

EchoStar CORP
Form 10-Q
May 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012.

OR

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

Commission File Number: 001-33807

EchoStar Corporation

(Exact name of registrant as specified in its charter)

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Nevada
(State or other jurisdiction of incorporation or organization)

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

100 Inverness Terrace East
Englewood, Colorado
(Address of principal executive offices)

80112-5308
(Zip code)

(303) 706-4000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 30, 2012, the registrant's outstanding common stock consisted of 39,358,396 shares of Class A common stock and 47,687,039 shares of Class B common stock.

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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

- We currently derive a substantial portion of our revenue from our two primary customers, DISH Network and Bell TV. The loss of, or a significant reduction in, orders from, or a decrease in selling prices of digital set-top boxes, transponder leasing, provision of digital broadcast services, and/or other products or services to DISH Network or Bell TV 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.

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- 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 have not been an independent company for a significant amount of time and we may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company.
- We rely on key personnel and the loss of their services may negatively affect our businesses.
- We have substantial debt outstanding and may incur additional debt.

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Risks Affecting Our EchoStar Technologies Segment

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

Risks Affecting Our EchoStar Satellite Services and Hughes Segments

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- We currently face competition from established competitors in the satellite service business and may face competition from others in the future.
- Our owned and leased satellites in orbit are subject to significant operational and environmental risks that could limit our ability to utilize these satellites.
- 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.

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- 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.

Other Risks

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

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

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ECHOSTAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	March 31, 2012	As of	December 31, 2011
Assets			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 629,094	\$	614,035
Marketable investment securities	1,053,650		1,082,407
Trade accounts receivable, net of allowance for doubtful accounts of \$18,893 and \$18,484, respectively	240,486		212,960
Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero	284,407		229,852
Inventory	97,621		68,707
Deferred tax assets	38,340		23,492
Other current assets	67,673		76,284
Total current assets	2,411,271		2,307,737
<i>Noncurrent Assets:</i>			
Restricted cash and marketable investment securities	23,987		24,286
Property and equipment, net of accumulated depreciation of \$2,092,470 and \$2,003,875, respectively	2,509,702		2,453,546
FCC authorizations	469,810		469,810
Intangible assets, net	443,146		466,452
Goodwill	526,680		533,018
Marketable and other investment securities	147,315		140,439
Other noncurrent assets, net	155,558		148,449
Total noncurrent assets	4,276,198		4,236,000
Total assets	\$ 6,687,469	\$	6,543,737
Liabilities and Stockholders Equity (Deficit)			
<i>Current Liabilities:</i>			
Trade accounts payable	\$ 305,172	\$	250,366
Trade accounts payable - DISH Network	19,002		16,374
Deferred revenue and other	49,778		54,090
Accrued interest	41,522		6,353
Accrued royalties	17,490		23,590
Accrued expenses and other	155,625		167,710
Current portion of long-term debt and capital lease obligations	68,541		65,239
Total current liabilities	657,130		583,722
<i>Long-Term Obligations, Net of Current Portion:</i>			
Long-term debt and capital lease obligations, net of current portion	2,477,143		2,469,023

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Deferred tax liabilities	378,218	373,391
Long-term deferred revenue and other long-term liabilities	67,924	65,975
Total long-term obligations, net of current portion	2,923,285	2,908,389
Total liabilities	3,580,415	3,492,111

Commitments and Contingencies (Note 12)

Stockholders' Equity (Deficit):

Preferred Stock, \$.001 par value, 20,000,000 shares authorized, none issued and outstanding		
Class A common stock, \$.001 par value, 1,600,000,000 shares authorized, 44,561,296 and 44,500,440 shares issued, and 39,028,978 and 38,968,122 shares outstanding, respectively	45	45
Class B common stock, \$.001 par value, 800,000,000 shares authorized, 47,687,039 shares issued and outstanding	48	48
Class C common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding		
Class D common stock, \$.001 par value, 800,000,000 shares authorized, none issued and outstanding		
Additional paid-in capital	3,368,534	3,360,301
Accumulated other comprehensive income (loss)	86,039	165,771
Accumulated earnings (deficit)	(258,899)	(385,487)
Treasury stock, at cost	(98,162)	(98,162)
Total EchoStar stockholders' equity (deficit)	3,097,605	3,042,516
Noncontrolling interests	9,449	9,110
Total stockholders' equity (deficit)	3,107,054	3,051,626
Total liabilities and stockholders' equity (deficit)	\$ 6,687,469	\$ 6,543,737

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

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AND COMPREHENSIVE INCOME (LOSS)**

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2012	2011
Revenue:		
Equipment revenue - DISH Network	\$ 237,365	\$ 272,126
Equipment revenue - other	157,347	65,909
Services and other revenue - DISH Network	126,658	121,207
Services and other revenue - other	243,410	20,584
Total revenue	764,780	479,826
Costs and Expenses: (exclusive of depreciation shown separately below - Note 7)		
Cost of sales - equipment	337,166	293,384
Cost of sales - services and other	167,830	61,460
Research and development expenses	17,350	8,859
Selling, general and administrative expenses	96,979	44,772
General and administrative expenses - DISH Network	1,955	3,489
Depreciation and amortization (Notes 7 and 8)	114,090	57,014
Total costs and expenses	735,370	468,978
Operating income (loss)	29,410	10,848
Other Income (Expense):		
Interest income	2,879	2,677
Interest expense, net of amounts capitalized	(38,621)	462
Unrealized and realized gains (losses) on marketable investment securities and other investments	127,995	665
Unrealized gains (losses) on investments accounted for at fair value, net		3,304
Other, net	4,533	6,991
Total other income (expense)	96,786	14,099
Income (loss) before income taxes	126,196	24,947
Income tax (provision) benefit, net	305	(7,788)
Net income (loss)	126,501	17,159
Less: Net income (loss) attributable to noncontrolling interests	(87)	(5)
Net income (loss) attributable to EchoStar	\$ 126,588	\$ 17,164
Weighted-average common shares outstanding - Class A and B common stock:		
Basic	86,684	85,466
Diluted	87,326	92,331
Earnings per share - Class A and B common stock:		
Basic net income (loss) per share attributable to EchoStar	\$ 1.46	\$ 0.20
Diluted net income (loss) per share attributable to EchoStar	\$ 1.45	\$ 0.19

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Comprehensive Income (Loss):			
Net income (loss)	\$	126,501	\$ 17,159
<i>Other comprehensive income (loss), net of tax:</i>			
Foreign currency translation adjustments		5,092	(192)
Unrealized holding gains (losses) on available-for-sale securities		43,429	6,771
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)		(127,995)	(665)
<i>Total other comprehensive income (loss), net of tax</i>		<i>(79,474)</i>	<i>5,914</i>
Comprehensive income (loss)		47,027	23,073
Less: Comprehensive income (loss) attributable to noncontrolling interests		171	(5)
Comprehensive income (loss) attributable to EchoStar	\$	46,856	\$ 23,078

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

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EHOSTAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS