introduces a new approach to estimate credit losses on certain types of financial instruments based on expected losses instead of incurred losses. It also modifies the impairment model for available-for-sale debt securities and provides a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. We are currently assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

*Callable Debt Securities*

In March 2017, the FASB issued *ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, which shortens the amortization period of premiums on certain purchased callable debt securities to the earliest call date, effectively reducing interest income on such securities prior to the earliest call date. ASU No. 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. We are assessing the impact of adopting this new accounting standard on our

consolidated financial statements and related disclosures.

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**NOTE 3. REVENUE RECOGNITION****Information About Contract Balances**

The following table provides information about our contract balances with customers, including amounts for certain embedded leases.

	<b>As of</b>	
	<b>September 30,</b>	<b>January 1, 2018</b>
	<b>2018</b>	<b>2018</b>
	(In thousands)	
Trade accounts receivable:		
Sales and services	\$163,707	\$156,794
Leasing	9,102	10,355
Total	172,809	167,149
Contract assets	57,172	34,615
Allowance for doubtful accounts	(12,457 )	(12,027 )
Total trade accounts receivable and contract assets, net	\$217,524	\$189,737
Trade accounts receivable - DISH Network:		
Sales and services	\$9,372	\$16,118
Leasing	1,693	27,177
Total trade accounts receivable - DISH Network, net	\$11,065	\$43,295
Contract liabilities:		
Current	\$74,135	\$64,417
Noncurrent	11,903	13,036
Total contract liabilities	\$86,038	\$77,453

For the nine months ended September 30, 2018, we recognized revenue of \$54.2 million that was previously included in the contract liability balance at January 1, 2018.

Our bad debt expense was \$8.0 million and \$2.7 million for the three months ended September 30, 2018 and 2017, respectively, and \$14.8 million and \$8.4 million for the nine months ended September 30, 2018 and 2017, respectively.

**Transaction Price Allocated to Remaining Performance Obligations**

As of September 30, 2018, the remaining performance obligations for our customer contracts with original expected durations of more than one year was \$1.00 billion. We expect to recognize approximately 38.0% of our remaining performance obligations of these contracts as revenue in the next twelve months. This amount excludes agreements with consumer customers in our Hughes segment and our leasing arrangements.



Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 4. DISCONTINUED OPERATIONS**

On January 31, 2017, EchoStar Corporation and certain of our subsidiaries entered into the Share Exchange Agreement, pursuant to which on February 28, 2017, among other things, we received all of the shares of the Tracking Stock in exchange for 100% of the equity interests of certain EchoStar subsidiaries that held substantially all of our former EchoStar Technologies businesses and certain other assets. Following the consummation of the Share Exchange, we no longer operate the EchoStar Technologies businesses, the Tracking Stock was retired and is no longer outstanding, and all agreements, arrangements and policy statements with respect to the Tracking Stock terminated.

As a result of the Share Exchange, the historical financial results of our EchoStar Technologies segment prior to the closing of the Share Exchange are reflected in our accompanying Condensed Consolidated Financial Statements as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented. The noncontrolling interest in HSS Tracking Stock, as reflected in our stockholders' equity, was extinguished as of February 28, 2017 as a result of the Share Exchange.

We have had de minimis activity from our discontinued operations for the three and nine months ended September 30, 2018. The following table presents the operating results of our discontinued operations for the three and nine months ended September 30, 2017:

	<b>For the three months ended September 30, 2017</b>	<b>For the nine months ended September 30, 2017</b>
	(In thousands)	
Revenue:		
Equipment, services and other revenue - DISH Network	\$—	\$ 143,063
Equipment, services and other revenue - other	(45 )	10,344
Total revenue	(45 )	153,407
Costs and expenses:		
Cost of equipment, services and other	19	121,973
Selling, general and administrative expenses	(590 )	5,502
Research and development expenses	—	4,635
Depreciation and amortization	—	11,659
Total costs and expenses	(571 )	143,769
Operating income (expense)	526	9,638
Other income (expense):		
Interest expense	—	(15 )
Equity in losses of unconsolidated affiliates, net	—	(1,159 )
Other, net	2	(61 )
Total income (expense), net	2	(1,235 )
Income from discontinued operations before income taxes	528	8,403
Income tax provision, net	(1,182)	(1,949 )

Net income (loss) from discontinued operations	\$ (654)	\$ 6,454
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Expenditures for property and equipment from our discontinued operations totaled \$12.5 million for the nine months ended September 30, 2017.

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Total assets and total liabilities of the discontinued operations were \$0.1 million and \$0.5 million, respectively, as of December 31, 2017.

**NOTE 5. EARNINGS PER SHARE**

We present basic earnings or losses per share (“EPS”) and diluted EPS for our Class A and Class B common stock. Basic EPS for our Class A and Class B common stock excludes potential dilution and is computed by dividing *Net income attributable to EchoStar Corporation common stock* by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if shares of common stock were issued pursuant to our stock-based compensation awards. 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 2.2 million and 1.0 million shares for the three months ended September 30, 2018 and 2017, respectively, and 1.4 million and 1.0 million shares for the nine months ended September 30, 2018 and 2017, respectively.

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

	<b>For the three months ended September 30, 2018</b>		<b>For the nine months ended September 30, 2017</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	(In thousands, except per share amounts)			
<b>Amounts attributable to EchoStar Corporation common stock:</b>				
Net income from continuing operations	\$ 16,052	\$ 35,323	\$ 71,723	\$ 74,079
Net income from discontinued operations	—	(654 )	—	6,454
Net income attributable to EchoStar Corporation common stock	\$ 16,052	\$ 34,669	\$ 71,723	\$ 80,533
<b>Weighted-average common shares outstanding:</b>				
Basic	96,166	95,656	96,049	95,316
Dilutive impact of stock awards outstanding	714	1,234	922	1,310
Diluted	96,880	96,890	96,971	96,626
<b>Earnings per share:</b>				
<b>Basic:</b>				
Continuing operations	\$ 0.17	\$ 0.37	\$ 0.75	\$ 0.78
Discontinued operations	—	(0.01 )	—	0.06
Total basic earnings per share	\$ 0.17	\$ 0.36	\$ 0.75	\$ 0.84
<b>Diluted:</b>				
Continuing operations	\$ 0.17	\$ 0.36	\$ 0.74	\$ 0.77
Discontinued operations	—	—	—	0.06
Total diluted earnings per share	\$ 0.17	\$ 0.36	\$ 0.74	\$ 0.83





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**NOTE 6. OTHER COMPREHENSIVE INCOME (LOSS) AND RELATED TAX EFFECTS**

The changes in the balances of *Accumulated other comprehensive loss* by component were as follows:

	<b>Cumulative Foreign Currency Translation Losses</b>	<b>Unrealized Gain (Loss) On Available-For-Sale Securities</b>	<b>Accumulated Other Comprehensive Loss</b>
	(In thousands)		
<b>Balance, December 31, 2016</b>	\$ (135,434 )	\$ 10,631	\$ (124,803 )
Other comprehensive income before reclassifications	33,162	2,369	35,531
Amounts reclassified to net income	—	540	540
Other comprehensive income	33,162	2,909	36,071
<b>Balance, September 30, 2017</b>	\$ (102,272 )	\$ 13,540	\$ (88,732 )
<b>Balance, December 31, 2017</b>	\$ (119,430 )	\$ (10,724 )	\$ (130,154 )
Cumulative effect of adoption of ASU No. 2016-01 as of January 1, 2018 (Note 2)	—	10,467	10,467
<b>Balance, January 1, 2018</b>	(119,430 )	(257 )	(119,687 )
Other comprehensive loss before reclassifications	(41,151 )	(105 )	(41,256 )
Amounts reclassified to net income	—	(4 )	(4 )
Other comprehensive loss	(41,151 )	(109 )	(41,260 )
<b>Balance, September 30, 2018</b>	\$ (160,581 )	\$ (366 )	\$ (160,947 )

The amounts reclassified to net income related to unrealized gain (loss) on available-for-sale securities in the table above are included in *Gains and losses on investments, net* in our Condensed Consolidated Statements of Operations.

Except in unusual circumstances, we do not recognize tax effects on foreign currency translation adjustments because they are not expected to result in future taxable income or deductions.

Other comprehensive income includes deferred tax benefits for foreign currency translation losses related to assets that were transferred from a foreign subsidiary to a domestic subsidiary of zero and \$7.3 million for the three and nine months ended September 30, 2017, respectively.

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Our marketable investment securities portfolio consists of various debt and equity instruments summarized in the table below. Certain of our investments in debt and equity instruments have historically experienced and are likely to continue experiencing volatility.

	<b>As of</b>	
	<b>September</b>	<b>December</b>
	<b>30, 2018</b>	<b>31, 2017</b>
	(In thousands)	
<b>Marketable investment securities:</b>		
<b>Debt securities:</b>		
Corporate bonds	\$1,496,456	\$542,573
Other debt securities	217,410	142,036
Total debt securities	1,713,866	684,609
Equity securities	138,729	139,571
Total marketable investment securities	1,852,595	824,180
Less: Restricted marketable investment securities	9,720	10,019
Total marketable investment securities	\$1,842,875	\$814,161

**Debt Securities**

Our corporate bond portfolio includes debt instruments issued by individual corporations, primarily in the industrial and financial services industries. Our other debt securities portfolio includes investments in various debt instruments, including U.S. government bonds, commercial paper and mutual funds.

A summary of our available-for-sale debt securities, exclusive of securities where we have elected the fair value option, is presented in the table below.

	<b>Amortized</b>	<b>Unrealized</b>	<b>Estimated</b>
	<b>Cost</b>	<b>Gains</b>	<b>Fair Value</b>
	<b>Losses</b>		
	(In thousands)		
<b>As of September 30, 2018</b>			
Corporate bonds	\$1,462,498	\$714	\$(761 ) \$1,462,451
Other debt securities	217,420	—	(10 ) 217,410
Total available-for-sale debt securities	\$1,679,918	\$714	\$(771 ) \$1,679,861
<b>As of December 31, 2017</b>			
Corporate bonds	\$542,861	\$—	\$(288 ) \$542,573
Other debt securities	142,082	—	(46 ) 142,036
Total available-for-sale debt securities	\$684,943	\$—	\$(334 ) \$684,609

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As of September 30, 2018, corporate bonds where we have elected the fair value option have a fair value of \$34.0 million. We recognized losses of \$14.9 million and gains of \$8.2 million on these securities for the three and nine months ended September 30, 2018, respectively. We had no debt securities that were accounted for using the fair value option during the three or nine months ended September 30, 2017.

As of September 30, 2018, we have \$964.6 million of available-for-sale debt securities with contractual maturities of one year or less and \$715.2 million with contractual maturities greater than one year.

**Equity Securities**

Our marketable equity securities consist primarily of shares of common stock of public companies. Prior to January 1, 2018, we classified our marketable equity securities as available-for-sale or trading securities, depending on our investment strategy for the securities. As of December 31, 2017, our marketable equity securities consisted of available-for-sale securities with a fair value of \$87.1 million and trading securities with a fair value of \$52.5 million. Our available-for-sale securities as of December 31, 2017 reflected an adjusted cost basis of \$97.5 million and unrealized gains and losses of \$7.9 million and \$18.4 million, respectively. Substantially all unrealized losses on our available-for-sale securities related to securities that were in a continuous loss position for less than 12 months. We recognized a \$3.3 million other-than-temporary impairment for the nine months ended September 30, 2017 on one of our available-for-sale securities which had experienced a decline in market value as a result of adverse developments during the nine months ended September 30, 2017.

For each of the three and nine months ended September 30, 2017, *Gains and losses on investments, net* included gains of \$19.9 million, related to trading securities that we held as of September 30, 2017. The fair values of our trading securities were \$23.9 million as of September 30, 2017.

Upon adoption of the New Investment Standard as of January 1, 2018 (see Note 2), we account for investments in equity securities at their fair value and we recognize unrealized gains and losses in *Gains and losses on investments, net* in our Condensed Consolidated Statement of Operations. For the three and nine months ended September 30, 2018, *Gains and losses on investments, net* included net gains of \$19.7 million and \$25.3 million, respectively, related to equity securities that we held as of September 30, 2018.

**Sales of Available-for-Sale Securities**

Proceeds from sales of our available-for-sale securities, including securities accounted for using the fair value option, were \$150.9 million for each of the three and nine months ended September 30, 2018 and zero and \$31.0 million for the three and nine months ended September 30, 2017, respectively. We recognized gains as a result of such sales of zero for each of the three and nine months ended September 30, 2018 and zero and \$2.8 million for the three and nine months ended September 30, 2017, respectively. Sales of securities accounted for using the fair value option do not result in gains or losses because we recognize unrealized gains and losses on such securities prior to the time of sale.

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Our marketable investment securities are measured at fair value on a recurring basis as summarized in the table below. As of September 30, 2018 and December 31, 2017, we did not have investments that were categorized within Level 3 of the fair value hierarchy.

	<b>As of</b>			<b>December 31, 2017</b>		
	<b>September 30, 2018</b>		<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>				
	<b>(In thousands)</b>					
Debt securities:						
Corporate bonds	\$—	\$1,496,456	\$1,496,456	\$—	\$542,573	\$542,573
Other	10,436	206,974	217,410	13,311	128,725	142,036
Total debt securities	10,436	1,703,430	1,713,866	13,311	671,298	684,609
Equity securities	132,291	6,438	138,729	133,736	5,835	139,571
Total marketable investment securities	\$142,727	\$1,709,868	\$1,852,595	\$147,047	\$677,133	\$824,180

**NOTE 8. INVENTORY**

Our inventory consisted of the following:

	<b>As of</b>	
	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<b>(In thousands)</b>	
Raw materials	\$6,266	\$ 5,484
Work-in-process	7,409	7,442
Finished goods	56,386	70,669
Total inventory	\$70,061	\$ 83,595

**NOTE 9. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	<b>Depreciable Life In Years</b>	<b>As of</b>	
		<b>September 30, 2018</b>	<b>December 31, 2017</b>
		<b>(In thousands)</b>	
Land	—	\$33,603	\$33,713
Buildings and improvements	1 to 40	184,847	185,148
Furniture, fixtures, equipment and other	1 to 12	772,335	736,533
Customer rental equipment	2 to 4	1,103,408	929,775
Satellites - owned	2 to 15	2,816,628	3,064,391
Satellites - acquired under capital leases	10 to 15	1,045,242	916,820
Construction in progress	—	300,642	260,220
Total property and equipment		6,256,705	6,126,600
Accumulated depreciation		(2,814,168 )	(2,661,129 )

Property and equipment, net	\$3,442,537	\$3,465,471
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Construction in progress consisted of the following:

	<b>As of</b>	
	<b>September</b>	<b>December</b>
	<b>30, 2018</b>	<b>31, 2017</b>
	(In thousands)	
Progress amounts for satellite construction, including prepayments under capital leases and launch services costs	\$232,599	\$211,765
Satellite related equipment	34,948	28,358
Other	33,095	20,097
Construction in progress	\$300,642	\$260,220

Construction in progress as of September 30, 2018 included our EchoStar XXIV satellite, which is expected to launch in 2021.

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

	<b>For the three</b>		<b>For the nine</b>	
	<b>months</b>		<b>months</b>	
	<b>ended September</b>		<b>ended September</b>	
	<b>30,</b>		<b>30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	(In thousands)			
Buildings and improvements	\$2,972	\$4,641	\$9,057	\$12,292
Furniture, fixtures, equipment and other	20,745	19,511	61,958	54,173
Customer rental equipment	43,584	39,104	129,907	103,781
Satellites	72,545	61,078	211,748	173,293
Total depreciation expense	\$139,846	\$124,334	\$412,670	\$343,539

**Satellites**

As of September 30, 2018, our satellite fleet consisted of 18 satellites, 13 of which are owned and five of which are leased. They are all 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. We depreciate our leased satellites on a straight-line basis over their respective lease terms.

*Recent Developments*

**EchoStar I and EchoStar VI.** The EchoStar I and EchoStar VI satellites were removed from their orbital locations and retired from commercial service in January 2018 and May 2018, respectively. The retirement of these satellites has not had, and is not expected to have, a material impact on our results of operations or financial position.

**EchoStar 105/SES-11.** The EchoStar 105/SES-11 satellite was launched in October 2017 and was placed into service in November 2017 at the 105 degree west longitude orbital location. Pursuant to agreements that we entered into in August 2014, we funded substantially all construction, launch and other costs

associated with the EchoStar 105/SES-11 satellite and transferred the C-, Ku- and Ka-band payloads to two affiliates of SES Americom, Inc. ("SES") after the launch date, while retaining the right to use the entire Ku-band payload on the satellite for an initial ten-year term, with an option for us to renew the agreement on a year-to-year basis. In October 2017, we recorded a \$77.5 million receivable from SES in *Other current assets* in the Condensed Consolidated Balance Sheets, representing capitalized costs allocable to certain satellite payloads controlled by SES, and we reduced our carrying amount of the satellite by such amount. In January 2018, we received payment from SES for the receivable plus accrued interest. Our leased Ku-band payload on the EchoStar 105/SES-11 satellite has replaced the capacity we had on the AMC-15 satellite.



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**Telesat T19V.** In September 2015, we entered into agreements pursuant to which affiliates of Telesat Canada will provide to us the Ka-band capacity on the Telesat T19V satellite at the 63 degree west longitude orbital location for a 15-year term. We were not party to the construction contract. The Telesat T19V satellite was launched in July 2018 and placed into service in October 2018. We expect this satellite to augment the capacity being provided by the EUTELSAT 65 West A and EchoStar XIX satellites in Central and South America.

*Satellite Anomalies and Impairments*

Our satellites may experience anomalies from time to time, some of which may have a significant adverse effect on their remaining useful lives, the commercial operation of the satellites or our operating results or financial position. We are not aware of any anomalies with respect to our owned or leased satellites that have had any such significant adverse effect during the nine months ended September 30, 2018. There can be no assurance, however, that anomalies will not have any such adverse effects 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 satellites were to fail.

The EchoStar X satellite experienced anomalies in the past which affected seven solar array circuits. In December 2017, the satellite experienced anomalies which affected one additional solar array circuit reducing the number of functional solar array circuits to 16. As a result of these anomalies, we had a reduction in revenue of \$1.1 million and \$3.5 million for the three and nine months ended September 30, 2018 as compared to the same period in 2017, respectively.

We historically have not carried in-orbit insurance on our satellites because we have assessed that the cost of insurance is not economical relative to the risk of failures. Therefore, we generally bear the risk of any 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 in-orbit insurance for our SPACEWAY 3, EchoStar XVI and EchoStar XVII satellites. Our other satellites, either in orbit or under construction, are not covered by launch or in-orbit insurance. We will continue to assess circumstances going forward and make insurance decisions on a case-by-case basis.

We evaluate our satellites for impairment and test for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Certain of the anomalies previously disclosed may be considered to represent a significant adverse change in the physical condition of a particular satellite. However, based on the redundancy designed within each satellite, certain of these anomalies are not necessarily considered to be significant events that would require a test of recoverability.

**NOTE 10. GOODWILL, REGULATORY AUTHORIZATIONS AND OTHER INTANGIBLE ASSETS**

**Goodwill**

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

than its carrying amount.

As of September 30, 2018 and December 31, 2017, all 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 impairment testing in the second quarter of 2018, our goodwill is considered to be not impaired.

Table of Contents**ECHOSTAR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Regulatory Authorizations**

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

	<b>As of December 31, 2017</b>	<b>Additions</b>	<b>Currency Translation Adjustment</b>	<b>As of September 30, 2018</b>
	(In thousands)			
Finite useful lives:				
Cost	\$92,621	\$—	\$ (9,419 )	\$ 83,202
Accumulated amortization	(21,342 )	(3,933 )	2,011	(23,264 )
Net	71,279	(3,933 )	(7,408 )	59,938
Indefinite lives	465,657	—	—	465,657
Total regulatory authorizations, net	\$536,936	\$ (3,933 )	\$ (7,408 )	\$ 525,595

**Other Intangible Assets**

As of September 30, 2018 and December 31, 2017, accumulated amortization for our other intangible assets was \$313.4 million and \$302.3 million, respectively.

**NOTE 11. INVESTMENTS IN UNCONSOLIDATED ENTITIES**

We have strategic investments in certain non-publicly traded equity securities that do not have a readily determinable fair value. We account for most of these investments using the equity method. We accounted for other investments in such equity securities using the cost method of accounting prior to January 1, 2018. In connection with our adoption of the New Investment Standard effective January 1, 2018 (see Note 2), we elected to measure our equity securities without a readily determinable fair value, other than those accounted for using the equity method, at cost adjusted for changes resulting from impairments, if any, and observable price changes in orderly transactions for the identical or similar securities of the same issuer. For the nine months ended September 30, 2018, we did not identify any observable price changes requiring an adjustment to our investments.

Our investments in unconsolidated entities consisted of the following:

	<b>As of September 30, 2018</b>	<b>December 31, 2017</b>
	(In thousands)	
<b>Investments in unconsolidated entities:</b>		
Equity method	\$95,231	\$ 91,702
Other equity investments without a readily determinable fair value	65,438	69,725
Total investments in unconsolidated entities	\$160,669	\$ 161,427

In January 2017, we sold our investment in Invidi Technologies Corporation ("Invidi") to an entity owned in part by DISH Network for \$19.4 million. Our investment was accounted for using the cost method and had a carrying amount of \$10.5 million on the date of sale and as a result we recognized a gain of \$8.9 million in

connection with this transaction for the nine months ended September 30, 2017. See Note 17 for additional information about this transaction.

In connection with the Share Exchange (see Notes 4 and 17), our equity interests in NagraStar L.L.C. and SmarDTV SA, which we accounted for using the equity method, and our equity interest in Sling TV Holding L.L.C., which we accounted for using the cost method, were transferred to DISH Network as of February 28, 2017.

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(Unaudited)****NOTE 12. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS**

The following table summarizes the carrying amounts and fair values of our long-term debt and capital lease obligations.

	Effective Interest Rate	As of		December 31, 2017	
		September 30, 2018 Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)					
Senior Secured Notes:					
6 1/2% Senior Secured Notes due 2019	6.959%	\$990,000	\$1,011,958	\$990,000	\$1,042,609
5 1/4% Senior Secured Notes due 2026	5.320%	750,000	736,590	750,000	769,305
Senior Unsecured Notes:					
7 5/8% Senior Unsecured Notes due 2021	8.062%	900,000	974,088	900,000	992,745
6 5/8% Senior Unsecured Notes due 2026	6.688%	750,000	730,778	750,000	791,865
Less: Unamortized debt issuance costs		(18,947 )	—	(24,857 )	—
Subtotal		3,371,053	\$3,453,414	3,365,143	\$3,596,524
Capital lease obligations		241,854		269,701	
Total debt and capital lease obligations		3,612,907		3,634,844	
Less: Current portion		(1,030,088 )		(40,631 )	
Long-term debt and capital lease obligations, net		\$2,582,819		\$3,594,213	

**NOTE 13. INCOME TAXES****Provision For Income Taxes**

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

Our interim income tax provision and our interim estimate of our annual effective tax rate are influenced by several factors, including foreign losses and capital gains and losses for which related deferred tax assets are offset by a valuation allowance, changes in tax laws and relative changes in unrecognized tax benefits. Additionally, our effective tax rate can be affected by the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income or loss is lower.

Our income tax provision was approximately \$12.8 million for the three months ended September 30, 2018 compared to an income tax provision of \$6.1 million for the three months ended September 30, 2017. Our estimated effective income tax rate was 43.8% and 14.5% for the three months ended September 30, 2018 and 2017, respectively. The variations in our effective tax rate from the U.S. federal statutory rate for the three months ended September 30, 2018 were primarily due to the change in net unrealized gains that are capital in nature. The variations in our effective tax rate from the U.S. federal statutory rate for the three months ended September 30, 2017 were primarily due to various permanent tax differences, the increase in our valuation allowance associated with unrealized gains that are capital in nature and a change in the amount of unrecognized tax benefit from uncertain tax positions.

Our income tax provision was approximately \$25.2 million for the nine months ended September 30, 2018 compared to an income tax provision of \$9.1 million for the nine months ended September 30, 2017. Our estimated effective income tax rate was 25.7% and 11.0% for the nine months ended September 30, 2018 and 2017, respectively. The

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variations in our effective tax rate from the U.S. federal statutory rate for the nine months ended September 30, 2018 were primarily due to the change in net unrealized gains that are capital in nature and research and experimentation credits, partially offset by the impact of state and local taxes and the increase in our valuation allowance associated with certain foreign losses. The variations in our effective tax rate from the U.S. federal statutory rate for the nine months ended September 30, 2017 were primarily due to the recognition of a one-time tax benefit for the revaluation of our deferred tax assets and liabilities due to a change in our state effective tax rate as a result of the Share Exchange, the increase in our valuation allowance associated with unrealized gains that are capital in nature, and change in the amount of unrecognized tax benefit from uncertain tax positions. The tax benefit recognized from the change in our effective tax rate was partially offset by the increase in our valuation allowance associated with certain state and foreign losses.

**U.S. Tax Cuts and Jobs Act**

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), we made reasonable estimates of the effects and recorded provisional amounts in our accompanying condensed consolidated financial statements. See Note 12, Income Taxes to our consolidated financial statements included in our Form 10-K for the year ended December 31, 2017 for a summary of the benefit that we have provisionally recorded to reflect the change in the value of our deferred tax assets and liabilities resulting from the 2017 Tax Act. As of September 30, 2018, the tax effects of the 2017 Tax Act that we recorded in our financial statements for the year ended December 31, 2017 remain provisional, except for the amount of the mandatory one-time tax on the accumulated earnings of our foreign subsidiaries, which we decreased by \$0.2 million to zero and which is now final. The other estimates remain provisional. As we collect and prepare necessary data, and interpret the 2017 Tax Act and any additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service ("IRS") or other standard-setting bodies, we may make additional adjustments to the provisional amounts. Those adjustment may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made.

**NOTE 14. STOCK-BASED COMPENSATION****Stock Option Activity**

We maintain stock incentive plans to attract and retain officers, directors and employees. Stock awards under these plans may include both performance-based and non-performance based stock incentives. We granted stock options and other incentive awards to our employees and nonemployee directors to acquire the following shares of our Class A common stock:

	During the three months ended September 30, 2018		During the nine months ended September 30, 2018	
	2018	2017	2018	2017
Stock options and other incentive awards granted	27,590	62,600	211,326	1,263,350

On April 1, 2017, we granted to Mr. Ergen, our Chairman, an option to purchase 1.1 million shares of Class A common stock. On April 24, 2017, Mr. Ergen voluntarily forfeited a portion of the options covering 600,000 shares and we canceled such forfeited portion of the options.



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(Unaudited)****Stock-Based Compensation**

Total noncash, stock-based compensation expense for all of our employees is shown in the following table for the three and nine months ended September 30, 2018 and 2017, respectively, and was assigned to the same expense categories as the base compensation for such employees:

	<b>For the three months ended September 30, 2018</b>		<b>For the nine months ended September 30, 2017</b>	
	(In thousands)			
Research and development expenses	\$162	\$297	\$503	\$774
Selling, general and administrative expenses	2,499	2,965	7,268	7,932
Total stock-based compensation	\$2,661	\$3,262	\$7,771	\$8,706

As of September 30, 2018, total unrecognized stock-based compensation cost, net of estimated forfeitures, related to our unvested stock awards was \$16.3 million.

**NOTE 15. COMMITMENTS AND CONTINGENCIES****Commitments**

As of September 30, 2018 and December 31, 2017, our satellite-related obligations were approximately \$836.6 million and \$923.9 million, respectively. Our satellite-related obligations primarily include payments pursuant to agreements for the construction of the EchoStar XXIV satellite; payments pursuant to regulatory authorizations; executory costs for our capital lease satellites; and in-orbit incentives relating to certain satellites; as well as commitments for satellite service arrangements.

**Contingencies***Patents and Intellectual Property*

Many entities, including some of our competitors, have or may have in the future 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 tripled. 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 our products and services. We cannot be certain that these parties 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 obtain licenses from these parties 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 and Share Exchange*

In connection with the Spin-off (See Note 2), 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 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, we will generally 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. Additionally, in connection

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with the Share Exchange, we entered into the Share Exchange Agreement and other agreements which provide, among other things, for the division of certain liabilities, including liabilities relating to taxes, intellectual property and employees and liabilities resulting from litigation and the assumption of certain liabilities that relate to the transferred businesses and assets. These agreements also contain additional indemnification provisions between us and DISH Network for certain pre-existing liabilities and legal proceedings.

*Litigation*

We are involved in a number of legal proceedings 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 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, 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 trials, 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). Except as described below, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material 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 or jury 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.

*Elbit*

On January 23, 2015, Elbit Systems Land and C4I LTD and Elbit Systems of America Ltd. (together referred to as "Elbit") filed a complaint against our subsidiary Hughes Network Systems, L.L.C. ("HNS"), as well as against Black Elk Energy Offshore Operations, LLC, Bluetide Communications, Inc. and Helm

Hotels Group, in the U.S. District Court for the Eastern District of Texas, alleging infringement of U.S. Patent Nos. 6,240,073 (the "073 patent") and 7,245,874 ("874 patent"). The 073 patent is entitled "Reverse Link for a Satellite Communication Network" and the 874 patent is entitled "Infrastructure for Telephony Network." Elbit alleges that the 073 patent is infringed by broadband satellite systems that practice the Internet Protocol Over Satellite standard. Elbit alleges that the 874 patent is infringed by the manufacture and sale of broadband satellite systems that provide cellular backhaul service via connections to E1 or T1 interfaces at cellular backhaul base stations. On 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 November 3 and 4, 2015 and January 22, 2016, the defendants filed petitions before the United States Patent and Trademark Office ("USPTO") challenging the validity of the patents in suit, which the USPTO subsequently declined to institute. On April 13, 2016, the defendants answered Elbit's complaint. At Elbit's request, on June 26, 2017, the

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court dismissed Elbit's claims of infringement against all parties other than HNS. Trial commenced on July 31, 2017. On August 7, 2017, the jury returned a verdict that the 073 patent was valid and infringed, and awarded Elbit approximately \$21.1 million. The jury also found that such infringement of the 073 patent was not willful and that the 874 patent was not infringed. On March 30, 2018, the court ruled on post-trial motions, upholding the jury's findings and awarding Elbit attorneys' fees in an amount that has not yet been specified. As a result of pre-judgment interest, costs and unit sales through the 073 patent's expiration in November 2017, the jury verdict would result in a payment of approximately \$28.5 million plus post-judgment interest if not overturned or modified on appeal. Elbit has requested an award of \$13.9 million of attorneys' fees. HNS is contesting Elbit's claims as inappropriate and unreasonable in light of the court's decision and prevailing law. On April 27, 2018, HNS filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit. The parties are currently briefing the appeal. We cannot predict with certainty the outcome of the appeal. As of September 30, 2018 and December 31, 2017, we have recorded an accrual of approximately \$3.2 million and \$2.5 million, respectively, with respect to this liability. Any eventual payments made with respect to the ultimate outcome of this matter may be different from our accruals and such differences could be significant.

*Realtime Data LLC*

On May 8, 2015, Realtime Data LLC ("Realtime") filed suit against EchoStar Corporation and our subsidiary HNS in the U.S. District Court for the Eastern District of Texas alleging infringement of U.S. Patent Nos. 7,378,992 (the "992 patent"), entitled "Content Independent Data Compression Method and System;" 7,415,530 (the "530 patent"), entitled "System and Methods for Accelerated Data Storage and Retrieval," and 8,643,513 (the "513 patent"), entitled "Data Compression System and Methods." On September 14, 2015, Realtime amended its complaint, additionally alleging infringement of U.S. Patent No. 9,116,908 (the "908 patent"), entitled "System and Methods for Accelerated Data Storage and Retrieval." On February 14, 2017, Realtime filed a second suit against EchoStar Corporation and our subsidiary HNS in the same District Court, alleging infringement of four additional U.S. Patents, Nos. 7,358,867 (the "867 patent"), entitled "Content Independent Data Compression Method and System;" 8,502,707 (the "707 patent"), entitled "Data Compression Systems and Methods;" 8,717,204 (the "204 patent"), entitled "Methods for Encoding and Decoding Data;" and 9,054,728 (the "728 patent"), entitled "Data Compression System and Methods." On February 13, 2018, we filed petitions before the USPTO challenging the validity of all claims asserted against us from the 707 patent, as well as one of the asserted claims of the 728 patent. On September 5, 2018, the USPTO declined to institute proceedings for the petition that we had filed against the 728 patent. On September 12, 2018, the USPTO instituted proceedings to review the validity of the asserted claims of the 707 patent. In a stipulation filed on October 24, 2018, Realtime voluntarily elected not to pursue any previously asserted claims from the 992, 530, 513, 908, 867 and 204 patents. Realtime is currently alleging that the 707 and 728 patents are infringed by certain HNS data compression products and services. Trial is scheduled for January 21, 2019. Realtime 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 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 may be 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 other 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.

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The Company also 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.

**NOTE 16. SEGMENT REPORTING**

Operating segments are business components of an enterprise for which separate financial information is available and regularly evaluated by our chief operating decision maker ("CODM"), who is our Chief Executive Officer. We primarily operate in two business segments, Hughes and ESS, as described in Note 1.

The primary measure of segment profitability that is reported regularly to our CODM is earnings before interest, taxes, depreciation and amortization, or EBITDA. Our operations also include various corporate departments (primarily Executive, Treasury, Strategic Development, Human Resources, IT, Finance, Real Estate, Accounting and Legal) and other activities that have not been assigned to our operating segments such as costs incurred in certain satellite development programs and other business development activities, and gains or losses from certain of our investments. Costs and income associated with these departments and activities are accounted for in the Corporate and Other column in the tables below or in the reconciliation of EBITDA below.

Eliminations of intersegment transactions are included in the Corporate and Other column in the tables below. Total assets by segment have not been reported herein because the information is not provided to our CODM on a regular basis.

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The following table presents revenue, EBITDA and capital expenditures for each of our operating segments. Capital expenditures are net of refunds and other receipts related to property and equipment and exclude capital expenditures from discontinued operations of \$12.5 million for the nine months ended September 30, 2017.

	<b>Hughes</b>	<b>ESS</b>	<b>Corporate Consolidated and Other Total</b>	
	(In thousands)			
<b>For the three months ended September 30, 2018</b>				
External revenue	\$444,762	\$83,482	\$4,709	\$ 532,953
Intersegment revenue	\$—	\$525	\$(525 )	\$ —
Total revenue	\$444,762	\$84,007	\$4,184	\$ 532,953
EBITDA	\$164,135	\$72,156	\$(16,111 )	\$ 220,180
Capital expenditures	\$110,550	\$29	\$56,576	\$ 167,155

**For the three months ended September 30, 2017**

External revenue