

**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 MARCH 31, 2016.**

OR

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

Commission File Number: 333-179121

**Hughes Satellite Systems Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Colorado**

(State or Other Jurisdiction of Incorporation or Organization)

**45-0897865**

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

**100 Inverness Terrace East, Englewood, Colorado**

(Address of Principal Executive Offices)

**80112-5308**

(Zip Code)

**(303) 706-4000**

(Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 3, 2016, the registrant's outstanding common stock consisted of 1,000 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

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## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

- our reliance on our primary customer, DISH Network Corporation and its subsidiaries (“DISH Network”), for a significant portion of our revenue;
- our ability to implement our strategic initiatives;
- our ability to bring advanced technologies to market to keep pace with our customers and competitors;
- 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 dollar, economic instability and political disturbances;
- significant risks related to the construction, launch and operation of our satellites, such as the risk of material malfunction on one or more of our satellites, changes in the space weather environment that could interfere with the operation of our satellites, and our general lack of commercial insurance coverage on our satellites;
- our failure to adequately anticipate the need for satellite capacity or the inability to obtain satellite capacity for our Hughes segment; and
- the failure of third-party providers of components, manufacturing, installation services and customer support services to appropriately deliver the contracted goods or services.

Other factors that could cause or contribute to such differences include, but are not limited to, those discussed 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” herein and in 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.

**PART I — FINANCIAL INFORMATION**
**Item 1. FINANCIAL STATEMENTS**

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

	As of	
	March 31, 2016	December 31, 2015
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 420,928	\$ 382,990
Marketable investment securities, at fair value	235,661	253,343
Trade accounts receivable, net of allowance for doubtful accounts of \$12,974 and \$11,447, respectively	128,954	139,510
Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero	19,706	21,258
Inventory	53,358	48,797
Prepays and deposits	34,367	38,222
Advances to affiliates, net	62,416	47,387
Other current assets	12,336	13,273
<b>Total current assets</b>	<b>967,726</b>	<b>944,780</b>
<b>Noncurrent Assets:</b>		
Restricted cash and cash equivalents	20,802	20,140
Property and equipment, net of accumulated depreciation of \$2,229,836 and \$2,138,642, respectively	2,310,837	2,265,402
Regulatory authorizations	471,658	471,658
Goodwill	504,173	504,173
Other intangible assets, net	106,748	115,420
Investments in unconsolidated entities	43,340	41,481
Other noncurrent assets, net	293,788	208,225
<b>Total noncurrent assets</b>	<b>3,751,346</b>	<b>3,626,499</b>
<b>Total assets</b>	<b>\$ 4,719,072</b>	<b>\$ 4,571,279</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Trade accounts payable	\$ 97,854	\$ 97,648
Trade accounts payable - DISH Network	6	19
Current portion of long-term debt and capital lease obligations, net of unamortized debt issuance costs	1,891,286	30,284
Advances from affiliates, net	3,629	3,773
Deferred revenue and prepayments	58,819	57,493
Accrued interest	41,349	8,310
Accrued compensation	16,507	18,932
Accrued expenses and other	71,533	96,501
<b>Total current liabilities</b>	<b>2,180,983</b>	<b>312,960</b>
<b>Noncurrent Liabilities:</b>		
Long-term debt and capital lease obligations, net of unamortized debt issuance costs	288,465	2,154,988
Deferred tax liabilities, net	471,696	452,350
Advances from affiliates	28,098	25,283
Other noncurrent liabilities	83,621	84,058
<b>Total noncurrent liabilities</b>	<b>871,880</b>	<b>2,716,679</b>
<b>Total liabilities</b>	<b>3,052,863</b>	<b>3,029,639</b>
Commitments and Contingencies (Note 12)		
<b>Shareholders' Equity:</b>		
Preferred Stock, \$0.001 par value; 1,000,000 shares authorized:		
Hughes Retail Preferred Tracking Stock, \$0.001 par value; 300 shares authorized, 81.128 shares issued and outstanding at each of March 31, 2016 and December 31, 2015	—	—
Common stock, \$0.01 par value; 1,000,000 shares authorized, 1,000 shares issued and outstanding at each of March 31, 2016 and December 31, 2015		
	—	—
Additional paid-in capital	1,500,952	1,417,748
Accumulated other comprehensive loss	(46,781)	(54,116)

Accumulated earnings	200,617	166,698
Total HSS shareholders' equity	1,654,788	1,530,330
Noncontrolling interests	11,421	11,310
Total shareholders' equity	1,666,209	1,541,640
Total liabilities and shareholders' equity	\$ 4,719,072	\$ 4,571,279

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)

	<b>For the Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenue:</b>		
Services and other revenue - other	\$ 270,423	\$ 269,679
Services and other revenue - DISH Network	113,075	131,441
Equipment revenue - other	42,859	48,051
Equipment revenue - DISH Network	2,769	1,063
Total revenue	<u>429,126</u>	<u>450,234</u>
<b>Costs and Expenses:</b>		
Cost of sales - services and other (exclusive of depreciation and amortization)	124,577	129,918
Cost of sales - equipment (exclusive of depreciation and amortization)	43,108	45,211
Selling, general and administrative expenses	70,915	70,545
Research and development expenses	6,932	5,554
Depreciation and amortization	102,369	108,014
Total costs and expenses	<u>347,901</u>	<u>359,242</u>
Operating income	<u>81,225</u>	<u>90,992</u>
<b>Other Income (Expense):</b>		
Interest income	1,914	1,099
Interest expense, net of amounts capitalized	(38,031)	(45,086)
Gains on marketable investment securities	215	—
Equity in earnings of unconsolidated affiliate	1,859	1,397
Other, net	6,889	(1,053)
Total other expense, net	<u>(27,154)</u>	<u>(43,643)</u>
Income before income taxes	54,071	47,349
Income tax provision, net	(20,041)	(17,973)
Net income	<u>34,030</u>	<u>29,376</u>
Less: Net income attributable to noncontrolling interests	111	369
Net income attributable to HSS	<u>\$ 33,919</u>	<u>\$ 29,007</u>
<b>Comprehensive Income:</b>		
Net income	<u>\$ 34,030</u>	<u>\$ 29,376</u>
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	7,709	(10,234)
Unrealized gains (losses) on available-for-sale securities and other	(374)	1,557
Total other comprehensive income (loss), net of tax	<u>7,335</u>	<u>(8,677)</u>
Comprehensive income	<u>41,365</u>	<u>20,699</u>
Less: Comprehensive income attributable to noncontrolling interests	111	369
Comprehensive income attributable to HSS	<u>\$ 41,254</u>	<u>\$ 20,330</u>

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)

	<b>For the Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 34,030	\$ 29,376
<b>Adjustments to reconcile net income to net cash flows from operating activities:</b>		
Depreciation and amortization	102,369	108,014
Equity in earnings of unconsolidated affiliate	(1,859)	(1,397)
Amortization of debt issuance costs	1,538	1,521
Gains on marketable investment securities	(215)	—
Stock-based compensation	1,208	1,220
Deferred tax provision	19,231	17,035
Changes in current assets and current liabilities, net	6,956	(9,568)
Changes in noncurrent assets and noncurrent liabilities, net	4,078	2,504
Other, net	(608)	(1,824)
Net cash flows from operating activities	<u>166,728</u>	<u>146,881</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of marketable investment securities	(134,572)	(90,594)
Sales and maturities of marketable investment securities	146,814	52,683
Purchases of property and equipment	(128,957)	(92,310)
Expenditures for externally marketed software	(5,959)	(4,944)
Changes in restricted cash and cash equivalents	(662)	(1,046)
Payment for EchoStar XXI launch services	(11,875)	—
Other, net	—	(9)
Net cash flows from investing activities	<u>(135,211)</u>	<u>(136,220)</u>
<b>Cash Flows from Financing Activities:</b>		
Repayment of other debt and capital lease obligations	(8,214)	(15,038)
Advances from affiliates	2,504	—
Capital contribution from EchoStar	11,875	—
Other, net	213	779
Net cash flows from financing activities	<u>6,378</u>	<u>(14,259)</u>
Effect of exchange rates on cash and cash equivalents	43	(2,566)
Net increase (decrease) in cash and cash equivalents	37,938	(6,164)
Cash and cash equivalents, beginning of period	382,990	225,557
Cash and cash equivalents, end of period	<u>\$ 420,928</u>	<u>\$ 219,393</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest (including capitalized interest)	\$ 10,182	\$ 10,820
Capitalized interest	\$ 7,033	\$ 2,355
Cash paid for income taxes	\$ 1,561	\$ 975
Satellites and other assets financed under capital lease obligations	\$ 77	\$ 160
Reduction of capital lease obligation for AMC-15 and AMC-16 satellites	\$ —	\$ 4,500
Increase (decrease) in capital expenditures included in accounts payable, net	\$ (874)	\$ 4,414
Transfer of EchoStar XXIII launch contract from EchoStar to HNS	<u>\$ 70,300</u>	<u>\$ —</u>

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 direct subsidiary of EchoStar Corporation (“EchoStar”). We are a global provider of satellite operations, video delivery solutions, and broadband satellite technologies and services for home and office, delivering innovative network technologies, managed services, and solutions for enterprises and governments.

We currently operate in the following two business segments:

- **Hughes** — which provides satellite broadband internet access to North American consumers and broadband network services and equipment to domestic and international enterprise markets. The Hughes segment also provides managed services to large enterprises and solutions to customers for mobile satellite systems.
- **EchoStar Satellite Services (“ESS”)** — which uses certain of our owned and leased in-orbit satellites and related licenses to provide satellite services on a full-time and occasional-use basis primarily to DISH Network Corporation and its subsidiaries (“DISH Network”), Dish Mexico, S. de R.L. de C.V. (“Dish Mexico”), a joint venture that EchoStar entered into in 2008, United States (“U.S.”) government service providers, internet service providers, broadcast news organizations, programmers, and private enterprise customers.

We were formed as a Colorado corporation in March 2011 to facilitate the acquisition (the “Hughes Acquisition”) of Hughes Communications, Inc. and its subsidiaries (“Hughes Communications”) and related financing transactions. In connection with our formation, EchoStar contributed the assets and liabilities of its satellite services business, including its principal operating subsidiary of its satellite services business, EchoStar Satellite Services L.L.C., to us. In addition, as a result of the Satellite and Tracking Stock Transaction described in Note 3 below and in our most recent Annual Report on Form 10-K, DISH Network owns shares of our preferred tracking stock representing a 28.11% economic interest in the residential retail satellite broadband business of our Hughes segment including certain operations, assets and liabilities attributed to such business.

**Note 2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the 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 accordance with GAAP. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. 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, 2015.

**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 percent of the outstanding voting shares and other shareholders do not have substantive rights to participate in management. For entities we control but do not wholly own, we record a noncontrolling interest within 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.

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

**Use of Estimates**

The preparation of financial statements in conformity with 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 condensed consolidated financial statements. Estimates are used in accounting for, among other things, amortization periods for deferred subscriber acquisition costs, revenue recognition using the percentage-of-completion method, allowances for doubtful accounts, allowances for sales returns and rebates, warranty obligations, self-insurance obligations, deferred taxes and related valuation allowances, uncertain tax positions, loss contingencies, fair value of financial instruments, fair value of EchoStar's stock-based compensation awards, fair value of assets and liabilities acquired in business combinations, lease classifications, asset impairment testing, useful lives and methods for depreciation and amortization of long-lived assets, and certain royalty obligations. We base our estimates and assumptions on historical experience, observable market inputs and on various other factors that we believe to be relevant under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results may differ from previously estimated amounts, and such differences may be material to our condensed consolidated financial statements. Changing economic conditions may increase the inherent uncertainty in the estimates and assumptions indicated above. We review our estimates and assumptions periodically and the effects of revisions are reflected in the period they occur or prospectively if the revised estimate affects future periods.

**Fair Value Measurements**

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

- Level 1, defined as observable inputs being quoted prices in active markets for identical assets;
- Level 2, defined as observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3, defined as unobservable inputs for which little or no market data exists, consistent with characteristics of the asset or liability that would be considered by market participants in a transaction to purchase or sell the asset or liability.

Transfers between levels in the fair value hierarchy are considered to occur at the beginning of the quarterly accounting period. There were no transfers between levels for each of the three months ended March 31, 2016 or 2015.

As of March 31, 2016 and December 31, 2015, the carrying amounts of our cash and cash equivalents, trade accounts receivable, net of allowance for doubtful accounts, accounts payable and accrued liabilities were equal to or approximated fair value due to their short-term nature or proximity to current market rates.

Fair values of our current marketable investment securities are based on a variety of observable market inputs. For our investments in publicly traded equity securities and U.S. government securities, fair value ordinarily is determined based on a Level 1 measurement that reflects quoted prices for identical securities in active markets. Fair values of our investments in other marketable debt securities generally are based on Level 2 measurements as the markets for such debt securities are less active. Trades of identical debt securities on or near the measurement date are considered a strong indication of fair value. Matrix pricing techniques that consider par value, coupon rate, credit quality, maturity and other relevant features also may be used to determine fair value of our investments in marketable debt securities.

Fair values for our publicly traded debt are based on quoted market prices in less active markets and are categorized as Level 2 measurements. The fair values of our privately held debt are Level 2 measurements and are estimated to approximate their carrying amounts based on the proximity of their interest rates to current market rates. As of March 31, 2016 and December 31, 2015, 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 \$78.5 million and \$79.3 million, respectively. We use fair value

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

measurements from time to time in connection with impairment testing and the assignment of purchase consideration to assets and liabilities of acquired companies. Those fair value measurements typically include significant unobservable inputs and are categorized within Level 3 of the fair value hierarchy.

**Research and Development**

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

Cost of sales includes research and development costs of approximately \$2.8 million and \$5.7 million for the three months ended March 31, 2016 and 2015, respectively. In addition, we incurred \$6.9 million and \$5.6 million for the three months ended March 31, 2016 and 2015, respectively, for other research and development expenses.

**Capitalized Software Costs**

Costs related to the procurement and development of software for internal-use and externally marketed software are capitalized and amortized using the straight-line method over the estimated useful life of the software, not in excess of five years. Capitalized costs of internal-use software are included in "Property and equipment, net" and capitalized costs of externally marketed software are included in "Other noncurrent assets, net" in our condensed consolidated balance sheets. Externally marketed software is generally installed in the equipment we sell to customers. We conduct software program reviews for externally marketed capitalized software costs at least annually, or as events and circumstances warrant such a review, to determine if capitalized software development costs are recoverable and to ensure that costs associated with programs that are no longer generating revenue are expensed. As of March 31, 2016 and December 31, 2015, the net carrying amount of externally marketed software was \$66.4 million and \$62.8 million, respectively. We capitalized costs related to the development of externally marketed software of \$5.9 million and \$5.0 million for the three months ended March 31, 2016 and 2015, respectively. We recorded amortization expense relating to the development of externally marketed software of \$2.3 million and \$1.9 million for the three months ended March 31, 2016 and 2015, respectively. The weighted average useful life of our externally marketed software was approximately three years as of March 31, 2016.

**New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). It outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In August 2015, the FASB issued Accounting Standards Update No. 2015-14, which deferred by one year the mandatory effective date of ASU 2014-09. As a result, public entities are required to adopt the new revenue standard in annual periods beginning after December 15, 2017 and in interim periods within those annual periods. The standard may be applied either retrospectively to prior periods or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted, but not before annual periods beginning after December 15, 2016. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued Accounting Standards Update No. 2016-10, Identifying Performance Obligations and Licensing, which amends guidance on identifying performance obligations and accounting for licenses of intellectual property. We have not determined when we will adopt the new revenue standard or selected the transition method that we will apply upon adoption. We are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). This standard amends the consolidation guidance for variable interest entities and general partners' investments in limited partnerships and similar entities. ASU 2015-02 is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, and requires either a retrospective or a modified retrospective approach as of the beginning of the fiscal year of adoption. We adopted ASU 2015-02 in the first quarter of 2016. The adoption of the standard did not impact our consolidated financial statements.

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

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). This standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. ASU 2015-03 is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, and requires a retrospective approach to adoption. Early adoption is permitted. We adopted ASU 2015-03 in the first quarter of 2016. Upon adoption, we presented unamortized debt issuance cost previously reported in “Other noncurrent assets, net” with a carrying amount of \$31.3 million as of December 31, 2015, as a reduction of our “Long-term debt and capital lease obligations, net of unamortized debt issuance costs” (see Note 10 for further discussion).

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

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (“ASU 2016-02”). 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 financing leases. ASU 2016-02 is effective for annual periods beginning after December 15, 2018 and interim periods within those periods. Early adoption is permitted. We are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which simplifies the accounting for share-based payment awards. This update requires all excess tax benefits and deficiencies to be recognized as income tax expense or benefit and permits an entity to make an entity-wide policy election to either estimate forfeitures or recognize forfeitures as they occur. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those periods. The update specifies requirements for retrospective, modified retrospective or prospective application for the various amendments contained in the update. We are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

**Note 3. Hughes Retail Preferred Tracking Stock**

**Satellite and Tracking Stock Transaction**

In February 2014, HSS and EchoStar entered into agreements with certain subsidiaries of DISH Network pursuant to which, effective March 1, 2014, (i) EchoStar issued shares of its newly authorized Hughes Retail Preferred Tracking Stock (the “EchoStar Tracking Stock”) and HSS issued shares of its newly authorized Hughes Retail Preferred Tracking Stock (the “HSS Tracking Stock”) and together with the EchoStar Tracking Stock, the “Tracking Stock”) to DISH Network in exchange for five satellites (EchoStar I, EchoStar VII, EchoStar X, EchoStar XI, and EchoStar XIV), including the assumption of related in-orbit incentive obligations, and \$11.4 million in cash and (ii) DISH Network began receiving certain satellite services on these five satellites from us (the “Satellite and Tracking Stock Transaction”). Immediately upon receipt of net assets (consisting of two of the five satellites and related in-orbit incentive obligations) from DISH Network in exchange for EchoStar Tracking Stock, EchoStar transferred such net assets to us. The Tracking Stock tracks 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” or “HRG”). The shares of the Tracking Stock issued to DISH Network represent an aggregate 80.0% economic interest in the Hughes Retail Group (the shares issued as HSS Tracking Stock represent a 28.11% economic interest in the Hughes Retail Group and the shares issued as EchoStar Tracking Stock represent a 51.89% economic interest in the Hughes Retail Group). In addition to the remaining 20.0% economic interest in the Hughes Retail Group, HSS retains all economic interest in the wholesale satellite broadband business and other businesses of HSS. The Satellite and Tracking Stock Transaction was consistent with the long-term strategy of the Company to increase the scale of its satellite services business, which provides high-margin revenues, while continuing to benefit from the growth of the satellite broadband business. As a result of the additional satellites received in the Satellite and Tracking Stock Transaction, HSS has increased short-term cash flow that it believes will better position it to achieve its strategic objectives.

**HUGHES SATELLITE SYSTEMS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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HSS has adopted a policy statement (the “Policy Statement”) setting forth management and allocation policies for purposes of attributing all of the business and operations of HSS to either the Hughes Retail Group or the “HSSC Group,” which is defined as all other operations of HSS, including all existing and future businesses, other than the Hughes Retail Group. Among other things, the Policy Statement governs how assets, liabilities, revenue and expenses are attributed or allocated between HRG and the HSSC Group. Such attributions and allocations generally do not affect the amounts reported in our consolidated financial statements, except for the attribution of shareholders’ equity and net income or loss between the holders of Tracking Stock and common stock. The Policy Statement also does not significantly affect the way that management assesses operating performance and allocates resources within our Hughes segment.

We provide unaudited attributed financial information for HRG and the HSSC Group in an exhibit to our periodic reports on Form 10-Q and Form 10-K. For a description of the Tracking Stock and the initial recording of the Satellite and Tracking Stock Transaction in our consolidated financial statements, as well as the purpose and effect of the transaction on the Company and holders of shares of HSS common stock, see Note 3 to the consolidated financial statements in our most recent Annual Report on Form 10-K.

**Note 4. Other Comprehensive Income (Loss) and Related Tax Effects**

We have not recognized any tax effects on foreign currency translation adjustments because they are not expected to result in future taxable income or deductions. We have not recognized any tax effects on unrealized gains or losses on available-for-sale securities because such gains or losses would affect the amount of existing capital loss carryforwards for which the related deferred tax asset has been fully offset by a valuation allowance.

Accumulated other comprehensive loss includes cumulative foreign currency translation losses of \$46.1 million and \$53.8 million as of March 31, 2016 and December 31, 2015, respectively.

**Note 5. Investment Securities**

Our marketable investment securities and investments in unconsolidated entities consisted of the following:

	As of	
	March 31, 2016	December 31, 2015
(In thousands)		
<b>Marketable investment securities—current, at fair value:</b>		
Corporate bonds	\$ 205,960	\$ 228,770
Strategic equity securities	17,929	18,297
Other	11,772	6,276
Total marketable investment securities—current	235,661	253,343
<b>Investments in unconsolidated entities—noncurrent:</b>		
Cost method	15,438	15,438
Equity method	27,902	26,043
Total investments in unconsolidated entities—noncurrent	43,340	41,481
Total marketable investment securities and investments in unconsolidated entities	\$ 279,001	\$ 294,824

**Marketable Investment Securities**

Our marketable investment securities portfolio consists of various debt and equity instruments, which generally are classified as available-for-sale or trading securities depending on our investment strategy for those securities. The value of our investment portfolio depends on the value of such securities and other instruments comprising the portfolio.

**Corporate Bonds**

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

**HUGHES SATELLITE SYSTEMS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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**Strategic Equity Securities**

Our strategic investment portfolio consists of investments in shares of common stock of public companies, which are highly speculative and have experienced and continue to experience volatility. We did not receive any dividend income for the three months ended March 31, 2016 or 2015.

As of March 31, 2016 and December 31, 2015, our strategic equity securities included shares of common stock of one of our customers that we received in satisfaction of certain milestone payments that were required to be paid to us under an existing long-term contract. For the three months ended March 31, 2016 and 2015, "Gains on marketable investment securities" includes \$0.2 million and zero on such common stock in our trading securities portfolio, respectively, which had a fair value of \$10.6 million as of March 31, 2016.

**Other**

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

**Unrealized Gains (Losses) on Marketable Investment Securities**

The components of our available-for-sale investments are summarized in the table below.

	Amortized Cost	Unrealized		Estimated Fair Value
		Gains	Losses	
(In thousands)				
<b>As of March 31, 2016</b>				
Debt securities:				
Corporate bonds	\$ 206,028	\$ 140	\$ (208)	\$ 205,960
Other	11,764	8	—	11,772
Equity securities - strategic	8,037	67	(732)	7,372
Total marketable investment securities	<u>\$ 225,829</u>	<u>\$ 215</u>	<u>\$ (940)</u>	<u>\$ 225,104</u>
<b>As of December 31, 2015</b>				
Debt securities:				
Corporate bonds	\$ 229,004	\$ 2	\$ (236)	\$ 228,770
Other	6,279	—	(3)	6,276
Equity securities - strategic	8,037	—	(82)	7,955
Total marketable investment securities	<u>\$ 243,320</u>	<u>\$ 2</u>	<u>\$ (321)</u>	<u>\$ 243,001</u>

As of March 31, 2016, restricted and non-restricted marketable investment securities included debt securities of \$185.9 million with contractual maturities of one year or less and \$31.8 million with contractual maturities greater than one year. We may realize proceeds from certain investments prior to their contractual maturity as a result of our ability to sell these securities prior to their contractual maturity.

**HUGHES SATELLITE SYSTEMS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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**Available-for-Sale Securities in a Loss Position**

The following table reflects the length of time that our available-for-sale securities have been in an unrealized loss position. We do not intend to sell these securities before they recover or mature, and it is more likely than not that we will hold these securities until they recover or mature. We believe that changes in the estimated fair values of these securities are primarily related to temporary market conditions as of March 31, 2016.

	As of			
	March 31, 2016		December 31, 2015	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)				
Less than 12 months	\$ 82,950	\$ (940)	\$ 148,629	\$ (268)
12 months or more	2,500	—	67,751	(53)
<b>Total</b>	<b>\$ 85,450</b>	<b>\$ (940)</b>	<b>\$ 216,380</b>	<b>\$ (321)</b>

**Sales of Marketable Investment Securities**

We recognized de minimis gains and losses from the sales of our available-for-sale securities for each of the three months ended March 31, 2016 and 2015.

Proceeds from sales of our available-for-sale securities totaled \$2.3 million and \$7.5 million for the three months ended March 31, 2016 and 2015, respectively.

**Fair Value Measurements**

Our current marketable investment securities are measured at fair value on a recurring basis as summarized in the table below. As of March 31, 2016 and December 31, 2015, we did not have investments that were categorized within Level 3 of the fair value hierarchy.

	As of					
	March 31, 2016			December 31, 2015		
	Total	Level 1	Level 2	Total	Level 1	Level 2
(In thousands)						
Cash equivalents	\$ 357,376	\$ 190	\$ 357,186	\$ 303,152	\$ 213	\$ 302,939
Debt securities:						
Corporate bonds	\$ 205,960	\$ —	\$ 205,960	\$ 228,770	\$ —	\$ 228,770
Other	11,772	—	11,772	6,276	—	6,276
Equity securities - strategic	17,929	17,929	—	18,297	18,297	—
<b>Total marketable investment securities</b>	<b>\$ 235,661</b>	<b>\$ 17,929</b>	<b>\$ 217,732</b>	<b>\$ 253,343</b>	<b>\$ 18,297</b>	<b>\$ 235,046</b>

**Investments in Unconsolidated Entities — Noncurrent**

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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**Note 6. Trade Accounts Receivable**

Our trade accounts receivable consisted of the following:

	As of	
	March 31, 2016	December 31, 2015
	(In thousands)	
Trade accounts receivable	\$ 124,152	\$ 127,946
Contracts in process, net	17,776	23,011
Total trade accounts receivable	141,928	150,957
Allowance for doubtful accounts	(12,974)	(11,447)
Trade accounts receivable - DISH Network	19,706	21,258
Total trade accounts receivable, net	\$ 148,660	\$ 160,768

As of March 31, 2016 and December 31, 2015, progress billings offset against contracts in process amounted to \$4.9 million and \$2.9 million, respectively.

**Note 7. Inventory**

Our inventory consisted of the following:

	As of	
	March 31, 2016	December 31, 2015
	(In thousands)	
Finished goods	\$ 39,056	\$ 39,642
Raw materials	6,866	5,280
Work-in process	7,436	3,875
Total inventory	\$ 53,358	\$ 48,797

**Note 8. Property and Equipment**

Property and equipment consisted of the following:

	Depreciable Life (In Years)	As of	
		March 31, 2016	December 31, 2015
		(In thousands)	
Land	—	\$ 13,377	\$ 12,055
Buildings and improvements	1 - 30	79,152	73,949
Furniture, fixtures, equipment and other	1 - 12	379,123	371,889
Customer rental equipment	2 - 4	611,939	588,430
Satellites - owned	2 - 15	2,381,120	2,381,120
Satellites acquired under capital leases	10 - 15	665,518	665,518
Construction in progress	—	410,444	311,083
Total property and equipment		4,540,673	4,404,044
Accumulated depreciation		(2,229,836)	(2,138,642)
Property and equipment, net		\$ 2,310,837	\$ 2,265,402



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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Construction in progress consisted of the following:

	As of	
	March 31, 2016	December 31, 2015
	(In thousands)	
Progress amounts for satellite construction, including prepayments under capital leases and launch services costs	\$ 265,265	\$ 187,253
Satellite related equipment	121,164	104,566
Other	24,015	19,264
Construction in progress	\$ 410,444	\$ 311,083

Construction in progress includes the following owned and leased satellites under construction or undergoing in orbit testing as of March 31, 2016.

Satellites	Segment	Expected Launch Date
Eutelsat 65 West A (2)	Hughes	March 2016 (1)
EchoStar 105/SES-11	ESS	Fourth quarter of 2016
Telesat T19V ("63 West") (2)	Hughes	Second quarter of 2018

- (1) This satellite was launched in March 2016 and is expected to be placed into service during the second quarter of 2016.  
(2) We entered into a satellite services agreement and made prepayments for certain capacity on this satellite once launched, but are not a party to the construction contract.

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

	For the Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Satellites	\$ 46,965	\$ 49,087
Furniture, fixtures, equipment and other	14,042	12,217
Customer rental equipment	29,137	30,187
Buildings and improvements	1,061	1,292
Total depreciation expense	\$ 91,205	\$ 92,783

**Satellites**

As of March 31, 2016, we utilized in support of our operations, 16 of our owned and leased satellites in geosynchronous orbit, approximately 22,300 miles above the equator. We depreciate our owned satellites on a straight-line basis over the estimated useful life of each satellite. Two of our satellites are accounted for as capital leases and are depreciated on a straight-line basis over their respective lease terms. We utilized one satellite that is accounted for as an operating lease and not included in property and equipment as of March 31, 2016.

**Satellite Anomalies**

Our satellites may experience anomalies from time to time, some of which may have a significant adverse impact on their remaining useful lives, the commercial operation of the satellites or our operating results. We are not aware of any anomalies with respect to our owned or leased satellites that have had any such material adverse effect during the three months ended March 31, 2016. There can be no assurance, however, that anomalies will not have any such adverse impacts in the future. In addition, there can be no assurance that we can recover critical transmission capacity in the event one or more of our in-orbit satellites were to fail.

**HUGHES SATELLITE SYSTEMS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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**Note 9. 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 our reporting units of our operating segments and is subject to impairment testing annually, or more frequently when events or changes in circumstances indicate the fair value of a reporting unit is more likely than not less than its carrying amount.

As of March 31, 2016 and December 31, 2015, all of our goodwill was assigned to reporting units of our Hughes segment. We test this goodwill for impairment annually in the second quarter.

**Other Intangible Assets**

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

	Weighted Average Useful Life (in Years)	As of					
		March 31, 2016			December 31, 2015		
		Cost	Accumulated Amortization	Carrying Amount	Cost	Accumulated Amortization	Carrying Amount
(In thousands)							
Customer relationships	8	\$ 270,300	\$ (196,068)	\$ 74,232	\$ 270,300	\$ (189,910)	\$ 80,390
Contract-based	4	64,800	(64,800)	—	64,800	(64,800)	—
Technology-based	6	51,417	(41,423)	9,994	51,417	(39,281)	12,136
Trademark portfolio	20	29,700	(7,178)	22,522	29,700	(6,806)	22,894
Favorable leases	4	4,707	(4,707)	—	4,707	(4,707)	—
Total other intangible assets		<u>\$ 420,924</u>	<u>\$ (314,176)</u>	<u>\$ 106,748</u>	<u>\$ 420,924</u>	<u>\$ (305,504)</u>	<u>\$ 115,420</u>

Customer relationships are amortized predominantly in relation to the expected contribution of cash flow to the business over the life of the intangible asset. Other intangible assets are amortized on a straight-line basis over the periods the assets are expected to contribute to our cash flows. Intangible asset amortization expense, including amortization of regulatory authorizations with finite lives and externally marketed capitalized software, was \$11.2 million and \$15.2 million for the three months ended March 31, 2016 and 2015, respectively.

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**Note 10. Debt and Capital Lease Obligations**

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

	Effective Interest Rates	As of			
		March 31, 2016		December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)					
6 1/2% Senior Secured Notes due 2019	6.959%	\$ 990,000	\$ 1,093,950	\$ 990,000	\$ 1,071,675
7 5/8% Senior Notes due 2021	8.062%	900,000	1,001,250	900,000	954,000
Other	12.1% - 14.3%	778	778	803	803
Less: Unamortized debt issuance costs		(29,738)	—	(31,276)	—
Subtotal		1,861,040	\$ 2,095,978	1,859,527	\$ 2,026,478
Capital lease obligations		318,711		325,745	
Total debt and capital lease obligations		2,179,751		2,185,272	
Less: Current portion		(1,891,286)		(30,284)	
Long-term debt and capital lease obligations, net of unamortized debt issuance costs		\$ 288,465		\$ 2,154,988	

The fair values of our debt are estimates categorized within Level 2 of the fair value hierarchy.

Prior to our adoption of ASU 2015-03 in the first quarter of 2016 (see Note 2), we presented unamortized debt issuance costs in “Other noncurrent assets, net.”

On May 6, 2016, we announced that we are offering to repurchase for cash all or any part of our outstanding 6 1/2% Senior Secured Notes due 2019 (the “Senior Secured Notes”) and our outstanding 7 5/8% Senior Notes due 2021 (the “Unsecured Notes” and, together with the “Senior Secured Notes,” the “Notes”) at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon to the date of repurchase.

As previously disclosed and as discussed in Note 3 herein and in our most recently filed Annual Report on Form 10-K, we and EchoStar, entered into the Satellite and Tracking Stock Transaction and issued the HSS Tracking Stock to DISH Network.

We recently became aware of a possible interpretation under which the Satellite and Tracking Stock Transaction may be considered to have constituted a Change of Control as defined under the respective indentures governing the Notes (the “Indentures”). Under the Indentures, a Change of Control occurs when EchoStar shall cease to beneficially own 100% of the Equity Interests (as defined in the respective Indentures) of HSS. The Indentures provide that, upon the occurrence of a Change of Control, we are required, within 30 days, to make an offer to each Holder (as defined in the respective Indentures) of the respective Notes to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of such Holder’s Notes at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon to the date of repurchase.

The Notes have traded at prices well above 101% of their respective principal amounts at all times since the issuance of the HSS Tracking Stock. In addition, both prior to and following the Satellite and Tracking Stock Transaction, Mr. Charles W. Ergen held and exercised, and continues to hold and exercise, voting control over both DISH Network and EchoStar and therefore, the ultimate voting control as to all matters regarding the Equity Interests of HSS was not affected by the Satellite and Tracking Stock Transaction. Although we believe that a Change of Control or related default may not have occurred, we have nevertheless determined that it was prudent for us to make a Change of Control Offer as defined under each of the Indentures. Upon commencement of the Change of Control Offers on May 6, 2016, we do not believe there was any such continuing default under the Indentures.

Under the Change of Control Offers, we will repurchase any Notes surrendered by the Holders thereof at a purchase price of 101% of the principal amount of the Notes plus accrued and unpaid interest, notwithstanding that the Notes have traded at a significantly higher price during the entire period since the issuance of the HSS Tracking Stock as part of the Satellite and Tracking Stock Transaction. Following the launch of the Change of Control Offers, in accordance with GAAP, the Notes are reported in “Current portion of long-term debt and capital lease obligations, net of unamortized debt issuance costs” on our consolidated balance sheets as of March 31, 2016 as the Holders may require us to repurchase the Notes under the Change of Control Offers. Following the completion of the Change of Control Offers, which is currently expected to occur on or about

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June 8, 2016, but which we may extend to a date no later than July 5, 2016, any outstanding Notes are expected to again be reported in “Long-term debt and capital lease obligations, net of unamortized debt issuance costs” on our consolidated balance sheets. We expect that the Senior Secured Notes and the Unsecured Notes will remain outstanding until their maturity in 2019 and 2021, respectively.

If any Notes are tendered for purchase in the Change of Control Offers, we expect to fund such purchases with available cash and external sources of financing that we believe are available to us. Any such financing is subject to prevailing market conditions.

**Note 11. Income Taxes**

Our 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 quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to significant volatility due to several factors, including income and losses from investments for which we have a full valuation allowance, changes in tax laws and relative changes in unrecognized tax benefits. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

Income tax expense was approximately \$20.0 million and \$18.0 million for the three months ended March 31, 2016 and 2015, respectively. Our estimated effective income tax rate was 37.1% and 38.0% for the three months ended March 31, 2016 and 2015, respectively. The variations in our effective tax rate from the U.S. federal statutory rate for the three months ended March 31, 2016 and 2015 was primarily due to state taxes.

**Note 12. Commitments and Contingencies**

**Commitments**

As of March 31, 2016, our satellite-related obligations were approximately \$922.8 million. Our satellite-related obligations primarily include payments pursuant to agreements for the construction of the EchoStar XIX, EchoStar XXI, EchoStar XXIII, EchoStar 105/SES-11, and 63 West satellites, payments pursuant to launch services contracts and regulatory authorizations, executory costs for our capital lease satellites, costs under satellite service agreements and in-orbit incentives relating to certain satellites, as well as commitments for long-term satellite operating leases and satellite service arrangements.

**Contingencies**

*Patents and Intellectual Property*

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

*Separation Agreement*

In 2008, DISH Network Corporation contributed its digital set-top box business and certain infrastructure and other assets, including certain of its satellites, uplink and satellite transmission assets, real estate, and other assets and related liabilities to EchoStar (the “Spin-off”). In connection with 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 has assumed certain liabilities that relate to its business, including certain designated liabilities for acts or omissions that occurred prior to the Spin-off. Certain specific provisions govern intellectual

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property related claims under which, generally, EchoStar will only be liable for its acts or omissions following the Spin-off and DISH Network will indemnify EchoStar for any liabilities or damages resulting from intellectual property claims relating to the period prior to the Spin-off, as well as DISH Network's acts or omissions following the Spin-off.

***Litigation***

We are involved in a number of legal proceedings (including those described below) concerning matters arising in connection with the conduct of our business activities. Many of these proceedings are at preliminary stages and/or seek an indeterminate amount of damages. We regularly evaluate the status of the legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss or an additional loss may have been incurred and to determine if accruals are appropriate. We record an accrual for litigation and other loss contingencies when we determine that a loss is probable and the amount of the loss can be reasonably estimated. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of possible loss or range of loss can be made. There can be no assurance that legal proceedings against us will be resolved in amounts that will not differ from the amounts of our recorded accruals. Legal fees and other costs of defending litigation are charged to expense as incurred.

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

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

**California Institute of Technology**

On October 1, 2013, the California Institute of Technology ("Caltech") filed suit against two of our subsidiaries, Hughes Communications, Inc. and Hughes Network Systems, LLC ("HNS"), as well as against DISH Network, DISH Network L.L.C., and dishNET Satellite Broadband L.L.C., in the United States District Court for the Central District of California alleging infringement of United States Patent Nos. 7,116,710; 7,421,032; 7,916,781; and 8,284,833, each of which is entitled "Serial Concatenation of Interleaved Convolutional Codes forming Turbo-Like Codes." Caltech asserted that encoding data as specified by the DVB-S2 standard infringes each of the asserted patents. In the operative Amended Complaint, served on March 6, 2014, Caltech claims that the Hopper™ set-top box that we design and sell to DISH Network, as well as certain of our Hughes segment's satellite broadband products and services, infringe the asserted patents by implementing the DVB-S2 standard. On September 26, 2014, Caltech requested leave to amend its Amended Complaint to add EchoStar Corporation and EchoStar Technologies L.L.C. as defendants, as well as to allege that a number of additional set-top boxes infringe the asserted patents. On November 7, 2014, the Court rejected that request. Additionally, on November 4, 2014, the Court ruled that the patent claims at issue in the suit are directed to patentable subject matter. On February 17, 2015, Caltech filed a second complaint in the same district against the same defendants alleging that HNS' Gen4 HT1000 and HT1100 products infringe the same patents asserted in the first case. We answered that second complaint on March 24, 2015. The trial for the first case which was scheduled to commence on April 20, 2015, was vacated by the Court on March 16, 2015 and a new trial date has yet to be set. On May 5, 2015, the Court granted summary judgment for us on a number of issues, finding that Caltech's damages theory improperly apportioned alleged damages, that allegations of infringement against DISH Network, DISH Network L.L.C., and dishNET Satellite Broadband L.L.C. should be dismissed from the case, and affirming that Caltech could not assert infringement under the doctrine of equivalents. The Court also granted motions by Caltech seeking findings that certain of its

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patents were not indefinite or subject to equitable estoppel. The Court otherwise denied motions for summary judgment, including a motion by Caltech seeking summary judgment of infringement. On May 14, 2015, the judge assigned to the case passed away. A new judge has not yet been formally assigned. The parties are discussing resolving these cases without further litigation. There can be no assurance that a settlement agreement will be reached. If a settlement agreement is not reached, we cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages and we intend to vigorously defend these cases.

**Elbit**

On January 23, 2015, Elbit Systems Land and C4I LTD and Elbit Systems of America Ltd. (together referred to as “Elbit”) filed a complaint against our subsidiary HNS, as well as against Black Elk Energy Offshore Operations, LLC, Bluetide Communications, Inc. and Helm Hotels Group, in the United States District Court for the Eastern District of Texas, alleging infringement of United States Patent Nos. 6,240,073 (the “073 patent”) and 7,245,874 (“874 patent”). The 073 patent is entitled “Reverse Link for a Satellite Communication Network” and the 874 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. Over November 3 and 4, 2015, and January 22, 2016, the defendants filed petitions before the United States Patent and Trademark Office challenging the validity of the patents in suit and on April 13, 2016, the defendants answered Elbit’s complaint. By April 29, 2016, three of the four petitions were denied, with a decision regarding one petition still pending.

**Realtime Data LLC**

On May 8, 2015, Realtime Data LLC (“Realtime”) filed suit against EchoStar Corporation and our subsidiary HNS in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent Nos. 7,378,992, entitled “Content Independent Data Compression Method and System”; 7,415,530, entitled “System and Methods for Accelerated Data Storage and Retrieval”; and 8,643,513, entitled “Data Compression System and Methods.” On September 14, 2015, Realtime amended its complaint, additionally alleging infringement of United States Patent No. 9,116,908, entitled “System and Methods for Accelerated Data Storage and Retrieval.” Realtime generally alleges that the asserted patents are infringed by certain HNS data compression products and services. Over April 29, 2016 and May 5, 2016, the defendants filed petitions before the United States Patent and Trademark Office challenging the validity of the asserted patents. Realtime is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

**TQ Beta LLC**

On June 30, 2014, TQ Beta LLC (“TQ Beta”) filed suit against DISH Network, DISH DBS Corporation, DISH Network L.L.C., as well as HSS, EchoStar Corporation, EchoStar Technologies, L.L.C, and Sling Media, Inc., a subsidiary of EchoStar, in the United States District Court for the District of Delaware, alleging infringement of United States Patent No. 7,203,456 (the “456 patent”), which is entitled “Method and Apparatus for Time and Space Domain Shifting of Broadcast Signals.” TQ Beta alleges that the Hopper, Hopper with Sling, ViP 722 and ViP 722k DVR devices, as well as the DISH Anywhere service and DISH Anywhere mobile application, infringe the 456 patent, but has not specified the amount of damages that it seeks. TQ Beta is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. During August 2015, EchoStar Corporation and DISH Network L.L.C. filed petitions before the United States Patent and Trademark Office challenging the validity of the 456 patent, and in February 2016, the United States Patent and Trademark Office agreed to institute proceedings on our petitions. On February 25, 2016, the case was stayed pending resolution of these proceedings before the United States Patent and Trademark Office, and the Court vacated all pending court dates and deadlines.

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**Two-Way Media Ltd**

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

**Other**

In addition to the above actions, we are subject to various other legal proceedings and claims, which arise in the ordinary course of our business. As part of our ongoing operations, the Company is subject to various inspections, audits, inquiries, investigations and similar actions by third parties, as well as by governmental/regulatory authorities responsible for enforcing the laws and regulations to which the Company 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 actions is unlikely to materially affect our financial position, results of operations or cash flows, though the resolutions and outcomes, individually or in the aggregate, could be material to our financial position, operating results or cash flows for any particular period, depending, in part, upon the operating results for such period.

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

**Note 13. Segment Reporting**

Operating segments are business components of an enterprise for which separate financial information is available and regularly evaluated by the chief operating decision maker (“CODM”), who for HSS, is the Company’s Chief Executive Officer. Under this definition, we operate in two primary business segments, Hughes and EchoStar Satellite Services as described in Note 1 of these condensed consolidated financial statements.

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

Transactions between segments were not significant for the three months ended March 31, 2016 or 2015.

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

	Hughes	EchoStar Satellite Services	All Other and Eliminations	Consolidated Total
(In thousands)				
<b>For the Three Months Ended March 31, 2016</b>				
External revenue	\$ 325,539	\$ 102,815	\$ 772	\$ 429,126
Intersegment revenue	\$ 699	\$ 174	\$ (873)	\$ —
Total revenue	\$ 326,238	\$ 102,989	\$ (101)	\$ 429,126
Capital expenditures	\$ 104,237	\$ 24,720	\$ —	\$ 128,957
EBITDA	\$ 99,468	\$ 88,186	\$ 4,792	\$ 192,446
<b>For the Three Months Ended March 31, 2015</b>				
External revenue	\$ 324,950	\$ 125,198	\$ 86	\$ 450,234
Intersegment revenue	\$ 330	\$ 200	\$ (530)	\$ —
Total revenue	\$ 325,280	\$ 125,398	\$ (444)	\$ 450,234
Capital expenditures	\$ 64,527	\$ 27,783	\$ —	\$ 92,310
EBITDA	\$ 91,273	\$ 106,419	\$ 1,289	\$ 198,981

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
(In thousands)		
EBITDA	\$ 192,446	\$ 198,981
Interest income and expense, net	(36,117)	(43,987)
Depreciation and amortization	(102,369)	(108,014)
Net income attributable to noncontrolling interests	111	369
Income before income taxes	<u>\$ 54,071</u>	<u>\$ 47,349</u>

**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, legal, internal audit, human resources, and information technology. These services are provided at cost. 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 \$2.5 million and \$3.4 million for the three months ended March 31, 2016 and 2015, 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 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 other domestic subsidiaries of EchoStar. 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 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 2017 and 2018. Advances under these agreements bear interest at



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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 consolidated balance sheets.

***EchoStar XXI and EchoStar XXIII Launch Facilitation and Operational Control Agreement.*** As part of applying for our launch license for EchoStar XXI and XXIII through the UK Space Agency, our subsidiary, Hughes Network Systems, Ltd. (“HNS Ltd.”) and a subsidiary of EchoStar, EchoStar Operating L.L.C. (“EOC”), entered into agreements in June 2015 and March 2016 to transfer to HNS Ltd., EOC’s launch service contract for the EchoStar XXI and EchoStar XXIII satellites, respectively and to grant HNS Ltd. certain rights to control the in-orbit operations of these satellites. EOC retained ownership of the satellites, which are currently under construction and scheduled to be launched later in 2016. In March 2016, we recorded a \$70.3 million addition to “Other noncurrent assets, net” and a corresponding increase in “Additional paid-in capital” in our consolidated balance sheet to reflect EOC’s cumulative payments under the EchoStar XXIII launch service contract prior to the transfer date. EOC also contracted to make future payments to HNS Ltd. for amounts that HNS Ltd. is required to pay under both launch service contracts. In March 2016, HNS Ltd. received \$11.9 million in cash from EOC to fund a required payment under the EchoStar XXI launch service contract. We recorded the cash receipt as an increase in “Additional paid-in capital.” HNS Ltd.’s future payments under the launch service contract are included in our disclosure of satellite-related obligations in Note 12.

**DISH Network**

Following the Spin-off, EchoStar and DISH Network have operated as separate publicly-traded companies. However, pursuant to the Satellite and Tracking Stock Transaction, described in Note 3 and below, DISH Network owns Hughes Retail Preferred Tracking Stock representing an aggregate 80.0% economic interest in the residential retail satellite broadband business of our Hughes segment, including certain operations, assets and liabilities attributed to such business. In addition, a substantial majority of the voting power of the shares of EchoStar and DISH Network is owned beneficially by Charles W. Ergen, our Chairman, and by certain trusts established by Mr. Ergen for the benefit of his family.

In connection with and following the Spin-off, EchoStar and DISH Network have entered into certain agreements pursuant to which we and EchoStar obtain certain products, services and rights from DISH Network; DISH Network obtains certain products, services and rights from us and EchoStar; and we and DISH Network have indemnified 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 DISH Network pays for products and services provided under the agreements are based on our cost plus a fixed margin (unless noted differently below), which varies depending on the nature of the products and services provided.

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

***“Services and other revenue — DISH Network”***

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

*EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV.* As part of the Satellite and Tracking Stock Transaction discussed in Note 3, in March 2014, we began providing certain satellite services to DISH Network on the EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV satellites. The term of each satellite services agreement generally terminates upon the earlier of: (i) the end of life of the satellite; (ii) the date the satellite fails; or (iii) a certain date, which depends upon, among other things, the estimated useful life of the satellite. DISH Network generally has the option to renew each satellite service agreement on a year-to-year basis through the end of the respective satellite’s life. There can be no assurance that any options to renew such agreements will be exercised. DISH Network elected not to renew the satellite services agreement relative to the EchoStar I satellite. The agreement for the EchoStar I satellite expired pursuant to its terms effective November 2015. In December 2015, DISH Network renewed the satellite services agreement relative to the EchoStar VII satellite for one year to June 2017.

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

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

*EchoStar XII.* DISH Network receives satellite services from us on the EchoStar XII satellite. The term of the satellite services agreement terminates upon the earlier of: (i) the end of life of the satellite; (ii) the date the satellite fails or the date the transponder(s) on which the service was being provided under the agreement fails; or (iii) September 2017. DISH Network generally has the option to renew the agreement on a year-to-year basis through the end of the satellite's life. There can be no assurance that any options to renew this agreement will be exercised.

*EchoStar XVI.* In December 2009, we entered into an initial ten-year transponder service agreement with DISH Network, pursuant to which DISH Network has received satellite services from us on the EchoStar XVI satellite since January 2013. Effective December 2012, we and DISH Network amended the transponder service agreement to, among other things, change the initial term to generally expire upon the earlier of: (i) the end-of-life or replacement of the satellite; (ii) the date the satellite fails; (iii) the date the transponder(s) on which service is being provided under the agreement fails; or (iv) four years following the actual service commencement date. Prior to expiration of the initial term, we, upon certain conditions, and DISH Network have the option to renew for an additional six-year period. If either we or DISH Network exercise our respective six-year renewal options, DISH Network has the option to renew for an additional five-year period prior to expiration of the then-current term. There can be no assurance that any option to renew this agreement will be exercised. In the event that we or DISH Network does not exercise the six-year renewal option or DISH Network does not exercise the 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.

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

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

*QuetzSat-1 Agreement.* In November 2008, we entered into a ten-year satellite service agreement with SES Latin America, which provides, among other things, for the provision by SES Latin America to us of service on 32 DBS transponders on the QuetzSat-1 satellite. Concurrently, in 2008, we entered into a transponder service agreement with DISH Network, pursuant to which DISH Network receives satellite services on 24 of the DBS transponders on the QuetzSat-1 satellite. The QuetzSat-1 satellite was launched in September 2011 and was placed into service in November 2011 at the 67.1 degree west longitude orbital location. In February 2013, we and DISH Network entered into an agreement pursuant to which we receive certain satellite services from DISH Network on five DBS transponders on the QuetzSat-1 satellite. In January 2013, the QuetzSat-1 satellite was moved to the 77 degree west longitude orbital location and DISH Network commenced commercial operations at such location in February 2013.

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

**103 Degree Orbital Location/SES-3.** In May 2012, we entered into a spectrum development agreement (the “103 Spectrum Development Agreement”) with Ciel Satellite Holdings Inc. (“Ciel”) to develop certain spectrum rights at the 103 degree west longitude orbital location (the “103 Spectrum Rights”). In June 2013, we and DISH Network entered into a spectrum development agreement (the “DISH 103 Spectrum Development Agreement”) pursuant to which DISH Network may use and develop the 103 Spectrum Rights. Unless earlier terminated under the terms and conditions of the DISH 103 Spectrum Development Agreement, the term generally will continue for the duration of the 103 Spectrum Rights.

In connection with the 103 Spectrum Development Agreement, in May 2012, we also entered into a ten-year service agreement with Ciel pursuant to which we receive certain satellite services from Ciel on the SES-3 satellite at the 103 degree orbital location. In June 2013, we and DISH Network entered into an agreement pursuant to which DISH Network receives certain satellite services from us on the SES-3 satellite (the “DISH 103 Service Agreement”). Under the terms of the DISH 103 Service Agreement, DISH Network makes certain monthly payments to us through the service term. Unless earlier terminated under the terms and conditions of the DISH 103 Service Agreement, the initial service term will expire on the earlier of: (i) the date the SES-3 satellite fails; (ii) the date the transponder(s) on which service was being provided under the agreement fails; or (iii) June 2023. Upon in-orbit failure or end of life of the SES-3 satellite, and in certain other circumstances, DISH Network has certain rights to receive service from us on a replacement satellite. There can be no assurance that DISH Network will exercise its option to receive service on a replacement satellite.

**Satellite and Tracking Stock Transaction.** In February 2014, we entered into agreements with DISH Network to implement a transaction pursuant to which, among other things: (i) in March 2014, EchoStar and HSS issued shares of the Tracking Stock to DISH Network in exchange for five satellites owned by DISH Network (EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV) (including assumption of related in-orbit incentive obligations) and approximately \$11.4 million in cash; and (ii) in March 2014, DISH Network began receiving certain satellite services on these five satellites from us. See Note 3 herein and in our most recent Form 10-K for further information.

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

In connection with the Satellite and Tracking Stock Transaction, in February 2014, we amended the TT&C Agreement to cease the provision of TT&C services to DISH Network for the EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV satellites. Effective March 2014, we provide TT&C services for DISH Network’s D-1 satellite.

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

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

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

**RUS Implementation Agreement.** In September 2010, DISH Broadband L.L.C. (“DISH Broadband”), DISH Network’s indirect, wholly-owned subsidiary, was selected by the Rural Utilities Service (“RUS”) of the United States Department of Agriculture to receive up to approximately \$14.1 million in broadband stimulus grant funds (the “Grant Funds”). Effective November 2011, HNS and DISH Broadband entered into a RUS Implementation Agreement (the “RUS Agreement”) pursuant to which HNS provided certain portions of the equipment and broadband service used to implement DISH Broadband’s RUS program. While the RUS Agreement expired in June 2013 when the Grant Funds were exhausted, HNS is required to continue providing services to DISH Broadband’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”**

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

**“Other agreements — DISH Network”**

**Tax Sharing Agreement.** As a subsidiary of EchoStar, we are an indirect party to EchoStar’s tax sharing agreement with DISH Network that was entered into in connection with the Spin-off. This agreement governs EchoStar and DISH Network’s respective rights, responsibilities and obligations after the Spin-off with respect to taxes for the periods ending on or before the Spin-off. Generally, all pre-Spin-off taxes, including any taxes that are incurred as a result of restructuring activities undertaken to implement the Spin-off, are borne by DISH Network, and DISH Network will indemnify EchoStar for such taxes. However, DISH Network is not liable for and will not indemnify EchoStar 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

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

options or assets; (ii) any action that EchoStar takes or fails to take; or (iii) any action that EchoStar takes 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 will be solely liable for, and will indemnify DISH Network for, any resulting taxes, as well as any losses, claims and expenses. The tax sharing agreement will only terminate after the later of the full period of all applicable statutes of limitations, including extensions, or once all rights and obligations are fully effectuated or performed.

In light of the tax sharing agreement, among other things, and in connection with 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 \$93.1 million of the federal tax benefit they received as a result of our operations.

***Other Agreements***

**Hughes Systique Corporation ("Hughes Systique")**

We contract with Hughes Systique for software development services. In 2008, Hughes Communications agreed to make available to Hughes Systique a term loan facility of up to \$1.5 million and it funded an initial \$0.5 million to Hughes Systique pursuant to the term loan facility. In 2009, Hughes Communications funded the remaining \$1.0 million of its \$1.5 million commitment under the term loan facility. The initial interest rate on the outstanding loans was 6%, payable annually, and the accrued and unpaid interest is added to the principal amount outstanding under the loan facility in certain circumstances. The loans are convertible into shares of Hughes Systique upon non-payment or an event of default. In May 2014, we amended the term loan facility to increase the interest rate from 6% to 8%, payable annually, to reflect then-current market conditions and extend the maturity date of the loans to May 1, 2015, and in April 2015, we extended the maturity date of the loans to May 1, 2016 on the same terms. In 2015, Hughes Systique repaid \$1.5 million of the outstanding principal of the loan facility. In February 2016, Hughes Systique repaid \$0.3 million of the outstanding principal of the loan facility. As of March 31, 2016, the principal outstanding amount of the loan facility was \$0.3 million. In April 2016, Hughes Systique repaid in full the outstanding principal of the loan facility. In addition to our 44.0% ownership in Hughes Systique, Mr. Pradman Kaul, the President of Hughes Communications and a member of EchoStar's board of directors, and his brother, who is the CEO and President of Hughes Systique, in the aggregate, own approximately 25.8%, on an undiluted basis, of Hughes Systique's outstanding shares as of March 31, 2016. 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 condensed consolidated financial statements.

**Dish Mexico**

EchoStar owns 49.0% of an entity that provides direct-to-home satellite services in Mexico known as Dish Mexico, and we provide certain satellite services to Dish Mexico. We recognized satellite services revenue from Dish Mexico of approximately \$5.8 million for each of the three months ended March 31, 2016 and 2015. As of March 31, 2016 and December 31, 2015, we had trade accounts receivable from Dish Mexico of approximately \$10.7 million and \$10.6 million, respectively.

**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 \$0.7 million for each of the three months ended March 31, 2016 and 2015. As of March 31, 2016 and December 31, 2015, we had trade accounts receivable from Deluxe of approximately \$0.3 million and \$0.1 million, respectively.

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

**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 6 1/2% Senior Secured Notes due 2019 and 7 5/8 % Senior Unsecured Notes due 2021 (collectively, the “Notes”), which were issued on June 1, 2011. See Note 10 for further information on the Notes.

In lieu of separate financial statements of the Guarantor Subsidiaries, condensed consolidating financial information prepared in accordance with Rule 3-10(f) of Regulation S-X is presented below, including the condensed balance sheet information, the condensed statement of operations and comprehensive income (loss) information and the 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 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, or enter into transactions with affiliates.

The condensed consolidating financial information presented below should be read in conjunction with our 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 March 31, 2016**  
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 354,565	\$ 50,577	\$ 15,786	\$ —	\$ 420,928
Marketable investment securities, at fair value	221,002	14,659	—	—	235,661
Trade accounts receivable, net	—	97,420	31,534	—	128,954
Trade accounts receivable - DISH Network, net	—	19,706	—	—	19,706
Inventory	—	42,330	11,028	—	53,358
Advances to affiliates, net	10	879,821	6,244	(823,659)	62,416
Other current assets	11	24,818	21,874	—	46,703
Total current assets	575,588	1,129,331	86,466	(823,659)	967,726
Restricted cash and cash equivalents	12,603	7,500	699	—	20,802
Property and equipment, net	—	2,180,818	130,019	—	2,310,837
Regulatory authorizations	—	471,658	—	—	471,658
Goodwill	—	504,173	—	—	504,173
Other intangible assets, net	—	106,748	—	—	106,748
Investments in unconsolidated entities	—	43,340	—	—	43,340
Investment in subsidiaries	3,508,611	272,544	—	(3,781,155)	—
Advances to affiliates	700	344	—	(1,044)	—
Other noncurrent assets, net	264,129	136,238	157,550	(264,129)	293,788
Total assets	\$ 4,361,631	\$ 4,852,694	\$ 374,734	\$ (4,869,987)	\$ 4,719,072
<b>Liabilities and Shareholders' Equity (Deficit)</b>					
Trade accounts payable	\$ —	\$ 85,323	\$ 12,531	\$ —	\$ 97,854
Trade accounts payable - DISH Network	—	6	—	—	6
Current portion of long-term debt and capital lease obligations, net of debt issuance costs	1,860,262	29,634	1,390	—	1,891,286
Advances from affiliates, net	795,625	5,108	26,555	(823,659)	3,629
Accrued expenses and other	50,956	114,158	23,094	—	188,208
Total current liabilities	2,706,843	234,229	63,570	(823,659)	2,180,983
Long-term debt and capital lease obligations, net of unamortized debt issuance costs	—	287,343	1,122	—	288,465
Advances from affiliates	—	—	29,142	(1,044)	28,098
Other non-current liabilities	—	819,393	53	(264,129)	555,317
Total HSS shareholders' equity (deficit)	1,654,788	3,511,729	269,426	(3,781,155)	1,654,788
Noncontrolling interests	—	—	11,421	—	11,421
Total liabilities and shareholders' equity (deficit)	\$ 4,361,631	\$ 4,852,694	\$ 374,734	\$ (4,869,987)	\$ 4,719,072

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

**Condensed Consolidating Balance Sheet as of December 31, 2015**  
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 300,634	\$ 55,767	\$ 26,589	\$ —	\$ 382,990
Marketable investment securities, at fair value	238,249	15,094	—	—	253,343
Trade accounts receivable, net	—	101,923	37,587	—	139,510
Trade accounts receivable - DISH Network, net	—	21,258	—	—	21,258
Advances to affiliates, net	10	807,341	6,244	(766,208)	47,387
Inventory	—	39,948	8,849	—	48,797
Other current assets	40	24,565	26,890	—	51,495
Total current assets	538,933	1,065,896	106,159	(766,208)	944,780
Restricted cash and cash equivalents	11,985	7,500	655	—	20,140
Property and equipment, net	—	2,181,495	83,907	—	2,265,402
Regulatory authorizations	—	471,658	—	—	471,658
Goodwill	—	504,173	—	—	504,173
Other intangible assets, net	—	115,420	—	—	115,420
Investments in unconsolidated entities	—	41,481	—	—	41,481
Investment in subsidiaries	3,350,914	166,739	—	(3,517,653)	—
Advances to affiliates	700	678	—	(1,378)	—
Other noncurrent assets, net	254,486	135,970	72,255	(254,486)	208,225
Total assets	\$ 4,157,018	\$ 4,691,010	\$ 262,976	\$ (4,539,725)	\$ 4,571,279
<b>Liabilities and Shareholders' Equity (Deficit)</b>					
Trade accounts payable	\$ —	\$ 86,477	\$ 11,171	\$ —	\$ 97,648
Trade accounts payable - DISH Network	—	19	—	—	19
Current portion of long-term debt and capital lease obligations	—	28,829	1,455	—	30,284
Advances from affiliates, net	739,810	5,307	24,863	(766,207)	3,773
Accrued expenses and other	28,154	130,532	22,550	—	181,236
Total current liabilities	767,964	251,164	60,039	(766,207)	312,960
Long-term debt and capital lease obligations, net of unamortized debt issuance costs	1,858,724	295,060	1,204	—	2,154,988
Advances from affiliates	—	—	26,661	(1,378)	25,283
Other non-current liabilities	—	790,843	52	(254,487)	536,408
Total HSS shareholders' equity (deficit)	1,530,330	3,353,943	163,710	(3,517,653)	1,530,330
Noncontrolling interests	—	—	11,310	—	11,310
Total liabilities and shareholders' equity (deficit)	\$ 4,157,018	\$ 4,691,010	\$ 262,976	\$ (4,539,725)	\$ 4,571,279



**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 March 31, 2016**  
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenue:</b>					
Services and other revenue - other	\$ —	\$ 246,078	\$ 29,778	\$ (5,433)	\$ 270,423
Services and other revenue - DISH Network	—	113,075	—	—	113,075
Equipment revenue - other	—	43,897	2,937	(3,975)	42,859
Equipment revenue - DISH Network	—	2,769	—	—	2,769
Total revenue	—	405,819	32,715	(9,408)	429,126
<b>Costs and Expenses:</b>					
Costs of sales - services and other (exclusive of depreciation and amortization)	—	108,448	21,274	(5,145)	124,577
Cost of sales - equipment (exclusive of depreciation and amortization)	—	44,013	2,607	(3,512)	43,108
Selling, general and administrative expenses	—	62,339	9,327	(751)	70,915
Research and development expenses	—	6,932	—	—	6,932
Depreciation and amortization	—	100,842	1,527	—	102,369
Total costs and expenses	—	322,574	34,735	(9,408)	347,901
Operating income	—	83,245	(2,020)	—	81,225
<b>Other Income (Expense):</b>					
Interest income	1,229	45	649	(9)	1,914
Interest expense, net of amounts capitalized	(34,781)	(4,469)	1,210	9	(38,031)
Gains on marketable investment securities	—	215	—	—	215
Equity in earnings of unconsolidated affiliate	—	1,859	—	—	1,859
Equity in earnings (losses) of subsidiaries, net	51,079	(446)	—	(50,633)	—
Other, net	6,750	(207)	346	—	6,889
Total other income (expense), net	24,277	(3,003)	2,205	(50,633)	(27,154)
Income (loss) before income taxes	24,277	80,242	185	(50,633)	54,071
Income tax benefit (provision), net	9,642	(29,074)	(609)	—	(20,041)
Net income (loss)	33,919	51,168	(424)	(50,633)	34,030
Less: Net income attributable to noncontrolling interests	—	—	111	—	111
Net income (loss) attributable to HSS	\$ 33,919	\$ 51,168	\$ (535)	\$ (50,633)	\$ 33,919
<b>Comprehensive Income (Loss):</b>					
Net income (loss)	\$ 33,919	\$ 51,168	\$ (424)	\$ (50,633)	\$ 34,030
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	7,709	—	7,709
Unrealized gains (losses) on available-for-sale securities and other	244	(650)	32	—	(374)
Equity in other comprehensive income (loss) of subsidiaries, net	7,091	7,741	—	(14,832)	—
Total other comprehensive income (loss), net of tax	7,335	7,091	7,741	(14,832)	7,335
Comprehensive income (loss)	41,254	58,259	7,317	(65,465)	41,365
Less: Comprehensive income attributable to noncontrolling interests	—	—	111	—	111
Comprehensive income (loss) attributable to HSS	\$ 41,254	\$ 58,259	\$ 7,206	\$ (65,465)	\$ 41,254

**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 March 31, 2015**  
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenue:</b>					
Services and other revenue	\$ —	\$ 246,411	\$ 36,531	\$ (13,263)	\$ 269,679
Services and other revenue - DISH Network	—	131,262	179	—	131,441
Equipment revenue	—	44,854	5,981	(2,784)	48,051
Equipment revenue - DISH Network	—	1,063	—	—	1,063
Total revenue	—	423,590	42,691	(16,047)	450,234
<b>Costs and Expenses:</b>					
Costs of sales - services and other (exclusive of depreciation and amortization)	—	118,087	25,094	(13,263)	129,918
Cost of sales - equipment (exclusive of depreciation and amortization)	—	43,056	4,590	(2,435)	45,211
Selling, general and administrative expenses	—	62,894	8,000	(349)	70,545
Research and development expenses	—	5,554	—	—	5,554
Depreciation and amortization	—	106,392	1,622	—	108,014
Total costs and expenses	—	335,983	39,306	(16,047)	359,242
Operating income	—	87,607	3,385	—	90,992
<b>Other Income (Expense):</b>					
Interest income	833	58	251	(43)	1,099
Interest expense, net of amounts capitalized	(36,553)	(8,935)	359	43	(45,086)
Equity in earnings of unconsolidated affiliate	—	1,397	—	—	1,397
Equity in earnings (losses) of subsidiaries, net	54,188	1,033	—	(55,221)	—
Other, net	(3,750)	4,560	(1,863)	—	(1,053)
Total other income (expense), net	14,718	(1,887)	(1,253)	(55,221)	(43,643)
Income (loss) before income taxes	14,718	85,720	2,132	(55,221)	47,349
Income tax benefit (provision), net	14,289	(31,444)	(818)	—	(17,973)
Net income (loss)	29,007	54,276	1,314	(55,221)	29,376
Less: Net income (loss) attributable to noncontrolling interests	—	—	369	—	369
Net income (loss) attributable to HSS	\$ 29,007	\$ 54,276	\$ 945	\$ (55,221)	\$ 29,007
<b>Comprehensive Income (Loss):</b>					
Net income (loss)	\$ 29,007	\$ 54,276	\$ 1,314	\$ (55,221)	\$ 29,376
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	(10,234)	—	(10,234)
Unrealized gains on available-for-sale securities and other	1,557	—	—	—	1,557
Equity in other comprehensive income (loss) of subsidiaries, net	(10,234)	(10,234)	—	20,468	—
Total other comprehensive income (loss), net of tax	(8,677)	(10,234)	(10,234)	20,468	(8,677)
Comprehensive income (loss)	20,330	44,042	(8,920)	(34,753)	20,699
Less: Comprehensive income attributable to noncontrolling interests	—	—	369	—	369
Comprehensive income (loss) attributable to HSS	\$ 20,330	\$ 44,042	\$ (9,289)	\$ (34,753)	\$ 20,330

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

**Condensed Consolidating Statement of Cash Flows**  
**For the Three Months Ended March 31, 2016**  
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Cash Flows from Operating Activities:</b>					
Net income (loss)	\$ 33,919	\$ 51,168	\$ (424)	\$ (50,633)	\$ 34,030
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Depreciation and amortization	—	100,842	1,527	—	102,369
Deferred tax provision (benefit)	(9,642)	28,987	(114)	—	19,231
Changes in operating assets and liabilities	34,354	(83,829)	9,940	50,633	11,098
Net cash flows from operating activities	<u>58,631</u>	<u>97,168</u>	<u>10,929</u>	<u>—</u>	<u>166,728</u>
<b>Cash Flows from Investing Activities:</b>					
Purchases of marketable investment securities	(134,572)	—	—	—	(134,572)
Sales and maturities of marketable investment securities	146,814	—	—	—	146,814
Purchases of property and equipment	—	(88,958)	(39,999)	—	(128,957)
Changes in restricted cash and cash equivalents	(618)	—	(44)	—	(662)
Investment in subsidiary	(28,199)	(28,199)	—	56,398	—
Payment for EchoStar XXI launch services	—	—	(11,875)	—	(11,875)
Expenditures for externally marketed software	—	(5,959)	—	—	(5,959)
Other, net	—	340	—	(340)	—
Net cash flows from investing activities	<u>(16,575)</u>	<u>(122,776)</u>	<u>(51,918)</u>	<u>56,058</u>	<u>(135,211)</u>
<b>Cash Flows from Financing Activities:</b>					
Proceeds from capital contribution from parent	—	28,199	28,199	(56,398)	—
Capital contribution from EchoStar	11,875	—	—	—	11,875
Repayment of other debt and capital lease obligations	—	(6,912)	(1,302)	—	(8,214)
Advances from affiliates	—	—	2,504	—	2,504
Other, net	—	(869)	742	340	213
Net cash flows from financing activities	<u>11,875</u>	<u>20,418</u>	<u>30,143</u>	<u>(56,058)</u>	<u>6,378</u>
Effect of exchange rates on cash and cash equivalents	—	—	43	—	43
Net increase (decrease) in cash and cash equivalents	53,931	(5,190)	(10,803)	—	37,938
Cash and cash equivalents, at beginning of period	300,634	55,767	26,589	—	382,990
Cash and cash equivalents, at end of period	<u>\$ 354,565</u>	<u>\$ 50,577</u>	<u>\$ 15,786</u>	<u>\$ —</u>	<u>\$ 420,928</u>

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

**Condensed Consolidating Statement of Cash Flows**  
**For the Three Months Ended March 31, 2015**  
(In thousands)

	HSS	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Cash Flows from Operating Activities:</b>					
Net income (loss)	\$ 29,007	\$ 54,276	\$ 1,314	\$ (55,221)	\$ 29,376
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Depreciation and amortization	—	106,392	1,622	—	108,014
Deferred tax provision (benefit)	(14,289)	31,433	(109)	—	17,035
Changes in operating assets and liabilities	49,902	(113,995)	1,328	55,221	(7,544)
Net cash flows from operating activities	<u>64,620</u>	<u>78,106</u>	<u>4,155</u>	<u>—</u>	<u>146,881</u>
<b>Cash Flows from Investing Activities:</b>					
Purchases of marketable investment securities	(90,594)	—	—	—	(90,594)
Sales and maturities of marketable investment securities	52,683	—	—	—	52,683
Purchases of property and equipment	—	(79,881)	(12,429)	—	(92,310)
Expenditures for externally marketed software	—	(4,944)	—	—	(4,944)
Changes in restricted cash and cash equivalents	(1,006)	—	(40)	—	(1,046)
Investment in subsidiary	(11,000)	—	—	11,000	—
Other, net	—	(9)	—	—	(9)
Net cash flows from investing activities	<u>(49,917)</u>	<u>(84,834)</u>	<u>(12,469)</u>	<u>11,000</u>	<u>(136,220)</u>
<b>Cash Flows from Financing Activities:</b>					
Proceeds from capital contributions from parent	—	—	11,000	(11,000)	—
Repayment of long-term debt and capital lease obligations	—	(13,857)	(1,181)	—	(15,038)
Other, net	(1)	(819)	1,599	—	779
Net cash flows from financing activities	<u>(1)</u>	<u>(14,676)</u>	<u>11,418</u>	<u>(11,000)</u>	<u>(14,259)</u>
Effect of exchange rates on cash and cash equivalents	—	—	(2,566)	—	(2,566)
Net increase (decrease) in cash and cash equivalents	14,702	(21,404)	538	—	(6,164)
Cash and cash equivalents, at beginning of period	142,762	51,592	31,203	—	225,557
Cash and cash equivalents, at end of period	<u>\$ 157,464</u>	<u>\$ 30,188</u>	<u>\$ 31,741</u>	<u>\$ —</u>	<u>\$ 219,393</u>

## 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 dollars. The following management's narrative analysis of results of operations should be read in conjunction with the condensed consolidated financial statements and notes to our financial statements included elsewhere in this Quarterly Report on 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 Quarterly Report on 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 Quarterly Report on Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015. Further, such forward-looking statements speak only as of the date of this Quarterly Report on 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 satellite operations, video delivery solutions, and broadband satellite technologies and services for the home and office, delivering innovative network technologies, managed services, and solutions for enterprises and governments. We currently operate in two business segments, which are differentiated primarily by their operational focus: Hughes and EchoStar Satellite Services. These segments are consistent with the way decisions regarding the allocation of resources are made, as well as how operating results are reviewed by our chief operating decision maker ("CODM"), who for HSS, is the Company's Chief Executive Officer.

Highlights from our financial results are as follows:

#### Consolidated Results of Operations for the Three Months Ended March 31, 2016

- Revenue of \$429.1 million
- Operating income of \$81.2 million
- Net income attributable to HSS of \$33.9 million
- EBITDA of \$192.4 million (see reconciliation of this non-GAAP measure in Note 13 to the condensed consolidated financial statements)

#### Consolidated Financial Condition as of March 31, 2016

- Total assets of \$4.72 billion
- Total liabilities of \$3.05 billion
- Total shareholders' equity of \$1.67 billion
- Cash, cash equivalents and current marketable investment securities of \$656.6 million

#### Hughes Segment

Our Hughes segment is a global provider of broadband satellite technologies and services for the home and office, delivering innovative network technologies, managed services, and solutions for consumers, enterprises and governments.

We continue our efforts in growing our consumer revenue, which depends on our success in adding new subscribers on our Hughes segment's satellite networks. The addition of new subscribers and the performance of our consumer service offering are the primary drivers of revenue growth in our consumer business. Service costs related to ongoing support of our direct and indirect customers and partners are typically impacted most significantly by our growth. Long-term trends continue to be influenced primarily by the subscriber growth in our consumer business.

New satellite launches are expected to provide additional capacity for subscriber growth while we manage subscriber growth across our existing satellite platform. In March 2013, EchoStar entered into a contract for the design and construction of the EchoStar XIX satellite, which is expected to be launched in the fourth quarter of 2016. The EchoStar XIX satellite is a next-generation, high throughput geostationary satellite that will employ a multi-spot beam, bent pipe Ka-band architecture and will

## **Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS - Continued**

provide additional capacity for the Hughes broadband services to the consumer market in North America, as well as new capacity covering Mexico and other Latin American countries.

Our Hughes segment also provides managed services, hardware, and satellite services to large enterprises. In addition, we provide gateway and terminal equipment to customers for mobile satellite systems. The fixed priced nature of our long-term enterprise contracts minimizes significant quarter to quarter fluctuations; however, the growth of our enterprise business relies heavily on global economic conditions. We continue to monitor the competitive landscape for pricing in relation to our competitors and alternative technologies.

We continue our efforts in growing our consumer satellite services business outside of the U.S. In April 2014, we entered into a satellite services agreement pursuant to which Eutelsat do Brasil will provide to us fixed broadband service using the Ka-band capacity into Brazil on the EUTELSAT 65 West A satellite for a 15-year term. The satellite launched in March 2016, and we expect to begin delivering consumer satellite broadband services in Brazil in the second half of 2016. In addition, in September 2015, we entered into satellite services agreements pursuant to which affiliates of Telesat Canada ("Telesat") will provide to us fixed broadband service into South America using the Ka-band capacity on a satellite to be located at the 63 degree west longitude orbital location for a 15-year term. We expect the satellite to be launched in the second quarter of 2018.

In June 2015, EchoStar made an equity investment in WorldVu Satellites Limited ("OneWeb"), a low-earth orbit satellite company, and we entered into an agreement with OneWeb to provide certain equipment and services in connection with the ground system for OneWeb's low-earth orbit satellites.

As of March 31, 2016 and December 31, 2015, our Hughes segment had approximately 1,038,000 and 1,035,000 broadband subscribers, respectively. These broadband subscribers include customers that subscribe to our HughesNet broadband services through retail, wholesale and small/medium enterprise service channels. Gross subscriber additions decreased in the first quarter of 2016 compared to the same period in 2015 primarily due to satellite beams servicing certain areas reaching capacity. Our average monthly subscriber churn for the first quarter of 2016 increased as compared to the same period in 2015. As a result, for the quarter ended March 31, 2016, net subscriber additions of approximately 3,300 were lower than for the same period in 2015 primarily due to decreased available capacity and the increase in churn on the larger base of subscribers. Subscriber additions excludes small/medium enterprise service channels.

As of March 31, 2016 and December 31, 2015, our Hughes segment had approximately \$1.40 billion and \$1.44 billion, respectively, of contracted revenue backlog. We define Hughes contracted revenue backlog as our expected future revenue under customer contracts that are non-cancelable, excluding agreements with customers in our consumer market.

### **EchoStar Satellite Services Segment**

Our EchoStar Satellite Services segment operates its business using its owned and leased in-orbit satellites. We provide satellite services on a full-time and occasional-use basis primarily to DISH Network Corporation and its subsidiaries ("DISH Network"), Dish Mexico, S. de R.L. de C.V. ("Dish Mexico"), a joint venture that EchoStar entered into in 2008, U.S. government service providers, internet service providers, broadcast news organizations, programmers and private enterprise customers.

We depend on DISH Network for a significant portion of the revenue for our EchoStar Satellite Services segment, and we expect that DISH Network will continue to be the primary source of revenue for our EchoStar Satellite Services segment. Therefore, the results of operations of our EchoStar Satellite Services segment are linked to long-term changes in DISH Network's satellite capacity requirements. We continue to pursue expanding our business offerings by providing value added services such as telemetry, tracking and control services to third parties.

In August 2014, we entered into: (i) a construction contract with Airbus Defence and Space SAS for the construction of the EchoStar 105/SES-11 satellite with C-band, Ku-band and Ka-band payloads; (ii) an agreement with SES Satellite Leasing Limited for the procurement of the related launch services; and (iii) an agreement with SES Americom Inc. ("SES") pursuant to which we will transfer the title to the C-band and Ka-band payloads to SES Satellite Leasing Limited at launch and transfer the title to the Ku-band payload to SES following in-orbit testing of the satellite. Simultaneously, SES will provide to us satellite service on the entire Ku-band payload on the EchoStar 105/SES-11 satellite for an initial ten-year term, with an option for us to renew the agreement on a year-to-year basis.

## **Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS - Continued**

Revenue growth in our EchoStar Satellite Services segment is a function of available satellite capacity to sell. Our EchoStar 105/SES-11 satellite is currently under construction and will replace the capacity currently leased on the AMC-15 satellite. Once launched, which is expected in the fourth quarter of 2016, and placed into operation, we expect revenue from the satellite to exceed the revenue currently serviced by the AMC-15 satellite. Any factors that interfere with the construction and launch schedule of the EchoStar 105/SES-11 satellite could impact our expected revenue. In addition, any disruption in planned renewals of our service arrangements could impact customer commitments and have an impact on our revenue and financial performance. Technical issues, regulatory and licensing issues, manufacturer performance/stability and availability of capital to continue to fund our programs also are factors in achieving our business plans for this segment.

As of March 31, 2016 and December 31, 2015, our EchoStar Satellite Services segment had contracted revenue backlog attributable to satellites currently in orbit of approximately \$1.32 billion and \$1.41 billion, respectively.

### **New Business Opportunities**

Our industry is evolving with the increase in 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, low-earth orbit networks, balloons, and High Altitude Platform Systems ("HAPS") will likely play 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, networks and services for information, entertainment and commerce in North America and internationally for consumers, enterprises and governments.

We are selectively exploring opportunities to pursue partnerships, joint ventures and strategic acquisition opportunities, domestically and internationally, that we believe may allow us to increase our existing market share, expand into new markets, broaden our portfolio of products and intellectual property, and strengthen our relationships with our customers. We may allocate significant resources for long-term initiatives that may not have a short or medium term or any positive impact on our revenue, results of operations, or cash flow.

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

RESULTS OF OPERATIONS

Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

Statements of Operations Data (1)	For the Three Months Ended March 31,		Variance	
	2016	2015	Amount	%
	(Dollars in thousands)			
<b>Revenue:</b>				
Services and other revenue - other	\$ 270,423	\$ 269,679	\$ 744	0.3
Services and other revenue - DISH Network	113,075	131,441	(18,366)	(14.0)
Equipment revenue - other	42,859	48,051	(5,192)	(10.8)
Equipment revenue - DISH Network	2,769	1,063	1,706	*
Total revenue	429,126	450,234	(21,108)	(4.7)
<b>Costs and Expenses:</b>				
Cost of sales - services and other	124,577	129,918	(5,341)	(4.1)
<b>% of Total services and other revenue</b>	<b>32.5%</b>	<b>32.4%</b>		
Cost of sales - equipment	43,108	45,211	(2,103)	(4.7)
<b>% of Total equipment revenue</b>	<b>94.5%</b>	<b>92.1%</b>		
Selling, general and administrative expenses	70,915	70,545	370	0.5
<b>% of Total revenue</b>	<b>16.5%</b>	<b>15.7%</b>		
Research and development expenses	6,932	5,554	1,378	24.8
<b>% of Total revenue</b>	<b>1.6%</b>	<b>1.2%</b>		
Depreciation and amortization	102,369	108,014	(5,645)	(5.2)
Total costs and expenses	347,901	359,242	(11,341)	(3.2)
Operating income	81,225	90,992	(9,767)	(10.7)
<b>Other Income (Expense):</b>				
Interest income	1,914	1,099	815	74.2
Interest expense, net of amounts capitalized	(38,031)	(45,086)	7,055	(15.6)
Gains on marketable investment securities	215	—	215	*
Other, net	8,748	344	8,404	*
Total other expense, net	(27,154)	(43,643)	16,489	(37.8)
Income before income taxes	54,071	47,349	6,722	14.2
Income tax provision, net	(20,041)	(17,973)	(2,068)	11.5
Net income	34,030	29,376	4,654	15.8
Less: Net income attributable to noncontrolling interests	111	369	(258)	(69.9)
Net income attributable to HSS	\$ 33,919	\$ 29,007	\$ 4,912	16.9
<b>Other Data:</b>				
EBITDA (2)	\$ 192,446	\$ 198,981	\$ (6,535)	(3.3)
Subscribers, end of period	1,038,000	998,000	40,000	4.0

\* Percentage is not meaningful.

(1) An explanation of our key metrics is included on pages 39 and 40 under the heading "Explanation of Key Metrics and Other Items."

(2) A reconciliation of EBITDA to "Income before income taxes," the most directly comparable GAAP measure in the accompanying financial statements, is included on page 37.

**Services and other revenue — other.** "Services and other revenue — other" totaled \$270.4 million for the three months ended March 31, 2016, an increase of \$0.7 million, or 0.3%, compared to the same period in 2015.

Services and other revenue — other from our Hughes segment for the three months ended March 31, 2016 increased by \$1.9 million, or 0.8%, to \$255.4 million compared to the same period in 2015. The increase was primarily attributable to an increase of \$12.8 million in sales of broadband services to our domestic consumer markets, partially offset by a decrease of \$7.5 million of broadband services to our international customers, and a decrease of \$3.4 million in sales of broadband services to our domestic enterprise markets.



## Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS - Continued

Services and other revenue — other from our EchoStar Satellite Services segment for the three months ended March 31, 2016 decreased by \$1.2 million, or 6.9%, to \$15.6 million compared to the same period in 2015. The decrease was primarily attributable to a decrease in sales of transponder services in 2016 compared to the same period in 2015 due to a decrease in the number of transponders available for sale.

**Services and other revenue — DISH Network.** “Services and other revenue — DISH Network” totaled \$113.1 million for the three months ended March 31, 2016, a decrease of \$18.4 million or 14.0%, compared to the same period in 2015.

Services and other revenue — DISH Network from our Hughes segment for the three months ended March 31, 2016 increased by \$2.5 million, or 11.0%, to \$25.3 million compared to the same period in 2015. The increase was primarily attributable to an increase in wholesale subscribers receiving services pursuant to our Distribution Agreement with dishNET Satellite Broadband L.L.C. (“dishNET”).

Services and other revenue — DISH Network from our EchoStar Satellite Services segment for the three months ended March 31, 2016 decreased by \$21.3 million, or 19.6%, to \$87.4 million compared to the same period in 2015. The decrease was mainly due to a decrease of \$20.8 million in revenue as a result of the termination of the satellite services arrangement for services provided to DISH Network from the EchoStar I and EchoStar VIII satellites effective in November 2015.

**Equipment revenue — other.** “Equipment revenue — other” totaled \$42.9 million for the three months ended March 31, 2016, a decrease of \$5.2 million, or 10.8%, compared to the same period in 2015. The decrease was mainly due to a decrease of \$12.3 million in revenue from our international and telecom systems customers. These decreases were partially offset by an increase of \$6.7 million in sales of broadband equipment to our domestic consumer and enterprise markets.

**Equipment revenue — DISH Network.** “Equipment revenue — DISH Network” totaled \$2.8 million for the three months ended March 31, 2016, an increase of \$1.7 million compared to the same period in 2015. The increase was primarily due to the increase in the volume of unit sales of broadband equipment to dishNET.

**Cost of sales — services and other.** “Cost of sales — services and other” totaled \$124.6 million for the three months ended March 31, 2016, a decrease of \$5.3 million, or 4.1%, compared to the same period in 2015. The decrease was primarily attributable to a decrease in costs of our broadband services provided to our international customers and our domestic consumer and enterprise markets of \$3.0 million and \$1.3 million, respectively in our Hughes segment and a decrease of \$1.2 million in our EchoStar Satellite Services segment.

**Cost of sales — equipment.** “Cost of sales — equipment” totaled \$43.1 million for the three months ended March 31, 2016, a decrease of \$2.1 million, or 4.7%, compared to the same period in 2015. The decrease was primarily attributable to a decrease of \$8.3 million in equipment costs related to the decrease in sales to our international and telecom systems customers. This decrease was partially offset by an increase of \$5.4 million in equipment costs related to the increase in sales volume of broadband equipment to DISH Network related to our Distribution Agreement with dishNET and to our domestic consumer and enterprise markets.

**Research and development expenses.** “Research and development expenses” totaled \$6.9 million for the three months ended March 31, 2016, an increase of \$1.4 million or 24.8%, compared to the same period in 2015. The increase was primarily related to an increase in research and development expense of \$1.4 million in our Hughes segment. The Company’s research and development activities vary based on the activity level and scope of other engineering and customer related development contracts.

**Depreciation and amortization.** “Depreciation and amortization” expenses totaled \$102.4 million for the three months ended March 31, 2016, a decrease of \$5.6 million or 5.2%, compared to the same period in 2015. The decrease was primarily attributable to a decrease in depreciation expense of \$2.7 million relating to the fully depreciated EchoStar IX satellite as of October 2015, a decrease in amortization expense of \$2.1 million from certain of our fully amortized other intangible assets, and a decrease in depreciation expense of \$1.1 million on customer rental equipment in our Hughes segment.

**Interest expense, net of amounts capitalized.** “Interest expense, net of amounts capitalized” totaled \$38.0 million for the three months ended March 31, 2016, a decrease of \$7.1 million or 15.6%, compared to the same period in 2015. The decrease was primarily due to higher capitalized interest of \$4.7 million related to the construction of the EchoStar XIX, EchoStar XXI, and EchoStar 105/SES-11 satellites, and payments for satellite services on the EUTELSAT 65 West A and Telesat T19V (“63 West”)

**Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS - Continued**

satellites, and a decrease in interest expense of \$1.8 million relating to the partial redemption of the outstanding principal amount of our 6 1/2% Senior Secured Notes due 2019 (the "Senior Secured Notes") in the second quarter of 2015.

**Other, net.** "Other, net" totaled \$8.7 million in income for the three months ended March 31, 2016, an increase of \$8.4 million compared to the same period in 2015. The increase was primarily related to \$10.5 million for a 2015 provision recorded in connection with Federal Communications Commission ("FCC") regulatory fees reversed in 2016 and an increase of \$2.2 million in foreign exchange gains. The increase was partially offset by a \$4.5 million non-recurring reduction of the capital lease obligation for the AMC-15 and AMC-16 satellites recorded in the first quarter of 2015 as a result of anomalies that previously affected the operation of these satellites.

**Earnings before interest, taxes, depreciation and amortization ("EBITDA").** EBITDA was \$192.4 million for the three months ended March 31, 2016, a decrease of \$6.5 million or 3.3%, compared to the same period in 2015 primarily due to a decrease of \$13.7 million in gross margin, which we define as total revenue less total cost of sales and a decrease of \$4.5 million as a result of a non-recurring reduction of the capital lease obligation for the AMC-15 and AMC-16 satellites recorded in the first quarter of 2015 as a result of anomalies that previously affected the operation of these satellites. These decreases were partially offset by \$10.5 million attributable to a 2015 provision recorded in connection with FCC regulatory fees reversed in 2016 and an increase of \$2.2 million in foreign exchange gains. 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 Income before income taxes, the most directly comparable GAAP measure in the accompanying financial statements.

	<b>For the Three Months Ended March 31,</b>		<b>Variance</b>	
	<b>2016</b>	<b>2015</b>	<b>Amount</b>	<b>%</b>
	(Dollars in thousands)			
EBITDA	\$ 192,446	\$ 198,981	\$ (6,535)	(3.3)
Interest income and expense, net	(36,117)	(43,987)	7,870	(17.9)
Depreciation and amortization	(102,369)	(108,014)	5,645	(5.2)
Net income attributable to noncontrolling interests	111	369	(258)	(69.9)
Income before income taxes	<u>\$ 54,071</u>	<u>\$ 47,349</u>	<u>\$ 6,722</u>	<u>14.2</u>

**Income tax provision, net.** Income tax expense was \$20.0 million for the three months ended March 31, 2016, compared to \$18.0 million for the same period in 2015. Our effective income tax rate was 37.1% for the three months ended March 31, 2016 compared to 38.0% for the same period in 2015. The variations in our effective tax rate from the U.S. federal statutory rate for both 2015 and 2016 was primarily due to state taxes.

**Net income attributable to HSS.** "Net income attributable to HSS" was \$33.9 million for the three months ended March 31, 2016, an increase of \$4.9 million, or 16.9%, compared to the same period in 2015. The increase was primarily related to an increase of \$10.5 million attributable to a 2015 provision recorded in connection with FCC regulatory fees reversed in 2016, higher capitalized interest of \$4.7 million related to the construction of the EchoStar XIX, EchoStar XXI, and EchoStar 105/SES-11 satellites, and payments for satellite services on the EUTELSAT 65 West A and 63 West satellites, and a decrease in interest expense of \$1.8 million relating to the partial redemption of the Senior Secured Notes in the second quarter of 2015. The increase was partially offset by a \$9.8 million decrease in operating income and a \$4.5 million non-recurring reduction of the capital lease obligation for the AMC-15 and AMC-16 satellites recorded in the first quarter of 2015 as a result of anomalies that previously affected the operation of these satellites.

**Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS - Continued**

**Segment Operating Results and Capital Expenditures**

**Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015**

	Hughes	EchoStar Satellite Services	All Other and Eliminations	Consolidated Total
(In thousands)				
<b><u>For the Three Months Ended March 31, 2016</u></b>				
Total revenue	\$ 326,238	\$ 102,989	\$ (101)	\$ 429,126
Capital expenditures	\$ 104,237	\$ 24,720	\$ —	\$ 128,957
EBITDA	\$ 99,468	\$ 88,186	\$ 4,792	\$ 192,446
<b><u>For the Three Months Ended March 31, 2015</u></b>				
Total revenue	\$ 325,280	\$ 125,398	\$ (444)	\$ 450,234
Capital expenditures	\$ 64,527	\$ 27,783	\$ —	\$ 92,310
EBITDA	\$ 91,273	\$ 106,419	\$ 1,289	\$ 198,981

**Hughes Segment**

	For the Three Months Ended March 31,		Variance	
	2016	2015	Amount	%
(Dollars in thousands)				
Total revenue	\$ 326,238	\$ 325,280	\$ 958	0.3
Capital expenditures	\$ 104,237	\$ 64,527	\$ 39,710	61.5
EBITDA	\$ 99,468	\$ 91,273	\$ 8,195	9.0

*Revenue*

Hughes segment total revenue for the three months ended March 31, 2016 increased by \$1.0 million, or 0.3%, compared to the same period in 2015. The increase was primarily due to an increase of \$17.7 million in revenue related to sales of broadband equipment and services to our consumer markets and dishNET and an increase of \$6.5 million in revenue related to sales of broadband equipment to our domestic enterprise market. These increases were partially offset by a decrease in revenue of broadband equipment and services to our international and telecom systems customers of \$19.8 million, and a decrease of \$3.4 million in revenue related to sales of broadband services to our domestic enterprise market.

*Capital Expenditures*

Hughes segment capital expenditures for the three months ended March 31, 2016 increased by \$39.7 million, or 61.5%, compared to the same period in 2015, primarily as a result of an increase in expenditures on the 63 West and EUTELSAT 65 West A satellites, and satellite ground infrastructures related to the EchoStar XIX and EchoStar XXI satellites.

*EBITDA*

Hughes segment EBITDA for the three months ended March 31, 2016 was \$99.5 million, an increase of \$8.2 million, or 9.0%, compared to the same period in 2015. The increase was primarily attributable to a \$7.6 million increase in gross margin and an increase of \$2.2 million in foreign exchange gains.

**Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS - Continued**

**EchoStar Satellite Services Segment**

	<b>For the Three Months Ended March 31,</b>		<b>Variance</b>	
	<b>2016</b>	<b>2015</b>	<b>Amount</b>	<b>%</b>
	(Dollars in thousands)			
Total revenue	\$ 102,989	\$ 125,398	\$ (22,409)	(17.9)%
Capital expenditures	\$ 24,720	\$ 27,783	\$ (3,063)	(11.0)%
EBITDA	\$ 88,186	\$ 106,419	\$ (18,233)	(17.1)%

*Revenue*

EchoStar Satellite Services segment total revenue for the three months ended March 31, 2016 decreased by \$22.4 million, or 17.9%, compared to the same period in 2015, primarily due to a decrease of \$20.8 million in service revenue from DISH Network as a result of the termination of the satellite services arrangement for services provided to DISH Network from the EchoStar I and EchoStar VIII satellites effective in November 2015.

*Capital Expenditures*

EchoStar Satellite Services segment capital expenditures for the three months ended March 31, 2016 decreased by \$3.1 million, or 11.0%, compared to the same period in 2015, primarily related to a decrease in expenditures on the EchoStar 105/SES-11 satellite.

*EBITDA*

EchoStar Satellite Services segment EBITDA for the three months ended March 31, 2016 was \$88.2 million, a decrease of \$18.2 million, or 17.1%, compared to the same period in 2015. The decrease in EBITDA for our EchoStar Satellite Services segment was primarily due to a decrease of \$21.3 million in gross margin primarily driven by the decrease in service revenue as a result of the termination of the satellite services arrangement for services provided to DISH Network from the EchoStar I and EchoStar VIII satellites effective in November 2015 and a \$4.5 million non-recurring reduction of the capital lease obligation for the AMC-15 and AMC-16 satellites recorded in the first quarter of 2015 as a result of prior anomalies affecting these satellites. The decrease in EBITDA was partially offset by a 2015 provision of \$3.75 million recorded in connection with FCC regulatory fees reversed in 2016.

**EXPLANATION OF KEY METRICS AND OTHER ITEMS**

**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 services, satellite uplinking/downlinking and other services provided to customers other than DISH Network.

**Services and other revenue — DISH Network.** “Services and other revenue — DISH Network” primarily includes revenue associated with satellite and transponder services, satellite uplinking/downlinking, signal processing, conditional access management, telemetry, tracking and control, 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.

**Equipment revenue — other.** “Equipment revenue — other” primarily includes broadband equipment and networks sold to customers in our enterprise and consumer markets.

**Equipment revenue — DISH Network.** “Equipment revenue — DISH Network” primarily includes 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

## Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS - Continued

services, satellite uplinking/downlinking, signal processing, conditional access management, telemetry, tracking and control, 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.

**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 on marketable investment securities.** “Gains on marketable investment securities” primarily includes gains, net of any losses, on the sale or exchange of investments and other-than-temporary impairment on certain of our marketable investment securities.

**Other, net.** “Other, net” primarily includes foreign exchange gains and losses, dividends received from our marketable investment securities, equity in earnings of unconsolidated affiliate, 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).

**Earnings before interest, taxes, depreciation and amortization.** “EBITDA” is defined as “Net income attributable to HSS” excluding “Interest expense, net of amounts capitalized,” “Interest income,” “Income tax provision, net,” and “Depreciation and amortization.” EBITDA is not a measure determined in accordance with GAAP. This non-GAAP measure is reconciled to “Income before income taxes” 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 GAAP. Conceptually, EBITDA measures the amount of income generated each period that could be used to service debt, pay taxes and fund capital expenditures. 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 liquidity and the underlying operating performance of our business. 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) 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 Securities Exchange Act of 1934, as amended) that occurred during the first quarter of 2016 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 Form 10-Q.

### Item 1A. RISK FACTORS

Item 1A, “Risk Factors,” of our Form 10-K for the year ended December 31, 2015 includes a detailed discussion of our risk factors. Except as provided below, for the three months ended March 31, 2016, there were no material changes in our risk factors as previously disclosed.

#### *Our business is subject to risks of adverse government regulation.*

Our business is subject to varying degrees of regulation in the U.S. by the FCC, and other federal, state and local entities, and in foreign countries by similar entities and internationally by the International Telecommunications Union. For instance, under its Spectrum Frontiers proceeding, the FCC is considering enabling the use of a portion of frequency bands we operate, including without limitation, the Ka-band, on a shared basis with 5G services, which could have a material adverse effect on our operations. These regulations are subject to the administrative and political process and do change, for political and other reasons, from time to time. Moreover, a substantial number of foreign countries in which we have, or may in the future make, an investment, regulate, in varying degrees, the ownership of satellites and other telecommunication facilities/networks and foreign investment in telecommunications companies. Violations of laws or regulations may result in various sanctions including fines, loss of authorizations and the denial of applications for new authorizations or for the renewal of existing authorizations. Further material changes in law and regulatory requirements may also occur, and there can be no assurance that our business and the business of our subsidiaries will not be adversely affected by future legislation, new regulation or deregulation. The failure to obtain or comply with the authorizations and regulations governing our operations could have a material adverse effect on our ability to generate revenue and our overall competitive position and could result in our suffering serious harm to our reputation.

### Item 4. MINE SAFETY DISCLOSURES

Not applicable

### Item 5. OTHER INFORMATION

None

**Item 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
10.1*	Amendment to Employment Agreement, dated as of April 1, 2016, between Hughes Communications, Inc. and Pradman Kaul (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of EchoStar Corporation, filed April 6, 2016, Commission File No. 001-33807).**
10.2*	Echostar Corporation Executive Officer Bonus Incentive Plan, dated as of May 4, 2016 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Hughes Satellite Systems Corporation, filed May 5, 2016, Commission File No. 333-179121).**
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(H)	Unaudited Condensed Attributed Financial Information and Notes for Hughes Retail Group.
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.

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(H) Filed herewith.

(I) Furnished herewith.

\* Incorporated by reference.

\*\* Constitutes a management contract or compensatory plan or arrangement.











**Unaudited Condensed Attributed Financial Information for Hughes Retail Group**

On March 1, 2014, EchoStar Corporation (“EchoStar”) issued shares of its newly authorized Hughes Retail Preferred Tracking Stock (the “EchoStar Tracking Stock”) and Hughes Satellite Systems Corporation (“HSS”), a subsidiary of EchoStar, also issued shares of its newly authorized Hughes Retail Preferred Tracking Stock (the “HSS Tracking Stock” and together with the EchoStar Tracking Stock, the “Tracking Stock”) to certain subsidiaries of DISH Network Corporation.

The Tracking Stock is intended to reflect the separate performance of the Hughes Retail Group, which is comprised primarily of our business of providing satellite broadband internet services to residential retail subscribers, including the assets and liabilities primarily associated with the operation of the business; and the business operations, revenue, billings, operating and other direct and indirect support activities to provide services to the business and Hughes retail subscribers. The Hughes Retail Group also includes any proceeds associated with a sale or transfer of the Hughes Retail Group or any assets of the Hughes Retail Group, and any other assets acquired by or for the account of the Hughes Retail Group or otherwise attributed, contributed, allocated or transferred to the Hughes Retail Group from time to time. The HSSC Group is comprised of all existing and future businesses of Hughes Satellite Systems Corporation and its subsidiaries, excluding the Hughes Retail Group.

Holders of the Tracking Stock are holders of capital stock of the issuer (EchoStar or HSS) and are subject to risks associated with an investment in the issuer and all of its businesses, assets and liabilities. The issuance of the Tracking Stock does not affect the rights of our creditors or the creditors of our subsidiaries. Notwithstanding the following attribution of assets, liabilities, revenue, expenses and cash flows to the Hughes Retail Group and the HSSC Group, our tracking stock structure does not affect the ownership of or the legal title to our assets or responsibility for our liabilities.

The accompanying condensed attributed financial information as of, and for, the three months ended March 31, 2016 and 2015 and the year ended December 31, 2015 are unaudited. The Company’s management is solely responsible for this financial information and believes that it has been prepared in conformity with accounting principles generally accepted in the United States.

The following tables present our consolidated assets and liabilities as of March 31, 2016 and December 31, 2015 and our consolidated revenue, expenses and cash flows for the three months ended March 31, 2016 and 2015. The tables further present our assets, liabilities, revenue, expenses and cash flows that are attributed to the Hughes Retail Group as if that business and its assets had been attributed to that group at the beginning of each period. The financial information in this Exhibit should be read in conjunction with our unaudited condensed consolidated financial statements for the period ended March 31, 2016 included in our Quarterly Report on Form 10-Q.

**CONDENSED ATTRIBUTED BALANCE SHEETS**  
(In thousands)  
(Unaudited)

	Attributed As of March 31, 2016				Attributed As of December 31, 2015			
	Hughes Retail Group	HSSC Group	Inter-Group Eliminations	HSS Consolidated	Hughes Retail Group	HSSC Group	Inter-Group Eliminations	HSS Consolidated
<b>Assets</b>								
<b>Current Assets:</b>								
Cash, cash equivalents and marketable investment securities	\$ —	\$ 656,589	\$ —	\$ 656,589	\$ —	\$ 636,333	\$ —	\$ 636,333
Trade accounts receivable, net	26,097	102,857	—	128,954	27,094	112,416	—	139,510
Trade accounts receivable - DISH Network, net	—	19,706	—	19,706	—	21,258	—	21,258
Inventory	6,531	48,354	(1,527)	53,358	6,699	43,665	(1,567)	48,797
Prepays and deposits	400	33,967	—	34,367	990	37,232	—	38,222
Inter-group advances	—	20,700	(20,700)	—	—	30,398	(30,398)	—
Other current assets	—	74,752	—	74,752	—	60,660	—	60,660
<b>Total current assets</b>	<b>33,028</b>	<b>956,925</b>	<b>(22,227)</b>	<b>967,726</b>	<b>34,783</b>	<b>941,962</b>	<b>(31,965)</b>	<b>944,780</b>
<b>Noncurrent Assets:</b>								
Restricted cash and cash equivalents	—	20,802	—	20,802	—	20,140	—	20,140
Property and equipment, net	158,738	2,168,773	(16,674)	2,310,837	162,497	2,118,727	(15,822)	2,265,402
Regulatory authorizations	—	471,658	—	471,658	—	471,658	—	471,658
Goodwill	260,000	244,173	—	504,173	260,000	244,173	—	504,173
Other intangible assets, net	27,466	79,282	—	106,748	31,488	83,932	—	115,420
Economic interest in Hughes Retail Group	—	318,307	(318,307)	—	—	320,412	(320,412)	—
Investments in unconsolidated entities	—	43,340	—	43,340	—	41,481	—	41,481
Deferred tax asset	23,631	3,816	(23,631)	3,816	19,685	3,816	(19,685)	3,816
Other noncurrent assets, net	33,855	256,784	(667)	289,972	35,277	169,799	(667)	204,409
<b>Total noncurrent assets</b>	<b>503,690</b>	<b>3,606,935</b>	<b>(359,279)</b>	<b>3,751,346</b>	<b>508,947</b>	<b>3,474,138</b>	<b>(356,586)</b>	<b>3,626,499</b>
<b>Total assets</b>	<b>\$ 536,718</b>	<b>\$ 4,563,860</b>	<b>\$ (381,506)</b>	<b>\$ 4,719,072</b>	<b>\$ 543,730</b>	<b>\$ 4,416,100</b>	<b>\$ (388,551)</b>	<b>\$ 4,571,279</b>
<b>Liabilities and Stockholders' Equity</b>								
<b>Current Liabilities:</b>								
Trade accounts payable	\$ 14,920	\$ 82,940	\$ —	\$ 97,860	\$ 12,023	\$ 85,644	\$ —	\$ 97,667
Trade accounts payable - DISH Network	—	—	—	—	—	—	—	—
Current portion of long-term debt and capital lease obligations, net of unamortized debt issuance costs	—	1,891,286	—	1,891,286	—	30,284	—	30,284
Deferred revenue and prepayments	26,818	32,001	—	58,819	26,636	30,857	—	57,493
Accrued compensation	—	16,507	—	16,507	—	18,932	—	18,932
Advances from affiliates, net	—	3,629	—	3,629	—	3,773	—	3,773
Inter-group advances	20,700	—	(20,700)	—	30,398	—	(30,398)	—
Accrued interest	—	41,349	—	41,349	—	8,310	—	8,310
Accrued expenses and other	28,339	43,194	—	71,533	26,399	70,102	—	96,501
<b>Total current liabilities</b>	<b>90,777</b>	<b>2,110,906</b>	<b>(20,700)</b>	<b>2,180,983</b>	<b>95,456</b>	<b>247,902</b>	<b>(30,398)</b>	<b>312,960</b>
<b>Noncurrent Liabilities:</b>								
Long-term debt and capital lease obligations, net of unamortized debt issuance costs	—	288,465	—	288,465	—	2,154,988	—	2,154,988
Deferred tax liabilities	—	495,327	(23,631)	471,696	—	472,035	(19,685)	452,350
Advances from affiliates	—	28,098	—	28,098	—	25,283	—	25,283
Other noncurrent liabilities	3,172	80,449	—	83,621	2,576	81,482	—	84,058
<b>Total noncurrent liabilities</b>	<b>3,172</b>	<b>892,339</b>	<b>(23,631)</b>	<b>871,880</b>	<b>2,576</b>	<b>2,733,788</b>	<b>(19,685)</b>	<b>2,716,679</b>
<b>Total liabilities</b>	<b>93,949</b>	<b>3,003,245</b>	<b>(44,331)</b>	<b>3,052,863</b>	<b>98,032</b>	<b>2,981,690</b>	<b>(50,083)</b>	<b>3,029,639</b>
<b>Shareholders' Equity:</b>								
Equity/ Attributed net assets (liabilities)	442,769	1,549,194	(337,175)	1,654,788	445,698	1,423,100	(338,468)	1,530,330
Noncontrolling interests	—	11,421	—	11,421	—	11,310	—	11,310
<b>Total shareholders' equity</b>	<b>442,769</b>	<b>1,560,615</b>	<b>(337,175)</b>	<b>1,666,209</b>	<b>445,698</b>	<b>1,434,410</b>	<b>(338,468)</b>	<b>1,541,640</b>
<b>Total liabilities and equity/attributed net assets (liabilities)</b>	<b>\$ 536,718</b>	<b>\$ 4,563,860</b>	<b>\$ (381,506)</b>	<b>\$ 4,719,072</b>	<b>\$ 543,730</b>	<b>\$ 4,416,100</b>	<b>\$ (388,551)</b>	<b>\$ 4,571,279</b>

**CONDENSED ATTRIBUTED STATEMENTS OF OPERATIONS**

(In thousands)  
(Unaudited)

	Attributed For the Three Months Ended March 31, 2016				Attributed For the Three Months Ended March 31, 2015			
	Hughes Retail Group	HSSC Group	Inter-Group Eliminations	HSS Consolidated	Hughes Retail Group	HSSC Group	Inter-Group Eliminations	HSS Consolidated
<b>Revenue:</b>								
Services and equipment revenue - other	\$158,806	\$236,760	\$ (82,284)	\$ 313,282	\$146,161	\$253,700	\$ (82,131)	\$ 317,730
Services and equipment revenue - DISH Network	—	115,844	—	115,844	—	132,504	—	132,504
Total revenue	158,806	352,604	(82,284)	429,126	146,161	386,204	(82,131)	450,234
<b>Costs and Expenses:</b>								
Cost of sales (exclusive of depreciation and amortization)	91,594	155,700	(79,609)	167,685	86,008	167,120	(77,999)	175,129
Selling, general and administrative expenses	38,630	32,285	—	70,915	38,634	31,911	—	70,545
Research and development expenses	—	6,932	—	6,932	—	5,554	—	5,554
Depreciation and amortization	33,402	70,831	(1,864)	102,369	34,251	74,763	(1,000)	108,014
Total costs and expenses	163,626	265,748	(81,473)	347,901	158,893	279,348	(78,999)	359,242
Operating income (loss)	(4,820)	86,856	(811)	81,225	(12,732)	106,856	(3,132)	90,992
<b>Other Income (Expense):</b>								
Interest income	—	1,941	(27)	1,914	—	1,137	(38)	1,099
Interest expense, net of amounts capitalized	(27)	(38,031)	27	(38,031)	(38)	(45,086)	38	(45,086)
Gains on marketable investment securities	—	215	—	215	—	—	—	—
Equity in earnings of unconsolidated affiliate	—	1,859	—	1,859	—	1,397	—	1,397
Retained interest in earnings (loss) of Hughes Retail Group	—	(2,106)	2,106	—	—	(5,547)	5,547	—
Other, net	—	6,889	—	6,889	—	(1,053)	—	(1,053)
Total other income (expense), net	(27)	(29,233)	2,106	(27,154)	(38)	(49,152)	5,547	(43,643)
Income (loss) before income taxes	(4,847)	57,623	1,295	54,071	(12,770)	57,704	2,415	47,349
Income tax benefit (provision), net	1,918	(21,959)	—	(20,041)	5,054	(23,027)	—	(17,973)
Net income (loss)	(2,929)	35,664	1,295	34,030	(7,716)	34,677	2,415	29,376
Less: Net income attributable to noncontrolling interests	—	111	—	111	—	369	—	369
Net income (loss) attributable to HSS	<u>\$ (2,929)</u>	<u>\$ 35,553</u>	<u>\$ 1,295</u>	<u>\$ 33,919</u>	<u>\$ (7,716)</u>	<u>\$ 34,308</u>	<u>\$ 2,415</u>	<u>\$ 29,007</u>

**CONDENSED ATTRIBUTED STATEMENTS OF CASH FLOWS**

(In thousands)  
(Unaudited)

	Attributed For the Three Months Ended March 31, 2016				Attributed For the Three Months Ended March 31, 2015			
	Hughes Retail Group	HSSC Group	Inter-Group Eliminations	HSS Consolidated	Hughes Retail Group	HSSC Group	Inter-Group Eliminations	HSS Consolidated
<b>Cash Flows from Operating Activities:</b>								
Net income (loss)	\$ (2,929)	\$ 35,664	\$ 1,295	\$ 34,030	\$ (7,716)	\$ 34,677	\$ 2,415	\$ 29,376
Adjustments to reconcile net income (loss) to net cash flows from operating activities:								
Depreciation and amortization	33,402	70,831	(1,864)	102,369	34,251	74,763	(1,000)	108,014
Equity in earnings of unconsolidated affiliate	—	(1,859)	—	(1,859)	—	(1,397)	—	(1,397)
Retained interest in loss (earnings) of Hughes Retail Group	—	2,106	(2,106)	—	—	5,547	(5,547)	—
Amortization of debt issuance costs	—	1,538	—	1,538	—	1,521	—	1,521
Gains on marketable investment securities	—	(215)	—	(215)	—	—	—	—
Stock-based compensation	—	1,208	—	1,208	—	1,220	—	1,220
Deferred tax provision (benefit)	(3,946)	23,177	—	19,231	(5,054)	22,089	—	17,035
Changes in current assets and current liabilities, net	6,775	221	(40)	6,956	(1,076)	(8,691)	199	(9,568)
Changes in noncurrent assets and noncurrent liabilities, net	2,019	2,059	—	4,078	(1,213)	3,590	127	2,504
Other, net	—	(608)	—	(608)	—	(1,824)	—	(1,824)
Net cash flows from operating activities	35,321	134,122	(2,715)	166,728	19,192	131,495	(3,806)	146,881
<b>Cash Flows from Investing Activities:</b>								
Purchases of marketable investment securities	—	(134,572)	—	(134,572)	—	(90,594)	—	(90,594)
Sales and maturities of marketable investment securities	—	146,814	—	146,814	—	52,683	—	52,683
Purchases of property and equipment	(25,623)	(106,049)	2,715	(128,957)	(31,423)	(64,693)	3,806	(92,310)
Expenditures for externally marketed software	—	(5,959)	—	(5,959)	—	(4,944)	—	(4,944)
Change in restricted cash and cash equivalents	—	(662)	—	(662)	—	(1,046)	—	(1,046)
Payment for EchoStar XXI launch services	—	(11,875)	—	(11,875)	—	—	—	—
Inter-group advances	—	9,698	(9,698)	—	—	(12,231)	12,231	—
Other, net	—	—	—	—	—	(9)	—	(9)
Net cash flows from investing activities	(25,623)	(102,605)	(6,983)	(135,211)	(31,423)	(120,834)	16,037	(136,220)
<b>Cash Flows from Financing Activities:</b>								
Repayment of other long-term debt and capital lease obligations	—	(8,214)	—	(8,214)	—	(15,038)	—	(15,038)
Advances from affiliates	—	2,504	—	2,504	—	—	—	—
Inter-group advances	(9,698)	—	9,698	—	12,231	—	(12,231)	—
Capital contributions from EchoStar	—	11,875	—	11,875	—	—	—	—
Other, net	—	213	—	213	—	779	—	779
Net cash flows from financing activities	(9,698)	6,378	9,698	6,378	12,231	(14,259)	(12,231)	(14,259)
Effect of exchange rates on cash and cash equivalents	—	43	—	43	—	(2,566)	—	(2,566)
Net increase (decrease) in cash and cash equivalents	—	37,938	—	37,938	—	(6,164)	—	(6,164)
Cash and cash equivalents, beginning of period	—	382,990	—	382,990	—	225,557	—	225,557
Cash and cash equivalents, end of period	\$ —	\$ 420,928	\$ —	\$ 420,928	\$ —	\$ 219,393	\$ —	\$ 219,393



**NOTES TO CONDENSED ATTRIBUTED FINANCIAL INFORMATION**  
(Unaudited)

**Note 1. Business Description**

The Hughes Retail Group is generally comprised of our business of providing satellite broadband internet services to residential retail subscribers, including the assets and liabilities primarily associated with the operation of the business, and the business operations, revenue, billings, operating and other direct and indirect support activities to provide services to the business and Hughes retail subscribers. The Hughes Retail Group also includes any proceeds associated with a sale or transfer of the Hughes Retail Group or any assets of the Hughes Retail Group, and any other assets acquired by or for the account of the Hughes Retail Group or otherwise attributed, contributed, allocated or transferred to the Hughes Retail Group from time to time. The HSSC Group consists of all other operations of HSS, including all existing and future businesses other than the Hughes Retail Group. HSS has adopted a policy statement (the "Policy Statement") as described in Note 2 below, which sets forth management and allocation policies for purposes of attributing all of the business and operations of HSS to either the Hughes Retail Group or the HSSC Group (each as fully defined in the Policy Statement and collectively, the "Groups").

**Note 2. Basis of Presentation**

The overall objective of the attributed financial information is to present HSS' attributed amounts reported in its condensed consolidated financial statements to the Hughes Retail Group and the HSSC Group. The Policy Statement contains specific provisions that determine how certain assets, liabilities, revenue and expenses are attributed to the Groups. The Policy Statement does not explicitly address the attribution of all amounts reported in our condensed consolidated financial statements; accordingly, management applies judgment in attributing certain amounts based on its assessment of the activities of the Groups and the guiding principles set forth in the Policy Statement.

Set forth below is an overview of the Policy Statement and additional discussion about how we have attributed amounts in our condensed consolidated financial statements to the Groups.

***Policy Statement***

In accordance with the Policy Statement, all existing and future retail subscribers, including related customer contracts, are attributed to the Hughes Retail Group. Assets and liabilities that are directly related to the Hughes Retail Group are attributed to the Hughes Retail Group, including certain accounts receivable, inventory, property and equipment, deferred subscriber acquisition costs, intangible assets and tax related assets and liabilities. To the extent practicable, costs and expenses are attributed without markup to the Hughes Retail Group or the HSSC Group based on specific identification. Common or shared costs, including corporate overhead, are allocated between the Hughes Retail Group and the HSSC Group using objective methods and criteria that reflect the relative usage of the corresponding functions or services. Where resources are shared by the Groups and determinations based on use alone are not practicable, we use other methods and criteria that we believe are fair and result in a reasonable estimate of the costs associated with operation, utilization, and maintenance of such resources to each Group. Such methods and criteria may include allocations based on revenue, operating costs, square footage, headcount or management estimates. Under the documents governing the Tracking Stock, any change in our management's allocation methodologies requires the consent of the holders of a majority of the outstanding shares of the Tracking Stock, but does not require the consent of our common shareholders.

The Hughes Retail Group utilizes broadband satellite capacity that is operated and maintained by the HSSC Group. The Policy Statement provides for a monthly charge to the Hughes Retail Group for its utilization of such capacity based on the number of retail subscribers and revenue per month. In addition, the Policy Statement establishes pricing for the Hughes Retail Group purchases of customer rental equipment from the HSSC Group based on cost plus a fixed margin percentage. Income taxes incurred by HSS and its subsidiaries that include operations of the Hughes Retail Group are allocated between the HSSC Group and the Hughes Retail Group based primarily on the relative amounts of earnings or loss attributable to each Group.

The various attributions, allocations and inter-group charges provided for in the Policy Statement generally do not affect the amounts reported in HSS' condensed consolidated financial statements, except for effects on the attribution of equity and net income or loss between the holders of Tracking Stock and HSS' common shareholders. The Policy Statement also does not significantly affect the way that the Hughes segment management assesses operating performance and allocates resources. In addition, our chief operating decision maker reviews the Hughes Retail Group financial information only to the extent such information is included in our periodic filings with the SEC. Therefore we do not consider the Hughes Retail Group to be a separate operating segment.

**NOTES TO CONDENSED ATTRIBUTED FINANCIAL INFORMATION**  
(Unaudited)

***Balance Sheet Attributions***

Assets attributed to the Hughes Retail Group based on specific identification consist primarily of trade accounts receivable from retail broadband subscribers, property and equipment (primarily customer rental equipment) used solely in the retail business, and deferred subscriber acquisition costs included in other noncurrent assets. Goodwill and other intangible assets (primarily customer relationships, developed technology and trademarks), which were recognized in connection with our acquisition of Hughes Communications, Inc. in June 2011, were attributed to the Hughes Retail Group based on an analysis of information for the retail business that was available at the acquisition date.

No attribution to the Hughes Retail Group has been made for certain significant assets that it shares with the HSSC Group, including regulatory authorizations and property and equipment (such as satellites and related terrestrial facilities), because those assets are operated and maintained by the HSSC Group and it is not practicable to allocate the asset carrying amounts between the Groups. However, the Hughes Retail Group has the right to use such assets and is charged for its use of such assets in accordance with the Policy Statement.

Liabilities attributed to the Hughes Retail Group based on specific identification consist primarily of customer prepayments and deferred revenue related to retail subscribers and deferred tax liabilities related to assets and liabilities that have been attributed to the Hughes Retail Group. Except to a limited extent, it is not practicable to attribute accounts payable and accrued liabilities to the Hughes Retail Group because those amounts arise from centralized processes managed by the HSSC Group. The Hughes Retail Group generally incurs inter-group payables to all other operations in connection with such centralized processes. As provided in the Policy Statement, none of our long-term debt is attributed to the Hughes Retail Group; however, interest is charged on all inter-group payables.

***Revenue and Expense Attributions***

The Hughes Retail Group revenue relates to services and equipment provided to retail broadband subscribers and is readily identifiable based on specific identification.

Expenses attributed to the Hughes Retail Group based on specific identification include depreciation of property and equipment and amortization of intangible assets that are attributed to the Hughes Retail Group. Certain other operating expenses, such as compensation of employees that work exclusively in the retail business, are also attributed to the Hughes Retail Group based on specific identification. A substantial portion of the Hughes Retail Group cost of sales is based on the specific inter-group pricing provisions of the Policy Statement, including a monthly charge per retail subscriber and charges for customer rental equipment at cost plus a fixed margin percentage. The Hughes Retail Group operating expenses also reflect allocations of corporate overhead and other expenses incurred by HSS.

***Cash Flow Attributions***

The Hughes Retail Group participates in HSS' centralized cash management system and does not maintain separate cash accounts. Under the centralized cash management system, net advances of cash to or from the Hughes Retail Group are reflected in an inter-group receivable or payable account, which bears interest at the same rate earned by HSS on its cash and marketable investment securities portfolio. There is no allocation of HSS' long-term debt or related interest costs to the Hughes Retail Group.

Cash receipts from retail broadband subscribers and payments of certain expenses attributed to the Hughes Retail Group on a specific identification basis generally are reflected in the attributed statements of cash flows in the period the cash is received or paid. It is not practicable to determine the timing of related cash disbursements under the centralized cash management system for other costs and expenses attributed to the Hughes Retail Group. The accompanying statements of cash flows generally presents cash flows related to such transactions when they are recognized on an accrual basis in an inter-group receivable or payable account. Periodic changes in inter-group receivables or payables generally are indicative of amounts received or paid by the HSSC Group on behalf of the Hughes Retail Group and are reported in the accompanying attributed statements of cash flows as investing activity for the Group with a net receivable balance or as financing activity for the Group with a net payable balance.

**NOTES TO CONDENSED ATTRIBUTED FINANCIAL INFORMATION**  
(Unaudited)

**Note 3. Property and Equipment**

Property and equipment for the Hughes Retail Group consisted of the following:

	<b>Depreciable Life (In Years)</b>	<b>As of</b>	
		<b>March 31, 2016</b>	<b>December 31, 2015</b>
(In thousands)			
Customer rental equipment	2-4	\$ 609,708	\$ 584,086
Accumulated depreciation		(450,970)	(421,589)
Property and equipment, net		<u>\$ 158,738</u>	<u>\$ 162,497</u>

Depreciation expense associated with the Hughes Retail Group property and equipment, net of retirements, was \$29.4 million for each of the three months ended March 31, 2016 and 2015.

**Note 4. Goodwill and Other Intangible Assets**

**Goodwill**

Goodwill is assigned to reporting units of our operating segments. A portion of the Hughes segment goodwill was attributed to the Hughes Retail Group as if the Hughes Retail Group had been a separate reporting unit at June 8, 2011, the date EchoStar completed the acquisition of Hughes Communications, Inc. Approximately \$260.0 million of the \$504.2 million Hughes segment goodwill was attributed to the Hughes Retail Group.

**Other Intangible Assets**

Other intangible assets for the Hughes Retail Group consisted of the following:

	<b>As of</b>					
	<b>March 31, 2016</b>			<b>December 31, 2015</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Carrying Amount</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Carrying Amount</b>
(In thousands)						
Customer relationships	\$ 145,100	\$ (132,532)	\$ 12,568	\$ 145,100	\$ (129,660)	\$ 15,440
Technology-based	23,500	(18,931)	4,569	23,500	(17,951)	5,549
Trademark portfolio	13,620	(3,291)	10,329	13,620	(3,121)	10,499
Total other intangible assets	<u>\$ 182,220</u>	<u>\$ (154,754)</u>	<u>\$ 27,466</u>	<u>\$ 182,220</u>	<u>\$ (150,732)</u>	<u>\$ 31,488</u>

Customer relationships are amortized predominantly in relation to the expected contribution of cash flow to the business over the life of the intangible asset. Other intangible assets are amortized on a straight-line basis over the periods the assets are expected to contribute to our cash flows. Amortization expense was \$4.0 million and \$4.9 million for the three months ended March 31, 2016 and 2015, respectively.

**Note 5. Income Taxes**

We establish a provision for income taxes currently payable or receivable and for income tax amounts deferred to future periods based upon a separate return allocation method which results in income tax expense that approximates the expense that would result if the Hughes Retail Group was a stand-alone entity. Deferred tax assets and liabilities are recorded for the estimated future tax effects of differences that exist between the financial reporting carrying amount and tax bases of assets and liabilities. Deferred tax assets are offset by valuation allowances when we determine it is more likely than not that such deferred tax assets will not be realized in the foreseeable future.

**NOTES TO CONDENSED ATTRIBUTED FINANCIAL INFORMATION**  
(Unaudited)

**Note 6. Equity/ Attributed Net Assets**

The reported amounts of equity/attributed net assets for the Hughes Retail Group and the HSSC Group represent the excess of attributed assets over attributed liabilities for the respective Groups. The HSSC Group equity reflects EchoStar's aggregate 71.89% economic interest in the net assets of the Hughes Retail Group, which comprises DISH Network's 51.89% economic interest in the Hughes Retail Group represented by EchoStar Tracking Stock and EchoStar's 20.0% retained interest in the Hughes Retail Group.

The Hughes Retail Group equity/attributed net assets consisted of attributed paid-in capital and accumulated earnings as follows:

	As of	
	March 31, 2016	December 31, 2015
	(In thousands)	
Attributed paid-in-capital	\$ 456,122	\$ 456,122
Attributed accumulated earnings (deficit):		
Periods prior to March 1, 2014	33,395	33,395
Periods beginning March 1, 2014	(46,748)	(43,819)
Total	(13,353)	(10,424)
Total equity/ attributed net assets	\$ 442,769	\$ 445,698