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

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _________________ TO ___________________ .

Commission File Number: 333-179121

Hughes Satellite Systems Corporation

(Exact name of registrant as specified in its charter)

Colorado	**45-0897865**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Inverness Terrace East, Englewood, Colorado	**80112-5308**
(Address of principal executive offices)	(Zip Code)

(303) 706-4000
(Registrant’s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o 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 o

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 o	Accelerated filer o
Non-accelerated filer ☒	Smaller reporting company o
	Emerging growth company o

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. o

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

As of October 31, 2018, the registrant’s outstanding common stock consisted of 1,078 shares of common stock, $0.01 par value per share.

The registrant meets the conditions set forth in General Instructions (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

* The registrant currently is not subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 and is filing this Quarterly Report on Form 10-Q on a voluntary basis. The registrant 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 as if it were subject to such filing requirements during the entirety of such period.

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* **This item has been omitted pursuant to the reduced disclosure format as set forth in General Instructions (H)(2) of Form 10-Q**

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 Narrative Analysis of 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.

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.

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

HUGHES SATELLITE SYSTEMS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	As of	
	September 30, 2018	December 31, 2017
Assets	(Unaudited)	(Audited)
Current assets:		
Cash and cash equivalents	$ 1,361,555	$ 1,822,561
Marketable investment securities, at fair value	1,202,490	455,602
Trade accounts receivable and contract assets, net (Note 3)	217,481	196,840
Trade accounts receivable - DISH Network	10,588	38,641
Inventory	70,061	83,595
Prepaids and deposits	41,834	38,797
Advances to affiliates, net	100,730	114,858
Other current assets	17,199	91,544
Total current assets	3,021,938	2,842,438
Noncurrent assets:		
Property and equipment, net	2,643,471	2,753,098
Regulatory authorizations	465,658	465,658
Goodwill	504,173	504,173
Other intangible assets, net	47,609	58,582
Investments in unconsolidated entities	30,301	30,587
Other noncurrent assets, net	252,085	202,814
Total noncurrent assets	3,943,297	4,014,912
Total assets	$ 6,965,235	$ 6,857,350
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable	$ 116,741	$ 102,816
Trade accounts payable - DISH Network	456	3,769
Current portion of long-term debt and capital lease obligations	1,030,088	40,631
Advances from affiliates, net	929	477
Contract liabilities	74,135	65,959
Accrued interest	57,156	46,834
Accrued compensation	30,702	36,924
Accrued taxes	9,276	8,198
Accrued expenses and other	66,728	77,312
Total current liabilities	1,386,211	382,920
Noncurrent liabilities:		
Long-term debt and capital lease obligations, net	2,582,819	3,594,213
Deferred tax liabilities, net	479,671	439,631
Advances from affiliates	33,522	33,715
Other noncurrent liabilities	104,868	107,627
Total noncurrent liabilities	3,200,880	4,175,186
Total liabilities	4,587,091	4,558,106
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, $.001 par value, 1,000,000 shares authorized, none issued and outstanding at each of September 30, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value; 1,000,000 shares authorized, 1,078 shares issued and outstanding at each of September 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	1,765,336	1,754,561
Accumulated other comprehensive loss	(91,077)	(52,822)
Accumulated earnings	689,160	582,683
Total HSS shareholders' equity	2,363,419	2,284,422
Noncontrolling interests	14,725	14,822
Total shareholders' equity	2,378,144	2,299,244
Total liabilities and shareholders' equity	$ 6,965,235	$ 6,857,350

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

HUGHES SATELLITE SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenue:				
Services and other revenue - DISH Network	$ 84,789	$ 108,264	$ 282,543	$ 330,675
Services and other revenue - other	393,220	310,973	1,132,669	866,251
Equipment revenue	56,846	59,125	150,134	173,819
Total revenue	534,855	478,362	1,565,346	1,370,745
Costs and expenses:				
Cost of sales - services and other (exclusive of depreciation and amortization)	151,047	142,070	448,925	413,648
Cost of sales - equipment (exclusive of depreciation and amortization)	46,318	47,644	127,254	142,127
Selling, general and administrative expenses	97,675	83,512	285,700	244,005
Research and development expenses	6,544	8,302	20,328	23,444
Depreciation and amortization	138,951	127,915	409,377	364,878
Total costs and expenses	440,535	409,443	1,291,584	1,188,102
Operating income	94,320	68,919	273,762	182,643
Other income (expense):				
Interest income	15,697	8,321	41,362	21,248
Interest expense, net of amounts capitalized	(65,090)	(60,783)	(193,625)	(181,996)
Gains and losses on investments, net	145	—	262	(1,575)
Equity in earnings of unconsolidated affiliate	992	1,948	3,722	5,298
Other, net	(3,618)	1,804	(3,764)	229
Total other expense, net	(51,874)	(48,710)	(152,043)	(156,796)
Income before income taxes	42,446	20,209	121,719	25,847
Income tax provision	(13,526)	(8,726)	(31,725)	(4,635)
Net income	28,920	11,483	89,994	21,212
Less: Net income attributable to noncontrolling interests	450	532	1,292	1,006
Net income attributable to HSS	$ 28,470	$ 10,951	$ 88,702	$ 20,206
Comprehensive income:				
Net income	$ 28,920	$ 11,483	$ 89,994	$ 21,212
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(9,460)	8,571	(39,874)	13,956
Unrealized gains on available-for-sale securities and other	(117)	(66)	(199)	(1,577)
Amounts reclassified to net income:				
Realized gains on available-for-sale securities	(1)	—	(4)	—
Other-than-temporary impairment loss on available-for-sale securities	—	—	—	3,298
Total other comprehensive income (loss), net of tax	(9,578)	8,505	(40,077)	15,677
Comprehensive income	19,342	19,988	49,917	36,889
Less: Comprehensive income (loss) attributable to noncontrolling interests	(140)	532	(97)	1,006
Comprehensive income attributable to HSS	$ 19,482	$ 19,456	$ 50,014	$ 35,883

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

HUGHES SATELLITE SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In thousands)
(Unaudited)

	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Earnings	Noncontrolling Interests	Total
Balance, June 30, 2017	$ 1,772,142	$ (53,547)	$ 295,968	$ 13,304	$ 2,027,867
Stock-based compensation	1,359	—	—	—	1,359
Other	(182)	—	—	—	(182)
Other comprehensive income	—	8,505	—	—	8,505
Net Income	—	—	10,951	532	11,483
Balance, September 30, 2017	$ 1,773,319	$ (45,042)	$ 306,919	$ 13,836	$ 2,049,032
Balance, June 30, 2018	$ 1,764,131	$ (82,089)	$ 660,690	$ 14,865	$ 2,357,597
Stock-based compensation	1,425	—	—	—	1,425
Other	(220)	—	—	—	(220)
Other comprehensive loss	—	(8,988)	—	(590)	(9,578)
Net income	—	—	28,470	450	28,920
Balance, September 30, 2018	$ 1,765,336	$ (91,077)	$ 689,160	$ 14,725	$ 2,378,144

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

HUGHES SATELLITE SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In thousands)
(Unaudited)

	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Earnings	Noncontrolling Interests	Total
Balance, January 1, 2017	$ 1,516,199	$ (60,719)	$ 286,713	$ 12,830	$ 1,755,023
Stock-based compensation	3,839	—	—	—	3,839
Transfer of launch service contracts to EchoStar	(145,114)	—	—	—	(145,114)
Contribution of EchoStar XIX satellite, net of deferred tax	369,263	—	—	—	369,263
Contribution of noncash net assets pursuant to Share Exchange Agreement (Note 1)	219,662	—	—	—	219,662
Exchange of noncash net assets for HSS Tracking Stock (Note 1)	(190,221)	—	—	—	(190,221)
Other comprehensive income	—	15,677	—	—	15,677
Net Income	—	—	20,206	1,006	21,212
Other	(309)	—	—	—	(309)
Balance, September 30, 2017	$ 1,773,319	$ (45,042)	$ 306,919	$ 13,836	$ 2,049,032
Balance, December 31, 2017	$ 1,754,561	$ (52,822)	$ 582,683	$ 14,822	$ 2,299,244
Cumulative effect of adoption of ASU 2014-09 and ASU 2016-01 as of January 1, 2018 (Note 2)	—	433	17,775	—	18,208
Balance, January 1, 2018	1,754,561	(52,389)	600,458	14,822	2,317,452
Stock-based compensation	4,108	—	—	—	4,108
Capital contribution from EchoStar Corporation	7,125	—	—	—	7,125
Other comprehensive loss	—	(38,688)		(1,389)	(40,077)
Net income	—	—	88,702	1,292	89,994
Other	(458)	—	—	—	(458)
Balance, September 30, 2018	$ 1,765,336	$ (91,077)	$ 689,160	$ 14,725	$ 2,378,144

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

HUGHES SATELLITE SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 89,994	$ 21,212
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	409,377	364,878
Equity in earnings of unconsolidated affiliate	(3,722)	(5,298)
Amortization of debt issuance costs	5,910	5,479
Gains and losses on investments, net	(259)	1,575
Stock-based compensation	4,108	3,839
Deferred tax provision	29,345	2,202
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	(35,776)	(7,792)
Advances to and from affiliates, net	10,596	3,148
Trade accounts receivable - DISH Network	28,053	(26,645)
Inventory	10,667	(30,313)
Other current assets	(6,660)	(2,330)
Trade accounts payable	3,669	13,418
Trade accounts payable - DISH Network	(3,313)	—
Accrued expenses and other	14,979	20,346
Changes in noncurrent assets and noncurrent liabilities, net	(13,561)	(18,747)
Other, net	7,223	952
Net cash flows from operating activities	555,630	369,846
Cash flows from investing activities:		
Purchases of marketable investment securities	(1,546,479)	(170,158)
Sales and maturities of marketable investment securities	799,250	151,141
Expenditures for property and equipment	(286,223)	(291,975)
Refunds and other receipts related to property and equipment	77,524	—
Expenditures for externally marketed software	(24,568)	(25,447)
Payment for satellite launch services	(7,125)	—
Other	(991)	—
Net cash flows from investing activities	(988,612)	(336,439)
Cash flows from financing activities:		
Repayment of debt and capital lease obligations	(27,764)	(25,787)
Advances from (to) affiliates, net	—	(36)
Capital contribution from EchoStar Corporation	7,125	—
Repayment of in-orbit incentive obligations	(4,048)	(4,583)
Other, net	—	1,072
Net cash flows from financing activities	(24,687)	(29,334)
Effect of exchange rates on cash and cash equivalents	(3,350)	923
Net increase (decrease) in cash and cash equivalents, including restricted amounts	(461,019)	4,996
Cash and cash equivalents, including restricted amounts, beginning of period	1,823,354	2,071,687
Cash and cash equivalents, including restricted amounts, end of period	$ 1,362,335	$ 2,076,683
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 176,228	$ 163,661
Cash paid for income taxes	$ 2,998	$ 2,814

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

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. ORGANIZATION AND BUSINESS ACTIVITIES

Principal Business

Hughes Satellite Systems Corporation (which, together with its subsidiaries, is referred to as "HSS," the "Company," "we," "us" and/or "our") is a holding company and a subsidiary of EchoStar Corporation ("EchoStar"). 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.

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 EchoStar 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.

We were formed as a Colorado corporation in March 2011 to facilitate the acquisition by EchoStar of Hughes Communications, Inc. and its subsidiaries and related financing transactions. In connection with our formation, EchoStar contributed the assets and liabilities of its satellite services business to us, including the principal operating subsidiary of its satellite services business, EchoStar Satellite Services L.L.C. A substantial majority of the voting power of the shares of each of EchoStar and DISH Network Corporation ("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 and certain of its and 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, EchoStar and certain of its and our subsidiaries received all of the shares of the Hughes Retail Preferred Tracking Stock issued by EchoStar (the "EchoStar Tracking Stock") and the Hughes Retail Preferred Tracking Stock issued by us (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 EchoStar's 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 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, EchoStar no longer operates 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.

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 shareholders’ equity for the portion of the entity’s equity attributed to the noncontrolling ownership interests. 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 EchoStar’s 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.

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 10) 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.

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 and Comprehensive Income (Loss). 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.

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.

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

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 and Comprehensive Income (Loss).

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.

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 and Comprehensive Income (Loss).

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 and Comprehensive Income (Loss).

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 on available-for-sale securities and other* in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). 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 and Comprehensive Income (Loss). 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 and Comprehensive Income (Loss). 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.

Additionally, from time to time we make strategic investments in corporate debt securities. We may elect to account for these investments using the fair value option when it reduces accounting complexity. When we have made this election, we recognize periodic changes in fair value of these investments in *Gains (losses) on investments, net* in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Interest income from these securities is reported in *Interest income* in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

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 on available-for-sale securities and other* in our Condensed Consolidated Statements of Operations and 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 and Comprehensive Income (Loss). 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 and Comprehensive Income (Loss).

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 and Comprehensive Income (Loss). 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 and Comprehensive Income (Loss).

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 of unconsolidated affiliate* in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). 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 Comprehensive Income (Loss) and include the intra-entity profit eliminations within *Equity in earnings of unconsolidated affiliate*.

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.

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 $18.2 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 Sheet and the costs generally are recognized as expenses over a longer period of time in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). 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 $0.4 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 sal e or using the cost method.

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 the New Revenue Standard	Adjustments Due to the New Investment Standard	Balance at January 1, 2018
	(In thousands)			
Assets:				
Trade accounts receivable and contract assets, net	$ 196,840	$ (7,103)	$ —	$ 189,737
Other current assets	$ 91,544	$ 533	$ —	$ 92,077
Other noncurrent assets, net	$ 202,814	$ 22,545	$ —	$ 225,359
Total assets	$ 6,857,350	$ 15,975	$ —	$ 6,873,325
Liabilities:				
Contract liabilities	$ 65,959	$ (1,542)	$ —	$ 64,417
Accrued expenses and other	$ 77,312	$ 255	$ —	$ 77,567
Deferred tax liabilities, net	$ 439,631	$ 3,122	$ —	$ 442,753
Other noncurrent liabilities	$ 107,627	$ (4,068)	$ —	$ 103,559
Total liabilities	$ 4,558,106	$ (2,233)	$ —	$ 4,555,873
Shareholders' Equity:				
Accumulated other comprehensive income (loss)	$ (52,822)	$ —	$ 433	$ (52,389)
Accumulated earnings (losses)	$ 582,683	$ 18,208	$ (433)	$ 600,458
Total shareholders' equity	$ 2,299,244	$ 18,208	$ —	$ 2,317,452
Total liabilities and shareholders' equity	$ 6,857,350	$ 15,975	$ —	$ 6,873,325

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:

	As of September 30, 2018			
Balance Sheet	As Reported	Adjustments Due to the New Revenue Standard	Adjustments Due to the New Investment Standard	Balances If We Had Not Adopted the New Standards
	(In thousands)			
Assets:				
Trade accounts receivable and contract assets, net	$ 217,481	$ 8,511	$ —	$ 225,992
Other current assets	$ 17,199	$ (533)	$ —	$ 16,666
Other noncurrent assets, net	$ 252,085	$ (33,310)	$ —	$ 218,775
Total assets	$ 6,965,235	$ (25,332)	$ —	$ 6,939,903
Liabilities:				
Contract liabilities	$ 74,135	$ 971	$ —	$ 75,106
Accrued expenses and other	$ 66,728	$ (255)	$ —	$ 66,473
Deferred tax liabilities, net	$ 479,671	$ (4,902)	$ —	$ 474,769
Other noncurrent liabilities	$ 104,868	$ 2,234	$ —	$ 107,102
Total liabilities	$ 4,587,091	$ (1,952)	$ —	$ 4,585,139
Shareholders' Equity:				
Accumulated other comprehensive loss	$ (91,077)	$ —	$ 650	$ (90,427)
Accumulated earnings	$ 689,160	$ (23,380)	$ (650)	$ 665,130
Total shareholders' equity	$ 2,378,144	$ (23,380)	$ —	$ 2,354,764
Total liabilities and shareholders' equity	$ 6,965,235	$ (25,332)	$ —	$ 6,939,903

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

	For the three months ended September 30, 2018			
		Adjustments Due to the		Balances If We Had Not Adopted the New Standards
Statement of Operations and Comprehensive Income	**As Reported**	**New Revenue Standard**	**New Investment Standard**	
	(In thousands)			
Revenue:				
Services and other revenue - other	$ 393,220	$ (99)	$ —	$ 393,121
Total revenue	$ 534,855	$ (99)	$ —	$ 534,756
Costs and expenses:				
Cost of sales - services and other (exclusive of depreciation and amortization)	$ 151,047	$ 951	$ —	$ 151,998
Selling, general and administrative expenses	$ 97,675	$ 970	$ —	$ 98,645
Total costs and expenses	$ 440,535	$ 1,921	$ —	$ 442,456
Operating income (loss)	$ 94,320	$ (2,020)	$ —	$ 92,300
Other income (expense):				
Interest expense, net of amounts capitalized	$ (65,090)	$ 156	$ —	$ (64,934)
Gains and losses on investments, net	$ 145	$ —	$ (144)	$ 1
Total other income (expense), net	$ (51,874)	$ 156	$ (144)	$ (51,862)
Income (loss) before income taxes	$ 42,446	$ (1,864)	$ (144)	$ 40,438
Income tax benefit (provision)	$ (13,526)	$ 454	$ —	$ (13,072)
Net income (loss)	$ 28,920	$ (1,410)	$ (144)	$ 27,366
Net income (loss) attributable to HSS	$ 28,470	$ (1,410)	$ (144)	$ 26,916
Comprehensive income				
Net income (loss)	$ 28,920	$ (1,410)	$ (144)	$ 27,366
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available-for-sale securities and other	$ (117)	$ —	$ 144	$ 27
Total other comprehensive income (loss), net of tax	$ (9,578)	$ —	$ 144	$ (9,434)
Comprehensive income (loss)	$ 19,342	$ (1,410)	$ —	$ 17,932
Comprehensive income (loss) attributable to HSS	$ 19,482	$ (1,410)	$ —	$ 18,072

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

	For the nine months ended September 30, 2018			
		Adjustments Due to the		Balances If We Had Not Adopted the New Standards
Statement of Operations and Comprehensive Income	**As Reported**	**New Revenue Standard**	**New Investment Standard**	
	(In thousands)			
Revenue:				
Services and other revenue - other	$ 1,132,669	$ 1,927	$ —	$ 1,134,596
Total revenue	$ 1,565,346	$ 1,927	$ —	$ 1,567,273
Costs and expenses:				
Cost of sales - services and other (exclusive of depreciation and amortization)	$ 448,925	$ 3,429	$ —	$ 452,354
Selling, general and administrative expenses	$ 285,700	$ 5,825	$ —	$ 291,525
Total costs and expenses	$ 1,291,584	$ 9,254	$ —	$ 1,300,838
Operating income (loss)	$ 273,762	$ (7,327)	$ —	$ 266,435
Other income (expense):				
Interest expense, net of amounts capitalized	$ (193,625)	$ 374	$ —	$ (193,251)
Gains and losses on investments, net	$ 262	$ —	$ (1,083)	$ (821)
Total other income (expense), net	$ (152,043)	$ 374	$ (1,083)	$ (152,752)
Income (loss) before income taxes	$ 121,719	$ (6,953)	$ (1,083)	$ 113,683
Income tax benefit (provision)	$ (31,725)	$ 1,780	$ —	$ (29,945)
Net income (loss)	$ 89,994	$ (5,173)	$ (1,083)	$ 83,738
Net income (loss) attributable to HSS	$ 88,702	$ (5,173)	$ (1,083)	$ 82,446
Comprehensive income				
Net income (loss)	$ 89,994	$ (5,173)	$ (1,083)	$ 83,738
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available-for-sale securities and other	$ (199)	$ —	$ 255	$ 56
Other-than-temporary impairment loss on available-for-sale securities	$ —	$ —	$ 828	$ 828
Total other comprehensive income (loss), net of tax	$ (40,077)	$ —	$ 1,083	$ (38,994)
Comprehensive income (loss)	$ 49,917	$ (5,173)	$ —	$ 44,744
Comprehensive income (loss) attributable to HSS	$ 50,014	$ (5,173)	$ —	$ 44,841

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 did 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.

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.

	As of	
	September 30, 2018	January 1, 2018
	(In thousands)	
Trade accounts receivable:		
Sales and services	$ 163,707	$ 156,794
Leasing	9,059	10,355
Total	172,766	167,149
Contract assets	57,172	34,615
Allowance for doubtful accounts	(12,457)	(12,027)
Total trade accounts receivable and contract assets, net	$ 217,481	$ 189,737
Trade accounts receivable - DISH Network:		
Sales and services	$ 9,372	$ 16,118
Leasing	1,216	22,523
Total trade accounts receivable - DISH Network, net	$ 10,588	$ 38,641
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.

NOTE 4. OTHER COMPREHENSIVE INCOME (LOSS) AND RELATED TAX EFFECTS

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

	Cumulative Foreign Currency Translation Losses	Unrealized Gain (Loss) On Available-For-Sale Securities	Accumulated Other Comprehensive Loss
		(In thousands)	
Balance, December 31, 2016	$ (59,038)	$ (1,681)	$ (60,719)
Other comprehensive income (loss) before reclassifications	13,956	(1,577)	12,379
Amounts reclassified to net income	—	3,298	3,298
Other comprehensive income	13,956	1,721	15,677
Balance, September 30, 2017	$ (45,082)	$ 40	$ (45,042)
Balance, December 31, 2017	$ (52,251)	$ (571)	$ (52,822)
Cumulative effect of adoption of ASU No. 2016-01 as of January 1, 2018 (Note 2)	—	433	433
Balance, January 1, 2018	(52,251)	(138)	(52,389)
Other comprehensive loss before reclassifications	(38,485)	(199)	(38,684)
Amounts reclassified to net income	—	(4)	(4)
Other comprehensive loss	(38,485)	(203)	(38,688)
Balance, September 30, 2018	$ (90,736)	$ (341)	$ (91,077)

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 and Other Comprehensive Income (Loss).

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.

NOTE 5. MARKETABLE INVESTMENT SECURITIES

Overview

Our marketable investment securities portfolio consists of various debt and equity instruments as follows:

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
Marketable investment securities:		
Debt securities:		
Corporate bonds	$ 1,028,521	$ 368,083
Other debt securities	172,612	86,417
Total debt securities	1,201,133	454,500
Equity securities	1,357	1,102
Total marketable investment securities	$ 1,202,490	$ 455,602

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 and commercial paper.

A summary of our available-for-sale debt securities is presented in the table below.

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(In thousands)			
As of September 30, 2018				
Corporate bonds	$ 1,028,554	$ 502	$ (535)	$ 1,028,521
Other debt securities	172,612	—	—	172,612
Total available-for-sale debt securities	$ 1,201,166	$ 502	$ (535)	$ 1,201,133
As of December 31, 2017				
Corporate bonds	$ 368,291	$ —	$ (208)	$ 368,083
Other debt securities	86,425	—	(8)	86,417
Total available-for-sale debt securities	$ 454,716	$ —	$ (216)	$ 454,500

As of September 30, 2018, we have $711.2 million of available-for-sale debt securities with contractual maturities of one year or less and $490.0 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 $1.1 million, reflecting an adjusted cost basis of $1.5 million and unrealized losses of $0.4 million. 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.

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 and Comprehensive Income (Loss). For the three and nine months ended September 30, 2018, *Gains and losses on investments, net* included net gains of $0.1 million and $0.3 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 totaled $50.0 million for both the three and nine months ended September 30, 2018. We recognized zero gains and losses from the sales of our available-for-sale portfolio for each of the three and nine months ended September 30, 2018. Proceeds from sales of our available-for-sale securities was zero and $8.9 million for the three and nine months ended September 30, 2017. We recognized zero gains and losses from the sales of our available-for-sale securities for each of the three and nine months ended September 30, 2017.

Fair Value Measurements

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.

	As of					
	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In thousands)					
Debt securities:						
Corporate bonds	$ —	$ 1,028,521	$ 1,028,521	$ —	$ 368,083	$ 368,083
Other	—	172,612	172,612	—	86,417	86,417
Total debt securities	—	1,201,133	1,201,133	—	454,500	454,500
Equity securities	1,357	—	1,357	1,102	—	1,102
Total marketable investment securities	$ 1,357	$ 1,201,133	$ 1,202,490	$ 1,102	$ 454,500	$ 455,602

NOTE 6. INVENTORY

Our inventory consisted of the following:

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
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 7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Depreciable Life In Years	As of	
		September 30, 2018	December 31, 2017
		(In thousands)	
Land	—	$ 13,365	$ 13,475
Buildings and improvements	1 to 40	127,958	128,292
Furniture, fixtures, equipment and other	1 to 12	686,448	650,385
Customer rental equipment	2 to 4	1,103,408	929,775
Satellites - owned	2 to 15	2,268,862	2,516,685
Satellites - acquired under capital leases	10 to 15	1,045,242	916,820
Construction in progress	—	69,246	149,570
Total property and equipment		5,314,529	5,305,002
Accumulated depreciation		(2,671,058)	(2,551,904)
Property and equipment, net		$ 2,643,471	$ 2,753,098

Construction in progress consisted of the following:

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
Progress amounts for satellite construction, including prepayments under capital leases and launch services costs	$ 1,742	$ 101,733
Satellite related equipment	34,948	28,358
Other	32,556	19,479
Construction in progress	$ 69,246	$ 149,570

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Buildings and improvements	$ 2,597	$ 4,218	$ 7,862	$ 10,977
Furniture, fixtures, equipment and other	19,915	18,516	59,322	51,073
Customer rental equipment	43,584	39,104	129,907	103,781
Satellites	63,416	56,953	184,359	166,419
Total depreciation expense	$ 129,512	$ 118,791	$ 381,450	$ 332,250

Satellites

As of September 30, 2018, our satellite fleet consisted of 15 satellites 10 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.

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 8. GOODWILL 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.

Other Intangible Assets

As of September 30, 2018 and December 31, 2017, accumulated amortization for our other intangible assets was $303.8 million and $292.8 million, respectively.

NOTE 9. 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:

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
Investments in unconsolidated entities:		
Equity method	$ 14,863	$ 15,149
Other equity investments without a readily determinable fair value	15,438	15,438
Total investments in unconsolidated entities	$ 30,301	$ 30,587

NOTE 10. 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.

		As of			
		September 30, 2018		December 31, 2017	
	Effective Interest Rate	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 11. 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 $13.5 million for the three months ended September 30, 2018 compared to an income tax provision of $8.7 million for the three months ended September 30, 2017. Our estimated effective income tax rate was 31.9% and 43.2% 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 various permanent tax differences. 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.

Our income tax provision was approximately $31.7 million for the nine months ended September 30, 2018 compared to an income tax provision of $4.6 million for the nine months ended September 30, 2017. Our estimated effective income tax rate was 26.1% and 17.9% for the nine months ended September 30, 2018 and 2017, respectively. The 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 various permanent tax differences, the impact of state and local taxes, increase in our valuation allowance associated with certain foreign losses, and the change in our valuation allowance associated with net unrealized losses that are capital in nature. For the nine months ended September 30, 2017, the variations in our effective tax rate from the U.S. federal statutory rate 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.

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 10, 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 is zero and 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 12. COMMITMENTS AND CONTINGENCIES

Commitments

As of September 30, 2018 and December 31, 2017, our satellite-related obligations were approximately $520.6 million and $543.3 million, respectively. Our satellite-related obligations primarily include payments pursuant to regulatory authorizations; executory costs for our capital lease satellites; costs under agreements to lease satellite capacity; and in-orbit incentives relating to certain satellites; as well as commitments for long-term satellite operating leases and 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 DISH Network's distribution to EchoStar 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"), EchoStar 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, EchoStar assumed certain liabilities that relate to its and our business, including certain designated liabilities for acts or omissions that occurred prior to the Spin-off. Certain specific provisions govern intellectual property related claims under which, generally, EchoStar and its subsidiaries will only be liable for their acts or omissions following the Spin-off and DISH Network will indemnify EchoStar and its subsidiaries 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 with the Share Exchange, EchoStar and certain of its subsidiaries 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 EchoStar and 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 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.

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 13. 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.

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

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.

	Hughes	ESS	Corporate and Other	Consolidated Total
	(In thousands)			
For the three months ended September 30, 2018				
External revenue	$ 444,762	$ 83,482	$ 6,611	$ 534,855
Intersegment revenue	$ —	$ 525	$ (525)	$ —
Total revenue	$ 444,762	$ 84,007	$ 6,086	$ 534,855
EBITDA	$ 164,135	$ 72,156	$ (5,951)	$ 230,340
Capital expenditures	$ 110,550	$ 29	$ —	$ 110,579
For the three months ended September 30, 2017				
External revenue	$ 379,702	$ 96,743	$ 1,917	$ 478,362
Intersegment revenue	$ 359	$ 350	$ (709)	$ —
Total revenue	$ 380,061	$ 97,093	$ 1,208	$ 478,362
EBITDA	$ 131,817	$ 78,345	$ (10,108)	$ 200,054
Capital expenditures	$ 108,428	$ 8,203	$ —	$ 116,631
For the nine months ended September 30, 2018				
External revenue	$ 1,271,527	$ 274,609	$ 19,210	$ 1,565,346
Intersegment revenue	$ 359	$ 1,576	$ (1,935)	$ —
Total revenue	$ 1,271,886	$ 276,185	$ 17,275	$ 1,565,346
EBITDA	$ 452,982	$ 238,789	$ (9,704)	$ 682,067
Capital expenditures	$ 285,352	$ (76,653)	$ —	$ 208,699
For the nine months ended September 30, 2017				
External revenue	$ 1,070,715	$ 294,839	$ 5,191	$ 1,370,745
Intersegment revenue	$ 1,428	$ 946	$ (2,374)	$ —
Total revenue	$ 1,072,143	$ 295,785	$ 2,817	$ 1,370,745
EBITDA	$ 342,693	$ 241,873	$ (34,099)	$ 550,467
Capital expenditures	$ 270,624	$ 21,351	$ —	$ 291,975

The following table reconciles total consolidated EBITDA to reported *Income before income taxes* in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
EBITDA	$ 230,340	$ 200,054	$ 682,067	$ 550,467
Interest income and expense, net	(49,393)	(52,462)	(152,263)	(160,748)
Depreciation and amortization	(138,951)	(127,915)	(409,377)	(364,878)
Net income attributable to noncontrolling interests	450	532	1,292	1,006
Income before income taxes	$ 42,446	$ 20,209	$ 121,719	$ 25,847

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Disaggregation of Revenue

In the following tables, revenue is disaggregated by segment, primary geographic market and nature of the products and services.

Geographic Information

The following table disaggregates revenue from customer contracts attributed to our North America and other foreign locations as well as by segment, based on the location where the goods or services are provided. All other revenue includes transactions with customers in Asia, Africa, Australia, Europe, South America and the Middle East.

	Hughes	ESS	Corporate and Other	Consolidated Total
	(In thousands)			
For the three months ended September 30, 2018				
North America:				
U.S.	$ 355,263	$ 77,995	$ 1,186	$ 434,444
Canada and Mexico	18,197	5,837	—	24,034
All other	71,302	175	4,900	76,377
Total revenue	$ 444,762	$ 84,007	$ 6,086	$ 534,855
For the nine months ended September 30, 2018				
North America:				
U.S.	$ 1,023,276	$ 258,148	$ 3,591	$ 1,285,015
Canada and Mexico	48,911	17,511	—	66,422
All other	199,699	526	13,684	213,909
Total revenue	$ 1,271,886	$ 276,185	$ 17,275	$ 1,565,346

Nature of Products and Services

The following table disaggregates revenue based on the nature of products and services and by segment.

	Hughes	ESS	Corporate and Other	Consolidated Total
	(In thousands)			
For the three months ended September 30, 2018				
Equipment	$ 56,846	$ —	$ —	$ 56,846
Services	320,961	6,669	322	327,952
Design, development and construction services	16,624	—	—	16,624
Revenue from sales and services	394,431	6,669	322	401,422
Leasing income	50,331	77,338	5,764	133,433
Total revenue	$ 444,762	$ 84,007	$ 6,086	$ 534,855
For the nine months ended September 30, 2018				
Equipment	$ 150,134	$ —	$ —	$ 150,134
Services	928,971	20,962	1,026	950,959
Design, development and construction services	46,676	—	—	46,676
Revenue from sales and services	1,125,781	20,962	1,026	1,147,769
Leasing income	146,105	255,223	16,249	417,577
Total revenue	$ 1,271,886	$ 276,185	$ 17,275	$ 1,565,346

NOTE 14. RELATED PARTY TRANSACTIONS

EchoStar

We and EchoStar have agreed that we shall have the right, but not the obligation, to receive from EchoStar certain corporate services, including among other things: treasury, tax, accounting and reporting, risk management, cybersecurity, legal, internal audit, human resources, and information technology. These services are generally provided at cost. Effective March 2017, and as a result of the Share Exchange Agreement, we implemented a new methodology for determining the cost of these services. We may terminate a particular service we receive from EchoStar for any reason upon at least 30 days' notice. We recorded expenses for services received from EchoStar of $4.5 million and $5.7 million for the three months ended September 30, 2018 and 2017, respectively, and $14.1 million and $17.2 million for the nine months ended September 30, 2018 and 2017, respectively. In addition, we occupy certain office space in buildings owned or leased by EchoStar and pay a portion of the taxes, insurance, utilities and maintenance of the premises in accordance with the percentage of the space we occupy. We also reimburse EchoStar and its other subsidiaries from time to time for amounts paid by EchoStar and its other subsidiaries for costs and expenses attributable to us, and EchoStar and its other subsidiaries similarly reimburse us from time to time for amounts paid by us for costs and expenses attributable to EchoStar and its other subsidiaries.

We participate in certain of EchoStar's shared services arrangements for its subsidiaries in the ordinary course of business, including arrangements for payroll, accounts payable and cash management. From time to time in connection with the processing of transactions under these arrangements, we may pay or receive amounts attributable to EchoStar or its other subsidiaries. We report net payments on behalf of other subsidiaries in *Advances to affiliates, net* within current assets and we report net receipts on behalf of other subsidiaries in *Advances from affiliates, net* within current liabilities in our Condensed Consolidated Balance Sheets. No repayment schedule for these net advances has been determined.

EchoStar and certain of its subsidiaries have provided cash advances to certain of our foreign subsidiaries to fund certain expenditures pursuant to loan agreements that mature in 2021 and 2022. Advances under these agreements bear interest at annual rates ranging from one to three percent, subject to periodic adjustment based on the one-year U.S. LIBOR rate. We report amounts payable under these agreements in *Advances from affiliates* within noncurrent liabilities in our Condensed Consolidated Balance Sheets.

Contribution of EchoStar XIX Satellite. On February 1, 2017, EchoStar contributed the EchoStar XIX satellite and assigned the related construction contract with the satellite manufacturer to us. We recorded a $349.3 million increase in Additional paid-in capital, reflecting EchoStar's $514.4 million carrying amount of the satellite, including capitalized interest that was previously charged to expense in our consolidated financial statements, less related deferred taxes of $165.1 million.

EchoStar XXI and EchoStar XXIII Launch Facilitation and Operational Control Agreements. As part of applying for launch licenses for the EchoStar XXI and XXIII satellites through the UK Space Agency, we and a subsidiary of EchoStar, EchoStar Operating L.L.C. ("EOC"), entered into agreements in June 2015 and March 2016 to transfer to us EOC's launch service contracts for the EchoStar XXI and EchoStar XXIII satellites, respectively, and to grant us certain rights to control the in-orbit operations of these satellites. EOC retained ownership of the satellites and agreed to make additional payments to us for amounts that we are required to pay under both launch service contracts. In 2016, we recorded additions to *Other noncurrent assets, net* and corresponding increases in *Additional paid-in capital* in our Condensed Consolidated Balance Sheet to reflect EOC's cumulative payments under the launch service contracts prior to the transfer dates and to reflect EOC's funding of additional cash payments to the launch service provider. The EchoStar XXIII and the EchoStar XXI satellites were successfully launched in March 2017 and June 2017, respectively. We recorded decreases in *Other noncurrent assets, net* and *Additional paid-in capital* of $61.8 million and $83.3 million, respectively, representing the carrying amounts of the launch service contracts at the time of launch to reflect the consumption of the contracts' economic benefits by EOC, the owner of the satellites.

Share Exchange Agreement. Prior to consummation of the Share Exchange, EchoStar was required to complete steps necessary for the transferring of certain assets and liabilities to DISH and certain of its subsidiaries. As part of these steps, subsidiaries of EchoStar that, prior to the consummation of the Share Exchange, owned EchoStar's business of providing online video delivery and satellite video delivery for broadcasters and pay-TV operators, including satellite uplinking/downlinking, transmission services, signal processing, conditional access management and other services and related assets and liabilities were contributed to one of our subsidiaries in consideration for additional shares of HSS' common stock that were then issued to a subsidiary of EchoStar. Certain data center assets that were included in the contribution of certain assets and liabilities to one of our subsidiaries were not included in the Share Exchange and continue to be owned by us and are pledged as collateral to support our obligations under the indentures relating to our 6 1/2% Senior Secured Notes due 2019 (the "2019 Senior Secured Note") and our 5.250% Senior Secured Notes due 2026 (the "2026 Senior Secured Notes).

EchoStar Mobile Limited Service Agreements. We provide services and lease equipment to support the business of EchoStar Mobile Limited, a subsidiary of EchoStar that is licensed by the European Union and its member states ("EU") to provide mobile satellite services and complementary ground component services covering the entire EU using S-band spectrum. Generally, the amounts EchoStar's subsidiaries pay for these services are based on cost plus a fixed margin. We recorded revenue in *Services and other revenue - other* of $4.9 million and zero for the three months ended September 30, 2018 and 2017, respectively, and $13.7 million and zero for the nine months ended September 30, 2018 and 2017, respectively, related to these services.

DBS Transponder Lease. EchoStar leases satellite capacity from us on eight DBS transponders on the QuetzSat-1 satellite through November 2021, after which EchoStar has certain options to renew the agreement on a year-to year basis through the end of life of the QuetzSat-1 satellite. We recognized revenue in connection with this agreement of approximately $5.8 million for each of the three months ended September 30, 2018 and 2017, and $17.5 million for each of the nine months ended September 30, 2018 and 2017. As of September 30, 2018 and December 31, 2017, we had related trade accounts receivable of approximately $5.9 million and $7.6 million, respectively.

Construction Management Services for EchoStar XXIV satellite. In August 2017, a subsidiary of EchoStar entered into a contract with Space Systems Loral, LLC for the design and construction of the EchoStar XXIV satellite, a new, next-generation, high throughput geostationary satellite, with a planned 2021 launch. We provide construction management services to EchoStar's subsidiary for the construction of the EchoStar XXIV satellite. We charged EchoStar and reduced our operating expenses by the costs of such services of $0.3 million and zero for the three months ended September 30, 2018 and 2017, respectively, and $0.8 million and zero for the nine months ended September 30, 2018 and 2017, respectively.

DISH Network

Following the Spin-off, EchoStar and DISH have operated as separate publicly-traded companies. A substantial majority of the voting power of the shares of each of EchoStar 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. In addition, prior to the consummation of the Share Exchange on February 28, 2017, DISH Network owned the Tracking Stock, which represented an aggregate 80.0% economic interest in the residential retail satellite broadband business of our Hughes segment. Following the consummation of the Share Exchange, the Tracking Stock was retired.

In connection with and following both the Spin-off and the Share Exchange, EchoStar, we and certain other of EchoStar's subsidiaries and DISH and certain of its subsidiaries entered into certain agreements pursuant to which we and EchoStar and its other subsidiaries obtain certain products, services and rights from DISH Network; DISH Network obtains certain products, services and rights from us and EchoStar and its other subsidiaries; and such entities indemnify each other against certain liabilities arising from our respective businesses. We and/or EchoStar also may enter into additional agreements with DISH Network in the future. Generally, the amounts we or DISH Network pay for products and services provided under the agreements are based on cost plus a fixed margin (unless noted differently below or in our most recent Form 10-K), which varies depending on the nature of the products and services provided.

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

Services and Other Revenue — DISH Network

Satellite Capacity Leased to DISH Network. We have entered into certain agreements to lease satellite capacity pursuant to which we provide satellite services to DISH Network on certain satellites owned or leased by us. The fees for the services provided under these agreements depend, among other things, upon the orbital location of the applicable satellite, the number of transponders that are providing services on the applicable satellite and the length of the service arrangements. The terms of each service arrangement is set forth below:

EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV. As part of the Satellite and Tracking Stock Transaction, described below in Other agreements - DISH Network, in March 2014, we began leasing certain satellite capacity to DISH Network on the EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV satellites. These agreements to lease satellite capacity generally terminate upon the earlier of: (i) the end of life of the satellite; (ii) the date the satellite fails; or (iii) a certain date, which depends upon, among other things, the estimated useful life of the satellite. DISH Network generally has the option to renew each agreement to lease satellite capacity on a year-to-year basis through the end of the respective satellite's life. There can be no assurance that any options to renew such agreements will be exercised. The agreement to lease satellite capacity on the EchoStar VII satellite expired at the end of June 2018.

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

EchoStar XII. DISH Network leased satellite capacity from us on the EchoStar XII satellite. The agreement to lease satellite capacity expired at the end of September 2017.

EchoStar XVI. In December 2009, we entered into an initial ten-year agreement to lease satellite capacity to DISH Network, pursuant to which DISH Network has leased satellite capacity from us on the EchoStar XVI satellite since January 2013. Effective December 2012, we and DISH Network amended the agreement to, among other things, change the initial term to generally expire upon the earlier of: (i) the end-of-life or replacement of the satellite; (ii) the date the satellite fails; (iii) the date the transponder(s) on which service is being provided under the agreement fails; or (iv) four years following the actual service commencement date. In July 2016, we and DISH Network further amended the agreement to, among other things, extend the initial term by one additional year through January 2018 and to reduce the term of the first renewal option by one year. In May 2017, DISH Network renewed the agreement for five-years to January 2023. DISH Network has the option to renew for an additional five-year period prior to expiration of the current term. There can be no assurance that such option to renew this agreement will be exercised. In the event that DISH Network does not exercise its five-year renewal option, DISH Network has the option to purchase the EchoStar XVI satellite for a certain price. If DISH Network does not elect to purchase the EchoStar XVI satellite at that time, we may sell the EchoStar XVI satellite to a third party and DISH Network is required to pay us a certain amount in the event we are not able to sell the EchoStar XVI satellite for more than a certain amount. During 2018, we and DISH Network further amended the agreement to allow DISH Network to place and use certain satellites at the 61.5 west longitude orbital location.

Nimiq 5 Agreement. In September 2009, we entered into a fifteen-year agreement with Telesat Canada to lease satellite capacity from Telesat Canada on all 32 direct broadcast satellite ("DBS") transponders on the Nimiq 5 satellite at the 72.7 degree west longitude orbital location (the "Telesat Transponder Agreement"). In September 2009, we also entered into an agreement with DISH Network, pursuant to which DISH Network leases satellite capacity from us on all 32 of the DBS transponders covered by the Telesat Transponder Agreement (the "DISH Nimiq 5 Agreement").

Under the terms of the DISH Nimiq 5 Agreement, DISH Network makes certain monthly payments to us that commenced in September 2009, when the Nimiq 5 satellite was placed into service, and continue through the service term. Unless earlier terminated under the terms and conditions of the DISH Nimiq 5 Agreement, the service term will expire in October 2019. Upon expiration of the initial term, DISH Network has the option to renew the DISH Nimiq 5 Agreement on a year-to-year basis through the end of life of the Nimiq 5 satellite. Upon in-orbit failure or end of life of the Nimiq 5 satellite, and in certain other circumstances, DISH Network has certain rights to lease satellite capacity from us on a replacement satellite. There can be no assurance that any options to renew the DISH Nimiq 5 Agreement will be exercised or that DISH Network will exercise its option to lease satellite capacity on a replacement satellite.

QuetzSat-1 Agreement. In November 2008, we entered into a ten-year agreement to lease satellite capacity from SES Latin America, which provides, among other things, for the provision by SES Latin America to us of leased satellite capacity on 32 DBS transponders on the QuetzSat-1 satellite. Concurrently, in 2008, we entered into an agreement pursuant to which DISH Network leases from us satellite capacity on 24 of the DBS transponders on the QuetzSat-1 satellite. The QuetzSat-1 satellite was launched in September 2011 and was placed into service in November 2011 at the 67.1 degree west longitude orbital location. In February 2013, EchoStar and DISH Network entered into an agreement pursuant to which EchoStar leases back from DISH Network certain satellite capacity on five DBS transponders on the QuetzSat-1 satellite through November 2021, unless extended or earlier terminated under the terms and conditions of the agreement. In January 2013, the QuetzSat-1 satellite was moved to the 77 degree west longitude orbital location.

Under the terms of our contractual arrangements with DISH Network, we began leasing satellite capacity to DISH Network on the QuetzSat-1 satellite in February 2013 and will continue leasing such capacity through November 2021, unless extended or earlier terminated under the terms and conditions of our agreement with DISH Network for the QuetzSat-1 satellite. Upon expiration of the initial service term, DISH Network has the option to renew the agreement for the QuetzSat-1 satellite on a year-to-year basis through the end of life of the QuetzSat-1 satellite. Upon an in-orbit failure or end of life of the QuetzSat-1 satellite, and in certain other circumstances, DISH Network has certain rights to lease satellite capacity from us on a replacement satellite. There can be no assurance that any options to renew this agreement will be exercised or that DISH Network will exercise its option to lease satellite capacity on a replacement satellite.

103 Degree Orbital Location/SES-3. In May 2012, we entered into a spectrum development agreement (the “103 Spectrum Development Agreement”) with Ciel Satellite Holdings Inc. (“Ciel”) to develop certain spectrum rights at the 103 degree west longitude orbital location (the “103 Spectrum Rights”). In June 2013, we and DISH Network entered into a spectrum development agreement (the “DISH 103 Spectrum Development Agreement”) pursuant to which DISH Network may use and develop the 103 Spectrum Rights. Effective in March 2018, DISH Network exercised its right to terminate the DISH 103 Spectrum Development Agreement and we exercised our right to terminate the 103 Spectrum Development Agreement.

In connection with the 103 Spectrum Development Agreement, in May 2012, we also entered into a ten-year agreement with Ciel pursuant to which we leased certain satellite capacity from Ciel on the SES-3 satellite at the 103 degree west longitude orbital location (the “Ciel 103 Agreement”). In June 2013, we and DISH Network entered into an agreement pursuant to which DISH Network leased certain satellite capacity from us on the SES-3 satellite (the “DISH 103 Agreement”). Under the terms of the DISH 103 Agreement, DISH Network made certain monthly payments to us through the service term. Effective in March 2018, DISH Network exercised its right to terminate the DISH 103 Agreement and we exercised our right to terminate the Ciel 103 Agreement.

TT&C Agreement. Effective January 2012, we entered into a TT&C agreement pursuant to which we provided TT&C services to DISH Network for a period ending in December 2016 (the “TT&C Agreement”). In November 2016, we and DISH Network amended the TT&C Agreement to extend the term for one year through December 2017. In December 2017, we and DISH Network amended the TT&C Agreement to extend the term for one month through January 2018. In February 2018, we and DISH Network amended the TT&C Agreement to, among other things, extend the term through February 2023. The fees for services provided under the TT&C Agreement are calculated at either: (i) a fixed fee or (ii) cost plus a fixed margin, which will vary depending on the nature of the services provided. DISH Network is able to terminate the TT&C Agreement for any reason upon 12 months’ notice.

In connection with the Satellite and Tracking Stock Transaction, described below in Other agreements - DISH Network, in February 2014, we amended the TT&C Agreement to cease the provision of TT&C services to DISH Network for the EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV satellites. Effective March 2014, we provide TT&C services for the D-1 and EchoStar XV satellites; however, for the period that we received satellite services on the EchoStar XV satellite from DISH Network, we waived the fees for the TT&C services on the EchoStar XV satellite. Effective August 2016, we provide TT&C services to DISH Network for the EchoStar XVIII satellite.

Real Estate Lease. Prior to the Share Exchange, EchoStar leased to DISH Network certain space at 530 EchoStar Drive, Cheyenne, Wyoming. In connection with the Share Exchange, EchoStar transferred ownership of a portion of this property to DISH Network and contributed a portion to us and we amended the agreement to (i) terminate the lease for the transferred space and (ii) provide for a continued lease to DISH Network of the portion of the property contributed to us for a period ending in December 2031. The rent on a per square foot basis for the lease is comparable to per square foot rental rates of similar commercial property in the same geographic area at the time of the lease, and DISH Network is responsible for its portion of the taxes, insurance, utilities and maintenance of the premises. After December 2031, this agreement may be converted by mutual consent to a month-to-month lease agreement with either party having the right to terminate upon 30 days' notice.

TerreStar Agreement. In March 2012, DISH Network completed its acquisition of substantially all the assets of TerreStar Networks Inc. ("TerreStar"). Prior to DISH Network's acquisition of substantially all the assets of TerreStar and EchoStar's completion of the acquisition of all of the outstanding equity of Hughes Communications, Inc. on June 8, 2011, TerreStar and HNS entered into various agreements pursuant to which we provide, among other things, warranty, operations and maintenance and hosting services for TerreStar's ground-based communications equipment. In December 2017, we and DISH Network amended these agreements, effective as of January 1, 2018, to reduce certain pricing terms through December 31, 2023 and to modify certain termination provisions. DISH Network generally has the right to continue to receive warranty services from us for our products on a month-to-month basis unless terminated by DISH Network upon at least 21 days' written notice to us. DISH Network generally has the right to continue to receive operations and maintenance services from us on a quarter-to-quarter basis unless operations and maintenance services are terminated by DISH Network upon at least 90 days' written notice to us. The provision of hosting services will continue until May 2022. In addition, DISH Network generally may terminate any and all services for convenience subject to providing us with prior notice and/or payment of termination charges.

Hughes Broadband Distribution Agreement. Effective October 2012, we and DISH Network, entered into a distribution agreement (the "Distribution Agreement") pursuant to which DISH Network has the right, but not the obligation, to market, sell and distribute our Hughes satellite internet service (the "Hughes service"). DISH Network pays us a monthly per subscriber wholesale service fee for the Hughes service based upon a subscriber's service level and based upon certain volume subscription thresholds. The Distribution Agreement also provides that DISH Network has the right, but not the obligation, to purchase certain broadband equipment from us to support the sale of the Hughes service. The Distribution Agreement had an initial term of five years with automatic renewal for successive one year terms unless terminated by either party with a written notice at least 180 days before the expiration of the then-current term. In February 2014, we and DISH Network entered into an amendment to the Distribution Agreement which, among other things, extended the initial term of the Distribution Agreement until March 2024. Upon expiration or termination of the Distribution Agreement, we and DISH Network will continue to provide our Hughes service to the then-current DISH Network subscribers pursuant to the terms and conditions of the Distribution Agreement.

DBSD North America Agreement. In March 2012, DISH Network completed its acquisition of 100% of the equity of reorganized DBSD North America, Inc. ("DBSD North America"). Prior to DISH Network's acquisition of DBSD North America and EchoStar's completion of the acquisition of all of the outstanding equity of Hughes Communications, Inc. on June 8, 2011, DBSD North America and HNS entered into various agreements pursuant to which we provide, among other things, warranty, operations and maintenance and hosting services of DBSD North America's gateway and ground-based communications equipment. In December 2017, we and DBSD North America amended these agreements, effective as of January 1, 2018, to reduce certain pricing terms through December 31, 2023 and to modify certain termination provisions. DBSD North America generally has the right to continue to receive warranty services from us on a month-to-month basis until February 2019, unless terminated by DBSD North America upon at least 21 days' written notice to us, and the right to continue to receive operations and maintenance services from us on a quarter-to-quarter basis, unless terminated by DBSD North America upon at least 120 days' written notice to us. The provision of hosting services will continue until February 2022 and will automatically renew for an additional five-year period until February 2027 unless terminated by DBSD North America upon at least 180 days' written notice to us. In addition, DBSD North America generally may terminate any and all such services for convenience, subject to providing us with prior notice and/or payment of termination charges.

RUS Implementation Agreement $14.1 million in broadband stimulus grant funds. Effective November 2011, we and DISH Network entered into a RUS Implementation Agreement (the "RUS Agreement") pursuant to which we provided certain portions of the equipment and broadband service used to implement DISH Network's RUS program. While the . In September 2010, DISH Network was selected by the Rural Utilities Service ("RUS") of the U.S. Department of Agriculture to receive up to approximately $14.1 million in broadband stimulus grant funds. Effective November 2011, we and DISH Network entered into a RUS Implementation Agreement (the "RUS Agreement") pursuant to whic

RUS Agreement expired in June 2013 when the broadband stimulus grant funds were exhausted, we are required to continue providing services to DISH Network's customers activated prior to the expiration of the RUS Agreement in accordance with the terms and conditions of the RUS Agreement. h we provided certain portions of the equipment and broadband service used to implement DISH Network's RUS program. While the RUS Agreement expired in June 2013 when the broadband stimulus grant funds were exhausted, we are required to continue providing services to DISH Network's customers activated prior to the expiration of the RUS Agreement in accordance with the terms and conditions of the RUS Agreement.

General and Administrative Expenses — DISH Network

Amended and Restated Professional Services Agreement. In connection with the Spin-off, EchoStar entered into various agreements with DISH Network including a transition services agreement, satellite procurement agreement and services agreement, which all expired in January 2010 and were replaced by a professional services agreement (the "Professional Services Agreement"). In January 2010, EchoStar and DISH Network agreed that EchoStar and its subsidiaries shall continue to have the right, but not the obligation, to receive the following services from DISH Network, among others, certain of which were previously provided under a transition services agreement: information technology, travel and event coordination, internal audit, legal, accounting and tax, benefits administration, program acquisition services and other support services. Additionally, EchoStar and DISH Network agreed that DISH Network would continue to have the right, but not the obligation, to engage EchoStar and its subsidiaries to manage the process of procuring new satellite capacity for DISH Network (previously provided under a satellite procurement agreement), receive logistics, procurement and quality assurance services from EchoStar and its subsidiaries (previously provided under a services agreement) and provide other support services. In connection with the consummation of the Share Exchange, EchoStar and DISH amended and restated the Professional Services Agreement (the "Amended and Restated Professional Services Agreement") to provide that EchoStar and its subsidiaries and DISH Network shall have the right to receive additional services that either EchoStar and its subsidiaries or DISH Network may require as a result of the Share Exchange, including access to antennas owned by DISH Network for our use in performing TT&C services and maintenance and support services for our antennas. A portion of these costs and expenses have been allocated to us in the manner described above under the caption "EchoStar." The term of the Amended and Restated Professional Services Agreement is through January 2020 and renews automatically for successive one-year periods thereafter, unless the agreement is terminated earlier by either party upon at least 60 days' notice. However, either party may generally terminate the Amended and Restated Professional Services Agreement in part with respect to any particular service it receives for any reason upon at least 30 days' notice, unless the statement of work for particular services states otherwise. Certain services being provided for under the Amended and Restated Professional Services Agreement may survive the termination of the agreement.

Real Estate Lease from DISH Network. In connection with the Share Exchange, effective March 2017, we sublease from DISH Network certain space at 796 East Utah Valley Drive in American Fork, Utah for a period ending in August 2017. We exercised our option to renew this sublease for a five-year period ending in August 2022. The rent on a per square foot basis for the lease is comparable to per square foot rental rates of similar commercial property in the same geographic area at the time of the lease, and we are responsible for our portion of the taxes, insurance, utilities and maintenance of the premises.

Collocation and Antenna Space Agreements. We and DISH Network have entered into an agreement pursuant to which DISH Network provides us with collocation space in El Paso, Texas. This agreement was for an initial period ending in August 2015, and provides us with renewal options for four consecutive years. Effective August 2015, we exercised our first renewal option for a period ending in August 2018 and in April 2018 we exercised our second renewal option for a period ending in August 2021. In connection with the Share Exchange, effective March 2017, we also entered into certain agreements pursuant to which DISH Network provides collocation and antenna space to EchoStar through February 2022 at the following locations: Cheyenne, Wyoming; Gilbert, Arizona; New Braunfels, Texas; Monee, Illinois; Spokane, Washington; and Englewood, Colorado. In August 2017, we and DISH Network also entered into certain other agreements pursuant to which DISH Network provides additional collocation and antenna space to EchoStar in Monee, Illinois and Spokane, Washington through August 2022. We generally may renew our collocation and antenna space agreements for three-year periods by providing DISH Network with prior written notice no more than 120 days but no less than 90 days prior to the end of the then-current term. We may terminate certain of these agreements with 180 days' prior written notice. The fees for the services provided under these agreements depend on the number of racks leased at the location.

Other Agreements — DISH Network

Satellite and Tracking Stock Transaction. In February 2014, we and EchoStar entered into agreements with DISH Network to implement a transaction pursuant to which, among other things: (i) in March 2014, EchoStar and HSS issued the Tracking Stock to DISH Network in exchange for five satellites owned by DISH Network (EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV) (including assumption of related in-orbit incentive obligations) and approximately $11.4 million in cash; and (ii) in March 2014, DISH Network began receiving certain satellite services from us as discussed above on these five satellites (collectively, the "Satellite and Tracking Stock Transaction.") The Tracking Stock was retired in March 2017 and is no longer outstanding and all agreements, arrangements and policy statements with respect to such Tracking Stock terminated and are of no further effect.

Share Exchange Agreement. On January 31, 2017, EchoStar and certain of its subsidiaries entered into the Share Exchange Agreement with DISH and certain of its subsidiaries, pursuant to which, on February 28, 2017, EchoStar and its subsidiaries 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 EchoStar's EchoStar Technologies businesses and certain other assets. Following consummation of the Share Exchange on February 28, 2017, EchoStar no longer operates the transferred EchoStar Technologies businesses and the Tracking Stock was retired and is no longer outstanding and all agreements, arrangements and policy statements with respect to such Tracking Stock terminated and are of no further effect. Pursuant to the Share Exchange Agreement, EchoStar transferred certain assets, investments in joint ventures, spectrum licenses and real estate properties and DISH Network assumed certain liabilities relating to the transferred assets and businesses. The Share Exchange Agreement contained customary representations and warranties by the parties, including representations by EchoStar related to the transferred assets, assumed liabilities and the financial condition of the transferred businesses. EchoStar and DISH Network have also agreed to customary indemnification provisions whereby each party indemnifies the other against certain losses with respect to breaches of representations, warranties or covenants and certain liabilities and if certain actions undertaken by EchoStar or DISH causes the transaction to be taxable to the other party after closing. See Note 1 for further information.

Hughes Broadband Master Services Agreement. In March 2017, we and DISH Network entered into a master service agreement (the "Hughes Broadband MSA") pursuant to which DISH Network, among other things: (i) has the right, but not the obligation, to market, promote and solicit orders and upgrades for our Hughes service and related equipment and other telecommunication services and (ii) installs Hughes service equipment with respect to activations generated by DISH Network. Under the Hughes Broadband MSA, we and DISH Network make certain payments to each other relating to sales, upgrades, purchases and installation services. The Hughes Broadband MSA has an initial term of five years until March 2022 with automatic renewal for successive one-year terms. Upon expiration or termination of the Hughes Broadband MSA, we will continue to provide our Hughes service to subscribers and make certain payments to DISH Network pursuant to the terms and conditions of the Hughes Broadband MSA. We incurred sales incentives and other costs under the Hughes Broadband MSA totaling $6.4 million and $10.9 million for the three months ended September 30, 2018 and 2017, respectively, and $26.3 million and $15.6 million for the nine months ended September 30, 2018 and 2017, respectively.

Intellectual Property and Technology License Agreement. Effective March 2017 in connection with the Share Exchange, EchoStar and DISH Network entered into an Intellectual Property and Technology License Agreement ("IPTLA") pursuant to which EchoStar and DISH and their respective subsidiaries license to each other certain intellectual property and technology. The IPTLA will continue in perpetuity, unless mutually terminated by the parties. Pursuant to the IPTLA, EchoStar granted to DISH Network a license to EchoStar and its subsidiaries' intellectual property and technology for use by DISH Network, among other things, in connection with its continued operation of the businesses acquired pursuant to the Share Exchange, including a limited license to use the "ECHOSTAR" trademark during a transition period. EchoStar retains full ownership of the "ECHOSTAR" trademark. In addition, DISH Network granted a license back to EchoStar and its subsidiaries, among other things, for the continued use of all intellectual property and technology that is used in EchoStar and its subsidiaries' retained businesses but the ownership of which was transferred to DISH Network pursuant to the Share Exchange.

Tax Matters Agreement. Effective March 2017, in connection with the Share Exchange, EchoStar and DISH entered into a tax matters agreement. This agreement governs certain rights, responsibilities and obligations of EchoStar and its subsidiaries with respect to taxes of the transferred businesses pursuant to the Share Exchange. Generally, EchoStar is responsible for all tax returns and tax liabilities for the transferred businesses and assets for periods prior to the Share Exchange and DISH Network is responsible for all tax returns and tax liabilities for the transferred businesses and assets from and after the Share Exchange. Both EchoStar and DISH Network have made certain tax-related representations and are subject to various tax-related covenants after the consummation of the Share Exchange. Both EchoStar and DISH Network have agreed to indemnify each other if there is a breach of any such tax representation or violation of any such tax covenant and that breach or violation results in the Share Exchange not qualifying for tax free treatment for the other party. In addition, DISH Network has agreed to indemnify EchoStar if the transferred businesses are acquired, either directly or indirectly (e.g., via an acquisition of DISH Network), by one or more persons and such acquisition results in the Share Exchange not qualifying for tax free treatment. The tax matters agreement supplements the Tax Sharing Agreement outlined below, which continues in full force and effect.

Tax Sharing Agreement. Effective December 2007, EchoStar and DISH Network entered into a tax sharing agreement (the “Tax Sharing Agreement”) in connection with the Spin-off. This agreement governs EchoStar and DISH and their respective subsidiaries’ respective rights, responsibilities and obligations after the Spin-off with respect to taxes for the periods ending on or before the Spin-off. Generally, all pre-Spin-off taxes, including any taxes that are incurred as a result of restructuring activities undertaken to implement the Spin-off, are borne by DISH Network, and DISH Network indemnifies EchoStar and its subsidiaries for such taxes. However, DISH Network is not liable for and does not indemnify EchoStar or its subsidiaries for any taxes that are incurred as a result of the Spin-off or certain related transactions failing to qualify as tax-free distributions pursuant to any provision of Section 355 or Section 361 of the Internal Revenue Code of 1986, as amended, because of: (i) a direct or indirect acquisition of any of EchoStar’s stock, stock options or assets; (ii) any action that EchoStar or its subsidiaries take or fail to take; or (iii) any action that EchoStar or its subsidiaries take that is inconsistent with the information and representations furnished to the IRS in connection with the request for the private letter ruling, or to counsel in connection with any opinion being delivered by counsel with respect to the Spin-off or certain related transactions. In such case, EchoStar and its subsidiaries will be solely liable for, and will indemnify DISH Network for, any resulting taxes, as well as any losses, claims and expenses. The Tax Sharing Agreement will terminate after the later of the full period of all applicable statutes of limitations, including extensions, or once all rights and obligations are fully effectuated or performed.

In light of the Tax Sharing Agreement, among other things, and in connection with EchoStar’s consolidated federal income tax returns for certain tax years prior to and for the year of the Spin-off, in September 2013, EchoStar and DISH Network agreed upon a supplemental allocation of the tax benefits arising from certain tax items resolved in the course of the IRS’s examination of EchoStar’s consolidated tax returns. As a result, DISH Network agreed to pay EchoStar an amount that includes the federal tax benefit DISH received as a result of our operations.

In August 2018, EchoStar and DISH Network amended the Tax Sharing Agreement and the 2013 agreements (the “Amendment”). Under the Amendment, DISH Network is required to compensate EchoStar for certain past and future excess California research and development tax credits generated by EchoStar and its subsidiaries and used by DISH Network.

Caltech*.* On October 1, 2013, Caltech Institute of Technology (“Caltech”) filed complaints against us and DISH Network in the U.S. District Court for the Central District of California alleging infringement of U.S. Patent Nos. 7,116,710; 7,421,032; 7,916,781; and 8,284,833, each of which is entitled “Serial Concatenation of Interleaved Convolutional Codes forming Turbo-Like Codes.” Caltech asserted that encoding data as specified by the DVB-S2 standard infringed each of the asserted patents. Caltech claimed that certain of our satellite broadband products and services, infringed the asserted patents by implementing the DVB-S2 standard. Pursuant to a settlement agreement among us, DISH and Caltech, Caltech dismissed with prejudice all of its claims in these actions in May 2016.

Other Agreements

Hughes Systique Corporation ("Hughes Systique")

We contract with Hughes Systique for software development services. In addition to our 43.5% ownership in Hughes Systique, Mr. Pradman Kaul, the President of Hughes Communications, Inc. and a member of EchoStar's board of directors, and his brother, who is the Chief Executive Officer and President of Hughes Systique, in the aggregate, own approximately 25.5%, on an undiluted basis, of Hughes Systique's outstanding shares as of September 30, 2018. Furthermore, Mr. Pradman Kaul serves on the board of directors of Hughes Systique. Hughes Systique is a variable interest entity and we are considered the primary beneficiary of Hughes Systique due to, among other factors, our ability to direct the activities that most significantly impact the economic performance of Hughes Systique. As a result, we consolidate Hughes Systique's financial statements in our accompanying condensed consolidated financial statements.

Deluxe/EchoStar LLC

We own 50.0% of Deluxe/EchoStar LLC ("Deluxe"), a joint venture that we entered into in 2010 to build an advanced digital cinema satellite distribution network targeting delivery to digitally equipped theaters in the U.S. and Canada. We account for our investment in Deluxe using the equity method. We recognized revenue from Deluxe for transponder services and the sale of broadband equipment of approximately $1.1 million and $1.3 million for the three months ended September 30, 2018 and 2017, respectively, and $3.3 million and $3.6 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and December 31, 2017, we had trade accounts receivable from Deluxe of approximately $0.8 million and $1.1 million, respectively.

AsiaSat

We contract with AsiaSat Telecommunications Inc. ("AsiaSat") for the use of transponder capacity on one of AsiaSat's satellites. Mr. William David Wade, who joined EchoStar's board of directors in February 2017, served as the Chief Executive Officer of AsiaSat in 2016 and as a senior advisor to the Chief Executive Officer of AsiaSat through March 2017. We incurred expenses payable to AsiaSat under this agreement of approximately zero and $0.1 million for the three and nine months ended September 30, 2017, respectively.

Global IP

In May 2017, we entered into an agreement with Global-IP Cayman ("Global IP") providing for the sale of certain equipment and services to Global IP. Mr. William David Wade, a member of EchoStar's board of directors, serves as a member of the board of directors of Global IP and as an executive advisor to the Chief Executive Officer of Global IP. In August 2018, we and Global IP amended the agreement to (i) change certain of the equipment and services to be provided to Global IP; (ii) modify certain payment terms; (iii) provide Global IP an option to use one of our test lab facilities; and (iv) effectuate the assignment of the agreement from Global IP to one of its wholly-owned subsidiaries. We recognized revenue under this agreement of approximately $5.9 million and $1.0 million for the three months ended September 30, 2018 and 2017, respectively, and approximately $6.5 million and $1.0 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and December 31, 2017, we had trade accounts receivable from Global IP of approximately $1.5 million and zero, respectively.

TerreStar Solutions

DISH Network owns approximately 33% of TerreStar Solutions, Inc. ("TSI"). In May 2018, we and TSI entered into an equipment and services agreement pursuant to which we design, manufacture and install upgraded ground communications network equipment for TSI's network and provides, among other things, warranty and support services. We recognized revenue of approximately $2.7 million and $3.0 million for the three and nine months ended September 30, 2018, respectively. As of September 30, 2018, we had zero trade accounts receivable from TSI.

NOTE 15. SUPPLEMENTAL GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

Certain of our wholly-owned subsidiaries (together, the “Guarantor Subsidiaries”) have fully and unconditionally guaranteed, on a joint and several basis, the obligations of our 2019 Senior Secured Notes and 7 5/8% Senior Unsecured Notes due 2021 (the “2021 Senior Unsecured Notes”), which were issued on June 1, 2011, and our 2026 Senior Secured Notes and 6.625% Senior Unsecured Notes due 2016, which were issued on July 27, 2016 (the “2026 Senior Unsecured Notes” and together with the 2026 Senior Secured Notes, the “2026 Notes”). See Note 10 for further information on the 2019 Senior Secured Notes, the 2021 Senior Unsecured Notes and the 2026 Notes.

In lieu of separate financial statements of the Guarantor Subsidiaries, accompanying condensed consolidating financial information prepared in accordance with Rule 3-10(f) of Regulation S-X is presented below, including the accompanying condensed balance sheet information, the accompanying condensed statement of operations and comprehensive income (loss) information and the accompanying condensed statement of cash flows information of HSS, the Guarantor Subsidiaries on a combined basis and the non-guarantor subsidiaries of HSS on a combined basis and the eliminations necessary to arrive at the corresponding information of HSS on a consolidated basis.

The indentures governing the 2019 Senior Secured Notes, the 2021 Senior Unsecured Notes and the 2026 Notes contain restrictive covenants that, among other things, impose limitations on our ability and the ability of certain of our subsidiaries to pay dividends or make distributions, incur additional debt, make certain investments, create liens or enter into sale and leaseback transactions, merge or consolidate with another company, transfer and sell assets, enter into transactions with affiliates or allow to exist certain restrictions on the ability of certain of our subsidiaries to pay dividends, make distributions, make other payments, or transfer assets to us.

The accompanying condensed consolidating financial information presented below should be read in conjunction with our accompanying condensed consolidated financial statements and notes thereto included herein.

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Condensed Consolidating Balance Sheet as of September 30, 2018
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Cash and cash equivalents	$ 1,291,333	$ 40,695	$ 29,527	$ —	$ 1,361,555
Marketable investment securities, at fair value	1,201,132	1,358	—	—	1,202,490
Trade accounts receivable and contract assets	—	151,535	65,946	—	217,481
Trade accounts receivable - DISH Network, net	—	10,096	492	—	10,588
Inventory	—	58,097	11,964	—	70,061
Advances to affiliates, net	7,829	498,705	22,693	(428,497)	100,730
Other current assets	116	23,345	35,572	—	59,033
Total current assets	2,500,410	783,831	166,194	(428,497)	3,021,938
Property and equipment, net	—	2,352,820	290,651	—	2,643,471
Regulatory authorizations	—	465,658	—	—	465,658
Goodwill	—	504,173	—	—	504,173
Other intangible assets, net	—	47,609	—	—	47,609
Investments in unconsolidated entities	—	30,301	—	—	30,301
Investment in subsidiaries	3,308,536	181,408	—	(3,489,944)	—
Advances to affiliates	700	86,614	—	(87,314)	—
Deferred tax asset	140,216	—	10,168	(140,216)	10,168
Other noncurrent assets, net	—	230,502	11,415	—	241,917
Total assets	$ 5,949,862	$ 4,682,916	$ 478,428	$ (4,145,971)	$ 6,965,235
Liabilities and Shareholders' Equity					
Trade accounts payable	$ —	$ 101,470	$ 15,271	$ —	$ 116,741
Trade accounts payable - DISH Network	—	456	—	—	456
Current portion of long-term debt and capital lease obligations	986,843	38,928	4,317	—	1,030,088
Advances from affiliates, net	159,157	185,431	84,838	(428,497)	929
Accrued expenses and other	56,233	129,319	52,445	—	237,997
Total current liabilities	1,202,233	455,604	156,871	(428,497)	1,386,211
Long-term debt and capital lease obligations, net	2,384,210	197,410	1,199	—	2,582,819
Deferred tax liabilities, net	—	618,915	972	(140,216)	479,671
Advances from affiliates	—	—	120,836	(87,314)	33,522
Other noncurrent liabilities	—	102,773	2,095	—	104,868
Total HSS shareholders' equity	2,363,419	3,308,214	181,730	(3,489,944)	2,363,419
Noncontrolling interests	—	—	14,725	—	14,725
Total liabilities and shareholders' equity	$ 5,949,862	$ 4,682,916	$ 478,428	$ (4,145,971)	$ 6,965,235

Condensed Consolidating Balance Sheet as of December 31, 2017
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Cash and cash equivalents	$ 1,746,878	$ 42,373	$ 33,310	$ —	$ 1,822,561
Marketable investment securities, at fair value	454,500	1,102	—	—	455,602
Trade accounts receivable and contract assets, net	—	133,735	63,105	—	196,840
Trade accounts receivable - DISH Network	—	38,286	355	—	38,641
Inventory	—	59,711	23,884	—	83,595
Advances to affiliates, net	119,605	229,488	7,313	(241,548)	114,858
Other current assets	64	98,890	31,788	(401)	130,341
Total current assets	2,321,047	603,585	159,755	(241,949)	2,842,438
Property and equipment, net	—	2,459,703	293,395	—	2,753,098
Regulatory authorizations	—	465,658	—	—	465,658
Goodwill	—	504,173	—	—	504,173
Other intangible assets, net	—	58,582	—	—	58,582
Investments in unconsolidated entities	—	30,587	—	—	30,587
Investment in subsidiaries	3,260,790	204,208	—	(3,464,998)	—
Advances to affiliates	700	80,744	—	(81,444)	—
Deferred tax asset	110,546	—	3,700	(110,546)	3,700
Other noncurrent assets, net	—	185,839	13,275	—	199,114
Total assets	$ 5,693,083	$ 4,593,079	$ 470,125	$ (3,898,937)	$ 6,857,350
Liabilities and Shareholders' Equity					
Trade accounts payable	$ —	$ 82,300	$ 20,516	$ —	$ 102,816
Trade accounts payable - DISH Network	—	3,769	—	—	3,769
Current portion of long-term debt and capital lease obligations	—	35,886	4,745	—	40,631
Advances from affiliates, net	—	185,161	56,864	(241,548)	477
Accrued expenses and other	43,518	145,362	46,748	(401)	235,227
Total current liabilities	43,518	452,478	128,873	(241,949)	382,920
Long-term debt and capital lease obligations, net	3,365,143	226,997	2,073	—	3,594,213
Deferred tax liabilities, net	—	549,217	960	(110,546)	439,631
Advances from affiliates	—	—	115,159	(81,444)	33,715
Other noncurrent liabilities	—	104,249	3,378	—	107,627
Total HSS shareholders' equity	2,284,422	3,260,138	204,860	(3,464,998)	2,284,422
Noncontrolling interests	—	—	14,822	—	14,822
Total liabilities and shareholders' equity	$ 5,693,083	$ 4,593,079	$ 470,125	$ (3,898,937)	$ 6,857,350

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the Three Months Ended September 30, 2018
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenue:					
Services and other revenue - DISH Network	$ —	$ 84,298	$ 491	$ —	$ 84,789
Services and other revenue - other	—	345,466	57,312	(9,558)	393,220
Equipment revenue	—	57,138	7,625	(7,917)	56,846
Total revenue	—	486,902	65,428	(17,475)	534,855
Costs and Expenses:					
Costs of sales - services and other (exclusive of depreciation and amortization)	—	123,696	36,206	(8,855)	151,047
Cost of sales - equipment (exclusive of depreciation and amortization)	—	47,736	6,499	(7,917)	46,318
Selling, general and administrative expenses	—	85,222	13,156	(703)	97,675
Research and development expenses	—	6,544	—	—	6,544
Depreciation and amortization	—	125,748	13,203	—	138,951
Total costs and expenses	—	388,946	69,064	(17,475)	440,535
Operating income	—	97,956	(3,636)	—	94,320
Other Income (Expense):					
Interest income	15,019	930	670	(922)	15,697
Interest expense, net of amounts capitalized	(57,514)	(7,277)	(1,221)	922	(65,090)
Gains and losses on investments, net	—	145	—	—	145
Equity in earnings of unconsolidated affiliate	—	992	—	—	992
Equity in earnings (losses) of subsidiaries, net	61,476	(6,701)	—	(54,775)	—
Other, net	1	(15)	(3,604)	—	(3,618)
Total other income (expense), net	18,982	(11,926)	(4,155)	(54,775)	(51,874)
Income (loss) before income taxes	18,982	86,030	(7,791)	(54,775)	42,446
Income tax benefit (provision)	9,488	(24,463)	1,449	—	(13,526)
Net income (loss)	28,470	61,567	(6,342)	(54,775)	28,920
Less: Net income attributable to noncontrolling interests	—	—	450	—	450
Net income (loss) attributable to HSS	$ 28,470	$ 61,567	$ (6,792)	$ (54,775)	$ 28,470
Comprehensive Income (Loss):					
Net income (loss)	$ 28,470	$ 61,567	$ (6,342)	$ (54,775)	$ 28,920
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	(9,460)	—	(9,460)
Unrealized gains (losses) on available-for-sale securities and other	27	—	(144)	—	(117)
Realized gains on available-for-sale securities	(1)	—	—	—	(1)
Equity in other comprehensive income (loss) of subsidiaries, net	(9,014)	(9,014)	—	18,028	—
Total other comprehensive income (loss), net of tax	(8,988)	(9,014)	(9,604)	18,028	(9,578)
Comprehensive income (loss)	19,482	52,553	(15,946)	(36,747)	19,342
Less: Comprehensive loss attributable to noncontrolling interests	—	—	(140)	—	(140)
Comprehensive income (loss) attributable to HSS	$ 19,482	$ 52,553	$ (15,806)	$ (36,747)	$ 19,482

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the Three Months Ended September 30, 2017
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenue:					
Services and other revenue - DISH Network	$ —	$ 107,765	$ 499	$ —	$ 108,264
Services and other revenue - other	—	273,821	47,333	(10,181)	310,973
Equipment revenue	—	59,645	6,242	(6,762)	59,125
Total revenue	—	441,231	54,074	(16,943)	478,362
Costs and Expenses:					
Costs of sales - services and other (exclusive of depreciation and amortization)	—	116,069	35,625	(9,624)	142,070
Cost of sales - equipment (exclusive of depreciation and amortization)	—	49,730	4,623	(6,709)	47,644
Selling, general and administrative expenses	—	72,492	11,630	(610)	83,512
Research and development expenses	—	8,302	—	—	8,302
Depreciation and amortization	—	117,702	10,213	—	127,915
Total costs and expenses	—	364,295	62,091	(16,943)	409,443
Operating income	—	76,936	(8,017)	—	68,919
Other Income (Expense):					
Interest income	7,667	200	653	(199)	8,321
Interest expense, net of amounts capitalized	(57,372)	(4,282)	672	199	(60,783)
Equity in earnings of unconsolidated affiliate	—	1,948	—	—	1,948
Equity in earnings (losses) of subsidiaries, net	42,830	(2,705)	—	(40,125)	—
Other, net	—	(85)	1,889	—	1,804
Total other income (expense), net	(6,875)	(4,924)	3,214	(40,125)	(48,710)
Income (loss) before income taxes	(6,875)	72,012	(4,803)	(40,125)	20,209
Income tax benefit (provision)	17,826	(29,092)	2,540	—	(8,726)
Net income (loss)	10,951	42,920	(2,263)	(40,125)	11,483
Less: Net income attributable to noncontrolling interests	—	—	532	—	532
Net income (loss) attributable to HSS	$ 10,951	$ 42,920	$ (2,795)	$ (40,125)	$ 10,951
Comprehensive Income (Loss):					
Net income (loss)	$ 10,951	$ 42,920	$ (2,263)	$ (40,125)	$ 11,483
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	8,571	—	8,571
Unrealized gains (losses) on available-for-sale securities and other	(20)	24	(70)	—	(66)
Equity in other comprehensive income (loss) of subsidiaries, net	8,525	8,501	—	(17,026)	—
Total other comprehensive income (loss), net of tax	8,505	8,525	8,501	(17,026)	8,505
Comprehensive income (loss)	19,456	51,445	6,238	(57,151)	19,988
Less: Comprehensive income attributable to noncontrolling interests	—	—	532	—	532
Comprehensive income (loss) attributable to HSS	$ 19,456	$ 51,445	$ 5,706	$ (57,151)	$ 19,456

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the Nine Months Ended September 30, 2018
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenue:					
Services and other revenue - DISH Network	$ —	$ 281,038	$ 1,505	$ —	$ 282,543
Services and other revenue - other	—	989,449	171,767	(28,547)	1,132,669
Equipment revenue	—	157,190	16,789	(23,845)	150,134
Total revenue	—	1,427,677	190,061	(52,392)	1,565,346
Costs and expenses:					
Costs of sales - services and other (exclusive of depreciation and amortization)	—	365,281	110,441	(26,797)	448,925
Cost of sales - equipment (exclusive of depreciation and amortization)	—	137,596	13,503	(23,845)	127,254
Selling, general and administrative expenses	—	251,091	36,359	(1,750)	285,700
Research and development expenses	—	20,328	—	—	20,328
Depreciation and amortization	—	371,336	38,041	—	409,377
Total costs and expenses	—	1,145,632	198,344	(52,392)	1,291,584
Operating income	—	282,045	(8,283)	—	273,762
Other income (expense):					
Interest income	39,548	2,855	1,679	(2,720)	41,362
Interest expense, net of amounts capitalized	(172,438)	(20,807)	(3,100)	2,720	(193,625)
Gains and losses on investments, net	—	262	—	—	262
Equity in earnings of unconsolidated affiliate	—	3,722	—	—	3,722
Equity in earnings (losses) of subsidiaries, net	191,915	(18,559)	—	(173,356)	—
Other, net	7	9,377	(13,148)	—	(3,764)
Total other income (expense), net	59,032	(23,150)	(14,569)	(173,356)	(152,043)
Income (loss) before income taxes	59,032	258,895	(22,852)	(173,356)	121,719
Income tax benefit (provision)	29,670	(66,650)	5,255	—	(31,725)
Net income (loss)	88,702	192,245	(17,597)	(173,356)	89,994
Less: Net income attributable to noncontrolling interests	—	—	1,292	—	1,292
Net income (loss) attributable to HSS	$ 88,702	$ 192,245	$ (18,889)	$ (173,356)	$ 88,702
Comprehensive income (loss):					
Net income (loss)	$ 88,702	$ 192,245	$ (17,597)	$ (173,356)	$ 89,994
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	(39,874)	—	(39,874)
Unrealized gains (losses) on available-for-sale securities and other	186	—	(385)	—	(199)
Recognition of realized losses on available-for-sale securities in net income	(4)	—	—	—	(4)
Equity in other comprehensive income (loss) of subsidiaries, net	(38,870)	(38,870)	—	77,740	—
Total other comprehensive income (loss), net of tax	(38,688)	(38,870)	(40,259)	77,740	(40,077)
Comprehensive income (loss)	50,014	153,375	(57,856)	(95,616)	49,917
Less: Comprehensive income attributable to noncontrolling interests	—	—	(97)	—	(97)
Comprehensive income (loss) attributable to HSS	$ 50,014	$ 153,375	$ (57,759)	$ (95,616)	$ 50,014

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the Nine Months Ended September 30, 2017
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenue:					
Services and other revenue - DISH Network	$ —	$ 329,457	$ 1,218	$ —	$ 330,675
Services and other revenue - other	—	763,554	125,307	(22,610)	866,251
Equipment revenue	—	192,711	15,952	(34,844)	173,819
Total revenue	—	1,285,722	142,477	(57,454)	1,370,745
Costs and expenses:					
Costs of sales - services and other (exclusive of depreciation and amortization)	—	339,007	95,276	(20,635)	413,648
Cost of sales - equipment (exclusive of depreciation and amortization)	—	164,434	12,429	(34,736)	142,127
Selling, general and administrative expenses	—	213,212	32,876	(2,083)	244,005
Research and development expenses	—	23,444	—	—	23,444
Depreciation and amortization	—	339,342	25,536	—	364,878
Total costs and expenses	—	1,079,439	166,117	(57,454)	1,188,102
Operating income	—	206,283	(23,640)	—	182,643
Other income (expense):					
Interest income	19,890	633	1,322	(597)	21,248
Interest expense, net of amounts capitalized	(172,007)	(12,301)	1,715	597	(181,996)
Gains and losses on investments, net	—	(1,575)	—	—	(1,575)
Equity in earnings of unconsolidated affiliate	—	5,298	—	—	5,298
Equity in earnings (losses) of subsidiaries, net	117,767	(13,344)	—	(104,423)	—
Other, net	—	(925)	1,154	—	229
Total other income (expense), net	(34,350)	(22,214)	4,191	(104,423)	(156,796)
Income (loss) before income taxes	(34,350)	184,069	(19,449)	(104,423)	25,847
Income tax benefit (provision)	54,556	(65,974)	6,783	—	(4,635)
Net income (loss)	20,206	118,095	(12,666)	(104,423)	21,212
Less: Net income attributable to noncontrolling interests	—	—	1,006	—	1,006
Net income (loss) attributable to HSS	$ 20,206	$ 118,095	$ (13,672)	$ (104,423)	$ 20,206
Comprehensive income (loss):					
Net income (loss)	$ 20,206	$ 118,095	$ (12,666)	$ (104,423)	$ 21,212
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	13,956	—	13,956
Unrealized losses on available-for-sale securities and other	(68)	(1,464)	(45)	—	(1,577)
Recognition of other-than-temporary loss on available-for-sale securities in net income (loss)	—	3,298	—	—	3,298
Equity in other comprehensive income (loss) of subsidiaries, net	15,745	13,911	—	(29,656)	—
Total other comprehensive income (loss), net of tax	15,677	15,745	13,911	(29,656)	15,677
Comprehensive income (loss)	35,883	133,840	1,245	(134,079)	36,889
Less: Comprehensive income attributable to noncontrolling interests	—	—	1,006	—	1,006
Comprehensive income (loss) attributable to HSS	$ 35,883	$ 133,840	$ 239	$ (134,079)	$ 35,883

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2018
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from operating activities:					
Net income (loss)	$ 88,702	$ 192,245	$ (17,597)	$ (173,356)	$ 89,994
Adjustments to reconcile net income (loss) to net cash flows from operating activities	(201,774)	438,805	55,249	173,356	465,636
Net cash flows from operating activities	(113,072)	631,050	37,652	—	555,630
Cash flows from investing activities:					
Purchases of marketable investment securities	(1,546,479)	—	—	—	(1,546,479)
Sales and maturities of marketable investment securities	799,250	—	—	—	799,250
Expenditures for property and equipment	—	(223,484)	(62,739)	—	(286,223)
Refunds and other receipts related to property and equipment	—	77,524	—	—	77,524
Expenditures for externally marketed software	—	(24,568)	—	—	(24,568)
Payment for satellite launch services	—	—	(7,125)	—	(7,125)
Distributions (contributions) and advances from (to) subsidiaries, net	397,631	(32,985)	—	(364,646)	—
Other	—	(991)	—	—	(991)
Net cash flows from investing activities	(349,598)	(204,504)	(69,864)	(364,646)	(988,612)
Cash flows from financing activities:					
Contributions (distributions) and advances (to) from parent, net	—	(397,631)	32,985	364,646	—
Repayment of debt and capital lease obligations	—	(26,545)	(1,219)	—	(27,764)
Capital contribution from EchoStar	7,125	—	—	—	7,125
Repayment of in-orbit incentive obligations	—	(4,048)	—	—	(4,048)
Net cash flows from financing activities	7,125	(428,224)	31,766	364,646	(24,687)
Effect of exchange rates on cash and cash equivalents	—	—	(3,350)	—	(3,350)
Net increase (decrease) in cash and cash equivalents, including restricted amounts	(455,545)	(1,678)	(3,796)	—	(461,019)
Cash and cash equivalents, including restricted amounts, beginning of period	1,746,878	42,373	34,103	—	1,823,354
Cash and cash equivalents, including restricted amounts, end of period	$ 1,291,333	$ 40,695	$ 30,307	$ —	$ 1,362,335

HUGHES SATELLITE SYSTEMS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2017
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from operating activities:					
Net income (loss)	$ 20,206	$ 118,095	$ (12,666)	$ (104,423)	$ 21,212
Adjustments to reconcile net income (loss) to net cash flows from operating activities	66,702	160,917	16,592	104,423	348,634
Net cash flows from operating activities	86,908	279,012	3,926	—	369,846
Cash flows from investing activities:					
Purchases of marketable investment securities	(170,158)	—	—	—	(170,158)
Sales and maturities of marketable investment securities	151,141	—	—	—	151,141
Expenditures for property and equipment	—	(243,409)	(48,566)	—	(291,975)
Expenditures for externally marketed software	—	(25,447)	—	—	(25,447)
Distributions (contributions) and advances from (to) subsidiaries, net	(44,000)	(47,500)	—	91,500	—
Net cash flows from investing activities	(63,017)	(316,356)	(48,566)	91,500	(336,439)
Cash flows from financing activities:					
Contributions (distributions) and advances (to) from parent, net	—	44,000	47,500	(91,500)	—
Repayment of debt and capital lease obligations	—	(23,800)	(1,987)	—	(25,787)
Advances from affiliates	—	—	(36)	—	(36)
Payment of in-orbit incentive obligations	—	(4,583)	—	—	(4,583)
Other, net	186	—	886	—	1,072
Net cash flows from financing activities	186	15,617	46,363	(91,500)	(29,334)
Effect of exchange rates on cash and cash equivalents	—	—	923	—	923
Net increase (decrease) in cash and cash equivalents, including restricted amounts	24,077	(21,727)	2,646	—	4,996
Cash and cash equivalents, including restricted amounts, beginning of period	1,991,949	53,905	25,833	—	2,071,687
Cash and cash equivalents, including restricted amounts, end of period	$ 2,016,026	$ 32,178	$ 28,479	$ —	$ 2,076,683

NOTE 16. SUPPLEMENTAL FINANCIAL INFORMATION

Noncash Investing and Financing Activities

	For The Nine Months Ended September 30, 2018	2017
Property and equipment financed under capital lease obligations	$ 187	$ 8,423
Increase (decrease) in capital expenditures included in accounts payable, net	$ 24,408	$ (2,257)
Transfer of launch service contracts from (to) EchoStar	$ —	$ (145,114)
Contribution of noncash net assets pursuant to Share Exchange Agreement (Note 1)	$ —	$ 219,662
Noncash net assets exchanged for HSS Tracking Stock (Note 1)	$ —	$ (190,221)
Capitalized in-orbit incentive obligations	$ —	$ 31,000
Contribution of EchoStar XIX satellite	$ —	$ 514,448

Restricted Cash and Cash Equivalents

The beginning and ending balances of cash and cash equivalents presented in our Condensed Consolidated Statements of Cash Flows included restricted cash and cash equivalents of $0.8 million and $0.8 million, respectively, for the nine months ended September 30, 2018 and $0.7 million and $0.8 million, respectively, for the nine months ended September 30, 2017. These amounts are included in *Other noncurrent assets, net* in our Condensed Consolidated Balance Sheets.

Fair Value of In-Orbit Incentives

As of September 30, 2018 and December 31, 2017, the fair values of our in-orbit incentive obligations, based on measurements categorized within Level 2 of the fair value hierarchy, approximated their carrying amounts of $95.3 million and $99.3 million, respectively.

Contract Acquisition and Fulfillment Costs

Unamortized contract acquisition costs totaled $104.5 million as of September 30, 2018 and related amortization expense totaled $21.0 million and $61.7 million for the three and nine months ended September 30, 2018, respectively.

Unamortized contract fulfillment costs totaled $2.6 million as of September 30, 2018 and related amortization expense was de minimis for the three and nine months ended September 30, 2018.

Research and Development

The table below summarizes the research and development costs incurred in connection with customers' orders included in cost of sales and other expenses we incurred for research and development.

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Cost of sales	$ 5,555	$ 7,038	$ 18,443	$ 20,724
Research and development	$ 6,544	$ 8,302	$ 20,328	$ 23,444

Capitalized Software Costs

As of September 30, 2018 and December 31, 2017, the net carrying amount of externally marketed software was $95.7 million and $88.1 million, respectively, of which $31.3 million and $19.6 million, respectively, is under development and not yet placed in service. We capitalized costs related to the development of externally marketed software of $9.6 million and $8.3 million for the three months ended September 30, 2018 and 2017, respectively, and $24.6 million and $25.4 million for the nine months ended September 30, 2018 and 2017, respectively. We recorded amortization expense relating to the development of externally marketed software of $5.8 million and $5.5 million for the three months ended September 30, 2018 and 2017, respectively, and $16.9 million and $14.1 million for the nine months ended September 30, 2018 and 2017, respectively. The weighted average useful life of our externally marketed software was approximately three years as of September 30, 2018.

Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

Unless the context indicates otherwise, as used herein, the terms "we," "us," "HSS," the "Company" and "our" refer to Hughes Satellite Systems Corporation and its subsidiaries. References to "$" are to United States ("U.S.") dollars. The following management's narrative analysis of results of operations should be read in conjunction with our accompanying condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q ("Form 10-Q"). This management's narrative analysis is intended to help provide an understanding of our financial condition, changes in our financial condition and our results of operations. Many of the statements in this management's narrative analysis are forward-looking statements that involve assumptions and are subject to risks and uncertainties that are often difficult to predict and beyond our control. Actual results could differ materially from those expressed or implied by such forward-looking statements. See Disclosure Regarding Forward-Looking Statements in this Form 10-Q for further discussion. For a discussion of additional risks, uncertainties and other factors that could impact our results of operations or financial condition, see the caption Risk Factors in Part II, Item 1A of this Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. Further, such forward-looking statements speak only as of the date of this Form 10-Q and we undertake no obligation to update them.

EXECUTIVE SUMMARY

We are a holding company and a subsidiary of EchoStar Corporation ("EchoStar"). We were formed as a Colorado corporation in March 2011. 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. We primarily operate in two business segments, which are differentiated primarily by their operational focus: Hughes and EchoStar Satellite Services ("ESS"). These segments are consistent with the way we make decisions regarding the allocation of resources, as well as how operating results are reviewed by our chief operating decision maker, who is the Company's Chief Executive Officer.

On January 31, 2017, EchoStar and certain of its and our subsidiaries, entered into a Share Exchange Agreement (the "Share Exchange Agreement") with DISH Network Corporation ("DISH") and certain of its subsidiaries. Pursuant to the Share Exchange Agreement, on February 28, 2017, among other things, EchoStar and certain of its and our subsidiaries 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 us (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 EchoStar's EchoStar Technologies businesses and certain other assets (collectively, the "Share Exchange"). EchoStar's former 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 television service providers and telecommunication companies, and provided digital broadcast operations (including satellite uplinking/downlinking, transmission services, signal processing, conditional 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, EchoStar no longer operates 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.

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.

Highlights from our financial results are as follows:

Consolidated Results of Operations for the nine months ended September 30, 2018

- Revenue of $1.57 billion
- Operating income of $273.8 million
- Net income of $90.0 million
- Net income attributable to HSS of $88.7 million
- Earnings before interest, taxes, depreciation and amortization (“EBITDA”) of $682.1 million (see reconciliation of this non-GAAP measure on page 59)

Consolidated Financial Condition as of September 30, 2018

- Total assets of $6.97 billion
- Total liabilities of $4.59 billion
- Total shareholders’ equity of $2.38 billion
- Cash, cash equivalents and current marketable investment securities of $2.56 billion

Hughes Segment

Our Hughes segment is a global provider of broadband satellite technologies and broadband internet services to home and small office customers and broadband network technologies, managed services, equipment, hardware, satellite services and communications solutions to consumers, 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.

We continue to focus our efforts on growing our consumer revenue by maximizing utilization of our existing satellites while planning for new satellites to be launched. Our consumer revenue growth depends on our success in adding new and retaining existing subscribers in our domestic and international markets across wholesale and retail channels. The growth of our enterprise businesses, including aeronautical, relies heavily on global economic conditions and the competitive landscape for pricing relative to competitors and alternative technologies. Service costs related to ongoing support for our direct and indirect customers and partners are typically impacted most significantly by our growth.

The Hughes segment currently uses capacity from our three satellites (the SPACEWAY 3 satellite, the EchoStar XVII satellite and the EchoStar XIX satellite) and additional satellite capacity acquired from multiple third-party providers to provide services to our customers. In December 2016, EchoStar launched the EchoStar XIX satellite, a high throughput geostationary satellite employing a multi-spot beam, bent pipe Ka-band architecture. EchoStar contributed the EchoStar XIX satellite to us in February 2017. The EchoStar XIX satellite provides capacity for: (i) consumer subscriber growth; (ii) the Hughes broadband services to our customers in North America; (iii) certain Central and South American countries; and (iv) aeronautical and enterprise broadband services. While new satellite launches are expected to provide additional capacity for subscriber growth, we also manage subscriber growth across our existing satellite platform.

In August 2018, we entered into an agreement with Al Yah Satellite Communications Company PrJSC (“Yahsat”) to establish a new entity to provide commercial Ka-band satellite broadband services across Africa, the Middle East and southwest Asia. The new entity will provide broadband internet services operating over Yahsat's Al Yah 2 and Al Yah 3 Ka-band satellites and we will invest cash and supply solutions for network operations and management. Following the closing of the transaction, we will own a 20% interest in the new entity. The completion of the transaction is subject to customary regulatory approvals and closing conditions. While we currently expect the transaction to be consummated in the fourth quarter of 2018, no assurance can be given that the transaction will be consummated on the terms agreed to, within that time frame or at all.

In August 2017, a subsidiary of EchoStar entered into a contract for the design and construction of EchoStar XXIV, a new, next-generation, high throughput geostationary satellite, with a planned 2021 launch. The EchoStar XXIV satellite is primarily intended to provide additional capacity for our HughesNet service in North, Central and South America as well as aeronautical and enterprise broadband services. In March 2018, the Federal Communications Commission granted authorization to construct, deploy and operate the EchoStar XXIV satellite, which we expect to use to provide fixed satellite services throughout North, South and Central America. In the second half of 2018, Maxar Technologies Ltd. ("Maxar), the parent company of SSL, announced that it is reviewing strategic alternatives for its geostationary communications satellite business to improve its financial performance and that it is in active discussions with potential buyers of the business. SSL has indicated to us that it intends to meet its contractual requirements regarding the manufacture of the EchoStar XXIV satellite. However, if SSL or any successor fails to meet these requirements for any reason, including if Maxar decides to discontinue, wind down or otherwise significantly modify its geostationary communications satellite business, such failure could have a material adverse impact on our business operations, future revenues, financial position and prospects, completing the manufacture of the EchoStar XXIV satellite and our planned expansion of fixed satellite services throughout North, South and Central America. Capital expenditures associated with the construction and launch of this satellite are included in EchoStar's Corporate and Other in its segment reporting.

In March 2017, our wholly-owned subsidiary, Hughes Network Systems, L.L.C., and DISH Network L.L.C. ("DNLLC"), a wholly-owned subsidiary of DISH, entered into a master service agreement (the "Hughes Broadband MSA"). Pursuant to the Hughes Broadband MSA, DNLLC, among other things: (i) has the right, but not the obligation, to market, promote and solicit orders and upgrades for the Hughes satellite internet service ("Hughes service") and related equipment and other telecommunication services and (ii) install Hughes service equipment with respect to activations generated by DNLLC. As a result of the Hughes Broadband MSA, we have not earned, and do not expect to earn in the future, significant equipment revenue from our distribution agreement with dishNET Satellite Broadband L.L.C., a wholly-owned subsidiary of DISH. We expect churn in the existing wholesale subscribers to continue to reduce Services and other revenue – DISH Network in the future.

Developments toward the launch of next-generation satellite systems including low-earth orbit ("LEO"), medium-earth orbit ("MEO") and geostationary systems could provide additional opportunities to drive the demand for our equipment, hardware, technology and services. In June 2015, a subsidiary of EchoStar made an equity investment in WorldVu Satellites Limited ("OneWeb"), a global LEO satellite service company. In addition, we have an agreement with OneWeb to provide certain equipment and services in connection with the ground network system for OneWeb's LEO satellites. We began the production of OneWeb's ground network system equipment in 2017 and delivered initial gateway and other equipment in 2018. We expect to continue delivering additional equipment and services to OneWeb.

We continue our efforts to expand our consumer satellite services business outside of the U.S. In April 2014, we entered into a 15-year agreement with Eutelsat do Brasil for Ka-band capacity into Brazil on the EUTELSAT 65 West A satellite, which was launched in March 2016. We began delivering high-speed consumer satellite broadband services in Brazil in July 2016. Additionally, in September 2015, we entered into 15-year agreements pursuant to which affiliates of Telesat Canada will provide to us the Ka-band capacity on a satellite to be located at the 63 degree west longitude orbital location. This satellite was launched in July 2018 and is expected to be placed in service during the fourth quarter of 2018. It is expected to augment the capacity being provided by the EUTELSAT 65 West A and EchoStar XIX satellites in Central and South America. We began to provide consumer satellite broadband service in Colombia and Peru in the third quarter of 2017 and fourth quarter of 2018, respectively, and we expect to launch similar services in various other Central and South American countries thereafter.

As of September 30, 2018 and December 31, 2017, our Hughes segment had approximately 1,332,000 and 1,208,000 broadband subscribers, respectively. These broadband subscribers include customers that subscribe to our HughesNet broadband services in North and South America through retail, wholesale and small/medium enterprise service channels. Our total gross subscriber additions for the third quarter of 2018 increased by approximately 11,000 compared to the second quarter of 2018. Our average monthly subscriber churn percentage for the third quarter of 2018 increased slightly compared to the second quarter of 2018. Our total net subscriber additions were approximately 33,000 for the quarter ended September 30, 2018 compared to approximately 31,000 for the quarter ended June 30, 2018. The increase in the net subscriber additions was primarily due to higher consumer subscriber additions during the third quarter of 2018 compared to the second quarter of 2018.

As of September 30, 2018 and December 31, 2017, our Hughes segment had approximately $1.52 billion and $1.62 billion, respectively, of contracted revenue backlog. We define Hughes contracted revenue backlog as our expected future revenue, including lease revenue, under customer contracts that are non-cancelable, excluding agreements with customers in our consumer market.

ESS Segment

Our ESS segment is a global provider of satellite operations and satellite services. We operate our business using our owned and leased in-orbit satellites and related licenses. Revenue in our ESS segment depends largely on our ability to continuously make use of our available satellite capacity with existing customers and our ability to enter into commercial relationships with new customers. Our ESS segment, like others in the FSS industry, has encountered and may continue to encounter negative pressure on transponder rates and demand.

We provide satellite operations and satellite services on a full-time and/or occasional-use basis primarily to DISH Network Corporation and its subsidiaries ("DISH Network"), Dish Mexico, S. de R.L. de C.V., a joint venture EchoStar entered into in 2008 ("Dish Mexico"), U.S. government service providers, internet service providers, broadcast news organizations, content providers and private enterprise customers.

We depend on DISH Network for a significant portion of the revenue for our ESS segment, and we expect that DISH Network will continue to be the primary source of revenue for our ESS segment. Therefore, the results of operations of our ESS segment are linked to changes in DISH Network's satellite capacity requirements. DISH Network's capacity requirements have been driven by the continued migration of programming to high-definition television and video on demand services. The services that we provide to DISH Network are critical to its nationwide delivery of content to its customers across the U.S. DISH Network's satellite 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. The agreement with DISH Network to lease satellite capacity on the EchoStar VII satellite expired in June 2018. As a result, we expect a $42.8 million annualized decrease in our revenue. We are exploring other opportunities to utilize this satellite in the future.

In August 2014, we entered into: (i) a contract with Airbus Defence and Space SAS for the construction of the EchoStar 105/SES-11 satellite with C-, Ku- 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. pursuant to which we transferred the title to the payloads to two affiliates of SES Americom Inc. We retained 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. The EchoStar 105/SES-11 satellite was launched in October 2017 and placed into service in November 2017 at the 105 degree west longitude orbital location. Our Ku-band payload on the EchoStar 105/SES-11 satellite replaced and augments the capacity we had on the AMC-15 satellite, resulting in additional sales capacity. We transferred activities from the AMC-15 satellite to the EchoStar 105/SES-11 satellite in the fourth quarter of 2017 and our agreement for satellite services on certain transponders on the AMC-15 satellite terminated according to its terms in December 2017.

We are pursuing other opportunities such as providing value added services such as telemetry, tracking and control ("TT&C") services to third parties, which leverage the ground monitoring networks and personnel currently within our ESS segment.

As of September 30, 2018 and December 31, 2017, our ESS segment had contracted revenue backlog of approximately $908.0 million and $1.16 billion, respectively. We define contracted revenue backlog for our ESS segment as contracted future satellite lease revenue.

New Business Opportunities

Our industry continues to evolve with the increasing worldwide demand for broadband internet access for information, entertainment and commerce. In addition to fiber and wireless systems, other technologies such as geostationary high throughput satellites, LEO networks, MEO systems, balloons and High Altitude Platform Systems are playing significant roles in enabling global broadband access, networks and services. We intend to use our expertise, technologies, capital, investments, global presence, relationships and other capabilities to continue to provide broadband internet systems, equipment, networks and services for information, the internet-of-things, entertainment and commerce in North America and internationally for consumers, as well as aeronautical, enterprise and government customers. We are tracking closely the developments in next-generation satellite businesses, and we are seeking to utilize our services, technologies and expertise to find new commercial opportunities for our business.

We intend to continue to selectively explore opportunities to pursue investments, commercial alliances, partnerships, joint ventures, acquisitions, dispositions and other strategic initiatives and transactions, domestically and internationally, that we believe may allow us to increase our existing market share, expand into new markets and new customers, broaden our portfolio of services, products and intellectual property, make our business more valuable, align us for future growth and expansion, maximize the return on our investments, and strengthen our relationships with our customers. We may allocate or dispose of significant resources for long-term value that may not have a short or medium-term or any positive impact on our revenue, results of operations, or cash flow.

Cybersecurity

As a global provider of satellite technologies and services, internet services and communications equipment and networks, we may be prone to more targeted and persistent levels of cyber-attacks than other businesses. These risks may be more prevalent as we expand our business into other areas of the world outside of North America, some of which are still developing mature cybersecurity infrastructures. Detecting, deterring, preventing and mitigating incidents caused by hackers and other parties may result in significant costs to us and may expose our customers to financial or other harm, potentially significantly increasing our liability.

We treat cybersecurity risk seriously and are focused on maintaining the security of our and our partners' systems, networks, technologies and data. We regularly review and revise our relevant policies and procedures, invest in and maintain internal resources, personnel and systems and review, modify and supplement our defenses through the use of various services, programs and outside vendors. EchoStar also maintains agreements with third party vendors and experts to assist in our remediation and mitigation efforts if we experience or identify a material incident or threat. In addition, senior management and the Audit Committee of EchoStar's Board of Directors are regularly briefed on cybersecurity matters.

We are not aware of any cyber-attacks with respect to our owned or leased satellites or other networks, equipment or systems that have had a material adverse effect on our business, costs, operations, prospects, results of operation or financial position during the nine months ended September 30, 2018. There can be no assurance, however, that any such incident can be detected or thwarted or will not have such a material adverse effect in the future.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

	For the nine months ended September 30,		Variance	
Statements of Operations Data (1)	**2018**	**2017**	**Amount**	**%**
	(Dollars in thousands)			
Revenue:				
Services and other revenue - DISH Network	$ 282,543	$ 330,675	$ (48,132)	(14.6)
Services and other revenue - other	1,132,669	866,251	266,418	30.8
Equipment revenue	150,134	173,819	(23,685)	(13.6)
Total revenue	1,565,346	1,370,745	194,601	14.2
Costs and expenses:				
Cost of sales - services and other	448,925	413,648	35,277	8.5
% of total services and other revenue	**31.7%**	**34.6%**		
Cost of sales - equipment	127,254	142,127	(14,873)	(10.5)
% of total equipment revenue	**84.8%**	**81.8%**		
Selling, general and administrative expenses	285,700	244,005	41,695	17.1
% of total revenue	**18.3%**	**17.8%**		
Research and development expenses	20,328	23,444	(3,116)	(13.3)
% of total revenue	**1.3%**	**1.7%**		
Depreciation and amortization	409,377	364,878	44,499	12.2
Total costs and expenses	1,291,584	1,188,102	103,482	8.7
Operating income	273,762	182,643	91,119	49.9
Other income (expense):				
Interest income	41,362	21,248	20,114	94.7
Interest expense, net of amounts capitalized	(193,625)	(181,996)	11,629	6.4
Gains and losses on investments, net	262	(1,575)	1,837	*
Other, net	(42)	5,527	(5,569)	*
Total other expense, net	(152,043)	(156,796)	4,753	(3.0)
Income before income taxes	121,719	25,847	95,872	*
Income tax provision	(31,725)	(4,635)	(27,090)	*
Net income	89,994	21,212	68,782	*
Less: Net income attributable to noncontrolling interests	1,292	1,006	286	28.4
Net income attributable to HSS	$ 88,702	$ 20,206	$ 68,496	*
Other data:				
EBITDA (2)	$ 682,067	$ 550,467	$ 131,600	23.9
Subscribers, end of period	1,332,000	1,140,000	192,000	16.8

* Percentage is not meaningful.
(1) An explanation of our key metrics is included on pages 62 and 63 under the heading Explanation of Key Metrics and Other Items.
(2) A reconciliation of EBITDA to Net income, the most directly comparable generally accepted accounting principles ("U.S. GAAP") measure in the accompanying financial statements, is included on page 59. For further information on our use of EBITDA see Explanation of Key Metrics and Other Items on page 63.

Services and other revenue — DISH Network. Services and other revenue — DISH Network totaled $282.5 million for the nine months ended September 30, 2018, a decrease of $48.1 million or 14.6%, compared to the same period in 2017.

Services and other revenue - DISH Network from our Hughes segment for the nine months ended September 30, 2018 decreased by $26.1 million, or 39.9%, to $39.3 million compared to the same period in 2017. The decrease was primarily attributable to a continued decrease in residential wholesale broadband services.

Services and other revenue - DISH Network from our ESS segment for the nine months ended September 30, 2018 decreased by $22.3 million, or 8.6%, to $238.2 million compared to the same period in 2017. The decrease was due to revenue reduction of (i) $10.7 million resulting from the expiration of DISH Network's agreement to lease satellite capacity from us on the EchoStar VII satellite at the end of June 2018, (ii) $7.1 million resulting from DISH Network's termination of its agreement to lease satellite capacity from us on the EchoStar XII satellite at the end of September 2017, (iii) $3.5 million as a result of the satellite anomaly experienced by the EchoStar X satellite in December 2017 which reduced the satellite capacity leased to DISH Network and (iv) $2.0 million as a result of a decrease in satellite capacity leased to DISH Network on the EchoStar IX satellite.

Services and other revenue — other. Services and other revenue — other totaled $1.13 billion for the nine months ended September 30, 2018, an increase of $266.4 million or 30.8%, compared to the same period in 2017.

Services and other revenue - other from our Hughes segment for the nine months ended September 30, 2018 increased by $249.4 million, or 29.9%, to $1.08 billion compared to the same period in 2017. The increase was primarily attributable to increases in sales of broadband services to our consumer and enterprise customers of $217.6 million and $26.8 million, respectively.

Services and other revenue - other from our ESS segment for the nine months ended September 30, 2018 increased by $2.7 million, or 7.8%, to $38.0 million compared to the same period in 2017. The increase was due to a net increase in transponder services provided.

Equipment revenue. Equipment revenue totaled $150.1 million for the nine months ended September 30, 2018, a decrease of $23.7 million or 13.6%, compared to the same period in 2017. The decrease was mainly due to a decrease in hardware sales in our Hughes segment of $14.2 million to our domestic enterprise customers, $7.8 million to our mobile satellite systems customers and $4.9 million to our consumer customers. The decrease was partially offset by an increase in hardware sales in our Hughes segment of $2.5 million to our international enterprise customers.

Cost of sales — services and other. Cost of sales — services and other totaled $448.9 million for the nine months ended September 30, 2018, an increase of $35.3 million or 8.5%, compared to the same period in 2017.

Cost of sales - services and other from our Hughes segment for the nine months ended September 30, 2018 increased by $49.6 million, or 13.6%, to $414.5 million compared to the same period in 2017. The increase was primarily attributable to an increase in the costs of broadband services provided to our consumer and enterprise customers.

Cost of sales - services and other from our ESS segment for the nine months ended September 30, 2018 decreased by $15.9 million, or 32.5%, to $33.0 million compared to the same period in 2017. The decrease was primarily attributable to the termination of our agreement for satellite capacity on the AMC-15 satellite in December 2017.

Cost of sales - equipment. Cost of sales - equipment totaled $127.3 million for the nine months ended September 30, 2018, a decrease of $14.9 million or 10.5%, compared to the same period in 2017. The decrease was primarily attributable to a decrease in hardware sales in our Hughes segment provided to our consumer customers, domestic enterprise customers and mobile satellite systems customers, partially offset by an increase in hardware sales in our Hughes segment to our international enterprise customers.

Selling, general and administrative expenses. Selling, general and administrative expenses totaled $285.7 million for the nine months ended September 30, 2018, an increase of $41.7 million or 17.1%, compared to the same period in 2017. Selling expenses increased $35.0 million primarily attributable to the amortization of contract acquisition and fulfillment costs from our Hughes segment and an increase in advertising and mailers expenses from our Hughes segment mainly associated with our consumer business. General and administrative expenses increased $6.7 million due to bad debt expense from our Hughes segment, partially offset by a decrease in administrative expenses provided by EchoStar.

Depreciation and amortization. Depreciation and amortization expenses totaled $409.4 million for the nine months ended September 30, 2018, an increase of $44.5 million or 12.2%, compared to the same period in 2017. The increase was primarily due to an increase in depreciation expense of: (i) $26.1 million relating to our customer rental equipment, (ii) $19.5 million relating to the EchoStar XIX and EchoStar 105/SES-11 satellites that were placed into service in the first and fourth quarters of 2017, respectively and the Telesat T19V satellite that was placed into service in the fourth quarter of 2018, (iii) $8.2 million relating to machinery and equipment and (iv) an increase of 2.8 million in amortization expense relating to the development of externally marketed software. The increases were partially offset by a decrease of $7.5 million in amortization expense from certain fully amortized other intangible assets in our Hughes segment.

Interest income. Interest income totaled $41.4 million for the nine months ended September 30, 2018, an increase of $20.1 million or 94.7%, compared to the same period in 2017 primarily attributable to an increase in yield percentage in 2018 compared to 2017.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized totaled $193.6 million for the nine months ended September 30, 2018, an increase of $11.6 million or 6.4%, compared to the same period in 2017. The increase was primarily due to a decrease of $15.3 million in capitalized interest relating to the EchoStar XIX, EchoStar XXI and EchoStar 105/SES-11 satellites that were placed into service in the first and fourth quarters of 2017 and third quarter of 2018, respectively. The increase was partially offset by an increase of $1.5 million in capitalized interest relating to the Telesat T19V satellite and a decrease of $2.6 million in interest expense relating to the accounting impact of two of our satellites that are treated as capital leases.

Gains and losses on investments, net. Gains and losses on investments, net totaled $0.3 million in gains for the nine months ended September 30, 2018 compared to $1.6 million for the nine months ended September 30, 2017. The change of $1.8 million was primarily due to an other-than-temporary impairment loss of $3.3 million on one of our available-for-sale securities in 2017 and $1.7 million gain on our trading securities in 2017.

Other, net. Other, net total was de minimis in income for the nine months ended September 30, 2018, a decrease of $5.6 million, compared to the same period in 2017. The decrease was primarily related to an unfavorable foreign exchange impact of $14.2 million and a decrease of $1.6 million in equity in earnings of our unconsolidated affiliates. The decreases were partially offset by a net gain of $9.6 million due to the settlement of certain amounts due to and from a third party vendor in the second quarter of 2018.

Income tax benefit (provision). Income tax provision was $31.7 million for the nine months ended September 30, 2018 compared to an income tax benefit of $4.6 million for the nine months ended September 30, 2017. Our effective income tax rate was 26.1% and 17.9% for the nine months ended September 30, 2018 and 2017, respectively. The 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 various permanent tax differences, the impact of state and local taxes, increase in our valuation allowance associated with certain foreign losses, and the change in our valuation allowance associated with net unrealized losses that are capital in nature. For the nine months ended September 30, 2017, the variations in our effective tax rate from the U.S. federal statutory rate 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.

Net income attributable to HSS. Net income attributable to HSS was $88.7 million for the nine months ended September 30, 2018, an increase of $68.5 million, compared to the same period in 2017 as set forth in the following table:

		Amounts
		(In thousands)
Net income attributable to HSS for the nine months ended September 30, 2017	$	20,206
Increase in tax provision		(27,090)
Increase in interest expense		(11,629)
Increase in other net		(5,569)
Increase in operating income, including depreciation and amortization		91,119
Increase in interest income		20,114
Decrease in losses on investments, net		1,837
Increase in net income attributable to noncontrolling interests		(286)
Net income attributable to HSS for the nine months ended September 30, 2018	$	88,702

EBITDA. EBITDA is a non-GAAP financial measure and is described under Explanation of Key Metrics and Other Items below. The following table reconciles EBITDA to *Net income*, the most directly comparable U.S. GAAP measure in the accompanying financial statements.

	For the nine months ended September 30,				Variance		
	2018		2017		Amount		%
	(Dollars in thousands)						
Net income	$	89,994	$	21,212	$	68,782	*
Interest income and expense, net		152,263		160,748		(8,485)	(5.3)
Income tax provision		31,725		4,635		27,090	*
Depreciation and amortization		409,377		364,878		44,499	12.2
Net income attributable to noncontrolling interests		(1,292)		(1,006)		286	28.4
EBITDA	$	682,067	$	550,467	$	131,600	23.9

* Percentage is not meaningful.

EBITDA was $682.1 million for the nine months ended September 30, 2018, an increase of $131.6 million or 23.9%, compared to the same period in 2017. The increase was primarily due to an increase in operating income, excluding depreciation and amortization, of $135.6 million.

Segment Operating Results and Capital Expenditures

	Hughes	ESS	Corporate and Other	Consolidated Total
		(In thousands)		
For the nine months ended September 30, 2018				
Total revenue	$ 1,271,886	$ 276,185	$ 17,275	$ 1,565,346
Capital expenditures (1)	$ 285,352	$ (76,653)	$ —	$ 208,699
EBITDA	$ 452,982	$ 238,789	$ (9,704)	$ 682,067
For the nine months ended September 30, 2017				
Total revenue	$ 1,072,143	$ 295,785	$ 2,817	$ 1,370,745
Capital expenditures	$ 270,624	$ 21,351	$ —	$ 291,975
EBITDA	$ 342,693	$ 241,873	$ (34,099)	$ 550,467

Capital expenditures in the table above are net of refunds and other receipts related to property and equipment.

Hughes Segment

	For the nine months ended September 30,		Variance	
	2018	2017	Amount	%
		(Dollars in thousands)		
Total revenue	$ 1,271,886	$ 1,072,143	$ 199,743	18.6
Capital expenditures	$ 285,352	$ 270,624	$ 14,728	5.4
EBITDA	$ 452,982	$ 342,693	$ 110,289	32.2

Total revenue for the nine months ended September 30, 2018 increased by $199.7 million, or 18.6%, compared to the same period in 2017. The increase was primarily due to an increase in sales of broadband services to our consumer and enterprise customers of $217.6 million and $26.8 million, respectively, and an increase in hardware sales of $2.5 million to our international enterprise customers. The increase was partially offset by (i) a decrease of $26.1 million in residential wholesale broadband services and a decrease in hardware sales of (ii) $14.2 million to our domestic enterprise customers, (iii) $7.8 million to our mobile satellite systems customers and (iv) $4.9 million to our consumer customers.

Capital expenditures for the nine months ended September 30, 2018 increased by $14.7 million, or 5.4%, compared to the same period in 2017, primarily due to increases in capital expenditures relating to our consumer business of $12.3 million and our EchoStar XXIV and Telesat T19V satellites of $9.4 million. The increases were partially offset by a decrease of $8.7 million in capital expenditures associated with our EUTELSAT 65W, EchoStar XIX and EchoStar XXI satellites and our enterprise business.

EBITDA for the nine months ended September 30, 2018 was $453.0 million, an increase of $110.3 million, or 32.2%, compared to the same period in 2017. The increase was primarily due to an increase of $164.8 million in gross margin and an other-than-temporary impairment loss of $3.3 million on one of our available-for-sale securities in the first quarter of 2017. The increase was partially offset by (i) an increase of $45.7 million in selling, general and administrative expenses due to the amortization of contract acquisition and fulfillment costs from our Hughes segment, an increase in bad debt expense and an increase in advertising and mailers expenses mainly associated with our consumer business, and (ii) an unfavorable foreign exchange impact of $14.2 million in 2018 compared to the same period in 2017.

ESS Segment

	For the nine months ended September 30,		Variance	
	2018	2017	Amount	%
	(Dollars in thousands)			
Total revenue	$ 276,185	$ 295,785	$ (19,600)	(6.6)
Capital expenditures	$ (76,653)	$ 21,351	$ (98,004)	*
EBITDA	$ 238,789	$ 241,873	$ (3,084)	(1.3)

* Percentage is not meaningful.

Total revenue for the nine months ended September 30, 2018 decreased by $19.6 million, or 6.6%, compared to the same period in 2017. The decrease was attributable to revenue reduction of (i) $10.7 million resulting from the expiration of DISH Network's agreement to lease satellite capacity from us on the EchoStar VII satellite at the end of June 2018, (ii) $7.1 million resulting from DISH Network's termination of its agreement to lease satellite capacity from us on the EchoStar XII satellite at the end of September 2017, (iii) $3.5 million as a result of the satellite anomaly experienced by the EchoStar X satellite in December 2017 which reduced the satellite capacity leased to DISH Network and (iv) $2.0 million as a result of a decrease in satellite capacity leased to DISH Network on the EchoStar IX satellite.

Capital expenditures for the nine months ended September 30, 2018 decreased by $98.0 million compared to the same period in 2017, primarily reflect a reimbursement of $77.5 million and a decrease in satellite expenditure as a result of the EchoStar 105/SES-11 satellite that was placed into service in the fourth quarter of 2017.

EBITDA for the nine months ended September 30, 2018 was $238.8 million, a decrease of $3.1 million, or 1.3%, compared to the same period in 2017. The decrease was primarily due to the decrease in ESS segment total revenue of $19.6 million in 2018 compared to the same period in 2017. The decrease in EBITDA was partially offset by a decrease in satellite services costs of $14.6 million mainly associated with the termination of our agreement for satellite capacity on the AMC-15 satellite in December 2017.

Corporate and Other

	For the nine months ended September 30,		Variance	
	2018	2017	Amount	%
	(Dollars in thousands)			
Total revenue	$ 17,275	$ 2,817	$ 14,458	*
Capital expenditures	$ —	$ —	$ —	*
EBITDA	$ (9,704)	$ (34,099)	$ 24,395	(71.5)

* Percentage is not meaningful.

Total revenue for the nine months ended September 30, 2018 increased by $14.5 million compared to the same period in 2017. The increase was primarily due to the services and lease equipment we provide to support EchoStar Mobile Limited, a subsidiary of EchoStar that provides mobile satellite services and complementary ground component services covering the entire European Union using S-band spectrum.

For the nine months ended September 30, 2018, EBITDA was a loss of $9.7 million, an increase of $24.4 million, or 71.5%, compared to the same period in 2017. The change in EBITDA was primarily due to an increase in operating income, excluding depreciation and amortization, of $16.4 million and a net gain of $9.6 million due to the settlement of certain amounts due to and from a third party vendor in the second quarter of 2018

EXPLANATION OF KEY METRICS AND OTHER ITEMS

Services and other revenue — DISH Network. Services and other revenue — DISH Network primarily includes revenue associated with satellite and transponder leases and services, TT&C, professional services, facilities rental revenue and other services provided to DISH Network. Services and other revenue — DISH Network also includes subscriber wholesale service fees for the Hughes service sold to dishNET Satellite Broadband L.L.C.

Services and other revenue — other. Services and other revenue— other primarily includes the sales of enterprise and consumer broadband services, as well as maintenance and other contracted services. Services and other revenue — other also includes revenue associated with satellite and transponder leases and services, satellite uplinking/downlinking and other services provided to customers other than DISH Network.

Equipment revenue. Equipment revenue primarily includes broadband equipment and networks sold to customers in our enterprise and consumer markets and sales of satellite broadband equipment and related equipment, related to the Hughes service, to DISH Network.

Cost of sales — services and other. Cost of sales — services and other primarily includes the cost of broadband services provided to our enterprise and consumer customers, and to DISH Network, as well as the cost of providing maintenance and other contracted services. Cost of sales — services and other also includes the costs associated with satellite and transponder leases and services, TT&C, professional services, facilities rental costs, and other services provided to our customers, including DISH Network.

Cost of sales — equipment. Cost of sales — equipment consists primarily of the cost of broadband equipment and networks sold to customers in our enterprise and consumer markets, and to DISH Network. Cost of sales - equipment also includes certain other costs associated with the deployment of equipment to our customers.

Selling, general and administrative expenses. Selling, general and administrative expenses primarily includes selling and marketing costs and employee-related costs associated with administrative services (e.g., information systems, human resources and other services), including stock-based compensation expense. It also includes professional fees (e.g. legal, information systems and accounting services) and other items associated with facilities and administrative services provided by EchoStar, DISH Network and other third parties.

Research and development expenses. Research and development expenses primarily includes costs associated with the design and development of products to support future growth and provide new technology and innovation to our customers.

Interest income. Interest income primarily includes interest earned on our cash, cash equivalents and marketable investment securities, including premium amortization and discount accretion on debt securities.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized primarily includes interest expense associated with our debt and capital lease obligations (net of capitalized interest) and amortization of debt issuance costs.

Gains and losses on investments, net. Gains and losses on investments, net primarily includes changes in fair value of our marketable equity securities and other investments for which we have elected the fair value option. It may also include realized gains and losses on the sale or exchange of our available-for-sale debt securities, other-than-temporary impairment losses on our available-for-sale securities, realized gains and losses on the sale or exchange of our investments in unconsolidated entities and adjustments to the carrying amount of investments in unconsolidated entities resulting from impairments and observable price changes.

Other, net. Other, net primarily includes foreign exchange gains and losses, dividends received from our marketable investment securities, equity in earnings of unconsolidated affiliates, and other non-operating income or expense items that are not appropriately classified elsewhere in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

EBITDA. EBITDA is defined as Net income (loss) excluding Interest income and expense, net, Income tax provision (benefit), net, Depreciation and amortization, and Net income (loss) attributable to noncontrolling interests. EBITDA is not a measure determined in accordance with U.S. GAAP. This non-GAAP measure is reconciled to Net income (loss) in our discussion of Results of Operations above. EBITDA should not be considered in isolation or as a substitute for operating income, net income or any other measure determined in accordance with U.S. GAAP. EBITDA is used by our management as a measure of operating efficiency and overall financial performance for benchmarking against our peers and competitors. Management believes EBITDA provides meaningful supplemental information regarding the underlying operating performance of our business and is appropriate to enhance an overall understanding of our financial performance. Management also believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors, and other interested parties to evaluate the performance of companies in our industry.

Subscribers. Subscribers include customers that subscribe to our Hughes segment's HughesNet broadband services, through retail, wholesale and small/medium enterprise service channels.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report such that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 15d-15(f) under the Exchange Act) that occurred during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We continue to review our internal control over financial reporting and may from time to time make changes aimed at enhancing its effectiveness and to ensure that our systems evolve with our business.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Part I, Item 1. Financial Statements — Note 12 Commitments and Contingencies — Litigation in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2017 includes a detailed discussion of our risk factors. Except as provided below, for the nine months ended September 30, 2018, there were no material changes in our risk factors as previously disclosure.

Recent developments with respect to trade policies, trade agreements, tariffs and related government regulations could increase our costs, limit the amount of components we can import, decrease demand for certain of our products and have a material adverse impact on our business, financial condition and results of operations.

We source certain parts, components and items used in our products from manufacturers located outside of the United States ("U.S.") and we sell certain of our products to customers located outside of the U.S. The current U.S. administration has voiced concerns about imports from countries as potentially engaging in unfair trade practices, has increased tariffs on certain goods imported into the U.S. from those countries, including China and other countries from which we import components or raw materials, and has raised the possibility of imposing significant additional tariff increases. The announcement of tariffs on imported products by the U.S. has triggered actions from certain foreign governments, including China, and may trigger additional actions by those and other foreign governments, potentially resulting in a "trade war". A trade war of this nature or other governmental action related to tariffs, government regulations, or international trade agreements or policies could materially increase the cost of certain products we import, impact or limit the availability of such products, require us to change our manufacturers, and/or decrease demand for certain of our products, any or all of which could have a material adverse impact on our business, financial condition and results of operations.

We may be exposed to financial and reputational damage to our business by cybersecurity incidents.

We and third parties with whom we work face a constantly developing landscape of cybersecurity threats in which hackers and other parties use a complex assortment of techniques and methods to execute cyber-attacks, including but not limited to the use of stolen access credentials, social engineering, malware, ransomware, phishing, insider threats, structured query language injection attacks and distributed denial-of-service attacks. Cybersecurity incidents such as these have increased significantly in quantity and severity and are expected to continue to increase. Additionally, the risk of cyber-attacks and compromises may increase as we expand our business into other areas of the world outside of North America, some of which are still developing mature cybersecurity infrastructures. Should we be affected by such an incident, we may incur substantial costs and suffer other negative consequences, which may include:

- remediation costs, such as liability for stolen assets or information, repairs of system damage and/or incentives to customers or business partners in an effort to maintain relationships after an attack;
- increased cybersecurity protection costs, which may include the costs of making organizational changes, deploying additional personnel and protection technologies, training employees and engaging third party experts and consultants;
- increased liability due to financial or other harm inflicted on our partners;
- lost revenues resulting from attacks on our satellites or technology, the unauthorized use of proprietary information or the failure to retain or attract customers following an attack;
- litigation and legal risks, including regulatory actions by state, federal and international regulators; and
- loss of or damage to reputation.

Our business is subject to varying degrees of regulation that include programs designed to review our protections against cybersecurity incidents. If it is determined that our systems do not reasonably protect our partners' assets and data and/or that we have violated these regulations, we could be subject to enforcement activity and sanctions.

We regularly review and revise our internal cybersecurity policies and procedures, invest in and maintain internal and external cybersecurity teams and systems and software to detect, deter, prevent and/or mitigate cyber-attacks and review, modify and supplement our defenses through the use of various services, programs and outside vendors. It is impossible, however, for us to know when or if any particular cyber-attack may arise or the impact on our business and operations of any such incident. We expect to continue to incur increasing costs in preparing our infrastructure and maintaining it to resist any such attacks. There can be no assurance that we can successfully detect, deter, prevent or mitigate the effects of cyber-attacks, any of which could have a material adverse effect on our business, costs, operations, prospects, results of operation or financial position.

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.

There are a limited number of manufacturers that are able to design and build satellites according to the technical specifications and standards of quality we require, including Airbus Defence and Space, Boeing Satellite Systems, Lockheed Martin, Space Systems/Loral, LLC ("SSL") and Thales Alenia Space. There are also a limited number of launch service providers that are able to launch such satellites, including International Launch Services, Arianespace, Lockheed Martin Commercial Launch Services and Space Exploration. The loss or failure to perform of any of our manufacturers or launch service providers could increase the cost and result in the delay of the design, construction or launch of our satellites. Even if alternate suppliers for such services are available, we may have difficulty identifying them in a timely manner or we may incur significant additional expense in changing suppliers, and this could result in difficulties or delays in the design, construction or launch of our satellites. For example, in the second half of 2018, Maxar Technologies Ltd. ("Maxar), the parent company of SSL, the manufacturer of our EchoStar XXIV satellite, announced that it is reviewing strategic alternatives for its geostationary communications satellite business to improve its financial performance and that it is in active discussions with potential buyers of the business. SSL has indicated to us that it intends to meet its contractual requirements regarding the manufacture of the EchoStar XXIV satellite. However, if SSL or any successor fails to meet these requirements for any reason, including if Maxar decides to discontinue, wind down or otherwise significantly modify its geostationary communications satellite business, such failure could have a material adverse effect on completing the manufacture of the EchoStar XXIV satellite and, like any other delays in the design, construction or launch of our other satellites, could have a material adverse impact on our business operations, future revenues, financial position and prospects.

Our owned and leased satellites in orbit are subject to significant operational and environmental risks that could limit our ability to utilize these satellites.

Satellites are subject to significant operational risks while in orbit. These risks include malfunctions, commonly referred to as anomalies, which have occurred and may occur in the future in our satellites and the satellites of other operators as a result of various factors, such as satellite design and manufacturing defects, problems with the power systems or control systems of the satellites, general failures resulting from operating satellites in the harsh environment of space and cyber-attacks or physical attacks on our satellites.

Although we work closely with the satellite manufacturers to determine and eliminate the cause of anomalies in new satellites and provide for redundancies of many critical components in the satellites, we may not be able to prevent anomalies or outages from occurring and may experience anomalies and outages in the future, whether of the types described above or arising from the failure of other systems or components. The loss or failure to perform of any of our manufacturers which provide in-orbit anomaly support for our satellites could result in our inability to determine, eliminate or manage anomalies for our satellites. Even if alternate in-orbit anomaly support services are available, we may have difficulty identifying them in a timely manner or we may incur significant additional expense in changing suppliers. Maxar, through its subsidiary SSL, provides in-orbit anomaly support for several of our satellites. In the second half of 2018, Maxar announced that it is reviewing strategic alternatives for its geostationary communications satellite business to improve its financial performance and that it is in active discussions with potential buyers of the business. A decision by Maxar to discontinue, wind down or otherwise significantly modify its geostationary communication s satellite business could have a material adverse impact on the operation of several of our satellites, including our ability to remedy any anomalies or outages.

Any single anomaly or outage or series of anomalies or outages could materially and adversely affect our ability to utilize the satellite, our operations, services and revenue as well as our relationships with current customers and our ability to attract new customers. In particular, future anomalies or outages may result in, among other things, the loss of individual transponders/beams and/or functional solar array circuits on a satellite, a group of transponders/beams on that satellite or the entire satellite, depending on the nature of the anomaly or outage. Anomalies or outages may also reduce the expected capacity, commercial operation and/or useful life of a satellite, thereby reducing the revenue that could be generated by that satellite, or create additional expenses due to the need to provide replacement or back-up satellites or satellite capacity earlier than planned and could have a material adverse effect on our business, financial condition and results of operations.

The loss of a satellite or other satellite malfunctions or anomalies or outages could have a material adverse effect on our financial performance, which we may not be able to mitigate by using available capacity on other satellites. 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. In addition, the loss of a satellite or other satellite malfunctions or anomalies or outages could affect our ability to comply with FCC and other regulatory obligations and our ability to fund the construction or acquisition of replacement satellites for our in-orbit fleet in a timely fashion, or at all. There can be no assurance that anomalies or outages will not 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.

Meteoroid events pose a potential threat to all in-orbit satellites. The probability that meteoroids will damage those satellites increases significantly when the Earth passes through the particulate stream left behind by comets. Occasionally, increased solar activity also poses a potential threat to all in-orbit satellites.

Some decommissioned satellites are in uncontrolled orbits, which pass through the geostationary belt at various points and present hazards to operational satellites, including our satellites. We may be required to perform maneuvers to avoid collisions and these maneuvers may prove unsuccessful or could reduce the useful life of the satellite through the expenditure of fuel to perform these maneuvers. The loss, damage or destruction of any of our satellites as a result of an electrostatic storm, collision with space debris, malfunction or other event could have a material adverse effect on our business, financial condition and results of operations.

We historically have not carried in-orbit insurance on many of our satellites because we have assessed that the cost of such insurance is uneconomical relative to the risk of failures. If one or more of our in-orbit uninsured satellites fail, we could be required to record significant impairment charges for the satellite.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

Financial Results

On November 8, 2018, EchoStar issued a press release (the “Press Release”) announcing its financial results for the three and nine months ended September 30, 2018. A copy of the Press Release is furnished herewith as Exhibit 99.1. The foregoing information, including the exhibit related thereto, is furnished in response to Item 2.02 of Form 8-K and shall not be deemed filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise, and shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended, or into any filing or other document pursuant to the Exchange Act, except as otherwise expressly stated in any such filing.

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ITEM 6. EXHIBITS

Exhibit No.	Description
10.1(H)	Letter Agreement between EchoStar Corporation and DISH Network Corporation, dated August 3, 2018, amending that certain Form of Tax Sharing Agreement between EchoStar Corporation and DISH Network Corporation.
31.1(H)	Section 302 Certification of Chief Executive Officer.
31.2(H)	Section 302 Certification of Chief Financial Officer.
32.1(I)	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer.
99.1(I)	Press release dated November 8, 2018 issued by EchoStar Corporation regarding financial results for the period ended September 30, 2018.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

(H) Filed herewith.
(I) Furnished herewith.
* Incorporated by reference.
** Constitutes a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HUGHES SATELLITE SYSTEMS CORPORATION

Date: November 8, 2018	By:	/s/ *Michael T. Dugan*
		Michael T. Dugan
		Chief Executive Officer, President and Director
		(Principal Executive Officer)
Date: November 8, 2018	By:	/s/ *David J. Rayner*
		David J. Rayner
		Executive Vice President, Chief Financial Officer, Chief Operating Officer and Treasurer
		(Principal Financial and Accounting Officer)

August 3, 2018

DISH Network Corporation
9601 S. Meridian Blvd.
Englewood, Colorado 80112

Attention: Steven E. Swain
Chief Financial Officer

Re: Certain Carrybacks, Credits and Benefits

Mr. Swain,

Reference is made to that certain Tax Sharing Agreement dated as of December 31, 2007 (as amended, modified and restated from time to time, the "Tax Sharing Agreement"), between DISH Network Corporation ("DISH") and EchoStar Corporation ("EchoStar"), as clarified and supplemented pursuant to: (i) that certain letter agreement dated as of September 11, 2013 between DISH and EchoStar regarding Certain Items from 2008 Audit (the "First Tax Addendum"), and (ii) that certain letter agreement dated as of September 11, 2013 between DISH and EchoStar regarding Applicable Combined State Income Tax Returns (the "Second Tax Addendum", together with the Tax Sharing Agreement, the First Tax Addendum and this letter agreement, collectively the "Tax Agreements"). Capitalized terms used in this letter shall have the definitions provided herein or on Schedule A hereto, provided that any capitalized terms used in this letter but not defined herein or on Schedule A hereto shall have the meanings given to them in the Tax Agreements; and for such purposes any reference to ECC in the Tax Agreements shall be understood as a reference to DISH and any reference to the Company in the Tax Agreements shall be understood as a reference to EchoStar. DISH and EchoStar are sometimes referred to herein individually as a "Party" and collectively as the "Parties."

This letter sets forth the agreement of the Parties hereto in respect of the matters set forth below.

Section 1. NOL Carrybacks.

(a) Notwithstanding Section 3.2 of the Tax Sharing Agreement, EchoStar and/or other members of the EchoStar Group shall be permitted to carry back U.S. $466,755,038 in net operating losses attributable to EchoStar's 2009 taxable year ("SATS 2009 NOLs") to offset Taxes attributable to DISH's U.S. federal Income Tax Return for the year ended December 31, 2008. For the avoidance of doubt, Section 3.2 of the Tax Sharing Agreement shall continue in full force and effect and without modification with respect to any carry back losses, credits or other Tax Attributes other than the SATS 2009 NOLs.

(b) Subject to paragraph 1(e) of this letter, to the extent EchoStar does not receive a Tax Refund attributable to the SATS 2009 NOLs that it would have Otherwise Utilized in a given taxable year after 2009, then DISH shall owe to EchoStar an amount equal to the Adjusted Utilization Amount for each such year at the time such SATS 2009 NOLs would have been Otherwise Utilized.

(c) The DISH Notional Amount will accrue interest monthly at a rate per annum equal to the Interest Rate beginning on the date that DISH receives payment from the IRS for any applicable portion of the SATS 2009 NOLs, until the DISH Notional Amount is reduced to zero. For the avoidance of doubt: (i) no amount accrued under this paragraph 1(c) is due and payable except in accordance with paragraph 1(d); (ii) it is understood that the DISH Notional Amount is not an obligation payable by DISH but is merely a notional amount for calculating other amounts that may be payable; (iii) in the event that the Applicable Tax Rate changes at any time from the Effective Date until the DISH Notional Amount is reduced to zero, the amount of interest accrued will be based upon the then current DISH Notional Amount as of the effective date of the newly enacted Applicable Tax Rate; and (iv) any interest accrued and not already paid prior to any such newly enacted Applicable Tax Rate shall be recalculated (either up or down) for the entire period based upon the then current DISH Notional Amount as of the effective date of the newly enacted Applicable Tax Rate.

(d) The DISH Notional Amount shall be reduced (but not below zero) by the amounts payable by DISH pursuant to paragraph 1(b) of this letter at the time such amounts are paid pursuant to paragraph 1(e) of this letter. To the extent that the DISH Notional Amount is reduced pursuant to the previous sentence, DISH shall owe to EchoStar at the time of such reduction the interest that has accrued (in accordance with paragraph 1(c)) on the amount of the relevant Adjusted Utilization Amount.

(e) No earlier than December 15 of each calendar year (each such year, the "Applicable Year"), EchoStar shall provide DISH with a written itemized summary and supporting documentation (in sufficient detail to, among other things, apprise DISH of any tax planning and/or tax deferral strategies being implemented by EchoStar), of all amounts that arise pursuant to paragraphs 1(b) and 1(d) of this letter with respect to such Applicable Year (the "EchoStar Notice"). Such amounts for each Applicable Year shall be paid by DISH to EchoStar within sixty (60) days following the later of (i) the day upon which DISH receives the EchoStar Notice for such Applicable Year and (ii) the day upon which DISH has received any payment from the IRS related to the SATS 2009 NOLs (in either case, the applicable "Payment Date"), in immediately available funds via wire transfer; provided, however, that if any applicable Payment Date falls on a weekend or a legal holiday in New York, New York, or any other day on which commercial banks in that location are authorized by law or governmental decree to close, such payments shall be made on the first business day following the Payment Date. For the avoidance of doubt, no amounts shall be due and payable by DISH under this letter unless: (i) DISH has received a payment from the IRS related to the SATS 2009 NOLs (and in any event, only to the extent thereof); and (ii) the obligations under section 5(b) of the First Tax Addendum have been fully satisfied; provided that in the Applicable Year in which DISH's obligations under section 5(b) of the First Tax Addendum are required to be fully paid and satisfied with no additional amounts thereafter being due and payable, DISH shall be obligated to pay EchoStar in such Applicable Year any amounts owed with respect to the prior Applicable Year under this letter pursuant to the payment terms contained in this paragraph 1(e) (i.e., no later than the applicable Payment Date regardless of whether and/or when the amounts payable under section 5(b) of the First Tax Addendum are actually paid or are required to be paid). For illustrative purposes only, assuming: (i) EchoStar has a tax liability of $50 million for a particular Applicable Year; and (ii) the remaining amount DISH is obligated to pay under section 5(b) of the First Tax Addendum is $30 million, then the $20 million that DISH is obligated to pay pursuant to this paragraph 1(e) for such Applicable Year would be paid pursuant to the payment terms contained in this paragraph 1(e) (i.e., no later than the applicable Payment Date regardless of whether and/or when the amounts payable under section 5(b) of the First Tax Addendum are actually paid or are required to be paid).

(f) If a Final Determination results in the amount of SATS 2009 NOLs that DISH can carry back to offset Taxes attributable to its U.S. federal Income Tax Return for the year ended December 31, 2008 being less than U.S. $466,755,038 (such lower amount being the "Reduced SATS 2009 NOLs"), then paragraph 1(b) shall be applied by substituting the Reduced SATS 2009 NOLs for the SATS 2009 NOLs in any determinations under paragraph 1(b), and the DISH Notional Amount shall be automatically decreased by an amount equal to the difference between the SATS 2009 NOLs and the Reduced SATS 2009 NOLs. If the application of this paragraph 1(f) results in a reduction in the amount of any payments previously determined under paragraph 1(b) and paid by DISH to EchoStar pursuant to paragraph 1(e), then EchoStar shall pay to DISH the difference between the originally determined and paid amount and the re-determined amount within sixty (60) days of the date of the Final Determination, it being understood that present value or time value or similar concepts shall be disregarded in calculating any such payments to DISH under this paragraph 1(f).

(g) If a Final Determination results in the amount of SATS 2009 NOLs that DISH can carry back to offset Taxes attributable to its U.S. federal Income Tax Return for the year ended December 31, 2008 being greater than U.S. $466,755,038 (such higher amount being the "Increased SATS 2009 NOLs"), then paragraph 1(b) shall be applied by substituting the Increased SATS 2009 NOLs for the SATS 2009 NOLs in any determinations under paragraph 1(b), and the DISH Notional Amount shall be automatically increased by an amount equal to the difference between the Increased SATS 2009 NOLs and the SATS 2009 NOLs. If the application of this paragraph 1(g) results in an increase in the amount of any payments previously determined under paragraph 1(b) and paid by DISH to EchoStar pursuant to paragraph 1(e), then DISH shall pay to EchoStar the difference between the originally determined and paid amount and the re-determined amount within sixty (60) days of the date of the Final Determination, it being understood that present value or time value or similar concepts shall be disregarded in calculating any such payments to EchoStar under this paragraph 1(g).

Section 2. R&D Tax Credits.

(a) Federal R&D Credits.

i. The Parties hereto acknowledge that they are members of a "controlled group" (as such term is defined pursuant to Section 41(f)(5) of the Code) (the "SATS/DISH Controlled Group") and, as such, their respective U.S. federal research and development tax credits ("Federal R&D Tax Credits") are combined and then allocated to each Party based upon their respective "qualified research expenses" (as such term is defined pursuant to Section 41(b)(1) of the Code). Each Party shall be responsible for calculating its Separate Credits and its Excess Allocated Credits (collectively, the "Federal R&D Tax Credit Calculations") for each taxable year starting with the 2013 taxable year and continuing until termination of the Tax Agreements and this letter. For purposes of calculating the Separate Credits, the Parties shall use the same computational method under Section 41 of the Code as used to calculate the Allocated Credits on their respective U.S. federal Income Tax Returns.

ii. Each Party shall provide to the other Party their respective Federal R&D Tax Credit Calculations: (i) attributable to their respective federal Income Tax Return for the years ended December 31, 2013, 2014, 2015 and 2016 within sixty (60) days following the date of this letter and (ii) attributable to all of their respective subsequent federal Income Tax Returns within sixty (60) days of filing each such federal Income Tax Return, together with documentation reasonably necessary for the other Party to review the correctness thereof. Upon receiving each Federal R&D Tax Credit Calculation and documentation, the recipient shall have thirty (30) days in which to review the Federal R&D Tax Credit Calculation and documentation and, if it disagrees in good faith, to notify the other Party of its disagreement in writing (which notification must include a written explanation that sets forth the grounds of its disagreement with specificity); it being understood that the recipient's failure to so notify the other party within such period is conclusive evidence of the recipient's agreement with the Federal R&D Tax Credit Calculation and documentation. DISH and EchoStar shall resolve any such disagreements regarding Federal R&D Tax Credit Calculations and documentation in accordance with the provisions of Section 8.3 of the Tax Sharing Agreement.

iii. If DISH has Excess Allocated Credits in any taxable year, DISH shall pay EchoStar by wire transfer in immediately available funds an amount equal to the lesser of (i) DISH's Excess Allocated Credits and (ii) EchoStar's Reduced Allocated Credits for such taxable year within sixty (60) days of the finalization of DISH's Federal R&D Tax Credit Calculation for such taxable year under paragraph 2(a)(ii) of this letter. If EchoStar has Excess Allocated Credits in any taxable year, EchoStar shall pay DISH by wire transfer in immediately available funds an amount equal to the lesser of (i) EchoStar's Excess Allocated Credits and (ii) DISH's Reduced Allocated Credits for such taxable year within sixty (60) days of the finalization of EchoStar's Federal R&D Tax Credit Calculation for such taxable year under paragraph 2(a)(ii) of this letter.

iv. If a Final Determination decreases the amount that would otherwise be payable pursuant to paragraph 2(a)(iii) by a Party for a taxable year, then the other Party shall pay such Party by wire transfer in immediately available funds an amount equal to such decrease for such taxable year. If a Final Determination increases the amount that would otherwise be payable pursuant to paragraph 2(a)(iii) by a Party for a taxable year, then such Party shall pay the other Party by wire transfer in immediately available funds an amount equal to such increase for such taxable year. All payments under this paragraph 2(a)(iv) shall be paid within sixty (60) days of the date of the Final Determination, it being understood that present value or time value or similar concepts shall be disregarded in calculating any payments under this paragraph 2(a)(iv).

(b) California R&D Credits. The Parties hereto acknowledge that they are members of a Combined Tax Return in the State of California (the "Combined California Return") and that the Parties may utilize California research and development tax credits ("CA Credits") on a combined basis. For a given taxable year, EchoStar may generate credits in excess ("Excess Credits") of its share of the Combined California Return liability. In an Excess Credits situation, DISH may utilize the Excess Credits on a Combined California Return in calculating the combined CA Credits. When DISH utilizes the Excess Credits, it will compensate EchoStar in an amount equal to twenty-five percent (25%) of the Excess Credits so utilized (the "Excess Credits Amount"). Subject to paragraph 4(a) below, all payments under this paragraph 2(b) shall be paid within sixty (60) days of DISH's utilization of the Excess Credits. The Parties will act in good faith to determine when the Excess Credits have been effectively utilized. If a Final Determination would result in any change in calculations or payments under this paragraph 2(b), the Parties shall work in good faith to recompute such calculations and/or payments. DISH and EchoStar shall resolve any matters under this paragraph 2(b) in accordance with the provisions of Section 8.3 of the Tax Sharing Agreement.

Section 3. AMC 15/16 State Tax Benefit. Pursuant to paragraph 4(c) of the First Tax Addendum, DISH is required to: (i) calculate the amount, if any, of state income tax benefit to DISH (net of U.S. federal income tax benefit for state income tax deductions) corresponding to such amounts owed to EchoStar applicable to the EchoStar Specified Tax Attribute (the "Applicable State Notional Amount") and (ii) pay to EchoStar the Applicable State Notional Amount in accordance with the terms of the First Tax Addendum. The Parties hereto acknowledge and agree that the Applicable State Notional Amount is $3,868,379 for the years ended December 31, 2008 through 2014, and DISH shall pay such amount to EchoStar by wire transfer in immediately available funds within sixty (60) days following the date of this letter.

Section 4. Termination of Second Tax Addendum.

(a) The Parties hereto acknowledge that the definition of "Relevant Period" in the Second Tax Addendum provides that such period may be extended by the Parties by written agreement. The Parties hereto agree to extend the Relevant Period until the earlier to occur of: (i) the termination of the Tax Sharing Agreement pursuant to Section 10.3 of the Tax Sharing Agreement, and (ii) a Change in Control of either Party. For purposes of this Section 4 (a), the following capitalized terms shall have the following meanings: (i) "Change of Control" means a transaction or a series of transactions the result of which is that any Person (other than the Principal or a Related Party) individually owns more than 50% of the total voting power of either (A) EchoStar (or its then ultimate parent company); or (B) DISH (or its then ultimate parent company); (ii) "Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity; (iii) "Principal" means Charles W. Ergen; and (iv) "Related Party" means, with respect to the Principal, (a) the spouse and each immediate family member of the Principal, (b) each trust, corporation, partnership or other entity of which the Principal, the Principal's spouse and/or immediate family members beneficially holds an 80% or more controlling interest and (c) all trusts, including grantor retained annuity trusts, established by the Principal for the benefit of his family.

Additionally, if the Parties at any time do not file an Applicable Combined Return in any state in accordance with paragraph 5(a) of the Second Tax Addendum, the Parties agree that the Relevant Period shall immediately expire with respect to state Income Tax Returns for such state. Any and all amounts due and payable under paragraph 2(b) of this letter and paragraph 2(b)(i) of the Second Tax Addendum, must be paid by the applicable Party within ninety (90) days of the expiration of the Relevant Period.

(b) Paragraph 5(a) of the Second Tax Addendum shall be amended to replace the phrase “prior to December 31, 2017” with the phrase “prior to the end of the Relevant Period”.

Section 5. Cooperation. For the avoidance of doubt, Section 7.1 of the Tax Sharing Agreement shall apply to any payments and any calculations described in this letter, the Tax Agreements, or any subsequent agreements between the Parties that clarify, supplement, or amend this letter or the Tax Agreements.

Section 6. Notices. EchoStar and DISH hereby agree that any notice, demand, claim or other communication under this letter and the Tax Agreements shall be governed by Section 10.1 of the Tax Sharing Agreement. EchoStar hereby notifies DISH pursuant to Section 10.1 of the Tax Sharing Agreement that any notice, demand, claim, or other communication under the Tax Agreements and this letter shall be sent to EchoStar at the following address:

EchoStar Corporation
100 Inverness Terrace
Englewood, CO 80112
Attention: General Counsel
Fax: 301-428-2818

Section 7. General.

(a) This letter together with the Tax Agreements contain the entire understanding between the Parties with respect to the subject matter hereof and clarifies, supersedes and replaces any prior or contemporaneous agreements, understandings and representations, whether oral or written, made by the Parties with respect to the subject matter hereof. For purposes of clarity, notwithstanding the foregoing or any other provision of this letter, nothing in this letter shall supersede, replace, change or amend in any way any provision of that certain Tax Matters Agreement dated as of February 28, 2017 between DISH and EchoStar. This letter shall not be waived, amended or otherwise modified except as in writing, duly executed by the Parties.

(b) Except as expressly set forth herein, all of the terms, provisions and conditions of the Tax Agreements shall remain unaffected and unchanged by reason of this letter and are hereby ratified and confirmed in all respects by the Parties hereto.

(c) In the event of any conflict between the terms, provisions and conditions of the Tax Agreements and the terms, provisions and conditions provided in this letter, the terms, provision and conditions provided in this letter shall control.

(d) This letter shall be binding upon and, to the extent expressly permitted by the provisions of the Tax Agreements, shall inure to the benefit of the Parties and their respective heirs, legal representatives, successors and assigns.

(e) This letter may be executed in two or more counterparts, and with counterpart signature pages, each of which shall be an original, but all of which together shall constitute one and the same agreement, binding on all of the Parties hereto notwithstanding that all such Parties have not signed the same counterpart. Counterpart signature pages to this letter transmitted by facsimile transmission, by email in .pdf or similar form, or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

Sincerely,

ECHOSTAR CORPORATION

By: ____________
Name: David J. Rayner
Title: Executive Vice President, Chief Financial Officer,
Chief Operating Officer and Treasurer

Agreed and accepted this 3rd day of August, 2018.

DISH NETWORK CORPORATION

By: ______________
Name:
Title:

Schedule A

Definitions

"Adjusted Utilization Amount" means the amount A obtained by:

A=B x C

Where:

"B" means the Unadjusted Utilization Amount, and
"C" means the Applicable Tax Rate;

it being understood that in the event that the Parties cannot agree on the appropriate amount of the Adjusted Utilization Amount, the dispute shall be resolved in accordance with the principles of Section 8.3 of the Tax Sharing Agreement.

"Allocated Credits" means the Federal R&D Tax Credits allocated to each Party as a member of the SATS/DISH Controlled Group based upon its respective "qualified research expenses" (as such term is defined pursuant to Section 41(b)(1) of the Code) and claimed on such Party's U.S. federal Income Tax Return.

"Applicable Tax Rate" means the then applicable statutory U.S. federal corporate tax rate applicable to EchoStar for the Applicable Year; provided, however, that such rate shall be 35% for any Applicable Year if the then applicable statutory U.S. federal corporate tax rate applicable to EchoStar for such Applicable Year exceeds 35%.

"DISH Notional Amount" means the product of: (a) the SATS 2009 NOLs; *multiplied by* (b) the Applicable Tax Rate, subject to decrease or increase pursuant to paragraphs 1(d), 1(f) and 1(g) of this letter.

"Excess Allocated Credits" means the excess, if any, of a Party's Allocated Credits for the taxable year over its Separate Credits for such taxable year.

"Final Determination" means in respect of any issue (a) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order has become final and not subject to further appeal, (b) a closing agreement whether or not entered into under Section 7121 of the Code or any other binding settlement agreement (whether or not with the IRS) entered into in connection with or in contemplation of an administrative or judicial proceeding, (c) the completion of the highest level of administrative proceedings if a judicial contest is not or is no longer available, or (d) any other final disposition, including by reason of the expiration of the applicable statute of limitations or any other event that the parties agree in writing is a final and irrevocable determination of the liability at issue.

"Interest Determination Date" means (i) for the first calendar year in which interest accrues under this letter, the date on which interest begins to accrue under paragraph 1(c) and (ii) for each calendar year after the first calendar year in which interest accrues under this letter, January 1 (or if January 1 is not a business day, the first business day following January 1).

"Interest Rate" means the twelve-month London interbank offered rate for deposits in U.S. dollars as it appears on Reuters screen LIBOR01 page (or any successor or replacement service or page) at 11:00 a.m., London time, on the relevant Interest Determination Date.

A Tax Refund would have been "Otherwise Received" if it would have been actually received, as if this letter had not entered into effect, but otherwise taking into account all facts and circumstances relevant to such determination. For the avoidance of doubt, a Tax Refund would not have been Otherwise Received if such Tax Refund, even though expected at the time of this letter, would not have been actually received as a result of circumstance arising after the date of this letter (other than the coming into effect of this letter). In making this determination, the parties shall apply a "FIFO" method to other tax attributes that may be relevant to the extent otherwise permitted by applicable law.

The SATS 2009 NOLs would have been "Otherwise Utilized" if a Tax Refund would have been Otherwise Received as a result of the utilization of such SATS 2009 NOLs.

"Reduced Allocated Credits" means the excess, if any, of a Party's Separate Credits for the taxable year over its Allocated Credits for such taxable year.

"Separate Credits" means the Federal R&D Tax Credits that each Party would have otherwise generated had it not been a part of the SATS/DISH Controlled Group.

"Unadjusted Utilization Amount" means the amount of the SATS 2009 NOLs that would have been Otherwise Utilized.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

I, Michael T. Dugan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hughes Satellite Systems Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

By:	*/s/ Michael T. Dugan*
Name:	Michael T. Dugan
Title:	Chief Executive Officer, President and Director
	(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Section 302 Certification

I, David J. Rayner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hughes Satellite Systems Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

By:	/s/ David J. Rayner
Name:	David J. Rayner
Title:	Executive Vice President, Chief Financial Officer, Chief Operating Officer and Treasurer (Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
Section 906 Certifications

In connection with the quarterly report for the quarter ended September 30, 2018 on Form 10-Q (the “Quarterly Report”) of Hughes Satellite Systems Corporation (the “Company”) as filed with the Securities and Exchange Commission on the date hereof, we, Michael T. Dugan and David J. Rayner, Chief Executive Officer and Chief Financial Officer, respectively, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(i) the Quarterly Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934; and

(ii) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2018

By: */s/ Michael T. Dugan*
Name: Michael T. Dugan
Title: Chief Executive Officer, President and Director
(Principal Executive Officer)

By: */s/ David J. Rayner*
Name: David J. Rayner
Title: Executive Vice President, Chief Financial Officer, Chief Operating Officer and Treasurer
(Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO THE COMPANY AND WILL BE RETAINED BY THE COMPANY AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

EchoStar Announces Financial Results for Three and Nine Months Ended September 30, 2018

Englewood, CO, November 8, 2018—EchoStar Corporation (NASDAQ: SATS) today announced its financial results for the three and nine months ended September 30, 2018.

Three Months Ended September 30, 2018 Financial Highlights:

- Consolidated revenues of $533.0 million.
- Consolidated net income from continuing operations of $16.5 million, consolidated net income attributable to EchoStar common stock of $16.1 million, and diluted earnings per share of $0.17. Included in these amounts are net gains on investments of $4.7 million. Excluding these net gains, diluted earnings per share would have been $0.12.
- Consolidated EBITDA of $220.2 million, including net gains on investments of $4.7 million. Excluding these net gains, EBITDA would have been $215.5 million (see discussion and the reconciliation of GAAP to this non-GAAP measure below).

Nine Months Ended September 30, 2018 Financial Highlights:

- Consolidated revenues of $1,560.7 million.
- Consolidated net income from continuing operations of $73.0 million, consolidated net income attributable to EchoStar common stock of $71.7 million, and diluted earnings per share of $0.74. Included in these amounts are net gains on investments of $33.4 million. Excluding these net gains, diluted earnings per share would have been $0.40.
- Consolidated EBITDA of $671.7 million, including net gains on investments of $33.4 million. Excluding these net gains, EBITDA would have been $638.2 million (see discussion and the reconciliation of GAAP to this non-GAAP measure below).

Additional Highlights:

- Approximately 1,332,000 Hughes broadband subscribers as of September 30, 2018.

  Cash, cash equivalents and current marketable investment securities of $3.4 billion as of September 30, 2018.

Set forth below is a table highlighting certain of EchoStar's segment results for the three and nine months ended September 30, 2018 and 2017:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Revenue				
Hughes	$ 444,762	$ 380,061	$ 1,271,886	$ 1,072,143
EchoStar Satellite Services	84,007	97,093	276,185	295,785
Corporate & Other	4,184	4,079	12,631	11,532
Total	$ 532,953	$ 481,233	$ 1,560,702	$ 1,379,460
EBITDA				
Hughes	$ 164,135	$ 131,817	$ 452,982	$ 342,693
EchoStar Satellite Services	72,156	78,345	238,789	241,873
Corporate & Other:				
Corporate overhead, operating and other	(21,076)	(14,772)	(50,641)	(44,386)
Equity in earnings (losses) of unconsolidated affiliates, net	416	4,381	(2,651)	15,620
Gains and losses on investments, net	4,549	20,090	33,171	32,238
Sub-total	(16,111)	9,699	(20,121)	3,472
Total	$ 220,180	$ 219,861	$ 671,650	$ 588,038
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
Expenditures for property and equipment from continuing operations	$ 167,155	$ 192,131	$ 337,729	$ 410,145

The following table reconciles GAAP to non-GAAP measurements.

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net income	$ 16,502	$ 35,201	$ 73,015	$ 79,675
Interest income and expense, net	40,737	43,634	130,134	126,156
Income tax provision, net	12,836	6,082	25,235	9,073
Depreciation and amortization	150,555	134,822	444,558	379,939
Net (income) loss from discontinued operations	—	654	—	(6,454)
Net income attributable to noncontrolling interests	(450)	(532)	(1,292)	(351)
EBITDA	$ 220,180	$ 219,861	$ 671,650	$ 588,038

Note on Use of Non-GAAP Financial Measures
EBITDA is defined as “Net income (loss)” excluding “Interest income and expense, net,” “Income tax provision (benefit), net,” “Depreciation and amortization,” “Net income (loss) from discontinued operations,” and “Net income (loss) attributable to noncontrolling interests.” EBITDA is not determined in accordance with US GAAP. EBITDA is reconciled to “Net income (loss)” in the table above and should not be considered in isolation or as a substitute for operating income, net income or any other measure determined in accordance with US GAAP. Our management uses this non-GAAP measure as a measure of our operating efficiency and overall financial performance for benchmarking against our peers and competitors. Management believes that this non-GAAP measure provides meaningful supplemental information regarding the underlying operating performance of our business and is appropriate to enhance an overall understanding of our financial performance. Management also believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors, and other interested parties to evaluate the performance of companies in our industry.

The consolidated financial statements of EchoStar for the periods ended September 30, 2018 and 2017 are attached to this press release. Detailed financial data and other information are available in EchoStar’s Quarterly Report on Form 10-Q for the period ended September 30, 2018 filed today with the Securities and Exchange Commission.

EchoStar will host its earnings conference call on Thursday, November 8, 2018 at 11:00 a.m. Eastern Time. The call-in numbers are (877) 815-1625 (toll-free) and (716) 247-5178 (international), Conference ID # 1087737.

About EchoStar Corporation

EchoStar Corporation (NASDAQ: SATS) is a premier global provider of satellite communications solutions. Headquartered in Englewood, Colo., and conducting business around the globe, EchoStar is a pioneer in secure communications technologies through its Hughes Network Systems and EchoStar Satellite Services business segments.

Safe Harbor Statement under the US Private Securities Litigation Reform Act of 1995
This press release may contain statements that are forward looking, as that term is defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management’s beliefs, as well as assumptions made by, and information currently available to, management. When used in this release, the words “believe,” “anticipate,” “estimate,” “expect,” “intend,” “project,” “plans,” and similar expressions and the use of future dates are intended to identify forward-looking statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. We assume no responsibility for the accuracy of forward-looking statements or information or for updating forward-looking information or statements. These statements are subject to certain risks, uncertainties, and assumptions. See “Risk Factors” in EchoStar’s Annual Report on Form 10-K for the period ended December 31, 2017 and Quarterly Report on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission and in the other documents EchoStar files with the Securities and Exchange Commission from time to time.

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Contact Information

EchoStar Investor Relations
Deepak V. Dutt
Phone: +1 301-428-1686
Email: deepak.dutt@echostar.com

EchoStar Media Relations
Sharyn Nerenberg
Phone: +1 301-428-7124
Email: sharyn.nerenberg@echostar.com

ECHOSTAR CORPORATION
Consolidated Balance Sheets

	As of	
	September 30, 2018	**December 31, 2017**
Assets	**(Unaudited)**	**(Audited)**
Current assets:		
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	217,524	196,840
Trade accounts receivable - DISH Network	11,065	43,295
Inventory	70,061	83,595
Prepaids and deposits	56,149	54,533
Other current assets	17,222	91,671
Total current assets	3,812,191	3,715,551
Noncurrent assets:		
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
Liabilities and Stockholders' Equity		
Current liabilities:		
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
Noncurrent liabilities:		
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		
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

ECHOSTAR CORPORATION
Consolidated Statements of Operations
(In thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenue:				
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
Costs and expenses:				
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
Other income (expense):				
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	—	—	—	(1,209)
Net income attributable to EchoStar Corporation common stock	$ 16,052	$ 34,669	$ 71,723	$ 80,533
Earnings per share - Class A and B common stock:				
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

ECHOSTAR CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

	For the nine months ended September 30,	
	2018	**2017**
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	—	(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
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