

EchoStar CORP
Form 10-Q
August 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011.

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)

(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 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 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
(Do not check if a smaller reporting company)

Smaller reporting company

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

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As of July 26, 2011, the registrant's outstanding common stock consisted of 38,796,529 shares of Class A common stock and 47,687,039 shares of Class B common stock.

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PART I FINANCIAL INFORMATION

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 throughout this report. Whenever you read a statement that is not simply a statement of historical fact (such as when we describe what we believe, intend, plan, estimate, expect or anticipate will occur and other similar statements), you must remember that our expectations may not be achieved, even though we believe they are reasonable. We do not guarantee that any future transactions or events described herein will happen as described or that they will happen at all. You should read this report in its entirety and with the understanding that actual future results may be materially different from what we expect. Whether actual events or results will conform with our expectations and predictions is subject to a number of risks and uncertainties.

The risks and uncertainties include, but are not limited to, the following:

General Risks Affecting Our Business

- We currently depend on DISH Network Corporation (DISH Network), Bell TV and Dish Mexico, S. de R.L. de C.V. (Dish Mexico) for a significant portion of our revenue. The loss of, or a significant reduction in, orders from, or a decrease in selling prices of digital set-top boxes and/or other products or services to, DISH Network, Bell TV or Dish Mexico would significantly reduce our revenue and adversely impact our results of operations. In addition, the loss of, or a significant reduction in, orders from, or a decrease in selling price of transponder leasing and/or providing digital broadcast operations to, DISH Network would also significantly reduce our revenue and adversely impact our results of operations.
- Economic weakness, including high unemployment and reduced consumer spending, may adversely affect our ability to grow or maintain our business.
- If we are unable to properly respond to technological changes, our business could be significantly harmed.
- We currently have unused satellite capacity, and our results of operations may be materially adversely affected if we are not able to lease additional capacity to third parties.
- Our sales to DISH Network could be terminated or substantially curtailed on short notice, which would have a detrimental effect on us.
- We may need additional capital, which may not be available on acceptable terms or at all, to continue investing in our business and to finance acquisitions and other strategic transactions.
- We may experience significant financial losses on our existing investments.
- We may pursue acquisitions and other strategic transactions to complement or expand our business, which may not be successful and we may lose up to the entire value of our investment in these acquisitions and transactions.

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- We intend to make significant investments in new products, services, technologies and business areas that may not be profitable.
- We may not be aware of certain foreign government laws or regulations or changes to them which could have a significant adverse impact on our business.
- We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar foreign anti-bribery laws.
- Our business depends on certain intellectual property rights and on not infringing the intellectual property rights of others. The loss of or infringement of our intellectual property rights could have a significant adverse impact on our business.
- Any failure or inadequacy of our information technology infrastructure could harm our business.
- We are party to various lawsuits which, if adversely decided, could have a significant adverse impact on our business, particularly lawsuits regarding intellectual property.
- We have not been an independent company for a significant amount of time and we may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company.
- We rely on key personnel and the loss of their services may negatively affect our businesses.

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Risks Affecting Our EchoStar Technologies Business

- We depend on sales of digital set-top boxes for a significant portion of our revenue and a decline in sales of our digital set-top boxes would have a material adverse effect on our financial position and results of operations.
- Our business may suffer if our customer base does not compete successfully with existing and emerging competition.
- Our future financial performance depends in part on our ability to penetrate new markets for digital set-top boxes.
- Component pricing may remain stable or be negatively affected by inflation, increased demand, decreased supply, or other factors, which could have a material adverse effect on our results of operations.
- The average selling price and gross margins of our digital set-top boxes has been decreasing and may decrease even further, which could negatively impact our financial position and results of operations.
- Our ability to sell our digital set-top boxes to other operators depends on our ability to obtain licenses to use the conditional access systems utilized by these other operators.
- Growth in our EchoStar Technologies business likely requires expansion of our sales to international customers, and we may be unsuccessful in expanding international sales.
- If we are successful in growing sales of our digital set-top boxes to international customers, we may be subject to additional risks including, among other things, trade barriers and political instability abroad.
- The digital set-top box industry is extremely competitive.
- We expect to continue to face competition from new market entrants, principally located in Asia, that offer low cost set-top boxes.
- Our digital set-top boxes are highly complex and may experience quality or supply problems.
- If significant numbers of television viewers are unwilling to pay for pay-TV services that utilize digital set-top boxes, we may not be able to sustain our current revenue level.
- Our reliance on a single supplier or a limited number of suppliers for several components used in our digital set-top boxes could restrict production, result in higher digital set-top box costs and delay deliveries to customers.
- Our future growth depends on growing demand for advanced technologies.
- If the encryption and related security technology used in our digital set-top boxes is compromised, sales of our digital set-top boxes may decline.

Risks Affecting Our EchoStar Satellite Services and Hughes Businesses

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- We currently face competition from established competitors in the satellite service business and may face competition from others in the future.
- Our owned and leased satellites in orbit are subject to significant operational and environmental risks that could limit our ability to utilize these satellites.
- We may not be able to compensate for any failure of our satellites.
- Our satellites have minimum design lives ranging from 12 to 15 years, but could fail or suffer reduced capacity before then.
- Our satellites under construction are subject to risks related to construction and launch that could limit our ability to utilize these satellites.
- Our EchoStar Satellite Services and Hughes businesses are subject to risks of adverse government regulation.
- Our business depends on Federal Communications Commission (FCC) licenses that can expire or be revoked or modified and applications for FCC licenses that may not be granted.
- Our dependence on outside contractors could result in delays related to the design, manufacture and launch of our new satellites, which could in turn adversely affect our operating results.

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- We generally do not have commercial insurance coverage on the satellites we use and where we do maintain insurance coverage on a satellite, that coverage may not be adequate to cover all of our investment in the satellite. Consequently, we could face significant impairment charges if one of our satellites fails.
- The enterprise network communications industry is highly competitive. We may be unsuccessful in competing effectively against other terrestrial and satellite-based network providers in the enterprise market.
- The consumer network communications market is highly competitive. We may be unsuccessful in competing effectively against Digital Subscriber Line (DSL) and cable service providers and other satellite broadband providers in the consumer market. Following the launch of Viasat, Inc. (ViaSat) by WildBlue and prior to the launch of Jupiter, we may not remain competitive with WildBlue Communications, Inc. (WildBlue).
- If we are unable to develop, introduce and market new products, applications and services on a cost-effective and timely basis, or if we are unable to sell our new products and services to existing and new customers, our business could be adversely affected.
- We are dependent upon suppliers of components, manufacturing outsourcing, installation, and customer service, and our results of operations may be materially affected if any of these third-party providers fail to appropriately deliver the contracted goods or services.
- Our networks and those of our third-party service providers may be vulnerable to security risks.
- The failure to adequately anticipate the need for transponder capacity or the inability to obtain transponder capacity could harm our results of operations.
- If our products contain defects, we could be subject to significant costs to correct such defects and our product and network service contracts could be delayed or cancelled, which could expose us to significant liability and adversely affect our revenue.
- We may face difficulties in accurately assessing and collecting contributions towards the Universal Service Fund.
- Our foreign operations expose us to regulatory risks and restrictions not present in our domestic operations.
- The pro forma financial information presented in this Form 10-Q and our Form 8-K/A filed on August 5, 2011 is for illustrative purposes only and may not be an indication of the combined company's financial condition or results of operations in the future.
- We have substantial debt outstanding and may incur additional debt.

Other Risks

- We have potential conflicts of interest with DISH Network due to our common ownership and management.
- We cannot assure you that there will not be deficiencies leading to material weaknesses in our internal control over financial reporting.
- It may be difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders, because of our capital structure.

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- We are controlled by one principal shareholder who is our Chairman.
- The terms of our financing will significantly reduce our ability to incur additional indebtedness.

All cautionary statements made herein should be read as being applicable to all forward-looking statements wherever they appear. Investors should consider the risks described herein and should not place undue reliance on any forward-looking statements. We assume no responsibility for updating forward-looking information contained or incorporated by reference herein or in other reports we file with the Securities and Exchange Commission (SEC).

In this report, the words EchoStar, the Company, we, our and us refer to EchoStar Corporation and its subsidiaries, unless the context otherwise requires. DISH Network refers to DISH Network Corporation and its subsidiaries, unless the context otherwise requires.

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ECHOSTAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	June 30, 2011	As of	December 31, 2010
Assets			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 330,163	\$	141,814
Marketable investment securities	679,050		989,086
Trade accounts receivable, net of allowance for doubtful accounts of \$7,116 and \$7,644, respectively	230,539		42,247
Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero	272,434		238,997
Inventory	95,324		30,433
Other current assets	106,302		92,890
Total current assets	1,713,812		1,535,467
<i>Noncurrent Assets:</i>			
Restricted cash and marketable investment securities	22,563		17,426
Property and equipment, net of accumulated depreciation of \$1,860,004 and \$1,766,290, respectively	2,247,150		1,263,303
FCC authorizations	469,810		69,810
Intangible assets, net	563,899		158,994
Goodwill	530,529		6,457
Marketable and other investment securities	831,264		725,588
Other noncurrent assets, net	139,777		64,975
Total noncurrent assets	4,804,992		2,306,553
Total assets	\$ 6,518,804	\$	3,842,020
Liabilities and Stockholders Equity (Deficit)			
<i>Current Liabilities:</i>			
Trade accounts payable	\$ 271,953	\$	145,203
Trade accounts payable - DISH Network	23,826		14,155
Accrued royalties	18,996		20,199
Accrued expenses and other	238,813		62,079