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

# FORM 10-Q

**(Mark One)**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

**OR**

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

**FOR THE TRANSITION PERIOD FROM TO .**

**Commission file number: 333-179121**

# Hughes Satellite Systems Corporation
(Exact name of registrant as specified in its charter)

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

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

**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 x No o

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 x No o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer x<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

As of August 1, 2012, 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.



**TABLE OF CONTENTS**

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

---



## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

**General Risks Affecting Our Business**

- Our EchoStar Satellite Services segment currently derives a substantial portion of its revenue from DISH Network Corporation ("DISH Network"). The loss of, or a significant reduction in, orders from, or a decrease in selling prices of transponder leasing, provision of digital broadcast services and/or other products or services to DISH Network would significantly reduce our revenue and adversely impact our results of operations.
- Economic weakness, including high unemployment and reduced consumer spending, may adversely affect our ability to grow or maintain our business.
- If we are unable to properly respond to technological changes, our business could be significantly harmed.
- Certain of our sales to DISH Network could be terminated or substantially curtailed on short notice, which would have a detrimental effect on us.
- We may be required to raise and refinance indebtedness during unfavorable market conditions.
- We may experience significant financial losses on our existing investments.
- We may pursue acquisitions and other strategic transactions to complement or expand our business, which may not be successful and we may lose up to the entire value of our investment in these acquisitions and transactions.

- We may not be aware of certain foreign government laws or regulations or changes to them which could have a significant adverse impact on our business.

- Our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations.

- Our business depends on certain intellectual property rights and on not infringing the intellectual property rights of others. The loss of or infringement of our intellectual property rights could have a significant adverse impact on our business.

- Any failure or inadequacy of our information technology infrastructure or those of our third-party service providers could harm our business.

- We are party to various lawsuits which, if adversely decided, could have a significant adverse impact on our business, particularly lawsuits regarding intellectual property.

- We are a wholly-owned subsidiary of EchoStar Corporation ("EchoStar") and do not operate as an independent company.

- EchoStar has not been an independent company for a significant amount of time and it may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company.

- We rely on key personnel and the loss of their services may negatively affect our businesses.

- We have substantial debt outstanding and may incur additional debt.



Table of Contents

**Risks Affecting Our Business Segments**

- We currently face competition from established competitors in the satellite service business and may face competition from others in the future.

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

- Our satellites have minimum design lives ranging from 12 to 15 years, but could fail or suffer reduced capacity before then.

- Our satellites under construction are subject to risks related to construction and launch that could limit our ability to utilize these satellites.

- Our business is subject to risks of adverse government regulation.

- Our business depends on Federal Communications Commission ("FCC") licenses that can expire or be revoked or modified and applications for FCC licenses that may not be granted.

- Our use of certain satellites is often dependent on satellite coordination agreements, which may be difficult to obtain.

- Our dependence on outside contractors could result in delays related to the design, manufacture and launch of our new satellites, which could in turn adversely affect our operating results.

- We generally do not have commercial insurance coverage on the satellites we use and could face significant impairment charges if one of our uninsured satellites fails.

- We currently have unused satellite capacity in our EchoStar Satellite Services segment, and our results of operations may be materially adversely affected if we are not able to lease more of this capacity to third parties.

- The enterprise network communications industry is highly competitive. We may be unsuccessful in competing effectively against other terrestrial and satellite-based network providers in our enterprise groups.

- The consumer network communications market is highly competitive. We may be unsuccessful in competing effectively against fiber, Digital Subscriber Line ("DSL"), cable service providers and other satellite broadband providers in the consumer market.

- We are dependent upon third-party providers for components, manufacturing, installation services, and customer support services, and our results of operations may be materially adversely affected if any of these third-party providers fail to appropriately deliver the contracted goods or services.

- The failure to adequately anticipate the need for transponder capacity or the inability to obtain transponder capacity for our Hughes segment could harm our results of operations.

- If our products contain defects, we could be subject to significant costs to correct such defects and our product and network service contracts could be delayed or cancelled, which could adversely affect our revenues.

- We may face difficulties in accurately assessing and collecting contributions towards the Universal Service Fund.

- Our foreign operations expose us to regulatory risks and restrictions not present in our domestic operations.

- Although we expect that the Hughes Acquisition (as defined below) will benefit us, those expected benefits may not occur because of the complexity of integration and other challenges.



Table of Contents

**Other Risks**

- We may have potential conflicts of interest with DISH Network due to EchoStar and DISH Network's common ownership and management.
- We cannot assure you that there will not be deficiencies leading to material weaknesses in our internal control over financial reporting.
- Our parent, EchoStar, is controlled by one principal stockholder who is our Chairman.
- We may face other risks described from time-to-time in periodic and current reports we file with the Securities and Exchange Commission ("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 described herein and should not place undue reliance on any forward-looking statements. We assume no responsibility for updating forward-looking information contained or incorporated by reference herein or in other reports we file with the SEC.

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



Table of Contents

## PART I—FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

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

| | As of | |
|---|---|---|
| | June 30, 2012 | December 31, 2011 |
| **Assets** | | |
| *Current Assets:* | | |
| Cash and cash equivalents | $ 63,106 | $ 125,003 |
| Marketable investment securities | 157,687 | 261,082 |
| Trade accounts receivable, net of allowance for doubtful accounts of $14,430 and $16,769, respectively | 184,043 | 171,917 |
| Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero | 44,281 | 33,128 |
| Advances to affiliates, net | 11,845 | 4,217 |
| Inventory | 52,520 | 47,558 |
| Deferred tax assets | 21,343 | 21,222 |
| Other current assets | 42,400 | 52,917 |
| Total current assets | 577,225 | 717,044 |
| *Noncurrent Assets:* | | |
| Restricted cash and cash equivalents | 22,835 | 23,540 |
| Property and equipment, net of accumulated depreciation of $1,420,725 and $1,281,930, respectively | 2,101,984 | 2,021,905 |
| Orbital rights, net | 537,094 | 465,658 |
| Goodwill | 504,173 | 516,198 |
| Other intangible assets, net | 307,181 | 341,207 |
| Other investment securities | 25,578 | 22,466 |
| Other noncurrent assets, net | 163,510 | 140,819 |
| Total noncurrent assets | 3,662,355 | 3,531,793 |
| Total assets | $ 4,239,580 | $ 4,248,837 |
| **Liabilities and Shareholder's Equity (Deficit)** | | |
| *Current Liabilities:* | | |
| Trade accounts payable | $ 101,780 | $ 141,933 |
| Trade accounts payable - DISH Network | 9,117 | 10,100 |
| Acquisition of orbital right | 64,651 | — |
| Deferred revenue and other | 41,866 | 50,568 |
| Accrued interest | 6,571 | 6,348 |
| Accrued expenses and other | 103,887 | 117,879 |
| Current portion of long-term debt and capital lease obligations | 64,599 | 64,175 |
| Total current liabilities | 392,471 | 391,003 |
| *Noncurrent Liabilities:* | | |
| Long-term debt and capital lease obligations, net of current portion | 2,456,636 | 2,468,887 |

| | | |
|---|---|---|
| Deferred tax liabilities | 278,449 | 290,287 |
| Advances from affiliates | 8,000 | — |
| Long-term deferred revenue and other long-term liabilities | 21,098 | 21,930 |
| Total noncurrent liabilities | 2,764,183 | 2,781,104 |
| Total liabilities | 3,156,654 | 3,172,107 |
| Commitments and Contingencies (Note 10) | | |
| *Shareholder's Equity (Deficit):* | | |
| Common stock, $0.01 par value; 1,000,000 shares authorized, 1,000 shares issued and outstanding | — | — |
| Additional paid-in capital | 1,099,918 | 1,099,506 |
| Accumulated other comprehensive income (loss) | (1,453) | (7,914) |
| Accumulated earnings (deficit) | (24,390) | (23,972) |
| Total HSS shareholder's equity (deficit) | 1,074,075 | 1,067,620 |
| Noncontrolling interests | 8,851 | 9,110 |
| Total shareholder's equity (deficit) | 1,082,926 | 1,076,730 |
| Total liabilities and shareholder's equity (deficit) | $ 4,239,580 | $ 4,248,837 |

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





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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Revenue:** | | | | |
| Services and other revenue | $ 231,584 | $ 73,312 | $ 471,131 | $ 88,206 |
| Services and other revenue - DISH Network | 57,660 | 52,982 | 111,824 | 106,028 |
| Equipment revenue | 63,635 | 25,223 | 117,261 | 25,187 |
| Total revenue | 352,879 | 151,517 | 700,216 | 219,421 |
| **Costs and Expenses:** | | | | |
| Cost of sales - services and other | 119,585 | 42,830 | 238,276 | 59,897 |
| Cost of sales - equipment | 52,575 | 19,809 | 98,883 | 19,812 |
| Selling, general and administrative expenses | 56,062 | 15,808 | 111,838 | 21,999 |
| Research and development expenses | 5,205 | 1,297 | 10,162 | 1,297 |
| Depreciation and amortization (Notes 6 and 7) | 87,098 | 39,460 | 174,125 | 62,928 |
| Total costs and expenses | 320,525 | 119,204 | 633,284 | 165,933 |
| Operating income (loss) | 32,354 | 32,313 | 66,932 | 53,488 |
| **Other Income (Expense):** | | | | |
| Interest income | 671 | 255 | 1,548 | 285 |
| Interest expense, net of amounts capitalized | (36,867) | (13,680) | (75,522) | (17,113) |
| Hughes Acquisition costs | (7) | (34,500) | (7) | (34,500) |
| Other, net | 4,748 | 8,968 | 6,149 | 9,367 |
| Total other income (expense) | (31,455) | (38,957) | (67,832) | (41,961) |
| Income (loss) before income taxes | 899 | (6,644) | (900) | 11,527 |
| Income tax (provision) benefit, net | (502) | (749) | 163 | (7,437) |
| Net income (loss) | 397 | (7,393) | (737) | 4,090 |
| Less: Net income (loss) attributable to noncontrolling interests | (232) | 87 | (319) | 87 |
| Net income (loss) attributable to HSS | $ 629 | $ (7,480) | $ (418) | $ 4,003 |
| **Comprehensive Income (Loss):** | | | | |
| Net income (loss) | $ 397 | $ (7,393) | $ (737) | $ 4,090 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (6,839) | (715) | (4,351) | (715) |
| Unrealized holding gains (losses) on available-for-sale securities | 10,999 | (1,005) | 10,704 | (1,005) |
| Total other comprehensive income (loss), net of tax | 4,160 | (1,720) | 6,353 | (1,720) |
| Comprehensive income (loss) | 4,557 | (9,113) | 5,616 | 2,370 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests. | (598) | (267) | (427) | (267) |
| Comprehensive income (loss) attributable to HSS | $ 5,155 | $ (8,846) | $ 6,043 | $ 2,637 |

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





**HUGHES SATELLITE SYSTEMS CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)
(Unaudited)

| | For the Six Months Ended June 30, 2012 | 2011 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net income (loss) | $ (737) | $ 4,090 |
| *Adjustments to reconcile net income (loss) to net cash flows from operating activities:* | | |
| Depreciation and amortization | 174,125 | 62,928 |
| Equity in losses (earnings) of affiliates | (2,398) | (579) |
| Amortization of debt issuance costs | 2,456 | — |
| Non-cash, stock-based compensation | 411 | 104 |
| Deferred tax expense (benefit) | (5,575) | 8,190 |
| Other, net | (2,611) | (6,410) |
| Change in noncurrent assets | (4,447) | (292) |
| Changes in current assets and current liabilities, net | (53,722) | (45,267) |
| **Net cash flows from operating activities** | 107,502 | 22,764 |
| **Cash Flows From Investing Activities:** | | |
| Purchases of marketable investment securities | (63,916) | (120,951) |
| Sales and maturities of marketable investment securities | 174,953 | 349,216 |
| Purchases of property and equipment | (234,347) | (66,877) |
| Acquisition of orbital slots | (17,981) | — |
| Acquisition of Hughes Communications, net of cash acquired of $98,900 | — | (2,075,613) |
| Change in restricted cash and cash equivalents | 705 | 52 |
| Other, net | (6,413) | (1,837) |
| **Net cash flows from investing activities** | (146,999) | (1,916,010) |
| **Cash Flows From Financing Activities:** | | |
| Repayment of long-term debt and capital lease obligations | (31,671) | (24,318) |
| Debt issuance costs | (229) | (55,845) |
| Net proceeds from issuance of long-term debt | 317 | 2,000,000 |
| Contributions from parent | — | 166,379 |
| Advances from affiliates | 8,000 | — |
| Other | — | 42 |
| **Net cash flows from financing activities** | (23,583) | 2,086,258 |
| **Effect of exchange rates on cash and cash equivalents** | 1,183 | 146 |
| Net increase (decrease) in cash and cash equivalents | (61,897) | 193,158 |
| Cash and cash equivalents, beginning of period | 125,003 | 106 |
| Cash and cash equivalents, end of the period | $ 63,106 | $ 193,264 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid for interest (including capitalized interest) | $ 97,041 | $ 21,375 |
| Capitalized interest | $ 24,316 | $ 14,895 |
| Cash received for interest | $ 4,531 | $ 136 |
| Cash paid to EchoStar for income taxes | $ 80 | $ 65 |
| Cash paid for income taxes | $ 4,918 | $ — |
| Satellites and other assets financed under capital lease obligations | $ 24,355 | $ 17,351 |
| Reduction of capital lease obligations for AMC-16 | $ 4,735 | $ 6,616 |
| Marketable investment securities included in capital contributions | $ — | $ 442,473 |
| Changes in capital expenditures included in accounts payable | $ (37,796) | $ — |
| Orbital rights obligation included in accrued liabilities | $ 64,651 | $ — |

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



Table of Contents

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

## Note 1. Organization and Business Activities

***Principal Business***

Hughes Satellite Systems Corporation, (together with its subsidiaries, “HSS,” the “Company,” “we,” “us” and/or “our”) is a holding company and a direct, wholly-owned subsidiary of EchoStar Corporation (“EchoStar”). 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. As a result, our historical financial statements, prior to June 9, 2011, reflect the historical consolidated financial position and operating results of EchoStar’s satellite services business.

Following the Hughes Acquisition, we operate two primary business segments:

- ***EchoStar Satellite Services* —** which uses 10 of our 11 owned and leased in-orbit satellites and related Federal Communications Commission ("FCC") licenses to lease capacity on a full-time and occasional-use basis primarily to DISH Network, and secondarily to Dish Mexico, S. de R.L. de C.V. ("Dish Mexico"), United States government service providers, state agencies, Internet service providers, broadcast news organizations, programmers and private enterprise customers.
- ***Hughes* —** which provides satellite broadband Internet access to North American consumers and broadband network services and systems to the domestic and international enterprise markets. Hughes also provides managed services to large enterprises and networking systems solutions to customers for mobile satellite and wireless backhaul systems. Hughes became a new segment as a result of the Hughes Acquisition and the operating results of Hughes Communications are included in our results effective June 9, 2011. See Note 9 for further discussion of the Hughes Acquisition.

Effective January 1, 2008, DISH Network completed its distribution to EchoStar (the "Spin-off") of 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. Since the Spin-off, EchoStar and DISH Network have operated as separate publicly-traded companies, and neither entity has any ownership interest in the other. However, a substantial majority of the voting power of the shares of both companies is owned beneficially by Charles W. Ergen, our Chairman, or by certain trusts established by Mr. Ergen for the benefit of his family.

## Note 2. Basis of Presentation and Summary of Significant Accounting Policies

### *Basis of Presentation*

The following (a) condensed balance sheet as of December 31, 2011, which has been derived from our audited financial statements, and (b) unaudited interim condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("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 under 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 Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 10-K"). Certain prior period amounts have been reclassified to conform to the current period presentation.





Our operating results for the period presented prior to March 2011 are presented on a combined basis and reflect the historical results of operations and cash flows of certain entities included in the consolidated financial statements and accounting records of EchoStar that principally represented its satellite services business. The financial statements for all periods are labeled as condensed consolidated financial statements. Our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2011 include the operating results of Hughes Communications after June 8, 2011, the date of the Hughes Acquisition.

### *Principles of Consolidation*

We consolidate all majority owned subsidiaries, investments in entities in which we have controlling influence and variable interest entities where we are the primary beneficiary. Non-majority owned investments are accounted for using the equity method when we have the ability to significantly influence the operating decisions of the investee. When we do not have the ability to significantly influence the operating decisions of an investee, the cost method is used. All significant intercompany accounts and transactions have been eliminated in consolidation.

### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense for each reporting period. Estimates are used in accounting for, among other things, deferred revenue and deferred subscriber acquisition cost amortization periods, percentage-of-completion related to revenue recognition, allowances for doubtful accounts, allowances for sales returns/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 options granted under EchoStar's stock-based compensation plans, fair value of assets and liabilities acquired in business combinations, capital leases, asset impairments, useful lives of property, equipment and intangible assets, and royalty obligations. Weakened economic conditions may increase the inherent uncertainty in the estimates and assumptions indicated above. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable 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. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected prospectively in the period they occur.

### *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 apply 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



Table of Contents



· Level 3, defined as unobservable inputs for which little or no market data exists, consistent with reasonably available assumptions made by other participants therefore requiring assumptions based on the best information available.

As of June 30, 2012 and December 31, 2011, the carrying value of our cash and cash equivalents, current marketable investment securities, trade accounts receivable, net of allowance for doubtful accounts, and accrued liabilities were equal to or approximated fair value due to their short-term nature or proximity to current market rates.

Fair values for our publicly traded debt securities are based on quoted market prices. The fair value of our private debt is estimated based on an analysis in which we evaluate market conditions, related securities, various public and private offerings, and other publicly available information. In performing this analysis, we make various assumptions regarding, among other things, credit spreads, and the impact of these factors on the value of the notes. See Note 8 for the fair value of our long-term debt.

We use fair value 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.

**Note 3. 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 to the extent the 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.

**Note 4. Marketable Investment Securities and Other Investment Securities**

Our marketable investment securities and other investment securities consisted of the following:

| | As of June 30, 2012 | As of December 31, 2011 |
|---|---|---|
| | (In thousands) | |
| **Marketable investment securities—current:** | | |
| VRDNs | $ 16,815 | $ 61,795 |
| Strategic | 16,132 | 6,426 |
| Other | 124,740 | 192,861 |
| Total marketable investment securities—current | 157,687 | 261,082 |
| **Other investment securities—noncurrent:** | | |
| Cost method | 15,557 | 15,557 |
| Equity method | 10,021 | 6,909 |
| Total other investment securities—noncurrent | 25,578 | 22,466 |
| Total marketable and other investment securities | $ 183,265 | $ 283,548 |



Table of Contents



***Marketable Investment Securities***

Our marketable investment securities portfolio consists of various debt and equity instruments, all of which are classified as available-for-sale.

*Variable rate demand notes ("VRDNs")*

VRDNs are long-term floating rate municipal bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. Our VRDN portfolio is comprised of investments in many municipalities, which are backed by financial institutions or other highly rated companies that serve as the pledged liquidity source. While they are classified as marketable investment securities, the put option allows VRDNs to be liquidated generally on a same day or on a five business day settlement basis.

*Strategic*

Our current strategic marketable investment security portfolio consists of an equity security, which is speculative and whose value depends on the value of the issuer.

*Other*

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

***Other Investment Securities—Noncurrent***

We have two strategic investments in certain 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.

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

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

| | As of | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2012 | | | | December 31, 2011 | | | |
| | Marketable Investment Securities | Unrealized Gains | Unrealized Losses | Net | Marketable Investment Securities | Unrealized Gains | Unrealized Losses | Net |
| | (In thousands) | | | | | | | |
| Debt securities: | | | | | | | | |
| VRDNs | $ 16,815 | $ — | $ — | $ — | $ 61,795 | $ — | $ — | $ — |
| Other | 124,740 | 83 | (117) | (34) | 192,861 | 68 | (1,100) | (1,032) |
| Equity security - strategic | 16,132 | 12,960 | — | 12,960 | 6,426 | 3,254 | — | 3,254 |
| Total marketable investment securities | $ 157,687 | $ 13,043 | $ (117) | $ 12,926 | $ 261,082 | $ 3,322 | $ (1,100) | $ 2,222 |



Table of Contents



As of June 30, 2012, we had debt securities of $135 million with contractual maturities of one year or less and $7 million with contractual maturities greater than one year. We may realize proceeds from certain investments prior to contractual maturity as a result of our ability to sell these securities prior to their contractual maturity.

***Marketable Investment Securities in a Loss Position***

The following table reflects the length of time that our available-for-sale debt securities have been in an unrealized loss position. We do not intend to sell these debt securities before they recover, and it is more likely than not that we will hold these debt securities until they recover or mature. In addition, we are not aware of any specific factors indicating that the underlying issuers of these debt securities would not be able to pay interest as it becomes due or repay the principal at maturity. Therefore, we believe that these changes in the estimated fair values of these debt securities are primarily related to temporary market fluctuations.

| | As of | | | |
|---|---|---|---|---|
| | June 30, 2012 | | December 31, 2011 | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | |
| Less than 12 months | $ 45,329 | $ (77) | $ 154,891 | $ (1,100) |
| 12 months or more | 13,993 | (40) | — | — |
| Total | $ 59,322 | $ (117) | $ 154,891 | $ (1,100) |

***Fair Value Measurements***

Our current marketable investment securities are measured at fair value on a recurring basis. As of June 30, 2012 and December 31, 2011, we classified our current debt securities as Level 2 of the fair value hierarchy, as they were based on quoted market prices that can be derived from assumptions observable in the marketplace, and our current strategic equity security as Level 1 of the fair value hierarchy, as its market price was quoted in active markets (see Note 2). As of June 30, 2012 and December 31, 2011, we did not have investments that were classified as Level 3 of the fair value hierarchy.

**Note 5. Inventory**

Our inventory consisted of the following:

| | As of | |
|---|---|---|
| | June 30, 2012 | December 31, 2011 |
| | (In thousands) | |
| Finished goods | $ 36,330 | $ 33,574 |
| Work-in process | 8,683 | 7,315 |
| Raw materials | 7,507 | 6,669 |
| Total inventory | $ 52,520 | $ 47,558 |

Table of Contents



**Note 6. Property and Equipment**

Depreciation and amortization expense consisted of the following:

| | For the Three Months Ended June 30, 2012 | For the Three Months Ended June 30, 2011 | For the Six Months Ended June 30, 2012 | For the Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Satellites | $ 37,060 | $ 24,593 | $ 74,119 | $ 47,560 |
| Furniture, fixtures, equipment and other | 31,526 | 8,703 | 63,223 | 9,203 |
| Amortization of intangible assets and other | 17,362 | 5,941 | 34,488 | 5,942 |
| Buildings and improvements | 1,150 | 223 | 2,295 | 223 |
| Total depreciation and amortization | $ 87,098 | $ 39,460 | $ 174,125 | $ 62,928 |

The increase in our depreciation and amortization expense from the three and six months ended June 30, 2011 compared to the same periods in 2012 was primarily related to the Hughes Acquisition.

Depreciation and amortization expense is reported separately from cost of sales and other expense categories included in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

***Satellites***

We currently utilize 11 satellites in geostationary orbit approximately 22,300 miles above the equator, including the SPACEWAY 3 satellite, which was added to our satellite fleet as a result of the Hughes Acquisition in 2011. Five of these satellites are leased. Four of our leased satellites are accounted for as capital leases and are depreciated over the terms of the satellite service agreements, and the one satellite we lease from DISH Network is accounted for as an operating lease. See Note 12 for further discussion of our satellite leases with DISH Network. We depreciate our owned satellites on a straight-line basis over the estimated useful life of each satellite.

In addition, we also own EchoStar XVI, which is currently under construction and is expected to be launched in the second half of 2012, and EchoStar XVII, which was successfully launched in July 2012. EchoStar XVII is our next-generation, geostationary high throughput satellite that will employ a multi-spot beam, bent pipe Ka-band architecture and will provide additional capacity for the HughesNet consumer broadband Internet service in North America. We plan to introduce service in North America using EchoStar XVII in the fourth quarter of 2012.

*Satellite Anomalies*

Certain of our satellites have experienced anomalies, some of which have had a significant adverse impact on their remaining useful life and/or commercial operation. There can be no assurance that future anomalies will not further impact the remaining useful life and commercial operation of any of the satellites in our fleet. See "*Long-Lived Satellite Assets*" below for further discussion of evaluation of impairment. In addition, there can be no assurance that we can recover critical transmission capacity in the event one or more of our in-orbit satellites were to fail. We generally do not carry in-orbit insurance on any of our satellites, other than SPACEWAY 3, EchoStar XVI and EchoStar XVII as discussed below, and therefore, we bear the risk of any uninsured in-orbit failures. However, pursuant to the terms of the agreements governing certain portions of our indebtedness, we are required, subject to certain limitations on coverage, to maintain launch insurance for EchoStar XVI and to maintain in-orbit insurance for EchoStar XVI, EchoStar XVII and SPACEWAY 3. Satellite anomalies with respect to certain of our satellites are discussed below.



Table of Contents



*Owned Satellites*

*EchoStar III.* EchoStar III, which is currently an in-orbit spare, was designed to meet a minimum 12-year useful life. During the first quarter of 2012, EchoStar III experienced a solar array anomaly which did not impact commercial operation of the satellite; however, there can be no assurance that future anomalies will not impact its commercial operation. EchoStar III was fully depreciated in 2009.

*EchoStar VI.* EchoStar VI was designed to meet a minimum 12-year useful life. Prior to 2012, this satellite experienced solar array anomalies and the loss of traveling wave tube amplifiers ("TWTAs") that did not reduce its useful life; however, the solar array anomalies impacted the commercial operation of the satellite. During the first quarter of 2012, we determined that EchoStar VI experienced the loss of two additional TWTAs increasing the total number of TWTAs lost on the satellite to five. During the second quarter of 2012, EchoStar VI lost an additional solar array string reducing the total power available for use by the spacecraft. The recent losses of TWTAs and the solar array string did not reduce the estimated useful life of the satellite and did not impact the current commercial operation of the satellite; however, there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation. EchoStar VI will be fully depreciated in August 2012.

*Leased Satellites*

*EchoStar I.* During the first quarter of 2012, EchoStar I experienced a communications receiver anomaly. While this anomaly did not impact the commercial operation of the satellite, there can be no assurance that future anomalies will not impact its future commercial operation.

*AMC-16.* In February 2012 and April 2012, AMC-16 experienced two solar-power anomalies, causing a partial power loss that reduced its capacity. Pursuant to the governing satellite services agreement, we are entitled to a reduction of our monthly recurring payment in the event of a partial loss of satellite capacity. In connection with the February 2012 anomaly, effective in May 2012, our monthly recurring payment was reduced and as a result, our capital lease obligation was lowered by $5 million and a corresponding gain of $5 million was recorded in "Other, net" on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2012. In connection with the April 2012 anomaly, we expect to finalize agreement on the operational impact of the anomaly in the third quarter of 2012, at which point, we expect to reduce our capital lease obligation and recognize a corresponding gain of approximately $8 million. There can be no assurance that these anomalies or any future anomalies will not reduce its useful life or further impact its commercial operations.

***Long-Lived Satellite Assets***

We evaluate our satellites for impairment and test for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. This evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Certain of the anomalies discussed above, and previously disclosed, may be considered to represent a significant adverse change in the physical condition of a particular satellite. However, based on the redundancy designed within each satellite, these anomalies are not considered to be significant events that would require evaluation for impairment recognition because the projected cash flows have not been significantly affected by these anomalies.



Table of Contents



## Note 7. Goodwill, Orbital Rights and Other Intangible Assets

***Goodwill***

Goodwill was recognized in connection with the Hughes Acquisition and has been assigned to reporting units of our Hughes segment (see Note 11 for further discussion on segment reporting). In connection with our final purchase price allocation of the Hughes Acquisition, we made adjustments to increase deferred tax assets with a corresponding adjustment to goodwill in 2012 as summarized in the table below:

| | Amount (In thousands) |
|---|---|
| Balance as of December 31, 2011 | $ 516,198 |
| Adjustments | (12,025) |
| Balance as of June 30, 2012 | $ 504,173 |

We performed step one of our annual two-step test of impairment of such goodwill as of April 1, 2012. Step one involves a comparison of the estimated fair value of the reporting unit with its carrying amount, including goodwill. We estimated fair value of the reporting units using discounted cash flow techniques, which included significant assumptions about prospective financial information, terminal value and discount rates. Based on this quantitative test, we determined that the estimated fair values of the Hughes reporting units were in excess of the corresponding carrying amounts, including goodwill. Accordingly, we concluded that goodwill assigned to the Hughes segment is not impaired and it is not necessary to perform step two of the two-step goodwill impairment test.

***Orbital Rights***

Orbital rights consisted of the following:

| | As of June 30, 2012 | | As of December 31, 2011 | |
|---|---|---|---|---|
| | Intangible Assets | Accumulated Amortization | Intangible Assets | Accumulated Amortization |
| | (In thousands) | | | |
| FCC authorizations | $ 465,658 | $ — | $ 465,658 | $ — |
| Brazil authorization | 71,835 | (399) | — | — |
| Total | $ 537,493 | $ (399) | $ 465,658 | $ — |



Table of Contents



The FCC authorizations have indefinite useful lives due to their non-depleting nature. In May 2012, we acquired the right to use the 45 degree west longitude orbital location from ANATEL, the Brazilian communications regulatory authority (the "Brazil authorization"). The Brazil authorization is amortized on a straight-line basis over the license term of 15 years. See Note 10 for further discussion on the acquisition of the Brazil authorization.

***Other Intangible Assets***

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

| | As of | | | |
|---|---|---|---|---|
| | June 30, 2012 | | December 31, 2011 | |
| | Intangible Assets | Accumulated Amortization | Intangible Assets | Accumulated Amortization |
| | (In thousands) | | | |
| Customer relationships | $ 270,300 | $ (71,422) | $ 270,300 | $ (52,556) |
| Contract-based | 64,800 | (30,148) | 64,800 | (20,602) |
| Technology-based | 51,417 | (9,289) | 51,417 | (5,007) |
| Trademark portfolio | 29,700 | (1,609) | 29,700 | (866) |
| Favorable leases | 4,707 | (1,275) | 4,707 | (686) |
| Total | $ 420,924 | $ (113,743) | $ 420,924 | $ (79,717) |

These intangible assets are amortized on a straight-line basis over periods primarily ranging from approximately one to twenty years or in relation to the estimated discounted cash flows over the life of the intangible. Amortization expense was $17 million and $34 million for the three and six months ended June 30, 2012, respectively, and $6 million for each of the three and six months ended June 30, 2011.

***Future Amortization***

Estimated future amortization of our intangible assets, including the Brazil authorization, as of June 30, 2012 is as follows:

| For the Years Ending December 31, | Amount (In thousands) |
|---|---|
| 2012 (remaining six months) | $ 34,660 |
| 2013 | 49,511 |
| 2014 | 59,306 |
| 2015 | 49,249 |
| 2016 | 40,463 |
| Thereafter | 145,428 |
| Total | $ 378,617 |





**Note 8. Debt**

***Fair Value***

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

| | As of | | | |
|---|---|---|---|---|
| | June 30, 2012 | | December 31, 2011 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | (In thousands) | | | |
| 6 1/2% Senior Secured Notes due 2019 | $ 1,100,000 | $ 1,171,500 | $ 1,100,000 | $ 1,138,500 |
| 7 5/8% Senior Notes due 2021 | 900,000 | 977,625 | 900,000 | 936,000 |
| Mortgages and other notes payable | 6,153 | 6,153 | 6,465 | 6,465 |
| Subtotal | 2,006,153 | $ 2,155,278 | 2,006,465 | $ 2,080,965 |
| Capital lease obligations (1) | 515,082 | | 526,597 | |
| Total debt and capital lease obligations | $ 2,521,235 | | $ 2,533,062 | |

(1) Disclosure regarding fair value of capital leases is not required.

We estimated the fair value of our publicly traded long-term debt using market prices in less active markets (Level 2).

**Note 9. Hughes Acquisition**

On June 8, 2011, EchoStar completed the Hughes Acquisition, pursuant to an agreement and plan of merger (the "Hughes Agreement") by and between EchoStar, certain of its subsidiaries, including EchoStar Satellite Services L.L.C. and Hughes Communications, Inc. Pursuant to the Hughes Agreement, 100% of the issued and outstanding shares of common stock and vested stock options of Hughes Communications, Inc. were converted into the right to receive $60.70 (minus any applicable exercise price) in cash and substantially all of the outstanding debt of Hughes Communications, Inc. was repaid. In addition, each share of unvested restricted stock and unvested stock option of Hughes Communications, Inc. was converted into the right to receive $60.70 (minus any applicable exercise price) in cash on the vesting date of the stock award.

A summary of the purchase price and opening balance sheet for the Hughes Acquisition at the June 8, 2011 acquisition date is presented in the following table. The opening balance sheet presented below reflects our final purchase price allocation.

| | Amount (In thousands) |
|---|---|
| Cash | $ 98,900 |
| Marketable investment securities | 22,148 |
| Other current assets | 282,471 |
| Property and equipment | 930,426 |
| Other intangibles assets | 420,907 |
| Goodwill (non-deductible) | 504,173 |
| Orbital rights | 400,000 |
| Other noncurrent assets | 61,463 |
| Current liabilities | (293,029) |
| Deferred tax liabilities | (220,928) |
| Long-term liabilities | (22,239) |
| Noncontrolling interests | (9,679) |
| Total purchase price | $ 2,174,613 |

Our unaudited pro forma revenue and net loss were $354 million and $7 million, respectively, for the three months ended June 30, 2011 and $685 million and $18 million, respectively, for the six months ended June 30, 2011. Our pro forma information gives effect to the Hughes Acquisition as if it occurred on January 1, 2010. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if the Hughes Acquisition had occurred on such date and should not be used as a predictive measure of our future financial position, results of operations or liquidity. The pro forma adjustments are based on currently available information and certain assumptions that we believe are reasonable.

Effective June 9, 2011, revenue and expenses associated with the Hughes Acquisition are included within the Hughes segment in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

## Note 10. Commitments and Contingencies

### Commitments

*Acquisition of Brazilian Orbital Slot.* On August 30, 2011, we were declared the winner of the right to select an orbital slot in an auction conducted by ANATEL, the Brazilian communications regulatory authority. We selected the 45 degree west longitude orbital location for a bid of approximately $72 million based on an exchange rate of $1 to 2.0213 Brazilian Reais as of June 30, 2012. In May 2012, we received the orbital slot and we plan to use it to expand our video capabilities in South America. As of June 30, 2012, we had a remaining obligation of approximately $65 million due to ANATEL in August 2012 to satisfy the purchase price, which was recorded in “Acquisition of orbital right” on our Condensed Consolidated Balance Sheet. Pursuant to our obligations under the license for the orbital slot, we will be required to make significant additional investments, which may affect our future financial condition or results of operations.

*EchoStar XVI.* During November 2009, we entered into a contract for the construction of EchoStar XVI, a direct broadcast satellite (“DBS”), which is expected to be launched in the second half of 2012 and will operate at the 61.5 degree west longitude orbital location. DISH Network has agreed to lease all of the capacity on this satellite from us for a portion of its useful life. As of June 30, 2012, the remaining obligation related to EchoStar XVI was approximately $61 million, which includes the launch contract, launch insurance and one year of in-orbit insurance.





*EchoStar XVII.* During June 2009, Hughes Communications entered into a contract for the construction of EchoStar XVII, which was launched successfully in July 2012. We plan to introduce service in North America using EchoStar XVII in the fourth quarter of 2012. In addition, Xplornet Communications Inc. (formerly known as Barrett Xplore Inc.) will lease the user beams designed to operate in Canada, which represents a portion of the capacity available on EchoStar XVII. As of June 30, 2012, the remaining obligation related to EchoStar XVII was approximately $63 million, which includes remaining milestone payments and in-orbit incentives.

### Contingencies

***Separation Agreement***

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 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 many of these proceedings 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. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of the possible loss or range of possible loss can be made.

For certain cases described below, management is unable to 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; (iii) damages are unsupported and/or exaggerated; (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 (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, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

*E-Contact Technologies, LLC*

On February 22, 2012, E-Contact Technologies, LLC ("E-Contact") filed suit against two of our subsidiaries, Hughes Communications, Inc. and Hughes Network Systems, LLC, in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 5,347,579, which is entitled "Personal Computer Diary." E-Contact appears to assert that some portion of HughesNet email services infringe that patent. HughesNet email services are provided by a third-party service provider, who has assumed indemnification obligations for the case. On May 31, 2012, E-Contact filed a first amended complaint. The amended complaint removed the original complaint's requests for a finding of willfulness and entry of an injunction.





We, along with the third-party service provider, intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

*Semiconductor Ideas to the Market BV*

On March 16, 2012, Semiconductor Ideas to the Market BV ("ITOM") filed suit against our subsidiary Hughes Network Systems, LLC, as well as Texas Instruments, Inc., Qualcomm, Inc., Broadcom Corp., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, Dell Inc., Apple Inc., Ford Motor Company, Buffalo Technology (USA) Inc., Amazon.com, Inc., Hughes Telematics, Inc., Motorola Mobility, Inc., Motorola Solutions, Inc., Honeywell International Inc., Koninklijke Philips Electronics N.V., and Philips Consumer Lifestyle International B.V. The suit was brought in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 7,299,018 which is entitled "Receiver comprising a digitally controlled capacitor bank" and United States Patent No. 7,072,614 which is entitled "Communication device." ITOM alleged infringement through use of various third-party chipsets in unspecified products and/or systems. A joint motion to dismiss Hughes Network Systems, LLC was granted on July 13, 2012.

**Note 11. Segment Reporting**

Operating segments are components of an enterprise for which separate financial information is available and regularly evaluated by the chief operating decision-maker(s) of an enterprise. Total assets by segment have not been specified because the information is not provided to our chief operating decision-maker on a regular basis. Under this definition, we operate two primary business segments.

- ***EchoStar Satellite Services*** — which uses 10 of our 11 owned and leased in-orbit satellites and related FCC licenses to lease capacity on a full-time and occasional-use basis primarily to DISH Network, and secondarily to Dish Mexico, United States government service providers, state agencies, Internet service providers, broadcast news organizations, programmers and private enterprise customers.
- ***Hughes*** — which provides satellite broadband Internet access to North American consumers and broadband network services and systems to the domestic and international enterprise markets. Hughes also provides managed services to large enterprises and networking systems solutions to customers for mobile satellite and wireless backhaul systems. Hughes became a new segment as a result of the Hughes Acquisition and the operating results of Hughes Communications are included in our results effective June 9, 2011. See Note 9 for further discussion of the Hughes Acquisition.

The "All Other and Eliminations" category consists of revenue and net income (loss) attributable to HSS from other operations including our corporate investment portfolio for which segment disclosure requirements do not apply. In addition, this category includes interest expense related to our 6 1/2% Senior Secured Notes due 2019 and our 7 5/8% Senior Notes due 2021 (collectively, the "Notes"), net of capitalized interest. Transactions between segments were not significant.

The following table reports our operating segment results and reconciles earnings before interest, taxes, depreciation and amortization ("EBITDA") to reported "Net income (loss) attributable to HSS" in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss):

| | EchoStar Satellite Services | Hughes | All Other and Eliminations | Consolidated Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| **For the Three Months Ended June 30, 2012** | | | | |
| Total revenue | $ 71,438 | $ 282,825 | $ (1,384) | $ 352,879 |
| EBITDA (1) | $ 53,472 | $ 70,224 | $ 729 | $ 124,425 |
| Interest income | — | 150 | 521 | 671 |
| Interest expense, net of amounts capitalized | (13,240) | (127) | (23,500) | (36,867) |
| Income tax benefit (provision), net | (2,707) | (5,484) | 7,689 | (502) |
| Depreciation and amortization | (31,439) | (55,659) | — | (87,098) |
| Net income (loss) attributable to HSS | $ 6,086 | $ 9,104 | $ (14,561) | $ 629 |
| **For the Three Months Ended June 30, 2011** | | | | |
| Total revenue | $ 69,538 | $ 81,923 | $ 56 | $ 151,517 |
| EBITDA (1) | $ 60,206 | $ 20,233 | $ (34,285) | $ 46,154 |
| Interest income | 255 | — | — | 255 |
| Interest expense, net of amounts capitalized | (10,012) | (2) | (3,666) | (13,680) |
| Income tax benefit (provision), net | (10,160) | (1,611) | 11,022 | (749) |
| Depreciation and amortization | (23,427) | (16,033) | — | (39,460) |
| Net income (loss) attributable to HSS | $ 16,862 | $ 2,587 | $ (26,929) | $ (7,480) |
| **For the Six Months Ended June 30, 2012** | | | | |
| Total revenue | $ 145,021 | $ 557,043 | $ (1,848) | $ 700,216 |
| EBITDA (1) | $ 105,672 | $ 139,426 | $ 2,420 | $ 247,518 |
| Interest income | 22 | 223 | 1,303 | 1,548 |
| Interest expense, net of amounts capitalized | (27,034) | (215) | (48,273) | (75,522) |
| Income tax benefit (provision), net | (5,359) | (10,702) | 16,224 | 163 |
| Depreciation and amortization | (62,878) | (111,247) | — | (174,125) |
| Net income (loss) attributable to HSS | $ 10,423 | $ 17,485 | $ (28,326) | $ (418) |
| **For the Six Months Ended June 30, 2011** | | | | |
| Total revenue | $ 137,399 | $ 81,923 | $ 99 | $ 219,421 |
| EBITDA (1) | $ 104,696 | $ 20,233 | $ (33,733) | $ 91,196 |
| Interest income | 285 | — | — | 285 |
| Interest expense, net of amounts capitalized | (18,282) | (2) | 1,171 | (17,113) |
| Income tax benefit (provision), net | (14,800) | (1,611) | 8,974 | (7,437) |
| Depreciation and amortization | (47,052) | (16,033) | 157 | (62,928) |
| Net income (loss) attributable to HSS | $ 24,847 | $ 2,587 | $ (23,431) | $ 4,003 |

(1) EBITDA is not a measure determined in accordance with GAAP and should not be considered 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 should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. EBITDA is used by our management as a measure of operating efficiency and overall financial performance for benchmarking against our peers and competitors. Management believes EBITDA provides meaningful supplemental information regarding 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 companies in our industries.



Table of Contents



***Geographic Information and Transactions with Major Customers***

***Geographic Information.*** Revenue is attributed to geographic regions based upon the location where the goods and services are provided. North American revenue includes transactions with North American customers. All other revenue includes transactions with customers in Asia, Africa, Australia, Europe, South America and the Middle East. The following table summarizes total long-lived assets, which includes property and equipment; goodwill; orbital rights and other intangible assets, and revenue attributed to the North American and other foreign locations.

| Long-lived assets: | As of June 30, 2012 | As of December 31, 2011 |
|---|---|---|
| | (In thousands) | |
| North America | $ 3,358,226 | $ 3,321,620 |

| | | | | |
|---|---|---|---|---|
| Other | | 92,206 | | 23,348 |
| Total long-lived assets | $ | 3,450,432 | $ | 3,344,968 |

| Revenue: | For the Three Months Ended June 30, 2012 | For the Three Months Ended June 30, 2011 | For the Six Months Ended June 30, 2012 | For the Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| | (In thousands) | | | |
| North America | $ 292,233 | $ 131,824 | $ 585,251 | $ 189,755 |
| Other | 60,646 | 19,693 | 114,965 | 29,666 |
| Total revenue | $ 352,879 | $ 151,517 | $ 700,216 | $ 219,421 |

***Transactions with Major Customers.*** During the three and six months ended June 30, 2012 and 2011, our revenue included sales to DISH Network, our major customer. The following table summarizes sales to DISH Network and its percentage of total revenue.

| | For the Three Months Ended June 30, 2012 | For the Three Months Ended June 30, 2011 | For the Six Months Ended June 30, 2012 | For the Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Total revenue:** | | | | |
| DISH Network: | | | | |
| EchoStar Satellite Services segment | $ 53,877 | $ 52,982 | $ 107,510 | $ 106,028 |
| Hughes segment | 3,783 | — | 4,314 | — |
| Total DISH Network | 57,660 | 52,982 | 111,824 | 106,028 |
| All other | 295,219 | 98,535 | 588,392 | 113,393 |
| Total revenue | $ 352,879 | $ 151,517 | $ 700,216 | $ 219,421 |
| **Percentage of total revenue:** | | | | |
| DISH Network | 16.3% | 35.0% | 16.0% | 48.3% |
| All other | 83.7% | 65.0% | 84.0% | 51.7% |





## Note 12. 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. In addition, we occupy certain office space in buildings owned 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. 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 these services of $4 million and $2 million for the three months ended June 30, 2012 and 2011, respectively, and $7 million and $4 million for the six months ended June 30, 2012 and 2011, respectively.

### DISH Network

Following the Spin-off, EchoStar and DISH Network have operated as separate public companies and DISH Network has no ownership interest in EchoStar or us. However, a substantial majority of the voting power of the shares of EchoStar and DISH Network is owned beneficially by Charles W. Ergen, our Chairman, or by certain trusts established by Mr. Ergen for the benefit of his family.

EchoStar and DISH Network have entered into certain agreements pursuant to which EchoStar and we 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. 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 the principal agreements that EchoStar or we have entered into with DISH Network that may have an impact on our financial position and results of operations.

***"Services and other revenue — DISH Network"***

*Satellite Capacity Agreements.* Since the Spin-off, we have entered into certain satellite capacity agreements pursuant to which DISH Network leases satellite capacity on certain satellites owned or leased by us. The fees for the leases provided under these satellite capacity agreements depend, among other things, upon the orbital location of the applicable satellite and the length of the lease. The term of each lease is set forth below:

> *EchoStar VI, VIII and XII.* DISH Network leases certain satellite capacity from us on EchoStar VI, VIII and XII. The leases generally terminate upon the earlier of: (i) the end of life or replacement of the satellite (unless DISH Network determines to renew on a year-to-year basis); (ii) the date the satellite fails; (iii) the date the transponders on which service is being provided fails; or (iv) a certain date, which depends upon, among other things, the estimated useful life of the satellite, whether the replacement satellite fails at launch or in orbit prior to being placed into service, and the exercise of certain renewal options. DISH Network generally has the option to renew each lease 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.

Table of Contents

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

*EchoStar IX*. DISH Network leases certain satellite capacity from us on EchoStar IX. Subject to availability, DISH Network generally has the right to continue to lease satellite capacity from us on EchoStar IX on a month-to-month basis.

*EchoStar XVI.* DISH Network will lease certain satellite capacity from us on EchoStar XVI after its service commencement date, and this lease generally terminates 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) ten years following the actual service commencement date. Upon expiration of the initial term, DISH Network has the option to renew on a year-to-year basis through the end of life of the satellite. There can be no assurance that any options to renew this agreement will be exercised. EchoStar XVI is expected to be launched in the second half of 2012.

*EchoStar XV.* EchoStar XV is owned by DISH Network and is operated at the 61.5 degree west longitude orbital location. The FCC has granted us an authorization to operate the satellite at the 61.5 degree west longitude orbital location. For so long as EchoStar XV remains in service at the 61.5 degree west longitude orbital location, DISH Network is obligated to pay us a fee for the use of the orbital slot which varies depending on the number of frequencies being used by EchoStar XV.

*Nimiq 5 Agreement.* During 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”). During 2009, DISH Network also entered into a satellite service agreement (the “DISH Nimiq 5 Agreement”) with us, pursuant to which they receive service 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 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 it 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.* During 2008, we entered into a ten-year satellite service agreement with SES, which provides, among other things, for the provision by SES to us of service on 32 DBS transponders on the QuetzSat-1 satellite. This satellite was launched on September 29, 2011 and was placed into service during the fourth quarter of 2011 at the 67.1 degree west longitude orbital location while we and DISH Network explore alternative uses for the QuetzSat-1 satellite. In the interim, we are providing DISH Network with alternate capacity at the 77 degree west longitude orbital location. We commenced payments under our agreement with SES upon the placement of the QuetzSat-1 satellite at the 67.1 degree west longitude orbital location. During 2008, we also entered into a transponder service agreement with DISH Network pursuant to which DISH Network will receive service from us on 24 of the DBS transponders on QuetzSat-1, which will replace certain other transponders leased from us.

Under the terms of our contractual arrangements with DISH Network, we will recognize revenue for the QuetzSat-1 satellite when it is placed into service at the 77 degree west longitude orbital location and continuing 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



Table of Contents

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

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.

*TT&C Agreement.* In connection with the Spin-off, we entered into a telemetry, tracking and control (“TT&C”) agreement pursuant to which we provided TT&C services to DISH Network for a period ending on January 1, 2012 (the “Prior TT&C Agreement”). The fees for services provided under the Prior TT&C Agreement were calculated at cost plus a fixed margin. DISH Network was able to terminate the Prior TT&C Agreement for any reason upon 60 days notice.

On January 1, 2012, we entered into a TT&C agreement pursuant to which we will continue to provide TT&C services to DISH Network and its subsidiaries for a period ending on December 31, 2016 (the “2012 TT&C Agreement”). The material terms of the 2012 TT&C Agreement are substantially the same as the material terms of the Prior TT&C Agreement, except that 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.

*Blockbuster.* On April 26, 2011, DISH Network acquired substantially all of the assets of Blockbuster, Inc. (the “Blockbuster Acquisition”). On June 8, 2011, we completed the Hughes Acquisition. Hughes provided certain broadband products and services to Blockbuster pursuant to an agreement that was entered into prior to the Blockbuster Acquisition and the Hughes Acquisition. Subsequent to both the Blockbuster Acquisition and the Hughes Acquisition, Blockbuster entered into a new agreement with Hughes pursuant to which Blockbuster may continue to purchase broadband products and services from Hughes. The term of the agreement is through October 31, 2014 and Blockbuster has the option to renew the agreement for an additional one year period.

*RUS Implementation Agreement.* In September 2010, DISH Broadband L.L.C. ("DISH Broadband"), DISH Network's wholly owned subsidiary, was selected by the Rural Utilities Service ("RUS") of the United States Department of Agriculture to receive up to approximately $14 million in broadband stimulus grant funds (the "Grant Funds"). Effective November 2011, Hughes Communications and DISH Broadband entered into a RUS Implementation Agreement (the "RUS Agreement") pursuant to which Hughes Communications provides certain portions of the equipment and broadband service used to implement DISH Broadband's RUS program. The initial term of the RUS Agreement shall continue until the earlier of: (i) September 24, 2013; or (ii) the date that the Grant Funds have been exhausted. In addition, DISH Broadband may terminate the RUS Agreement for convenience upon 45 days prior written notice to Hughes Communications.

***"General and administrative expenses — DISH Network"***

*Management Services Agreement.* EchoStar entered into a Management Services Agreement with DISH Network pursuant to which DISH Network makes certain of its officers available to provide services (which are primarily legal and accounting services) to us and EchoStar. Specifically, Paul W. Orban remains employed by DISH Network, but also served as EchoStar's Senior Vice President and Controller through April 2012. In addition, R. Stanton Dodge remains employed by DISH Network, but also served as EchoStar's and our Executive Vice President, General Counsel and Secretary through November 2011. EchoStar makes payments to DISH Network based upon an allocable portion of the personnel costs and expenses incurred by DISH Network with respect to such DISH Network officers (taking into account wages and fringe benefits). These allocations are based upon the estimated percentages of time to be spent by the DISH Network executive officers performing services for us and EchoStar under the Management Services Agreement. EchoStar also reimburses DISH Network for direct out-of-pocket costs incurred by DISH Network for management services provided to us and EchoStar. EchoStar and DISH Network evaluate all charges for reasonableness at least annually and make any adjustments to these charges as EchoStar and DISH Network mutually agree upon. A portion of these costs and expenses has been allocated to us in the manner described above under the caption "EchoStar."



---



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

The Management Services Agreement automatically renewed on January 1, 2012 for an additional one-year period until January 1, 2013 and renews automatically for successive one-year periods thereafter, unless terminated earlier: (i) by us at any time upon at least 30 days notice; (ii) by DISH Network at the end of any renewal term, upon at least 180 days notice; or (iii) by DISH Network upon notice to us, following certain changes in control.

*Professional Services Agreement.* Prior to 2010, 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 on January 1, 2010 and were replaced by a Professional Services Agreement. During 2009, 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 shall 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) and receive logistics, procurement and quality assurance services from EchoStar (previously provided under the Services Agreement). A portion of these costs and expenses has been allocated to us in the manner described above under the caption "EchoStar." The Professional Services Agreement automatically renewed on January 1, 2012 for an additional one-year period until January 1, 2013 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***

*Satellite Capacity Leased from DISH Network.* During 2009, we entered into a satellite capacity agreement pursuant to which we lease certain satellite capacity from DISH Network on EchoStar I. The fee for the services provided under this satellite capacity agreement depends, among other things, upon the orbital location of the satellite and the length of the lease. The amount of those fees included in "Cost of sales — services and other" on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) was $4 million and $6 million for the three months ended June 30, 2012 and 2011, respectively, and $8 million and $11 million for the six months ended June 30, 2012 and 2011, respectively. The lease generally terminates upon the earlier of: (i) the end of life or replacement of the satellite (unless we determine to renew on a year-to-year basis); (ii) the date the satellite fails; (iii) the date the transponder on which service is being provided fails; or (iv) a certain date, which depends, among other things, upon the estimated useful life of the satellite, whether the replacement satellite fails at launch or in orbit prior to being placed into service, and the exercise of certain renewal options. We generally have the option to renew this lease 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.

*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 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

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

the full period of all applicable statutes of limitations, including extensions, or once all rights and obligations are fully effectuated or performed.

*DBSD North America Agreement.* On March 9, 2012, DISH Network completed its acquisition of 100% of the equity of reorganized DBSD North America. Prior to DISH Network's acquisition of DBSD North America and our completion of the Hughes Acquisition, DBSD North America and Hughes Network Systems, LLC ("HNS"), a wholly-owned subsidiary of Hughes, 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 was renewed for a one year period ending on February 15, 2013, and renews for four successive one-year periods unless terminated by DBSD North America upon at least 30 days notice prior to the expiration of any renewal term.

*TerreStar Agreement.* On March 9, 2012, DISH Network completed its acquisition of substantially all the assets of 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.

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

We contract with Hughes Systique for software development services. In addition to our 45% ownership in Hughes Systique, Mr. Pradman Kaul, the President of Hughes Communications, Inc. and a member of EchoStar's Board of Directors and his brother, who is the CEO and President of Hughes Systique, in the aggregate, owned approximately 26%, on an undiluted basis, of Hughes Systique's outstanding shares as of June 30, 2012. Furthermore, Mr. Pradman Kaul serves on the board of directors of Hughes Systique. We are considered the "primary beneficiary" of Hughes Systique and as a result, we are required to consolidate Hughes Systique's results of operations in our operating results. During the three and six month ended June 30, 2012, Hughes Systique provided $0.3 million and $0.5 million, respectively, of software development services to EchoStar.

**Dish Mexico**

During 2008, EchoStar entered into a joint venture for a direct-to-home ("DTH") satellite service in Mexico known as Dish Mexico. Pursuant to these arrangements, we provide satellite capacity to Dish Mexico. We recognized $2.1 million for each of the three months ended June 30, 2012 and 2011 and $4.3 million for each of the six months ended June 30, 2012 and 2011 of satellite services revenue from Dish Mexico. As of each of June 30, 2012 and December 31, 2011, our accounts receivable balance due from Dish Mexico was $1.3 million and $0.7 million, respectively.

**Note 13. Supplemental Guarantor and Non-Guarantor Financial Information**

Certain of the Company's wholly-owned subsidiaries (together, the "Guarantor Subsidiaries") have fully and unconditionally guaranteed, on a joint and several basis, the obligations of the Company under the Notes, which were issued on June 1, 2011.







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 the Company, the Guarantor Subsidiaries on a combined basis and the non-guarantor subsidiaries of the Company on a combined basis and the eliminations necessary to arrive at the corresponding information of the Company on a consolidated basis.

The indentures governing the Notes contain restrictive covenants that, among other things, impose limitations on the ability of the Company and certain of its restricted 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 should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

**Condensed Consolidating Balance Sheet as of June 30, 2012**
(In thousands)

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 11,390 | $ 39,556 | $ 12,160 | $ — | $ 63,106 |
| Marketable investment securities | 141,555 | 16,132 | — | — | 157,687 |
| Trade account receivables, net | — | 124,449 | 59,594 | — | 184,043 |
| Trade account receivables - DISH Network, net | — | 44,281 | — | — | 44,281 |
| Advances to affiliates, net | 521,590 | — | — | (509,745) | 11,845 |
| Inventory | — | 41,778 | 10,742 | — | 52,520 |

| | | | | | |
|---|---|---|---|---|---|
| Other current assets | 4,305 | 39,339 | 20,239 | (140) | 63,743 |
| Total current assets | 678,840 | 305,535 | 102,735 | (509,885) | 577,225 |
| Restricted cash and cash equivalents | 6,678 | 15,036 | 1,121 | — | 22,835 |
| Property and equipment, net | — | 2,077,628 | 24,356 | — | 2,101,984 |
| Orbital rights, net | — | 465,658 | 71,436 | — | 537,094 |
| Goodwill | — | 504,173 | — | — | 504,173 |
| Other intangible assets, net | — | 307,181 | — | — | 307,181 |
| Investment in subsidiaries | — | 56,998 | — | (56,998) | — |
| Intercompany note receivables | 2,353,680 | — | — | (2,353,680) | — |
| Other noncurrent assets, net | 53,181 | 138,696 | 6,015 | (8,804) | 189,088 |
| Total assets | $ 3,092,379 | $ 3,870,905 | $ 205,663 | $ (2,929,367) | $ 4,239,580 |
| **Liabilities and Shareholder's Equity (Deficit)** | | | | | |
| Trade accounts payable | $ — | $ 86,654 | $ 15,126 | $ — | $ 101,780 |
| Trade accounts payable - DISH Network | 5 | 9,112 | — | — | 9,117 |
| Acquisition of orbital slot | — | — | 64,651 | — | 64,651 |
| Accrued expenses and other | 17,891 | 104,562 | 31,299 | (1,428) | 152,324 |
| Advances from affiliates, net | — | 537,913 | 15,925 | (553,838) | — |
| Current portion of long-term debt and capital lease obligations | — | 63,420 | 1,179 | — | 64,599 |
| Total current liabilities | 17,896 | 801,661 | 128,180 | (555,266) | 392,471 |
| Long-term debt and capital lease obligations, net of current portion | 2,000,000 | 455,619 | 1,017 | — | 2,456,636 |
| Advances from affiliates | — | — | 8,000 | — | 8,000 |
| Intercompany note payables | — | 2,353,680 | — | (2,353,680) | — |
| Other long-term liabilities | 408 | 305,412 | 2,617 | (8,890) | 299,547 |
| Total HSS shareholder's equity (deficit) | 1,074,075 | (45,467) | 56,998 | (11,531) | 1,074,075 |
| Noncontrolling interests | — | — | 8,851 | — | 8,851 |
| Total liabilities and shareholder's equity (deficit) | $ 3,092,379 | $ 3,870,905 | $ 205,663 | $ (2,929,367) | $ 4,239,580 |



Table of Contents



**Condensed Consolidating Balance Sheet as of December 31, 2011**
(In thousands)

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 70,603 | $ 40,854 | $ 13,546 | $ — | $ 125,003 |
| Marketable investment securities | 254,656 | 6,426 | — | — | 261,082 |
| Trade accounts receivable, net | — | 112,507 | 59,410 | — | 171,917 |
| Trade accounts receivable - DISH Network, net | — | 33,128 | — | — | 33,128 |
| Advances to affiliates, net | 424,597 | — | — | (420,380) | 4,217 |
| Inventory | — | 39,735 | 7,823 | — | 47,558 |
| Other current assets | 4,288 | 49,968 | 19,883 | — | 74,139 |
| Total current assets | 754,144 | 282,618 | 100,662 | (420,380) | 717,044 |
| Restricted cash and cash equivalents | 4,410 | 17,865 | 1,265 | — | 23,540 |
| Property and equipment, net | — | 1,995,043 | 26,862 | — | 2,021,905 |
| Goodwill | — | 516,198 | — | — | 516,198 |
| Orbital rights, net | — | 465,658 | — | — | 465,658 |
| Other intangible assets, net | — | 341,207 | — | — | 341,207 |
| Investment in subsidiaries | — | 58,861 | — | (58,861) | — |
| Intercompany note and interest receivables | 2,271,522 | — | — | (2,271,522) | — |
| Other noncurrent assets, net | 55,405 | 102,956 | 7,046 | (2,122) | 163,285 |
| Total assets | $ 3,085,481 | $ 3,780,406 | $ 135,835 | $ (2,752,885) | $ 4,248,837 |
| **Liabilities and Shareholder's Equity (Deficit)** | | | | | |
| Trade accounts payable | $ 39 | $ 123,787 | $ 18,107 | $ — | $ 141,933 |
| Trade accounts payable - DISH Network | 5 | 10,095 | — | — | 10,100 |
| Advances from affiliates, net | — | 432,838 | 21,594 | (454,432) | — |
| Accrued expenses and other | 17,817 | 133,051 | 23,927 | — | 174,795 |
| Current portion of long-term debt and capital lease obligations | — | 62,708 | 1,467 | — | 64,175 |
| Total current liabilities | 17,861 | 762,479 | 65,095 | (454,432) | 391,003 |
| Long-term debt and capital lease obligations, net of current portion | 2,000,000 | 467,408 | 1,479 | — | 2,468,887 |
| Intercompany note and interest payables | — | 2,271,522 | — | (2,271,522) | — |
| Other long-term liabilities | — | 311,742 | 2,597 | (2,122) | 312,217 |
| Total HSS shareholder's equity (deficit) | 1,067,620 | (32,745) | 57,554 | (24,809) | 1,067,620 |
| Noncontrolling interests | — | — | 9,110 | — | 9,110 |
| Total liabilities and shareholder's equity (deficit) | $ 3,085,481 | $ 3,780,406 | $ 135,835 | $ (2,752,885) | $ 4,248,837 |

Table of Contents



**Condensed Consolidating Statement of Operations for the Three Months Ended June 30, 2012**
(In thousands)

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Services and other revenue | $ — | $ 199,433 | $ 35,374 | $ (3,223) | $ 231,584 |
| Services and other revenue - DISH Network | — | 57,660 | — | — | 57,660 |
| Equipment revenue | — | 57,508 | 9,621 | (3,494) | 63,635 |
| Total revenue | — | 314,601 | 44,995 | (6,717) | 352,879 |
| **Costs and Expenses:** | | | | | |
| Costs of sales - services and other | — | 99,592 | 23,098 | (3,105) | 119,585 |
| Cost of sales - equipment | — | 49,226 | 6,982 | (3,633) | 52,575 |
| Selling, general and administrative expenses | 712 | 47,097 | 8,232 | 21 | 56,062 |
| Research and development expenses | — | 5,205 | — | — | 5,205 |
| Depreciation and amortization | — | 84,691 | 2,407 | — | 87,098 |
| Total costs and expenses | 712 | 285,811 | 40,719 | (6,717) | 320,525 |
| Operating income (loss) | (712) | 28,790 | 4,276 | — | 32,354 |
| **Other Income (expense):** | | | | | |
| Interest income | 45,638 | 29 | 818 | (45,814) | 671 |
| Interest expense, net of amounts capitalized | (36,275) | (45,594) | (812) | 45,814 | (36,867) |
| Equity in earnings of subsidiaries | (10,952) | 2,694 | — | 8,258 | — |
| Other, net | 5 | 5,323 | (587) | — | 4,741 |
| Total other income (expense) | (1,584) | (37,548) | (581) | 8,258 | (31,455) |
| Income (loss) before income taxes | (2,296) | (8,758) | 3,695 | 8,258 | 899 |
| Income tax (provision) benefit, net | 2,925 | (2,370) | (1,057) | — | (502) |
| Net income (loss) | 629 | (11,128) | 2,638 | 8,258 | 397 |
| Less: Net income (loss) attributable to noncontrolling interests | — | — | (232) | — | (232) |
| Net income (loss) attributable to HSS | $ 629 | $ (11,128) | $ 2,870 | $ 8,258 | $ 629 |
| **Comprehensive Income (Loss):** | | | | | |
| Net income (loss) | $ 629 | $ (11,128) | $ 2,638 | $ 8,258 | $ 397 |
| Other comprehensive income (loss), net of tax: | | | | | |
| Foreign currency translation adjustments | — | — | (6,839) | — | (6,839) |
| Unrealized holding gains (losses) on available-for-sale securities | 267 | 10,732 | — | — | 10,999 |
| Equity in other comprehensive income (loss) of subsidiaries | 4,259 | (6,473) | — | 2,214 | — |
| Total other comprehensive income (loss), net of tax: | 4,526 | 4,259 | (6,839) | 2,214 | 4,160 |
| Comprehensive income (loss) | 5,155 | (6,869) | (4,201) | 10,472 | 4,557 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | — | — | (598) | — | (598) |
| Comprehensive income (loss) attributable to HSS | $ 5,155 | $ (6,869) | $ (3,603) | $ 10,472 | $ 5,155 |



Table of Contents



**Condensed Consolidating Statement of Operations for the Three Months Ended June 30, 2011**
(In thousands)

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Services and other revenue | $ — | $ 65,140 | $ 9,667 | $ (1,495) | $ 73,312 |
| Services and other revenue - DISH Network | — | 52,982 | — | — | 52,982 |
| Equipment revenue | — | 21,001 | 5,398 | (1,176) | 25,223 |
| Total revenue | — | 139,123 | 15,065 | (2,671) | 151,517 |
| **Costs and Expenses:** | | | | | |
| Costs of sales - services and other | — | 36,784 | 7,470 | (1,424) | 42,830 |
| Cost of sales - equipment | — | 17,413 | 3,481 | (1,085) | 19,809 |
| Selling, general and administrative expenses | 20 | 13,420 | 2,530 | (162) | 15,808 |

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Research and development expenses | — | 1,297 | — | — | 1,297 |
| Depreciation and amortization | — | 38,862 | 598 | — | 39,460 |
| Total costs and expenses | 20 | 107,776 | 14,079 | (2,671) | 119,204 |
| Operating income (loss) | (20) | 31,347 | 986 | — | 32,313 |
| **Other Income (expense):** | | | | | |
| Interest income | 10,689 | 69 | 35 | (10,538) | 255 |
| Interest expense, net of amounts capitalized | (12,202) | (12,001) | (15) | 10,538 | (13,680) |
| Equity in earnings of subsidiaries | 16,064 | 191 | — | (16,255) | — |
| Other, net | (34,500) | 8,879 | 89 | — | (25,532) |
| Total other income (expense) | (19,949) | (2,862) | 109 | (16,255) | (38,957) |
| Income (loss) before income taxes | (19,969) | 28,485 | 1,095 | (16,255) | (6,644) |
| Income tax (provision) benefit, net | 12,489 | (12,329) | (909) | — | (749) |
| Net income (loss) | (7,480) | 16,156 | 186 | (16,255) | (7,393) |
| Less: Net income (loss) attributable to noncontrolling interests | — | — | 87 | — | 87 |
| Net income (loss) attributable to HSS | $ (7,480) | $ 16,156 | $ 99 | $ (16,255) | $ (7,480) |
| **Comprehensive Income (Loss):** | | | | | |
| Net income (loss) | $ (7,480) | $ 16,156 | $ 186 | $ (16,255) | $ (7,393) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Foreign currency translation adjustments | — | — | (715) | — | (715) |
| Unrealized holding gains (losses) on available-for-sale securities | (938) | (67) | — | — | (1,005) |
| Equity in other comprehensive income (loss) of subsidiaries | (428) | (362) | — | 790 | — |
| Total other comprehensive income (loss), net of tax | (1,366) | (429) | (715) | 790 | (1,720) |
| Comprehensive income (loss) | (8,846) | 15,727 | (529) | (15,465) | (9,113) |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | — | — | (267) | — | (267) |
| Comprehensive income (loss) attributable to HSS | $ (8,846) | $ 15,727 | $ (262) | $ (15,465) | $ (8,846) |



Table of Contents

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

**Condensed Consolidating Statement of Operations for the Six Months Ended June 30, 2012**
(In thousands)

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Services and other revenue | $ — | $ 405,179 | $ 72,089 | $ (6,137) | $ 471,131 |
| Services and other revenue - DISH Network | — | 111,824 | — | — | 111,824 |
| Equipment revenue | — | 109,691 | 16,444 | (8,874) | 117,261 |
| Total revenue | — | 626,694 | 88,533 | (15,011) | 700,216 |
| **Costs and Expenses:** | | | | | |
| Costs of sales - services and other | — | 196,909 | 47,244 | (5,877) | 238,276 |
| Cost of sales - equipment | — | 95,210 | 12,002 | (8,329) | 98,883 |
| Selling, general and administrative expenses | 1,263 | 94,192 | 17,188 | (805) | 111,838 |
| Research and development expenses | — | 10,162 | — | — | 10,162 |
| Depreciation and amortization | — | 169,576 | 4,549 | — | 174,125 |
| Total costs and expenses | 1,263 | 566,049 | 80,983 | (15,011) | 633,284 |
| Operating income (loss) | (1,263) | 60,645 | 7,550 | — | 66,932 |
| **Other Income (expense):** | | | | | |
| Interest income | 91,038 | 230 | 1,410 | (91,130) | 1,548 |
| Interest expense, net of amounts capitalized | (72,519) | (92,668) | (1,465) | 91,130 | (75,522) |
| Equity in earnings of subsidiaries | (17,289) | 3,713 | — | 13,576 | — |
| Other, net | 23 | 7,173 | (1,054) | — | 6,142 |
| Total other income (expense) | 1,253 | (81,552) | (1,109) | 13,576 | (67,832) |
| Income (loss) before income taxes | (10) | (20,907) | 6,441 | 13,576 | (900) |
| Income tax (provision) benefit, net | (408) | 3,522 | (2,951) | — | 163 |
| Net income (loss) | (418) | (17,385) | 3,490 | 13,576 | (737) |
| Less: Net income (loss) attributable to noncontrolling interests | — | — | (319) | — | (319) |
| Net income (loss) attributable to HSS | $ (418) | $ (17,385) | $ 3,809 | $ 13,576 | $ (418) |
| **Comprehensive Income (Loss):** | | | | | |
| Net income (loss) | $ (418) | $ (17,385) | $ 3,490 | $ 13,576 | $ (737) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Foreign currency translation adjustments | — | — | (4,351) | — | (4,351) |
| Unrealized holding gains (losses) on available-for-sale securities | 998 | 9,706 | — | — | 10,704 |
| Equity in other comprehensive income (loss) of subsidiaries | 5,463 | (4,243) | — | (1,220) | — |
| Total other comprehensive income (loss), net of tax: | 6,461 | 5,463 | (4,351) | (1,220) | 6,353 |
| Comprehensive income (loss) | 6,043 | (11,922) | (861) | 12,356 | 5,616 |
| Less: Comprehensive income (loss) attributable to noncontrolling | — | — | (427) | — | (427) |

| | | | | | |
|---|---|---|---|---|---|
| interests | | | | | |
| Comprehensive income (loss) attributable to HSS | $ 6,043 | $ (11,922) | $ (434) | $ 12,356 | $ 6,043 |



Table of Contents

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

**Condensed Consolidating Statement of Operations for the Six Months Ended June 30, 2011**
(In thousands)

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Services and other revenue | $ — | $ 80,034 | $ 9,667 | $ (1,495) | $ 88,206 |
| Services and other revenue - DISH Network | — | 106,028 | — | — | 106,028 |
| Equipment revenue | — | 20,965 | 5,398 | (1,176) | 25,187 |
| Total revenue | — | 207,027 | 15,065 | (2,671) | 219,421 |
| **Costs and Expenses:** | | | | | |
| Costs of sales - services and other | — | 53,851 | 7,470 | (1,424) | 59,897 |
| Cost of sales - equipment | — | 17,416 | 3,481 | (1,085) | 19,812 |
| Selling, general and administrative expenses | 20 | 19,520 | 2,621 | (162) | 21,999 |
| Research and development expenses | — | 1,297 | — | — | 1,297 |
| Depreciation and amortization | — | 62,330 | 598 | — | 62,928 |
| Total costs and expenses | 20 | 154,414 | 14,170 | (2,671) | 165,933 |
| Operating income (loss) | (20) | 52,613 | 895 | — | 53,488 |
| **Other Income (expense):** | | | | | |
| Interest income | 10,691 | 99 | 35 | (10,540) | 285 |
| Interest expense, net of amounts capitalized | (12,202) | (15,434) | (17) | 10,540 | (17,113) |
| Equity in earnings of subsidiaries | 27,545 | 191 | — | (27,736) | — |
| Other, net | (34,500) | 9,278 | 89 | — | (25,133) |
| Total other income (expense) | (8,466) | (5,866) | 107 | (27,736) | (41,961) |
| Income (loss) before income taxes | (8,486) | 46,747 | 1,002 | (27,736) | 11,527 |
| Income tax (provision) benefit, net | 12,489 | (19,017) | (909) | — | (7,437) |
| Net income (loss) | 4,003 | 27,730 | 93 | (27,736) | 4,090 |
| Less: Net income (loss) attributable to noncontrolling interests | — | — | 87 | — | 87 |
| Net income (loss) attributable to HSS | $ 4,003 | $ 27,730 | $ 6 | $ (27,736) | $ 4,003 |
| **Comprehensive Income (Loss):** | | | | | |
| Net income (loss) | $ 4,003 | $ 27,730 | $ 93 | $ (27,736) | $ 4,090 |
| Other comprehensive income (loss), net of tax: | | | | | |
| Foreign currency translation adjustments | — | — | (715) | — | (715) |
| Unrealized holding gains (losses) on available-for-sale securities | (938) | (67) | — | — | (1,005) |
| Equity in other comprehensive income (loss) of subsidiaries | (428) | (362) | — | 790 | — |
| Total other comprehensive income (loss), net of tax | (1,366) | (429) | (715) | 790 | (1,720) |
| Comprehensive income (loss) | 2,637 | 27,301 | (622) | (26,946) | 2,370 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | — | — | (267) | — | (267) |
| Comprehensive income (loss) attributable to HSS | $ 2,637 | $ 27,301 | $ (355) | $ (26,946) | $ 2,637 |



Table of Contents

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

**Condensed Consolidating Statement of Cash Flows for the Six Months Ended June 30, 2012**
(In thousands)

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Cash Flows From Operating Activities:** | | | | | |
| Net income (loss) | $ (418) | $ (17,385) | $ 3,490 | $ 13,576 | $ (737) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities | (166,992) | 291,561 | (2,754) | (13,576) | 108,239 |
| **Net cash flows from operating activities** | (167,410) | 274,176 | 736 | — | 107,502 |
| **Cash Flows From Investing Activities:** | | | | | |
| Purchases of marketable investment securities | (63,916) | — | — | — | (63,916) |
| Sales and maturities of marketable investment securities | 174,953 | — | — | — | 174,953 |

| | | | | | |
|---|---|---|---|---|---|
| Purchases of property and equipment | — | (231,555) | (2,792) | — | (234,347) |
| Acquisitions of orbital slots | — | (9,981) | (8,000) | — | (17,981) |
| Change in restricted cash and cash equivalents | (2,269) | 2,830 | 144 | — | 705 |
| Other, net | (342) | (6,071) | — | — | (6,413) |
| **Net cash flows from investing activities** | 108,426 | (244,777) | (10,648) | — | (146,999) |
| **Cash Flows From Financing Activities:** | | | | | |
| Repayment of long-term debt and capital lease obligations | — | (30,703) | (968) | — | (31,671) |
| Debt issuance costs | (229) | — | — | — | (229) |
| Net proceeds from issuance of long-term debt | — | 6 | 311 | — | 317 |
| Advances from affilates | — | — | 8,000 | — | 8,000 |
| **Net cash flows from financing activities** | (229) | (30,697) | 7,343 | — | (23,583) |
| **Effect of exchange rates on cash and cash equivalents** | | | 1,183 | | 1,183 |
| Net increase (decrease) in cash and cash equivalents | (59,213) | (1,298) | (1,386) | — | (61,897) |
| Cash and cash equivalents, at beginning of period | 70,603 | 40,854 | 13,546 | — | 125,003 |
| Cash and cash equivalents, at end of period | $ 11,390 | $ 39,556 | $ 12,160 | $ — | $ 63,106 |





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

**Condensed Consolidating Statement of Cash Flows for the Six Months Ended June 30, 2011**
(In thousands)

| | HSS | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Cash Flows From Operating Activities:** | | | | | |
| Net income (loss) | $ 4,003 | $ 27,730 | $ 93 | $ (27,736) | $ 4,090 |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities | 995 | (10,476) | 419 | 27,736 | 18,674 |
| **Net cash flows from operating activities** | 4,998 | 17,254 | 512 | — | 22,764 |
| **Cash Flows From Investing Activities:** | | | | | |
| Purchases of marketable investment securities | (120,951) | — | — | — | (120,951) |
| Sales and maturities of marketable investment securities | 330,242 | 18,974 | — | — | 349,216 |
| Purchases of property and equipment | — | (66,361) | (516) | — | (66,877) |
| Acquisition of Hughes Communications, net | — | (2,087,862) | 12,249 | — | (2,075,613) |
| Intercompany note relating to Hughes Acquisition | (2,174,614) | — | — | 2,174,614 | — |
| Change in restricted cash and cash equivalents | — | 635 | (583) | — | 52 |
| Other, net | 654 | (2,338) | (153) | — | (1,837) |
| **Net cash flows from investing activities** | (1,964,669) | (2,136,952) | 10,997 | 2,174,614 | (1,916,010) |
| **Cash Flows From Financing Activities:** | | | | | |
| Repayment of long-term debt and capital lease obligations | — | (24,318) | — | — | (24,318) |
| Intercompany note relating to Hughes Acquisition | — | 2,174,614 | — | (2,174,614) | — |
| Debt issuance costs | (55,845) | — | — | — | (55,845) |
| Net proceeds from issuance of long-term debt | 2,000,000 | — | — | — | 2,000,000 |
| Contributions from parent | 166,379 | — | — | — | 166,379 |
| Other | — | 25 | 17 | — | 42 |
| **Net cash flows from financing activities** | 2,110,534 | 2,150,321 | 17 | (2,174,614) | 2,086,258 |
| **Effect of exchange rates on cash and cash equivalents** | — | — | 146 | — | 146 |
| Net increase (decrease) in cash and cash equivalents | 150,863 | 30,623 | 11,672 | — | 193,158 |
| Cash and cash equivalents, at beginning of period | — | — | 106 | — | 106 |
| Cash and cash equivalents, at end of period | $ 150,863 | $ 30,623 | $ 11,778 | $ — | $ 193,264 |





**Item 2. MANAGEMENT’S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS**

*You should read the following management’s narrative analysis of results of operations together with the condensed consolidated financial statements and notes to the financial statements included elsewhere in this quarterly report. This management’s narrative analysis is intended to help provide an understanding of our financial condition, changes in financial condition and results of our operations and contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in our Annual Report on Form 10-K for the year ended December 31, 2011 under the caption “Item 1A. Risk Factors.”*

**EXECUTIVE SUMMARY**

We are a holding company, whose subsidiaries operate two primary business segments: the EchoStar Satellite Services segment and the Hughes segment.

**EchoStar Satellite Services Segment**

Our EchoStar Satellite Services segment uses ten of our owned and leased in-orbit satellites and related Federal Communications Commission licenses to lease capacity on a full-time and occasional-use basis primarily to DISH Network, and secondarily to Dish Mexico, S. de R.L. de C.V., United States government service providers, state agencies, Internet service providers, broadcast news organizations, programmers and private enterprise customers. Furthermore, we continue to pursue expanding our business offerings by providing value added services such as telemetry, tracking and control services to third parties. However, there can be no assurance that we will be able to effectively compete against our competitors due to their significant resources and operating history.

As of June 30, 2012 and December 31, 2011, our EchoStar Satellite Services segment had contracted revenue backlog attributable to satellites currently in-orbit of approximately $1.156 billion and $1.285 billion, respectively, and contracted backlog attributable to satellites under construction of approximately $621 million at each of these dates.

***Dependence on DISH Network.*** We depend on DISH Network for a substantial portion of the revenue for our EchoStar Satellite Services segment. Therefore, our results of operations are and will for the foreseeable future be closely linked to the performance of DISH Network's pay-TV service.

While we expect to continue to provide satellite services to DISH Network for the foreseeable future, its satellite capacity requirements may change for a variety of reasons, including the launch of its own additional satellites. Any termination or reduction in the services we provide to DISH Network would increase excess capacity on our satellites and require that we aggressively pursue alternative sources of revenue for this segment.

In addition, because the number of potential new customers for our EchoStar Satellite Services segment is small, our current customer concentration is likely to continue for the foreseeable future. Our future success may also depend on the extent to which prospective customers that have been competitors of DISH Network are willing to purchase services from us. Many of these prospective customers may view us as a competitor given the common ownership we continue to share with DISH Network.

***Additional Challenges for our EchoStar Satellite Services Segment.*** Our ability to expand revenues in the EchoStar Satellite Services segment will likely require that we displace incumbent suppliers that generally have well established business models and often benefit from long-term contracts with their customers. As a result, to grow our EchoStar Satellite Services segment we may need to develop or otherwise acquire access to new satellite-delivered services so that we may offer differentiated services to prospective customers. However, there can be no assurance that we would be able to develop or otherwise acquire access to such differentiated services or develop the sales and marketing expertise necessary to sell such services profitably.



---



In addition, as our satellite fleet ages, we will be required to evaluate replacement alternatives such as acquiring, leasing or constructing additional satellites, with or without customer commitments for capacity, which may require us to seek additional financing. However, there can be no assurance that such financing will be available to fund any such replacement alternatives on terms that would be attractive to us or at all.

**Hughes Segment**

On June 8, 2011, EchoStar Corporation ("EchoStar") completed the acquisition ("Hughes Acquisition") of Hughes Communications, Inc. and its subsidiaries ("Hughes Communications"), pursuant to an agreement and plan of merger by and between EchoStar, certain of its subsidiaries, including EchoStar Satellite Services L.L.C., and Hughes Communications, Inc. Hughes Communications is the global leader in broadband satellite technologies and services and a leading provider of managed network services. Together with Hughes Communications, we have an extensive fleet of owned and leased satellites, experienced personnel and communications facilities around the world. The Hughes Acquisition significantly expands our ability to provide new video products and solutions. For information about the risks related to the Hughes Acquisition, please see Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011.

Our Hughes segment provides satellite broadband Internet access to North American consumers, which we refer to as the consumer market, and broadband network services and systems to the domestic and international enterprise markets. Our Hughes segment also provides managed services to large enterprises and networking systems solutions to customers for mobile satellite and wireless backhaul systems. We incorporate advances in technology to reduce costs and to increase the functionality and reliability of our products and services. Through the usage of advanced spectrally efficient modulation and coding methodologies, such as DVB-S2 and proprietary software web acceleration and compression techniques, we continue to improve the efficiency of our networks. In addition, we invest in technologies to enhance our system and network management capabilities, specifically our managed services for enterprises. We also continue to invest in next generation technologies that can be applied to our future products and services.

In June 2009, Hughes Communications entered into a contract for construction of EchoStar XVII, our next-generation, geostationary high throughput satellite. EchoStar XVII, which was successfully launched in July 2012, will employ a multi-spot beam, "bent pipe" Ka-band architecture and will provide additional capacity for the HughesNet consumer broadband Internet service in North America. We plan to introduce service in North America using EchoStar XVII in the fourth quarter of 2012.

As of June 30, 2012 and December 31, 2011, we had approximately 624,000 customers and 626,000 customers, respectively, subscribed to our Hughes segment's consumer and small/medium enterprise service. In addition, as of June 30, 2012 and December 31, 2011, our Hughes segment had total revenue backlog, which we define as our expected future revenue under customer contracts that are non-cancelable and excluding agreements with our customers in our consumer market, of approximately $0.975 billion and $1.036 billion, respectively.

***Additional Challenges for our Hughes Segment.*** Our ability to continue to grow our consumer revenue will depend on our success in adding new subscribers on our satellite network and deployment of our EchoStar XVII satellite as planned. We may need to adjust our service offerings in response to the offerings of our competitors, including ViaSat Communications, following its commencement of service on the ViaSat-1 satellite which launched in October 2011. In addition, prior to the commencement of service on EchoStar XVII, ViaSat Communications may be in a better position to offer faster connection speeds more economically than us, which could adversely impact our ability to add new subscribers and our consumer revenues. An additional focus in this business is our ability to grow our revenue in the enterprise business, both domestically and internationally. The growth of the enterprise business is also impacted by global economic conditions.





*Goodwill.* Goodwill as of June 30, 2012 included $504.2 million that was recognized in connection with the Hughes Acquisition and has been assigned to reporting units of our Hughes segment. We performed step one of our annual two-step test of impairment of such goodwill as of April 1, 2012. Step one involves a comparison of the estimated fair value of the reporting unit with its carrying amount, including goodwill. We estimated fair value of the reporting units using discounted cash flow techniques, which included significant assumptions about prospective financial information, terminal value and discount rates. Based on this quantitative test, we determined that the estimated fair values of the Hughes reporting units were in excess of the corresponding carrying amounts, including goodwill. Accordingly, we concluded that goodwill assigned to the Hughes segment is not impaired and it is not necessary to perform step two of the two-step goodwill impairment test. Due to the relatively short period of time that had elapsed since the date of the Hughes Acquisition and the absence of significant changes in our business forecasts and market-based assumptions during that period, the estimated fair values and carrying amounts of our reporting units (which reflect fair value measurements on the acquisition date) had not changed significantly from the acquisition date. Consequently, the estimated fair values of our reporting units did not exceed their corresponding carrying amounts by a substantial amount. If the estimated cash flows reflected in our fair value estimates were decreased by 10% and/or the discount rate used to discount such cash flows were increased by 10%, a portion of our goodwill would have been impaired and it would have been necessary to perform step two of the impairment test to determine the amount of the impairment loss.

**New Business Opportunities**

We are exploring opportunities to selectively pursue partnerships, joint ventures and strategic acquisition opportunities, domestically and on a global basis, 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.

**Adverse Economic Conditions**

Our ability to grow or maintain our business may be adversely affected by weak global and domestic economic conditions, including wavering consumer confidence and constraints on discretionary purchasing, unemployment, tight credit markets, declines in global and domestic stock markets, falling home prices and other factors that may adversely affect the markets in which we operate. Our ability to increase our income or to generate additional revenues will depend in part on our ability to organically grow our businesses, identify and successfully exploit opportunities to acquire other businesses or technologies, and enter into strategic partnerships. These activities may require significant additional capital that may not be available on terms that would be attractive to us or at all. In particular, volatile credit markets, which have significantly impacted the availability and cost of financing, specifically in the leveraged finance markets, may significantly constrain our ability to obtain financing to support our growth initiatives. These developments in the credit markets may increase our cost of financing and impair our liquidity position. In addition, these developments may cause us to defer or abandon business strategies and transactions that we would otherwise pursue if financing were available on acceptable terms.

**EXPLANATION OF KEY METRICS AND OTHER ITEMS**

***Services and other revenue.*** "Services and other revenue" primarily includes the sale of enterprise and consumer broadband services, as well as maintenance and other contracted services. "Services and other revenue" also includes revenue associated with satellite and transponder leasing, 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 leasing, satellite uplinking/downlinking, telemetry, tracking and control, and other services provided to DISH Network.

***Equipment revenue.*** "Equipment revenue" primarily includes the sale of broadband equipment and networks sold to customers in our enterprise and consumer markets.





***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, as well as the cost of providing maintenance and other contracted services. "Cost of sales — services and other" also includes costs associated with satellite and transponder leasing, satellite uplinking/downlinking, telemetry, tracking and control, and other services.

***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.

***Research and development expenses.*** "Research and development expenses" consists primarily of costs associated with the design and development of products to support future growth by reducing costs and providing new technology and innovations to our customers.

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

***Interest income.*** "Interest income" consists primarily of interest earned on our cash, cash equivalents and marketable investment securities, including 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.

***Earnings before interest, taxes, depreciation and amortization ("EBITDA").*** EBITDA is defined as "Net income (loss) attributable to HSS" plus "Interest expense, net of amounts capitalized" net of "Interest income," "Income taxes" and "Depreciation and amortization." EBITDA is not a measure determined in accordance with GAAP. This "non-GAAP measure" is reconciled to "Net income (loss) attributable to HSS" in our discussion of "Results of Operations" below. EBITDA should not be considered 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 should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. EBITDA is used by our management as a measure of operating efficiency and overall financial performance for benchmarking against our peers and competitors. Management believes EBITDA provides meaningful supplemental information regarding 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 companies in our industries.

## RESULTS OF OPERATIONS

### Basis of Presentation

The following narrative analysis of our condensed consolidated results of operations is presented on a historical basis. Our operating results prior to the Hughes Acquisition reflect the historical results of combined operations of entities included in the condensed consolidated financial statements of EchoStar that generally represented EchoStar's satellite services business. Our results of operations for the three and six months ended June 30, 2011 only included operating results of Hughes Communications after June 8, 2011, the date of the Hughes Acquisition. Therefore, our results of operations for the three and six months ended June 30, 2012 are not comparable to our results of operations for the same periods in 2011.





***Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011.***

| Statement of Operations Data | For the Six Months Ended June 30, 2012 | 2011 | Variance Amount | % |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Revenue:** | | | | |
| Services and other revenue | $ 471,131 | $ 88,206 | $ 382,925 | * |
| Services and other revenue - DISH Network | 111,824 | 106,028 | 5,796 | 5.5% |
| Equipment revenue | 117,261 | 25,187 | 92,074 | * |
| Total revenue | 700,216 | 219,421 | 480,795 | * |
| **Costs and Expenses:** | | | | |
| Cost of sales - services and other | 238,276 | 59,897 | 178,379 | * |
| **% of Total services and other revenue** | **40.9%** | **30.8%** | | |
| Cost of sales - equipment | 98,883 | 19,812 | 79,071 | * |
| **% of Total equipment revenue** | **84.3%** | **78.7%** | | |
| Selling, general and administrative expenses | 111,838 | 21,999 | 89,839 | * |
| **% of Total revenue** | **16.0%** | **10.0%** | | |
| Research and development expenses | 10,162 | 1,297 | 8,865 | * |
| **% of Total revenue** | **1.5%** | **0.6%** | | |
| Depreciation and amortization | 174,125 | 62,928 | 111,197 | * |
| Total costs and expenses | 633,284 | 165,933 | 467,351 | * |
| Operating income (loss) | 66,932 | 53,488 | 13,444 | 25.1% |
| **Other Income (Expense):** | | | | |
| Interest income | 1,548 | 285 | 1,263 | * |
| Interest expense, net of amounts capitalized | (75,522) | (17,113) | (58,409) | * |
| Hughes Acquisition costs | (7) | (34,500) | 34,493 | (100.0)% |
| Other, net | 6,149 | 9,367 | (3,218) | (34.4)% |
| Total other income (expense) | (67,832) | (41,961) | (25,871) | 61.7% |
| Income (loss) before income taxes | (900) | 11,527 | (12,427) | * |
| Income tax (provision) benefit, net | 163 | (7,437) | 7,600 | * |
| **Effective tax rate** | **18.1%** | **64.5%** | | |
| Net income (loss) | (737) | 4,090 | (4,827) | * |
| Less: Net income (loss) attributable to noncontrolling interests | (319) | 87 | (406) | * |
| Net income (loss) attributable to HSS | $ (418) | $ 4,003 | $ (4,421) | * |
| **Other Data:** | | | | |
| EBITDA | $ 247,518 | $ 91,196 | $ 156,322 | * |

* Percentage is not meaningful.

***Services and other revenue.*** "Services and other revenue," including "Services and other revenue — DISH Network," totaled $583 million for the six months ended June 30, 2012, an increase of $389 million compared to the same period in 2011. The increase was primarily related to higher services revenue of $382 million generated by our Hughes segment from the sale of broadband services to customers in our enterprise and consumer markets, and customers' maintenance and other contracted services.

***Equipment revenue.*** "Equipment revenue" totaled $117 million for the six months ended June 30, 2012, an increase of $92 million compared to the same period in 2011. The increase was attributable to higher equipment revenue generated by our Hughes segment from the sale of broadband equipment and networks to customers in our enterprise and consumer markets.



Table of Contents



***Cost of sales — services and other.*** "Cost of sales — services and other" totaled $238 million for the six months ended June 30, 2012, an increase of $178 million compared to the same period in 2011. The increase in "Cost of sales — services and other" corresponded to higher "Services and other revenue" generated by our Hughes segment from the sale of broadband services to customers in our enterprise and consumer markets, and customers' maintenance and other contracted services. "Cost of sales — services and other" represented 40.9% and 30.8% of total services and other revenue for the six months ended June 30, 2012 and 2011, respectively. The increase in the expense to revenue ratio principally resulted from an increase in revenue and expenses from our Hughes segment.

***Cost of sales — equipment.*** "Cost of sales — equipment" totaled $99 million for the six months ended June 30, 2012, an increase of $79 million compared to the same period in 2011. The increase in "Cost of sales — equipment" corresponded to higher equipment revenue generated from our Hughes segment from the sale of broadband equipment and networks sold to customers in our enterprise and consumer markets.

***Selling, general and administrative expenses.*** "Selling, general and administrative expenses" totaled $112 million for the six months ended June 30, 2012, an increase of $90 million compared to the same period in 2011. The increase primarily related to higher marketing and advertising expenses and other general and administrative expenses of $86 million incurred by our Hughes segment. "Selling, general and administrative expenses" represented 16.0% and 10.0% of total revenue for the six months ended June 30, 2012 and 2011, respectively. The increase in the expense to revenue ratio principally resulted from an increase in revenue and expenses from our Hughes segment.

***Depreciation and amortization.*** "Depreciation and amortization" expense totaled $174 million for the six months ended June 30, 2012, an increase of $111 million compared to the same period in 2011. The increase was primarily related to higher amortization and depreciation expense of $95 million from our Hughes segment.

***Interest expense, net of amounts capitalized.*** "Interest expense, net of amounts capitalized" totaled $76 million for the six months ended June 30, 2012, an increase of $58 million compared to the same period in 2011, primarily related to interest expense on our 6 1/2% Senior Secured Notes due 2019 and our 7 5/8% Senior Notes due 2021 issued during the second quarter of 2011.

***Income tax (provision) benefit, net.*** Our effective income tax rate was 18.1% for the six months ended June 30, 2012 versus 64.5% for the same period in 2011. The decrease in our effective tax rate was primarily related to the establishment of valuation allowances on certain current year foreign losses and the disallowance of certain transaction costs in 2011.

***Earnings before interest, taxes, depreciation and amortization.*** "EBITDA" was $248 million for the six months ended June 30, 2012, an increase of $156 million compared to the same period in 2011. The increase was primarily due to higher "Services and other revenue" of $383 million, mainly related to our Hughes segment. The increase was partially offset by the increase in "Cost of sales — services and other" of $178 million and "Selling, general and administrative expenses" of $90 million. The following table reconciles EBITDA to the accompanying condensed consolidated financial statements.

| | For the Six Months Ended June 30, | | Variance | |
|---|---|---|---|---|
| | 2012 | 2011 | Amount | % |
| | (In thousands) | | | |
| EBITDA | $ 247,518 | $ 91,196 | $ 156,322 | * |
| Interest income (expense), net | (73,974) | (16,828) | (57,146) | * |
| Income tax (provision) benefit, net | 163 | (7,437) | 7,600 | * |
| Depreciation and amortization | (174,125) | (62,928) | (111,197) | * |
| Net income (loss) attributable to HSS | $ (418) | $ 4,003 | $ (4,421) | * |

* Percentage is not meaningful.



Table of Contents

**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 13a-15(e) under the Securities Exchange Act of 1934) 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.

**Changes in Internal Control Over Financial Reporting**

On June 8, 2011, EchoStar completed the Hughes Acquisition. We are currently integrating policies, processes, people, technology and operations for the combined company. Management will continue to evaluate our internal control over financial reporting as we execute integration activities. Except as discussed above, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

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 many of these proceedings 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. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of the possible loss or range of possible loss can be made.

For certain cases described below, management is unable to 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; (iii) damages are unsupported and/or exaggerated; (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 (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, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

***E-Contact Technologies, LLC***

On February 22, 2012, E-Contact Technologies, LLC ("E-Contact") filed suit against two of our subsidiaries, Hughes Communications, Inc. and Hughes Network Systems, LLC, in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 5,347,579, which is entitled "Personal Computer Diary." E-Contact appears to assert that some portion of HughesNet email services infringe that patent. HughesNet email services are provided by a third-party service provider, who has assumed indemnification obligations for the case. On May 31, 2012, E-Contact filed a first amended complaint. The amended complaint removed the original complaint's requests for a finding of willfulness and entry of an injunction.





We, along with the third-party service provider, intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

***Semiconductor Ideas to the Market BV***

On March 16, 2012, Semiconductor Ideas to the Market BV ("ITOM") filed suit against our subsidiary Hughes Network Systems, LLC, as well as Texas Instruments, Inc., Qualcomm, Inc., Broadcom Corp., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, Dell Inc., Apple Inc., Ford Motor Company, Buffalo Technology (USA) Inc., Amazon.com, Inc., Hughes Telematics, Inc., Motorola Mobility, Inc., Motorola Solutions, Inc., Honeywell International Inc., Koninklijke Philips Electronics N.V., and Philips Consumer Lifestyle International B.V. The suit was brought in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 7,299,018 which is entitled "Receiver comprising a digitally controlled capacitor bank" and United States Patent No. 7,072,614 which is entitled "Communication device." ITOM alleged infringement through use of various third-party chipsets in unspecified products and/or systems. A joint motion to dismiss Hughes Network Systems, LLC was granted on July 13, 2012.

### Item 1A. RISK FACTORS

Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2011 includes a detailed discussion of our risk factors. During the six months ended June 30, 2012, there were no material changes in our risk factors as previously disclosed.

### Item 6. EXHIBITS

| Exhibit No. | Description |
|---|---|
| 31.1 (H) | Section 302 Certification of Chief Executive Officer. |
| 31.2 (H) | Section 302 Certification of Chief Financial Officer. |
| 32.1 (H) | Section 906 Certifications of Chief Executive Officer and Chief Financial Officer. |
| 101* | The following materials from the Quarterly Report on Form 10-Q of HSS for the quarter ended June 30, 2012, filed on August 8, 2012, formatted in eXtensible Business Reporting Language ("XBRL"): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Condensed Consolidated Statements of Cash Flows and (iv) related notes to these financial statements. |

(H) Filed herewith.

* In accordance with Rule 402 of Regulation S-T, the information in this Exhibit 101 shall not be deemed "filed" for the purposes of section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by the specific reference in such filing.



Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HUGHES SATELLITE SYSTEMS CORPORATION

By: /s/ *Michael T. Dugan*
Michael T. Dugan
Chief Executive Officer, President and Director

By: /s/ *Kenneth G. Carroll*
Kenneth G. Carroll
Executive Vice President and Chief Financial Officer

Date: August 8, 2012

**EXHIBIT 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**Section 302 Certification**

I, Michael T. Dugan, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 8, 2012

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

**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**Section 302 Certification**

I, Kenneth G. Carroll, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 8, 2012

*/s/ Kenneth G. Carroll*
Executive Vice President and Chief Financial Officer
*(Principal Financial Officer)*

**EXHIBIT 32.1**

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

In connection with the quarterly report for the quarter ended June 30, 2012 on Form 10-Q (the “Quarterly Report”) of Hughes Satellite Systems Corporation (the “Company”) as filed with the Securities and Exchange Commission on the date hereof, we, Michael T. Dugan and Kenneth G. Carroll, Chief Executive Officer and Chief Financial Officer, respectively, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

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

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

Date: August 8, 2012

*/s/ Michael T. Dugan*

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

*/s/ Kenneth G. Carroll*

Name: Kenneth G. Carroll
Title: Executive Vice President and Chief Financial Officer
*(Principal Financial Officer)*

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

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