

EchoStar CORP
Form 10-K
February 20, 2015

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[PART IV](#)

[INDEX TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

OR

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

**FOR THE TRANSITION PERIOD FROM _____ TO _____
Commission file number: 001-33807**

EchoStar Corporation

(Exact name of registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

26-1232727
(I.R.S. Employer
Identification No.)

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

80112-5308
(Zip Code)

Registrant's telephone number, including area code: **(303) 706-4000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Class A common stock, \$0.001 par value

Name of each exchange on which registered
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Edgar Filing: EchoStar CORP - Form 10-K

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting company)

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

As of June 30, 2014, the aggregate market value of Class A common stock held by non-affiliates of the registrant was \$2.29 billion based upon the closing price of the Class A common stock as reported on the Nasdaq Global Select Market as of the close of business on that date.

As of February 13, 2015, the registrant's outstanding common stock consisted of 44,109,045 shares of Class A common stock and 47,687,039 shares of Class B common stock, each \$0.001 par value.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated into this Form 10-K by reference:

Portions of the registrant's definitive Proxy Statement to be filed in connection with its 2015 Annual Meeting of Shareholders are incorporated by reference in Part III.

Table of Contents**TABLE OF CONTENTS**

<u>Disclosure Regarding Forward Looking Statements</u>		i
<u>PART I</u>		
<u>Item 1.</u>	<u>Business</u>	<u>1</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>18</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>37</u>
<u>Item 2.</u>	<u>Properties</u>	<u>38</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>39</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>39</u>
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>40</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>40</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>42</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>76</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>78</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>78</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>78</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>79</u>
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>80</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>80</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>80</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>80</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>80</u>
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	<u>81</u>
	<u>Signatures</u>	<u>89</u>
	<u>Index to Consolidated Financial Statements</u>	<u>F-1</u>

Table of Contents

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K ("Form 10-K") contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, 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-K and represent management's current views and assumptions. Forward-looking statements are not guarantees of future performance, events or results and involve potential known and unknown risks, uncertainties and other factors, many of which may be beyond our control and may pose a risk to our operating and financial condition. Accordingly, actual performance, events or results could differ materially from those expressed or implied in the forward-looking statements due to a number of factors including, but not limited to:

our reliance on our primary customer, DISH Network Corporation ("DISH Network"), for a significant portion of our revenue;

the impact of variable demand and the adverse pricing environment for digital set-top boxes;

dependence on our ability to successfully manufacture and sell our digital set-top boxes in increasing volumes on a cost-effective basis and with acceptable quality;

our ability to bring advanced technologies to market to keep pace with our competitors;

significant risks related to the construction, launch and operation of our satellites, such as the risk of material malfunction on one or more of our satellites, changes in the space weather environment that could interfere with the operation of our satellites, and our general lack of commercial insurance coverage on our satellites;

the failure to adequately anticipate the need for satellite capacity or the inability to obtain satellite capacity for our Hughes segment; and

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

Other factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part I, Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this 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 to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements, except as required by federal securities laws.

Table of Contents

PART I

Item 1. BUSINESS

OVERVIEW

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

We currently operate in three business segments.

EchoStar Technologies ("ETC") which designs, develops and distributes digital set-top boxes and related products and technology, primarily for satellite TV service providers, telecommunication companies and international cable companies. Our EchoStar Technologies segment also provides digital broadcast operations, including satellite uplinking/downlinking, transmission services, signal processing, conditional access management, and other services, primarily to DISH Network Corporation and its subsidiaries ("DISH Network"). In addition, we provide our Slingboxes directly to consumers via retail outlets and online, as well as the payTV operator market via our partnership with Arris Group, Inc. ("Arris").

Hughes which provides satellite broadband internet access to North American consumers and broadband network services and equipment to domestic and international enterprise markets. The Hughes segment also provides managed services to large enterprises and solutions to customers for mobile satellite systems.

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

Our operations also include real estate and other activities that have not been assigned to our operating segments, costs incurred in certain satellite development programs and other business development activities, expenses of various corporate departments, and our centralized treasury operations, including income from our investment portfolio and interest expense on our debt.

In 2008, DISH Network completed its distribution to us of its digital set-top box business, certain infrastructure, and other assets and related liabilities, including certain of their satellites, uplink and satellite transmission assets, and real estate (the "Spin-off"). Since the Spin-off, EchoStar and DISH Network have operated as separate publicly-traded companies. However, as a result of the Satellite and Tracking Stock Transaction, described in Note 2 in the notes to consolidated financial statements in Item 15 of this report, DISH Network owns shares of our and our subsidiary's preferred tracking stock representing an aggregate 80.0% economic interest in the residential retail satellite broadband business of our Hughes segment. In addition, a substantial majority of the voting power of the shares of DISH Network and EchoStar is owned beneficially by Charles W. Ergen, our Chairman, and by certain trusts established by Mr. Ergen for the benefit of his family.

In 2011, we completed the acquisition of Hughes Communications, Inc. and its subsidiaries and related financing transactions ("Hughes Acquisition").

Table of Contents

BUSINESS STRATEGIES

Capitalize on demand for broadband services. We intend to capitalize on the demand for satellite-delivered broadband services and enterprise solutions by utilizing, among other things, our industry expertise, technology leadership, satellite capacity, access to spectrum resources, and high-quality, reliable service to continue growth in consumer subscribers and the enterprise market.

Expand satellite capacity and related infrastructure. Our expertise in the identification, acquisition and development of satellite spectrum and orbital rights and satellite operations, together with existing or acquired infrastructure will provide opportunities to cross sell services, bundle satellite broadband and video services, and explore opportunities in new markets. We believe market opportunities exist that will facilitate the acquisition or leasing of satellite capacity which will enable us to provide services to a broader customer base, including providers of pay-TV services, satellite-delivered broadband, corporate communications, and government services. We believe we are in a unique position to deploy a European wide mobile satellite service ("MSS")/complementary ground component ("CGC") network and maximize the long term value of our S-band spectrum, in Europe and other regions within the scope of our licenses.

Exploit international opportunities. We believe that direct-to-home ("DTH") satellite and satellite broadband services are particularly well-suited for countries without extensive telecommunications and cable infrastructure. We intend to selectively pursue partnerships, joint ventures and strategic acquisition opportunities that allow us to capitalize on our extensive experience in delivering end-to-end satellite broadband and pay-TV consumer services.

Expand our set-top box and customer premise equipment sales. With our extensive experience in designing, developing, manufacturing and distributing digital set-top boxes and related products, we believe we can leverage the broader adoption of advanced technologies such as whole home digital video recorder ("DVR"), placeshifting functionality, hybrid internet offerings and other in-home solutions to create opportunities for us. Therefore, we continue to explore opportunities, including partnerships, joint ventures and strategic acquisitions, to expand our existing markets or enter new markets. In addition, we intend to seek opportunities to license our technology to other original equipment manufacturers and pay-TV providers.

Develop improved technologies. The engineering capabilities of our combined business units provides us with the opportunity to develop and deploy cutting edge technologies, license our technologies to others, and maintain a leading technological position in the industries in which we are active.

BUSINESS SEGMENTS

ECHOSTAR TECHNOLOGIES SEGMENT

Our Products

Digital Set-Top Boxes. Our EchoStar Technologies segment offers a wide range of digital set-top boxes that allow consumers to watch and control their television programming and contain a variety of other capabilities and functionality. Our current digital set-top boxes include:

High-definition ("HD") digital set-top boxes. These devices allow consumers who subscribe to television services from multi-channel video distributors to access the enhanced picture quality and sound of high-definition content, in addition to the standard-definition ("SD") functionality of our SD digital set-top boxes.

SD digital set-top boxes. These devices allow consumers who subscribe to television service from multi-channel video distributors to access encrypted digital video and audio content.

Edgar Filing: EchoStar CORP - Form 10-K

Table of Contents

Certain models of our HD digital set-top boxes and SD digital set-top boxes also contain certain of the following advanced capabilities and functionalities:

Interactive Applications. Include an on-screen program guide, pay-per-view offerings, video content/meta-data enhancing user applications, social media, games, and shopping.

Digital Video Recorder ("DVR"). Enables subscribers to pause, stop, reverse, fast forward, record, and replay digital television content using a built-in and/or external hard drive capable of storing content. Our whole-home HD DVR receiver provides subscribers a variety of features that a consumer can use, at his or her option, to control, and/or record programming.

Broadband Internet Connectivity. Provides internet protocol television ("IPTV") functionality, which supports on-demand services that allow consumers to download television programming, movies, music, applications, and other content.

Slingbox "placeshifting" functionality. Allows a customer, at his or her option, to watch and control their digital television content anywhere in the world via a broadband internet connection.

In addition to digital set-top boxes, we also design and develop related products such as satellite dishes and remote controls. We are also exploring the development of other in-home products and applications.

Digital Broadcast Operations. We operate a number of digital broadcast centers in the U.S. Our principal digital broadcast centers are located in Cheyenne, Wyoming and Gilbert, Arizona. We also have multiple regional and micro digital broadcast centers that allow us to maximize the use of the spot beam capabilities of our satellites and our customers' satellites. Programming and other data are received at these centers by fiber optic cable or satellite. The data is then processed, compressed, encrypted and then uplinked to our satellites and our customers' satellites for transmission to end-users.

Our Customers

The primary customer of our EchoStar Technologies segment is DISH Network. DISH Network accounted for 88.6%, 90.1% and 76.9% of the EchoStar Technologies segment's revenue for the years ended December 31, 2014, 2013 and 2012, respectively. We expect DISH Network will continue to be the primary customer and the key revenue contributor for our EchoStar Technologies segment. See Note 19 in the notes to consolidated financial statements in Item 15 of this report for further discussion of our related party transactions with DISH Network.

We also currently sell our digital set-top boxes to other international DTH satellite and cable providers, including Bell TV, a DTH satellite services provider in Canada, and Dish Mexico. The majority of our EchoStar Technologies segment's international revenue during each of the years ended December 31, 2014, 2013 and 2012 was attributable to sales of digital set-top boxes and accessories to Bell TV and Dish Mexico. In 2012, we amended our pricing agreement with Bell TV, which among other things entitles us to be Bell TV's exclusive provider of digital set-top boxes, subject to certain limited exceptions, and provides fixed pricing over the term of the agreement as well as providing for future engineering development for enhanced Bell TV service offerings. In January 2014, we further amended the agreement, which extended our exclusivity rights under the pricing agreement until December 31, 2015.

Our Competition

The set-top box industry is highly competitive, and market leadership changes frequently as a result of new products, designs and pricing. As we seek to grow our revenue and market share in the digital

Table of Contents

set-top box industry, we face substantial competition. Many of our primary competitors, such as Arris, Cisco Systems, Inc. ("Cisco"), Pace Micro Technology Plc. ("PACE"), Samsung, and Technicolor S.A. ("Technicolor"), have established longstanding relationships with their customers. In addition, a number of rapidly growing companies have recently entered the market with set-top box offerings similar to our existing satellite set-top box products. The entry of these new competitors may result in increased pricing pressure in the market. We may also face competition from international developers of digital set-top box systems that may be able to develop and manufacture products and services at costs that are substantially lower than our costs. Furthermore, we depend heavily on our ability to successfully bring advanced technologies to the market, including internet delivery of video content and our Slingbox placeshifting functionality, to keep pace with our competitors.

Our use of proprietary technology, together with our in-house engineering expertise, enables us to innovate and bring new features and enhancements quickly to our customers. In addition, our end-to-end video solutions allow us to provide a more cost-effective solution for a pay-TV operator who may have to negotiate hardware, middleware and a conditional access system separately. We have a long-standing relationship with DISH Network and provide them with technologically advanced set-top boxes, including advanced hybrid satellite and internet protocol over-the-top delivery solutions, Slingbox placeshifting functionality, and whole-home DVR features.

Our Manufacturers

Although we design, engineer and distribute digital set-top boxes and related products, we are not directly engaged in the manufacturing process. Rather, we outsource the manufacturing of our digital set-top boxes and related products to third parties who manufacture our products according to specifications supplied by us. We depend on a few manufacturers, and in some cases a single manufacturer, for the production of digital set-top boxes and related products. Although there can be no assurance, we do not believe that the loss of any single manufacturer would materially impact our business. Sanmina-SCI Corporation, Shanghai DD&TT Electronic Enterprise Co., LTD and Jabil Circuit, Inc. currently manufacture the majority of our digital set-top boxes and accessories.

HUGHES SEGMENT

Our Products and Services

Our Hughes segment uses its two owned satellites, SPACEWAY 3 and EchoStar XVII, and additional satellite capacity acquired from multiple third-party providers, to provide satellite broadband internet access to North American consumers, which we refer to as the consumer market, and broadband network services and equipment to domestic and international enterprise markets. Our Hughes segment also provides managed services to large enterprises and solutions to customers for mobile satellite systems. We incorporate advances in technology to reduce costs and to increase the functionality and reliability of our products and services. Through the usage of advanced spectrally efficient modulation and coding methodologies, proprietary software web acceleration and compression techniques, we continue to improve the efficiency of our networks. We invest in technologies to enhance our system and network management capabilities, specifically our managed services for enterprises. We also continue to invest in next generation technologies that can be applied to our future products and services. Beginning in October 2012, we introduced HughesNet Gen4 broadband internet services to our customers in North America on EchoStar XVII.

Our Customers

Our Hughes segment delivers broadband internet service to North American consumers. It also provides satellite, network products and services and managed network services and equipment to

Table of Contents

enterprises and broadband service providers worldwide. In addition, our Hughes segment provides satellite ground segment systems and terminals to mobile system operators.

In October 2012, we entered into a distribution agreement (the "Distribution Agreement") with dishNET Satellite Broadband L.L.C. ("dishNET"), a wholly-owned subsidiary of DISH Network, pursuant to which dishNET has the right, but not the obligation, to market, sell and distribute the Hughes satellite internet service (the "Hughes service") under the dishNET brand. In February 2014, we amended the Distribution Agreement which, among other things, extended the term of the agreement through March 1, 2024. DISH Network accounted for 8.5%, 9.3%, and 2.9% of our total Hughes segment revenue for the years ended December 31, 2014, 2013 and 2012, respectively. See Note 19 in the notes to consolidated financial statements in Item 15 of this report for further discussion of our related party transactions with DISH Network.

As of December 31, 2014, 2013 and 2012, our Hughes segment had approximately 977,000, 860,000, and 636,000 broadband subscribers, respectively. These broadband subscribers include customers that subscribe to our HughesNet broadband services, through retail, wholesale and small/medium enterprise service channels.

As of December 31, 2014 and 2013, our Hughes segment had approximately \$1.26 billion and \$1.15 billion, respectively, of contracted revenue backlog. We define Hughes revenue backlog as our expected future revenue under customer contracts that are non-cancelable, excluding agreements with customers in our consumer market. Of the total contracted revenue backlog as of December 31, 2014, we expect to recognize approximately \$407.9 million of revenue in 2015.

Our Competition

The network communications industry is highly competitive. As a global provider of data network products and services, our Hughes segment competes with a large number of telecommunications service providers. This increasingly competitive environment has put pressure on prices and margins. To compete effectively, we emphasize our network quality, our customization capability, our offering of networks as a turnkey managed service, our position as a single point of contact for products and services and our competitive prices.

In our consumer market, we compete against traditional telecommunications and wireless carriers, other satellite internet providers, as well as digital subscriber line ("DSL") and cable internet service providers offering competitive services in many communities we seek to serve. Cost, speed and accessibility are key determining factors in the selection of a service provider by the consumer. Our primary satellite competitor in our North American consumer market is ViaSat Communications, Inc. ("ViaSat Communications"), which is owned by ViaSat, Inc. ("ViaSat"). We seek to differentiate ourselves based on the ubiquitous availability of our service, quality, proprietary technology, and distribution channels.

In our enterprise market, our principal competitors for the supply of very-small-aperture terminal ("VSAT") satellite networks are Gilat, ViaSat, SageNet LLC, Newtec and iDirect Technologies ("iDirect"). To differentiate ourselves from our competitors, we emphasize particular technological features of our products and services, our ability to customize networks and perform desired development work and the quality of our customer service. We also face competition from resellers and numerous local companies who purchase equipment and sell services to local customers, including domestic and international telecommunications operators, cable companies and other major carriers.

Our broadband networks generally have an advantage over terrestrial networks where the network must reach many locations over large distances, where the customer has a "last mile" or a congestion problem that cannot be solved easily with terrestrial facilities and where there is a need for transmission to remote locations or emerging markets. By comparison, ground-based facilities

Table of Contents

(e.g., fiber optic cables) often have an advantage for carrying large amounts of bulk traffic between a small number of fixed locations. Our relative competitive position is constantly changing as we and our competitors strive to improve our respective positions. While our current competitive position provides us the opportunity to grow our business, we cannot be certain of its continuing effects on our business as our competitors modify or adapt their strategies and service offerings.

Manufacturing

Certain products in our Hughes segment are assembled at our facilities in Maryland and we outsource a significant portion of the manufacturing of our products to third parties. We believe that the manufacturing facilities used by our Hughes segment have sufficient capacity to handle current demand. We adjust our capacity based on our production requirements. We also work with third-party vendors for the development and manufacture of components that are integrated into our products. We develop dual sourcing capabilities for critical parts when practical and we evaluate outsourced subcontract vendors on a periodic basis. Our operations group, together with our engineering group, works with our vendors and subcontractors to reduce development costs, to increase production efficiency, and to obtain components at lower prices.

ECHOSTAR SATELLITE SERVICES SEGMENT

Our Services

Our EchoStar Satellite Services segment operates its business using its 16 owned and leased in-orbit satellites. We provide satellite services on a full-time and occasional-use basis primarily to DISH Network, Dish Mexico, U.S. government service providers, state agencies, internet service providers, broadcast news organizations, programmers and private enterprise customers. Our satellite capacity is currently used by our customers for a variety of applications:

DTH Services. We provide satellite capacity to satellite TV providers, broadcasters and programmers who use our satellites to deliver programming. Our satellites are also used for the transmission of live sporting events, internet access, disaster recovery, and satellite news gathering services.

Government Services. We provide satellite services and technical services to U.S. government service providers and directly to some state agencies. We believe the U.S. government may increase its use of commercial satellites for homeland security, emergency response, continuing education, distance learning, and training.

Network Services. We provide satellite capacity and terrestrial network services to companies. These networks are dedicated private networks that allow delivery of video and data services for corporate communications. Our satellites can be used for point-to-point or point to multi-point communications.

Our Customers

We provide satellite capacity on our satellite fleet primarily to DISH Network, Dish Mexico, U.S. government service providers, state agencies, internet service providers, broadcast news organizations, programmers and private enterprise customers. For the years ended December 31, 2014, 2013 and 2012, DISH Network accounted for approximately 84.1%, 74.9% and 72.4% of our total EchoStar Satellite Services segment revenue. We have entered into certain commercial agreements with DISH Network pursuant to which we are obligated to provide DISH Network with satellite services at fixed prices for varying lengths of time depending on the satellite. See Note 19 in the notes to consolidated financial statements in Item 15 of this report for further discussion of our related party transactions with DISH Network. While we expect to continue to provide satellite services to DISH Network, its satellite

Table of Contents

capacity requirements may change for a variety of reasons, including its ability to construct and launch its own satellites. Any termination or reduction in the services we provide to DISH Network may cause us to have unused capacity on our satellites and require that we aggressively pursue alternative sources of revenue for this business. We currently have available satellite capacity. Our other satellite service sales generally are characterized by shorter-term contracts or spot market sales.

As of December 31, 2014 and 2013, our EchoStar Satellite Services segment had contracted revenue backlog attributable to satellites currently in orbit of approximately \$1.71 billion and \$1.14 billion, respectively. The increase in backlog is primarily the result of additional satellite services on EchoStar I, EchoStar VII, EchoStar X, EchoStar XI, and EchoStar XIV provided to DISH Network beginning March 1, 2014, as part of the Satellite and Tracking Stock Transaction. See Note 2 in the notes to consolidated financial statements in Item 15 of this report for a further discussion of the Satellite and Tracking Stock Transaction. Of the total contracted revenue backlog as of December 31, 2014, we expect to recognize approximately \$398.1 million of revenue in 2015.

Our Competition

In the fixed satellite services market, EchoStar Satellite Services segment competes against larger, well-established satellite service companies, such as Intelsat S.A. ("Intelsat"), SES S.A. ("SES"), Telesat Canada ("Telesat"), and Eutelsat Communications S.A. ("Eutelsat"), in an industry that is characterized by long-term contracts and high costs for customers to change service providers. Therefore, it will be difficult to displace customers from their current relationships with our competitors. Intelsat and SES maintain key North American orbital slots that may further limit competition and competitive pricing.

While we believe that there may be opportunities to capture new business as a result of market trends such as the increased communications demands of homeland security initiatives, there can be no assurance that we will be able to effectively compete against our competitors due to their significant resources and operating history.

OTHER BUSINESS OPPORTUNITIES

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

In 2012, we acquired the right to use various frequencies at the 45 degree west longitude orbital location ("Brazilian Authorization") from ANATEL, the Brazilian communications regulatory agency. The Brazilian Authorization provides us the rights to utilize Ku-band spectrum for broadcast satellite service ("BSS"), Ka-band spectrum and S-band spectrum. With regards to the Ku-band BSS spectrum, we continue to pursue various opportunities to support a Brazilian service and remain focused on delivering a pay-TV service to Brazil via a high-powered BSS satellite. We are exploring options for the Ka-band and S-band spectrums.

In December 2013, we acquired 100.0% of Solaris Mobile, which is based in Dublin, Ireland and licensed by the European Union ("EU") and individual EU Member States to provide MSS/CGC services covering the entire EU using S-band spectrum. We are in the process of developing commercial services, expected to begin in the first half of 2016, utilizing our existing EUTELSAT 10A (also known as "W2A") satellite, along with our EchoStar XXI S-band satellite. We are currently constructing, and have contracted to launch, EchoStar XXI to provide space segment capacity to Solaris Mobile in the first half of 2016. We believe we are in a unique position to deploy an EU wide MSS/CGC network and maximize the long term value of our S-band spectrum in Europe and other regions within the scope of our licenses.

Table of Contents**OUR SATELLITE FLEET**

Our satellite fleet consists of both owned and leased satellites detailed in the table below.

Satellites	Segment	Launch Date	Nominal Degree Orbital Location (Longitude)	Depreciable Life (In Years)
Owned:				
SPACEWAY 3(1)	Hughes	August 2007	95 W	12
EchoStar XVII	Hughes	July 2012	107 W	15
EchoStar I(2)(3)(4)	ESS	December 1995	77 W	
EchoStar III(4)	ESS	October 1997	61.5 W	12
EchoStar VI(4)	ESS	July 2000	96.2 W	12
EchoStar VII(2)(3)	ESS	February 2002	119 W	3
EchoStar VIII(2)	ESS	August 2002	77 W	12
EchoStar IX(2)	ESS	August 2003	121 W	12
EchoStar X(2)(3)	ESS	February 2006	110 W	7
EchoStar XI(2)(3)	ESS	July 2008	110 W	9
EchoStar XII(2)(4)(5)	ESS	July 2003	61.5 W	2
EchoStar XIV(2)(3)	ESS	March 2010	119 W	11
EchoStar XVI(2)	ESS	November 2012	61.5 W	15
EUTELSAT 10A ("W2A")(6)	Other	April 2009	10 E	
Capital Leases:				
AMC-16(4)	ESS	December 2004	85 W	10
Nimiq 5(2)	ESS	September 2009	72.7 W	15
QuetzSat-1(2)	ESS	September 2011	77 W	10
Operating Leases:				
EchoStar XV	ESS	October 2004	45 W	
AMC-15	ESS	October 2004	105 W	

- (1) Depreciable life represents the remaining useful life as of the date of the Hughes Acquisition.
- (2) See Note 19 in the notes to consolidated financial statements in Item 15 of this report for further discussion of our transactions with DISH Network.
- (3) Depreciable life represents the remaining useful life as of March 1, 2014, the effective date of our receipt of the satellites from DISH Network as part of the Satellite and Tracking Stock Transaction (See Note 2 in the notes to consolidated financial statements in Item 15 of this report).
- (4) Fully depreciated assets.
- (5) Depreciable life represents the remaining useful life as of June 30, 2013, the date EchoStar XII was impaired.
- (6) The Company acquired the S-band payload on this satellite, which prior to the acquisition in December 2013, experienced an anomaly at the time of the launch. As a result, the S-band payload is not fully operational.

Table of Contents

Recent Developments

EchoStar XXIII. In April 2014, we entered into an agreement with Space Systems Loral, LLC ("SS/L") for the construction of the EchoStar XXIII satellite, a high powered BSS satellite which will use some of the components from CMBStar, a satellite that we suspended construction in 2008. EchoStar XXIII is expected to launch in the second half of 2016 and will be initially deployed at 45 degree west longitude orbital location.

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

EchoStar XIX. In February 2012 and September 2013, ViaSat and its subsidiary ViaSat Communications, filed lawsuits in the U.S. District Court for the Southern District of California against SS/L, the manufacturer of EchoStar XVII and EchoStar XIX. Those cases, to which we were not a party, were settled in 2014 with no material impact on the design, construction or planned operations of EchoStar XIX.

EchoStar I, EchoStar VII, EchoStar X, EchoStar XI, and EchoStar XIV. As discussed in Note 2 in the notes to consolidated financial statements in Item 15 of this report, we received five satellites (EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV) from DISH Network as part of the Satellite and Tracking Stock Transaction. These satellites are BSS satellites operating in Ku-band frequencies and DISH Network began receiving certain services from us on these satellites effective March 1, 2014.

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

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

EchoStar 105/SES-11. In August 2014, we entered into: (i) a construction contract with Airbus Defence and Space SAS for the construction of the EchoStar 105/SES-11 satellite with C-band, Ku-band and Ka-band payloads; (ii) an agreement with SES Satellite Leasing Limited for the procurement of the related launch services; and (iii) an agreement with SES Americom Inc. ("SES") pursuant to which we will transfer the title to the C-band and Ka-band payloads to SES Satellite Leasing Limited at launch and transfer the title to the Ku-band payload to SES following in-orbit testing of the satellite. Additionally, SES will provide to us satellite services on the entire Ku-band payload on EchoStar 105/SES-11 for an initial ten-year term, with an option for us to renew the agreement on a year-to-year basis. The satellite is scheduled to be placed into service in the first half of 2017. We expect to account for the satellite services we receive from SES on the Ku-band payload as a prepaid capital lease with a term equal to the 15-year estimated life of the satellite.

AMC-15 and AMC-16. In August 2014, in connection with the execution of agreements related to EchoStar 105/SES-11, we entered into amendments that extend the terms of our existing agreements with SES for satellite services on AMC-15 and AMC-16. As amended, our agreement for satellite

Table of Contents

services on certain transponders on AMC-15 was extended from December 2014 through the in-service date of EchoStar 105/SES-11. The amended agreement for AMC-16 satellite services extends the term for the satellite's entire communications capacity, subject to available power, for one year following expiration of the initial term in February 2015. The extended terms of these agreements are being accounted for as operating leases.

EchoStar XXI. In August 2013, we and DISH Network entered into a development agreement ("T2 Development Agreement") with respect to the TerreStar-2 ("T2") satellite under which we reimbursed DISH Network for amounts it paid to SS/L in connection with the construction of the T2 satellite. As amended in December 2013, the T2 Development Agreement provided EchoStar an option to purchase DISH Network's rights and obligations under the T2 satellite construction agreement. In December 2014, we exercised our option to purchase DISH Network's rights and obligations under the T2 satellite construction agreement (including the right to take delivery of the T2 satellite, now renamed EchoStar XXI) for \$55.0 million in cash. In accordance with accounting principles that apply to transfers of assets between companies under common control, we recorded a \$9.6 million charge to additional-paid-in-capital, net of related deferred income taxes. EchoStar XXI is designed to provide mobile satellite services using S-band frequencies and we intend to use this satellite in conjunction with our S-band spectrum in Europe as well as to develop opportunities in other parts of the world. EchoStar XXI is expected to launch in 2016.

Satellite Anomalies and Impairments

Certain of our satellites have experienced anomalies, some of which have had a significant adverse impact on their remaining useful lives and/or the commercial operation of the satellites. There can be no assurance that existing and future anomalies will not further impact the remaining useful life and/or the commercial operation of any of the satellites in our fleet. In addition, there can be no assurance that we can recover critical transmission capacity in the event one or more of our in-orbit satellites were to fail. We generally do not carry in-orbit insurance on our satellites; therefore, we generally bear the risk of any uninsured in-orbit failures. Pursuant to the terms of the agreements governing certain portions of our indebtedness, we are required, subject to certain limitations on coverage, to maintain launch and in-orbit insurance for SPACEWAY 3, EchoStar XVI, and EchoStar XVII. In addition, although we are not required to maintain in-orbit insurance pursuant to our service agreement with DISH Network for EchoStar XV, we are liable for any damage caused by our use of the satellite and therefore we carry third-party insurance on EchoStar XV.

The five satellites received from DISH Network pursuant to the Satellite and Tracking Stock Transaction have experienced certain anomalies prior to March 1, 2014, the effective date of the Satellite and Tracking Stock Transaction as described below.

EchoStar I. During the first quarter of 2012, DISH Network determined that EchoStar I experienced a communications receiver anomaly. The communications receivers process signals sent from the uplink center for transmission by the satellite to customers. While this anomaly did not impact commercial operation of the satellite, there can be no assurance that future anomalies will not impact its future commercial operation. EchoStar I was fully depreciated prior to the date of the Satellite and Tracking Stock Transaction.

EchoStar VII. Prior to 2012, EchoStar VII experienced certain thruster failures. During the fourth quarter of 2012, DISH Network determined that EchoStar VII experienced an additional thruster failure. Thrusters control the satellite's location and orientation. While this anomaly did not impact commercial operation of the satellite, there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation.

Table of Contents

EchoStar X. During the second and third quarters of 2010, EchoStar X experienced anomalies which affected seven solar array circuits reducing the number of functional solar array circuits to 17. While these anomalies did not impact commercial operation of the satellite, there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation.

EchoStar XI. During the first quarter of 2012, DISH Network determined that EchoStar XI experienced solar array anomalies that reduced the total power available for use by the satellite. While these anomalies did not impact commercial operation of the satellite, there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation.

EchoStar XIV. During the third quarter of 2011 and the first quarter of 2012, DISH Network determined that EchoStar XIV experienced solar array anomalies that reduced the total power available for use by the satellite. While these anomalies did not impact commercial operation of the satellite, there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation.

We are not aware of any anomalies that have occurred on any of our owned or leased satellites in 2014 as of the date of this report that affected the commercial operation of satellites.

GOVERNMENT REGULATIONS

We are subject to comprehensive regulation by the Federal Communications Commission ("FCC") for our domestic, as well as some international, satellite and telecommunications operations and equipment businesses. We are also regulated by other federal agencies, state and local authorities, the International Telecommunication Union ("ITU"), and certain foreign governments, including the EU. In addition, we are also subject to the export control laws and regulations and trade sanctions laws and regulations of the U.S. with respect to the export of telecommunications equipment and services. Depending upon the circumstances, noncompliance with applicable legislation or regulations could result in suspension or revocation of our licenses or authorizations, the termination or loss of contracts or the imposition of contractual damages, civil fines or criminal penalties.

The following summary of regulations and legislation is not intended to describe all present and proposed government regulation and legislation affecting our business. Government regulations that are currently the subject of judicial or administrative proceedings, draft legislation or administrative proposals could adversely affect us and our industries to varying degrees. We cannot predict either the outcome of these proceedings or proposals or any potential impact they might have on the industry or on our operations.

FCC Regulations Applicable to Our Operations

FCC Jurisdiction over Satellite and Terrestrial Operations. Non-governmental, including commercial entities, that use radio frequencies to provide communications services to, from or within the U.S. are subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended (the "Communications Act"). The Communications Act gives the FCC regulatory jurisdiction over many areas relating to communications operations, including:

the assignment of satellite radio frequencies and orbital locations to specific services and companies, the licensing of satellites and earth stations, and the granting of related authorizations;

approval for the relocation of satellites to different orbital locations, the replacement of an existing satellite with a new or existing satellite, and the authorization of specific earth stations to communicate with such newly relocated satellites;

Edgar Filing: EchoStar CORP - Form 10-K

Table of Contents

ensuring compliance with the terms and conditions of assignments, licenses, authorizations, and approvals;

avoiding harmful interference with other radio frequency emitters; and

ensuring compliance with other applicable provisions of the Communications Act and FCC rules and regulations.

All satellite licenses issued by the FCC are subject to expiration unless extended