EchoStar CORP
Form 10-Q
August 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011.

OR

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

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number: 001-33807

EchoStar Corporation

(Exact name of registrant as specified in its charter)

Nevada	**26-1232727**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Inverness Terrace East **Englewood, Colorado**	**80112-5308**
(Address of principal executive offices)	(Zip code)

(303) 706-4000

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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PART I FINANCIAL INFORMATION

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

General Risks Affecting Our Business

- We currently depend on DISH Network Corporation (DISH Network), Bell TV and Dish Mexico, S. de R.L. de C.V. (Dish Mexico) for a significant portion of our revenue. The loss of, or a significant reduction in, orders from, or a decrease in selling prices of digital set-top boxes and/or other products or services to, DISH Network, Bell TV or Dish Mexico would significantly reduce our revenue and adversely impact our results of operations. In addition, the loss of, or a significant reduction in, orders from, or a decrease in selling price of transponder leasing and/or providing digital broadcast operations to, DISH Network would also significantly reduce our revenue and adversely impact our results of operations.

- Economic weakness, including high unemployment and reduced consumer spending, may adversely affect our ability to grow or maintain our business.

- If we are unable to properly respond to technological changes, our business could be significantly harmed.

- We currently have unused satellite capacity, and our results of operations may be materially adversely affected if we are not able to lease additional capacity to third parties.

- Our sales to DISH Network could be terminated or substantially curtailed on short notice, which would have a detrimental effect on us.

- We may need additional capital, which may not be available on acceptable terms or at all, to continue investing in our business and to finance acquisitions and other strategic transactions.

- We may experience significant financial losses on our existing investments.

- We may pursue acquisitions and other strategic transactions to complement or expand our business, which may not be successful and we may lose up to the entire value of our investment in these acquisitions and transactions.

- We intend to make significant investments in new products, services, technologies and business areas that may not be profitable.

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

- We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar foreign anti-bribery laws.

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

- Any failure or inadequacy of our information technology infrastructure could harm our business.

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

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

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

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Risks Affecting Our EchoStar Technologies Business

- We depend on sales of digital set-top boxes for a significant portion of our revenue and a decline in sales of our digital set-top boxes would have a material adverse effect on our financial position and results of operations.

- Our business may suffer if our customer base does not compete successfully with existing and emerging competition.

- Our future financial performance depends in part on our ability to penetrate new markets for digital set-top boxes.

- Component pricing may remain stable or be negatively affected by inflation, increased demand, decreased supply, or other factors, which could have a material adverse effect on our results of operations.

- The average selling price and gross margins of our digital set-top boxes has been decreasing and may decrease even further, which could negatively impact our financial position and results of operations.

- Our ability to sell our digital set-top boxes to other operators depends on our ability to obtain licenses to use the conditional access systems utilized by these other operators.

- Growth in our EchoStar Technologies business likely requires expansion of our sales to international customers, and we may be unsuccessful in expanding international sales.

- If we are successful in growing sales of our digital set-top boxes to international customers, we may be subject to additional risks including, among other things, trade barriers and political instability abroad.

- The digital set-top box industry is extremely competitive.

- We expect to continue to face competition from new market entrants, principally located in Asia, that offer low cost set-top boxes.

- Our digital set-top boxes are highly complex and may experience quality or supply problems.

- If significant numbers of television viewers are unwilling to pay for pay-TV services that utilize digital set-top boxes, we may not be able to sustain our current revenue level.

- Our reliance on a single supplier or a limited number of suppliers for several components used in our digital set-top boxes could restrict production, result in higher digital set-top box costs and delay deliveries to customers.

- Our future growth depends on growing demand for advanced technologies.

- If the encryption and related security technology used in our digital set-top boxes is compromised, sales of our digital set-top boxes may decline.

Risks Affecting Our EchoStar Satellite Services and Hughes Businesses

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

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

- We may not be able to compensate for any failure of our satellites.

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

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

- Our EchoStar Satellite Services and Hughes businesses are subject to risks of adverse government regulation.

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

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

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- We generally do not have commercial insurance coverage on the satellites we use and where we do maintain insurance coverage on a satellite, that coverage may not be adequate to cover all of our investment in the satellite. Consequently, we could face significant impairment charges if one of our satellites fails.

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

- The consumer network communications market is highly competitive. We may be unsuccessful in competing effectively against Digital Subscriber Line (DSL) and cable service providers and other satellite broadband providers in the consumer market. Following the launch of Viasat, Inc. (ViaSat) by WildBlue and prior to the launch of Jupiter, we may not remain competitive with WildBlue Communications, Inc. (WildBlue).

- If we are unable to develop, introduce and market new products, applications and services on a cost-effective and timely basis, or if we are unable to sell our new products and services to existing and new customers, our business could be adversely affected.

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

- Our networks and those of our third-party service providers may be vulnerable to security risks.

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

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

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

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

- The pro forma financial information presented in this Form 10-Q and our Form 8-K/A filed on August 5, 2011 is for illustrative purposes only and may not be an indication of the combined company s financial condition or results of operations in the future.

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

Other Risks

- We have potential conflicts of interest with DISH Network due to our common ownership and management.

- We cannot assure you that there will not be deficiencies leading to material weaknesses in our internal control over financial reporting.

- It may be difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders, because of our capital structure.

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

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

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

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Item 1. FINANCIAL STATEMENTS

ECHOSTAR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	As of			
		June 30, 2011		December 31, 2010
Assets				
Current Assets:				
Cash and cash equivalents	$	330,163	$	141,814
Marketable investment securities		679,050		989,086
Trade accounts receivable, net of allowance for doubtful accounts of $7,116 and $7,644, respectively		230,539		42,247
Trade accounts receivable - DISH Network, net of allowance for doubtful accounts of zero		272,434		238,997
Inventory		95,324		30,433
Other current assets		106,302		92,890
Total current assets		1,713,812		1,535,467
Noncurrent Assets:				
Restricted cash and marketable investment securities		22,563		17,426
Property and equipment, net of accumulated depreciation of $1,860,004 and $1,766,290, respectively		2,247,150		1,263,303
FCC authorizations		469,810		69,810
Intangible assets, net		563,899		158,994
Goodwill		530,529		6,457
Marketable and other investment securities		831,264		725,588
Other noncurrent assets, net		139,777		64,975
Total noncurrent assets		4,804,992		2,306,553
Total assets	$	6,518,804	$	3,842,020
Liabilities and Stockholders Equity (Deficit)				
Current Liabilities:				
Trade accounts payable	$	271,953	$	145,203
Trade accounts payable - DISH Network		23,826		14,155
Accrued royalties		18,996		20,199
Accrued expenses and other		238,813		62,079
Deferred tax liabilities		55,623		64,121
Current portion of long-term debt and capital lease obligations		58,854		53,060
Total current liabilities		668,065		358,817
Long-Term Obligations, Net of Current Portion:				
Long-term debt and capital lease obligations, net of current portion		2,346,752		359,825
Deferred tax liabilities		320,516		75,840
Long-term deferred revenue and other long-term liabilities		67,184		34,348
Total long-term obligations, net of current portion		2,734,452		470,013

Total liabilities		3,402,517		828,830
Commitments and Contingencies (Note 11)				
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, 44,248,975 and 43,103,166 shares issued, 38,716,657 and 37,570,848 shares outstanding, respectively		44		43
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		3,346,453		3,311,405
Accumulated other comprehensive income (loss)		210,549		188,982
Accumulated earnings (deficit)		(353,480)		(389,126)
Treasury stock, at cost		(98,162)		(98,162)
Total EchoStar stockholders equity (deficit)		3,105,452		3,013,190
Noncontrolling interest		10,835		
Total stockholders equity (deficit)		3,116,287		3,013,190
Total liabilities and stockholders equity (deficit)	$	6,518,804	$	3,842,020

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

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ECHOSTAR CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue:				
Equipment revenue	$ 107,670	$ 86,863	$ 173,579	$ 198,566
Equipment revenue - DISH Network	270,629	382,839	542,755	768,687
Services and other revenue	77,716	14,541	98,300	29,010
Services and other revenue - DISH Network	128,218	118,806	249,425	233,866
Total revenue	584,233	603,049	1,064,059	1,230,129
Costs and Expenses:				
Cost of sales - equipment (exclusive of depreciation shown separately below - Note 6)	317,294	404,000	610,678	826,208
Cost of sales - services and other (exclusive of depreciation shown separately below - Note 6)	92,795	60,420	154,255	117,853
Research and development expenses	11,082	12,391	19,941	24,625
Selling, general and administrative expenses	42,943	33,345	87,715	65,976
General and administrative expenses - DISH Network	3,239	4,554	6,728	8,713
Depreciation and amortization	71,059	57,026	128,073	114,675
Total costs and expenses	538,412	571,736	1,007,390	1,158,050
Operating income (loss)	45,821	31,313	56,669	72,079
Other Income (Expense):				
Interest income	2,135	3,843	4,812	5,689
Interest expense, net of amounts capitalized	(12,782)	(10,206)	(12,320)	(21,801)
Unrealized and realized gains (losses) on marketable investment securities and other investments	9,041	(21,468)	9,706	(22,005)
Unrealized gains (losses) on investments accounted for at fair value, net	4,494	(22,021)	7,798	43,807
Other, net	(20,557)	(6,559)	(13,566)	(8,230)
Total other income (expense)	(17,669)	(56,411)	(3,570)	(2,540)
Income (loss) before income taxes	28,152	(25,098)	53,099	69,539
Income tax (provision) benefit, net	(9,578)	(16,379)	(17,366)	(39,270)
Net income (loss)	18,574	(41,477)	35,733	30,269
Less: Net income (loss) attributable to noncontrolling interest	92		87	
Net income (loss) attributable to EchoStar common shareholders	$ 18,482	$ (41,477)	$ 35,646	$ 30,269

Comprehensive Income (Loss):				
Net income	$ 18,574	$ (41,477)	$ 35,733	$ 30,269
Foreign currency translation adjustments	(252)	(208)	(444)	(598)
Unrealized holding gains (losses) on available-for-sale securities	17,689	20,227	24,460	46,896
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	(1,784)	3	(2,449)	3
Comprehensive income (loss)	34,227	(21,455)	57,300	76,570
Less: Comprehensive income (loss) attributable to noncontrolling interest	92		87	
Comprehensive income (loss) attributable to EchoStar common shareholders	$ 34,135	$ (21,455)	$ 57,213	$ 76,570
Weighted-average common shares outstanding - Class A and B common stock:				
Basic	86,314	85,102	85,893	84,979
Diluted	87,697	85,102	87,176	85,078
Earnings per share - Class A and B common stock:				
Basic net income (loss) per share attributable to EchoStar common shareholders	$ 0.21	$ (0.49)	$ 0.42	$ 0.36
Diluted net income (loss) per share attributable to EchoStar common shareholders	$ 0.21	$ (0.49)	$ 0.41	$ 0.36

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

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ECHOSTAR CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2011	**2010**
Cash Flows From Operating Activities:		
Net income (loss)	$ 35,733	$ 30,269
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	128,073	114,675
Equity in losses (earnings) of affiliates	(9,583)	8,219
Unrealized and realized (gains) losses on marketable investment securities and other investments	(9,706)	22,005
Unrealized (gains) losses on investments accounted for at fair value, net	(7,798)	(43,807)
Non-cash, stock-based compensation	6,542	7,301
Deferred tax expense (benefit)	256	14,751
Other, net	(5,512)	3,557
Change in noncurrent assets	(135)	2,274
Changes in current assets and current liabilities, net	(9,483)	(41,290)
Net cash flows from operating activities	128,387	117,954
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(1,177,383)	(1,200,898)
Sales and maturities of marketable investment securities	1,540,526	1,256,326
Purchases of property and equipment	(122,861)	(103,698)
Launch service assigned to DISH Network (Note 13)		102,913
Change in restricted cash and marketable investment securities	52	787
Acquisition of Hughes, net of cash acquired of $84,768	(2,090,165)	
Purchase of strategic investments included in marketable and other investment securities	(56,368)	(38,051)
Proceeds from sale of strategic investments	15,437	
Other, net	6,764	(393)
Net cash flows from investing activities	(1,883,998)	16,986
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	2,000,000	
Repayment of long-term debt and capital lease obligations	(24,912)	(37,510)
Deferred debt issuance costs	(55,845)	
Class A common stock repurchases		(605)
Net proceeds from Class A common stock options exercised and stock issued under the Employee Stock Purchase Plan	23,987	2,163
Other	1,803	
Net cash flows from financing activities	1,945,033	(35,952)
Effect of exchange rates on cash and cash equivalents	(1,073)	
Net increase (decrease) in cash and cash equivalents	188,349	98,988
Cash and cash equivalents, beginning of period	141,814	23,330
Cash and cash equivalents, end of period	$ 330,163	$ 122,318

Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest (including capitalized interest)	$	21,414	$	21,196
Capitalized interest	$	18,274	$	
Cash received for interest	$	7,885	$	7,903
Cash paid for income taxes	$	1,236	$	9,190
Employee benefits paid in Class A common stock	$	4,044	$	3,814
Satellites and other assets financed under capital lease obligations	$	18,117	$	48,091
Reduction of capital lease obligations and associated asset value for AMC-16 (Note 6)	$	6,616	$	34,693

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

ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Business Activities

Principal Business

EchoStar Corporation is a holding company, whose subsidiaries (which together with EchoStar Corporation are referred to as EchoStar, the Company, we, us and/or our) operate three business units:

- ***EchoStar Technologies*** which designs, develops and distributes digital set-top boxes and related products and technology, including our Slingbox placeshifting technology, primarily for satellite TV service providers, telecommunication and cable companies and, with respect to Slingboxes, directly to consumers via retail outlets. EchoStar Technologies also provides digital broadcast operations including satellite uplinking/downlinking, transmission services, signal processing, conditional access management and other services primarily to DISH Network.

- ***EchoStar Satellite Services*** which uses ten 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, U.S. government service providers, state agencies, Internet service providers, broadcast news organizations, programmers and private enterprise customers.

- ***Hughes*** which provides broadband network services and systems to the international and domestic enterprise markets and satellite broadband Internet access to North American consumers. We also provide managed services to large enterprises and networking systems solutions to customers for mobile satellite and wireless backhaul systems. This is a new business unit, effective as of June 9, 2011, as a result of our acquisition of Hughes Communications, Inc. and its subsidiaries (Hughes Communications) and the results of operations of Hughes Communications are included in this report only as of such date. See Note 10 for further discussion of the transaction.

Effective January 1, 2008, DISH Network completed its distribution to us (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, we 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.

Hughes Communications

On June 8, 2011, we acquired all of the outstanding equity of Hughes Communications, Inc., (the Hughes Acquisition), pursuant to an agreement and plan of merger (the Hughes Agreement) by and between us, certain of our subsidiaries, including EchoStar Satellite Services L.L.C., and Hughes Communications, Inc. Pursuant to the Hughes Agreement, each issued and outstanding share of common stock and vested stock options of Hughes Communications, Inc. was 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 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. The funding of the Hughes Acquisition was supported by the issuance of $1.1 billion of senior secured notes and $900 million of senior unsecured notes. See Note 8 for further discussion.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these 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, 2010 (2010 10-K). Certain prior period amounts have been reclassified to conform to the current period presentation.

Our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2011 includes the results of operations for Hughes Communications from June 9, 2011 through June 30, 2011. See the accounting policies below for changes related to 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 have been determined to be 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, allowances for doubtful accounts,

allowance for sales returns, 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 our 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 have increased 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 of Financial Instruments

As of June 30, 2011 and December 31, 2010, the carrying value of our cash and cash equivalents; current marketable investment securities, trade accounts receivable, net of allowance for doubtful accounts; current liabilities and long-term debt is equal to or approximates fair value due to their short-term nature or proximity to current market rates.

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ECHOSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Revenue Recognition

Revenue is recognized when an arrangement exists, prices are determinable, collectibility is reasonably assured and the goods or services have been delivered. If any of these criteria are not met, revenue recognition is deferred until such time as all of the criteria are met. Revenue from equipment sales is generally recognized upon shipment to customers. Revenue from digital broadcast operations and satellite services and other is recognized when the related services are performed.

In situations where customer offerings represent a bundled arrangement for both services and hardware, revenue elements are separated into their relevant components (services or hardware) for revenue recognition purposes. We offer a rebate to qualifying new consumer subscribers and record a reduction in revenue in the same period in which the related sale occurs based on an estimate of the number of rebates that will be redeemed. This estimate is based on historical experience and actual sales during the promotion.

Our Hughes business segment has a consumer rental program, which typically allows customers in our consumer market to rent equipment with a 24-month service contract. Once the initial contract ends, it becomes a month-to-month contract. Revenue on the rental equipment is recognized on a monthly basis as service revenue over the customer contract term which approximates the subscriber life. Upfront fees collected in connection with the service arrangements are deferred and recognized as service revenue over the contract term.

In August 2010, Hughes Communications was awarded $59 million from the U.S. Government as the only recipient of a national award under the broadband stimulus programs, established pursuant to the American Recovery and Reinvestment Act of 2009. Under the broadband stimulus program, eligible customers in our consumer market generally have month-to-month service contracts and do not have to pay for the rental of the equipment.

In addition to providing standard product and service offerings, our Hughes business segment also enters into contracts to design, develop and deliver telecommunication networks to customers in our enterprise market. These contracts for telecommunication networks require significant effort to develop and construct the network, over an extended time period. Revenues are also earned from long-term contracts for the sale of mobile satellite communications systems. Sales under these long-term contracts are recognized using the percentage-of-completion (cost-to-cost) method of accounting. Under this method, sales are recorded equivalent to costs incurred plus a portion of the profit expected to be realized, based on the ratio of costs incurred to estimated total costs at completion. Profits expected to be realized on long-term contracts are based on estimates of total sale values and costs at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts are recorded in the period in which they are identified.

Debt Issuance Costs

Costs of issuing debt are generally deferred and amortized ratably over the terms of the respective notes (see Note 8) and amortization is included in Interest expense, net of amounts capitalized on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Inventory

Inventory is stated at the lower of cost or market value. Our EchoStar Technologies business segment inventory cost is determined using the first-in, first-out (FIFO) method. Our Hughes business segment principally uses standard costs adjusted to reflect actual cost, based on variance analyses performed throughout the year which approximates the FIFO method when cost exceeds market value. Inventories are adjusted to net realizable value using management s best estimates of future use. In making its assessment of future use or recovery, management considers the aging and composition

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of inventory balances, the effects of technological and/or design changes, forecasted future product demand based on firm or near-firm customer orders and alternative means of disposition of excess or obsolete items.

Subscriber Acquisition Costs (SAC   )

SAC is an important component of our costs to acquire new customers in our consumer market and is included in   Other noncurrent assets, net   on our Condensed Consolidated Balance Sheets. SAC consists of costs paid to third-party dealers and customer service representative commissions on new service activations and, in certain cases, the cost of hardware and installation services provided to customers at the inception of service or the cost of services for activities related to the consumer rental program. SAC is deferred when a customer commits to a service agreement, and the deferred SAC is amortized over anticipated subscriber life as the related service revenue is earned. We monitor the recoverability of SAC and are entitled to an early termination fee (secured by customer credit card information) if the subscriber cancels service prior to the end of the commitment period. The recoverability of deferred SAC is reasonably assured through the monthly service fee charged to customers, the ability to recover the equipment, and/or the ability to charge an early termination fee.

Capitalized Software Costs

Software development costs are capitalized and amortized using the straight-line method over the estimated useful life of the software, not in excess of five years. Capitalized software costs are included in   Property and equipment, net   on our Condensed Consolidated Balance Sheets. Software program reviews are conducted at least annually, or as events and circumstances warrant such a review, to determine if capitalized software development costs have been impaired and to ensure that costs associated with programs that are no longer generating revenue are expensed.

Foreign Currency

Certain of our foreign operations have determined the local currency to be their functional currency. Accordingly, these foreign entities translate assets and liabilities from their local currencies to U.S. dollars using period-end exchange rates while income and expense accounts are translated at the average rates in effect during the period. The resulting translation adjustment is recorded in   Accumulated Other Comprehensive Income (Loss),   a separate component of equity. Translation adjustments for foreign currency denominated equity investments are not material and are recorded as part of   Accumulated Other Comprehensive Income (Loss).

We also have foreign operations where the U.S. dollar has been determined as the functional currency. Gains and losses resulting from re-measurement of the foreign currency denominated assets, liabilities and transactions into the U.S. dollar are recognized currently in the statements of operations and were not material in each of the periods presented herein.

New Accounting Pronouncements

Recently Adopted Accounting Guidance

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13 amending Accounting Standards Codification (ASC) 605 Revenue Recognition related to revenue arrangements with multiple deliverables. Among other things, ASU 2009-13 provides guidance for entities in determining the accounting for multiple deliverable arrangements and establishes a hierarchy for determining the amount of revenue to allocate to the various deliverables. The adoption of ASU 2009-13 on January 1, 2011 did not have a material impact on our financial statements.

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In October 2009, the FASB issued ASU 2009-14 to amend ASC 605 to change the accounting model for revenue arrangements that include both tangible products and software elements. The adoption of ASU 2009-14 on January 1, 2011 did not have a material impact on our financial statements.

3. Basic and Diluted Net Income (Loss) Per Share

We present both basic earnings per share (EPS) and diluted EPS. Basic EPS excludes potential dilution and is computed by dividing Net income (loss) attributable to EchoStar common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock awards were exercised.

The potential dilution from stock awards was computed using the treasury stock method based on the average market value of our Class A common stock. The following table presents earnings per share amounts for all periods and the basic and diluted weighted-average shares outstanding used in the calculation.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Net income (loss) attributable to EchoStar common shareholders	$ 18,482	$ (41,477)	$ 35,646	$ 30,269
Weighted-average common shares outstanding - Class A and B common stock:				
Basic	86,314	85,102	85,893	84,979
Dilutive impact of stock awards outstanding	1,383		1,283	99
Diluted	87,697	85,102	87,176	85,078
Earnings per share - Class A and B common stock:				
Basic net income (loss) per share attributable to EchoStar common shareholders	$ 0.21	$ (0.49)	$ 0.42	$ 0.36
Diluted net income (loss) per share attributable to EchoStar common shareholders	$ 0.21	$ (0.49)	$ 0.41	$ 0.36

As of June 30, 2011 and 2010, there were stock awards to purchase 3.1 million and 5.6 million shares, respectively, of Class A common stock outstanding, not included in the weighted-average common shares outstanding above, as their effect is antidilutive.

Vesting of options and rights to acquire shares of our Class A common stock (Restricted Performance Units) granted pursuant to a performance based stock incentive plan is contingent upon meeting a certain company goal which is not yet probable of being achieved. As a consequence, the following are also not included in the diluted EPS calculation.

	As of June 30,	
	2011	**2010**
	(In thousands)	
Performance based options	676	712
Restricted Performance Units	90	97
Total	766	809

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4. Marketable Investment Securities, Restricted Cash and Other Investment Securities

Our marketable investment securities, restricted cash and other investment securities consist of the following:

	As of	
	June 30, 2011	**December 31, 2010**
	(In thousands)	
Marketable investment securities:		
Current marketable investment securities - VRDNs	$ 179,820	$ 395,715
Current marketable investment securities - strategic	245,005	232,718
Current marketable investment securities - other	254,225	360,653
Total marketable investment securities - current	679,050	989,086
Restricted marketable investment securities (1)	1,939	1,337
Total	680,989	990,423
Restricted cash and cash equivalents (1)	20,624	16,089
Marketable and other investment securities - noncurrent:		
Cost method	26,193	3,097
Equity method	129,763	109,366
Fair value method	675,308	613,125
Total marketable and other investment securities - noncurrent	831,264	725,588
Total marketable investment securities, restricted cash and other investment securities	$ 1,532,877	$ 1,732,100

(1) Restricted marketable investment securities and restricted cash and cash equivalents are included in Restricted cash and marketable investment securities on our Condensed Consolidated Balance Sheets.

Marketable Investment Securities

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

Current Marketable Investment Securities - VRDNs

Variable rate demand notes (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.

Current Marketable Investment Securities - Strategic

Our current strategic marketable investment securities are highly speculative and have experienced and continue to experience volatility. As of June 30, 2011, a significant portion of our strategic investment portfolio consisted of securities of several issuers and the value of that portfolio depends on those issuers.

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Current Marketable Investment Securities - Other

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

Restricted Cash and Marketable Investment Securities

As of June 30, 2011 and December 31, 2010, our restricted marketable investment securities, together with our restricted cash, included amounts required as collateral for our letters of credit or surety bonds.

Marketable and Other Investment Securities - Noncurrent

We account for our unconsolidated debt and equity investments under the fair value, equity and/or cost method of accounting. We have several strategic investments in certain equity securities that are included in noncurrent Marketable and other investment securities on our Condensed Consolidated Balance Sheets.

Marketable and Other Investment Securities Cost and Equity

Non-majority owned investments in equity securities are generally accounted for using the equity method when we have the ability to significantly influence the operating decisions of an investee. However, when we do not have the ability to significantly influence the operating decisions of an investee, the cost method is used.

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.

Marketable and Other Investment Securities Fair Value

We elect the fair value method for certain debt and equity investments in affiliates when we believe the fair value method of accounting provides more meaningful information to our investors. For our investments carried at fair value, interest and dividends are measured at fair value and are recorded in Unrealized gains (losses) on investments accounted for at fair value, net in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). See Investments in TerreStar below for more information.

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Unrealized Gains (Losses) on Marketable Investment Securities

As of June 30, 2011 and December 31, 2010, we had accumulated net unrealized gains of $210 million and $188 million, both net of related tax effect, respectively, as a part of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit). A full valuation allowance has been established against any net deferred tax assets that are capital in nature. The components of our available-for-sale investments are summarized in the table below.

	As of June 30, 2011				As of December 31, 2010			
	Marketable Investment Securities	**Gains**	**Unrealized Losses**	**Net**	**Marketable Investment Securities**	**Gains**	**Unrealized Losses**	**Net**
				(In thousands)				
Debt securities:								
VRDNs	$ 179,820	$	$	$	$ 395,715	$	$	$
Other (including restricted)	256,164	83	(991)	(908)	375,814	1,154	(233)	921
Equity securities:								
Other	245,005	210,653	(68)	210,585	218,894	186,745		186,745
Total marketable investment securities	$ 680,989	$ 210,736	$ (1,059)	$ 209,677	$ 990,423	$ 187,899	$ (233)	$ 187,666

As of June 30, 2011, restricted and non-restricted marketable investment securities included debt securities of $373 million with contractual maturities of one year or less and $63 million with contractual maturities greater than one year. Actual maturities may differ from contractual maturities as a result of our ability to sell these securities prior to maturity.

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Marketable Investment Securities in a Loss Position

The following table reflects the length of time that the individual securities, accounted for as available-for-sale, have been in an unrealized loss position, aggregated by investment category. As of June 30, 2011, the unrealized losses on our investments in equity securities represented investments in a company in the technology industry. We do not intend to sell our investments in debt securities before they recover or mature, and it is more likely than not that we will hold these debt investments until that time. 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 marketable investment securities are related to temporary market fluctuations.

Investment Category	Primary Reason for Unrealized Loss	Total Fair Value	Less than Six Months Fair Value	Less than Six Months Unrealized Loss	Six to Nine Months Fair Value	Six to Nine Months Unrealized Loss	Nine Months or More Fair Value	Nine Months or More Unrealized Loss
		As of June 30, 2011 (In thousands)						
Debt securities	Temporary market fluctuations	$ 106,490	$ 106,490	$ (991)	$	$	$	$
Equity securities	Temporary market fluctuations	3,105	3,105	(68)				
Total		$ 109,595	$ 109,595	$ (1,059)	$	$	$	$

Investment Category	Primary Reason for Unrealized Loss	Total Fair Value	Less than Six Months Fair Value	Less than Six Months Unrealized Loss	Six to Nine Months Fair Value	Six to Nine Months Unrealized Loss	Nine Months or More Fair Value	Nine Months or More Unrealized Loss
		As of December 31, 2010 (In thousands)						
Debt securities	Temporary market fluctuations	$ 119,135	$ 26,358	$ (44)	$ 17,566	$ (71)	$ 75,211	$ (118)
Total		$ 119,135	$ 26,358	$ (44)	$ 17,566	$ (71)	$ 75,211	$ (118)

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

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- 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.

Our assets measured at fair value on a recurring basis were as follows:

	As of							
	June 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(In thousands)							
Debt securities:								
VRDNs	$ 179,820	$	$ 179,820	$	$ 395,715	$	$ 395,715	$
Other (including restricted)	256,164		256,164		375,814		375,814	
Equity securities	245,005	245,005			218,894	218,894		
Marketable and other investment securities - noncurrent	675,308	450		674,858	613,125	4,170		608,955
Total assets at fair value	$ 1,356,297	$ 245,455	$ 435,984	$ 674,858	$ 1,603,548	$ 223,064	$ 771,529	$ 608,955

Changes in Level 3 instruments are as follows:

	Level 3 Investment Securities (In thousands)
Balance as of December 31, 2010	$ 608,955
Net realized and unrealized gains (losses) included in earnings	3,507
Purchases	37,589
Issuances	24,807
Balance as of June 30, 2011	$ 674,858

Unrealized and Realized Gains (Losses) on Marketable Investment Securities and Other Investments

Unrealized and realized gains (losses) on marketable investment securities and other investments on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) includes changes in the carrying amount of our investments as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Unrealized and realized gains (losses) on marketable investment securities and other investments:				
Marketable investment securities - gains (losses) on sales/exchange	$ 1,783	$ 8	$ 2,448	$ 8
Marketable and other investment securities - gains (losses) on sales/exchanges	7,258		7,258	
Marketable and other investment securities - other-than-temporary impairments		(21,476)		(22,013)
Total unrealized and realized gains (losses) on marketable investment securities and other investments	$ 9,041	$ (21,468)	$ 9,706	$ (22,005)

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Investments in TerreStar

We account for our investments in TerreStar Corporation and TerreStar Networks Inc. (TerreStar Networks), an indirect, majority-owned subsidiary of TerreStar Corporation, using the fair value method of accounting which we believe provides more meaningful information to our investors. TerreStar Networks is the principal operating subsidiary of TerreStar Corporation. TerreStar Networks and TerreStar Corporation and its subsidiary, TerreStar Holdings Inc. (together, the TSC Debtors), filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code on October 19, 2010 and February 16, 2011, respectively.

In February 2008, we completed several transactions under a Master Investment Agreement between us, TerreStar Corporation and TerreStar Networks. Under the Master Investment Agreement, we acquired $50 million in aggregate principal amount of TerreStar Networks 6 1/2% Senior Exchangeable Paid-in-Kind Notes due June 15, 2014 (Exchangeable Notes) as well as $50 million aggregate principal amount of TerreStar Networks 15% Senior Secured Paid-in-Kind Notes due February 15, 2014 (15% PIK Notes). The Master Investment Agreement also provides that we have the right to appoint two representatives to TerreStar Corporation s Board of Directors. We do not presently have any representatives on TerreStar Corporation s Board of Directors. We have from time to time acquired, and we currently hold, other securities issued by TerreStar Corporation and TerreStar Networks.

In February 2008, we also entered into a Spectrum Agreement with TerreStar Corporation, under which, in June 2008, TerreStar Corporation completed the acquisition of our holdings of 1.4 GHz spectrum in exchange for the issuance of 30 million shares of its common stock to us. We also entered into an agreement with TerreStar Networks and Harbinger Capital Partners Master Fund I, Ltd. and Harbinger Capital Partners Special Situations Fund LP (collectively, Harbinger), in February 2008, in which we and Harbinger each committed to provide up to $50 million in secured financing, the proceeds of which were advanced to TerreStar Networks from time to time as required for TerreStar Networks to make required payments in connection with a communications satellite to be constructed and launched for TerreStar Networks. As of June 30, 2011, we were owed $47 million by TerreStar Networks under the terms of this credit agreement.

In connection with the filings by TerreStar Networks and its subsidiaries (the Debtors) for protection under Chapter 11 of the U.S. Bankruptcy Code and an ancillary proceeding under the Companies Creditors Arrangement Act in Canada, on October 19, 2010, we entered into a commitment to provide a debtor-in-possession credit facility (the Credit Facility) to the Debtors. On November 18, 2010, the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) approved the Credit Facility on a final basis and authorized the Debtors to enter into the Credit Facility. The Credit Facility consists of a non-revolving, multiple draw term loan in the aggregate principal amount of $90 million, with drawings subject to the terms and conditions set forth in the Credit Facility. As of June 30, 2011, we had funded $69 million to the Debtors under this Credit Facility which is included in Marketable and other investment securities on our Condensed Consolidated Balance Sheets.

Our debt investments in TerreStar Networks had a fair value of $675 million and $626 million as of June 30, 2011 and December 31, 2010, respectively. Our equity investments in TerreStar Corporation had a fair value of less than $1 million and $4 million as of June 30, 2011 and

December 31, 2010, respectively. Fluctuations in fair value of these investments are recorded in Unrealized gains (losses) on investments accounted for at fair value, net on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and directly impact our profitability. For the three months ended June 30, 2011, we recorded a $4 million gain on these investments compared to a $22 million loss for the same period in 2010. For the six months ended June 30, 2011 and 2010, we recorded an $8 million gain and a $44 million gain on these investments, respectively.

On November 19, 2010, we entered into an agreement with the Debtors (the Restructuring Support Agreement) pursuant to which we committed to (i) support the Debtors proposed plan of reorganization and (ii) backstop a rights offering for preferred shares of TerreStar Networks, which rights offering was to be completed upon the

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Debtors emergence from bankruptcy, on the terms set forth in the Restructuring Support Agreement. The Bankruptcy Court approved the Restructuring Support Agreement on December 22, 2010. On February 15, 2011, the Restructuring Support Agreement was terminated by mutual agreement of the parties.

On June 14, 2011, Gamma Acquisition L.L.C. (Gamma), a wholly-owned subsidiary of DISH Network entered into an asset purchase agreement (the TerreStar Purchase Agreement) with TerreStar Networks and certain of its subsidiaries (collectively, the Debtors) pursuant to which upon closing of the transaction Gamma will acquire substantially all of the assets of TerreStar Networks and its subsidiaries for a cash purchase price of $1.375 billion and will agree to assume certain liabilities associated with the ongoing operations of the business being acquired. We expect that these proceeds will be used to repay our investment in TerreStar.

Consummation of the TerreStar Purchase Agreement is subject to customary closing conditions, including governmental and regulatory approvals. Moreover, Gamma has agreed that, while funding of the purchase price remains subject to certain conditions, funding is not conditioned upon receipt of approvals from the FCC or the Canadian Department of Industry. However, there can be no guarantee that the transactions contemplated by the TerreStar Purchase Agreement will be consummated or that we will receive, in whole or in part, the amounts owed to us by the Debtors.

Our investments in TerreStar Corporation and TerreStar Networks are highly speculative and have experienced and continue to experience volatility associated with their fair values. The value of our investments in TerreStar Networks is determined using Level 3 inputs under the fair value hierarchy. In estimating those fair values we consider quotes from brokers and other pricing services, if available, and obtain both observable and unobservable inputs in our valuation models which include the use of option pricing and discounted cash flow techniques or a liquidation based method. The fair value of these investments can be significantly impacted by adverse changes in securities markets generally, as well as risks related to the performance of TerreStar Corporation and TerreStar Networks, their ability to obtain sufficient capital to execute their business plans, risks associated with their specific industries, bankruptcy and other factors.

On January 14, 2011, TerreStar Corporation filed a Form 15, terminating the registration of its common stock and Series A Voting Convertible Preferred Stock under Section 12(g) of the Securities Exchange Act of 1934 and suspending its obligations to file reports with the Securities and Exchange Commission (other than with respect to its fiscal year ended December 31, 2010).

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5. Inventory

Inventory consists of the following:

	As of	
	June 30, 2011	December 31, 2010
	(In thousands)	
Finished goods	$ 54,990	$ 21,084
Raw materials	23,743	6,819
Work-in-process	16,591	2,530
Total inventory	$ 95,324	$ 30,433

The increase in our inventory balance from December 31, 2010 compared to June 30, 2011 is primarily related to the Hughes Acquisition.

6. Property and Equipment

Property and equipment consist of the following:

	Depreciable Life (In Years)	As of	
		June 30, 2011	December 31, 2010
		(In thousands)	
Land		$ 41,252	$ 28,240
Buildings and improvements	1-40	287,179	232,208
Furniture, fixtures, equipment and other	1-10	907,296	791,247
Consumer rental equipment	2-4	141,084	
Satellites:			
EchoStar III - fully depreciated	N/A	234,083	234,083
EchoStar IV - fully depreciated	N/A	78,511	78,511
EchoStar VI	12	244,305	244,305
EchoStar VIII	12	175,801	175,801
EchoStar IX	12	127,376	127,376
EchoStar XII	10	190,051	190,051

SPACEWAY 3	15		286,707		
Satellites acquired under capital leases	10-15		556,918		534,673
Construction in process			836,591		393,098
Total property and equipment			4,107,154		3,029,593
Accumulated depreciation			(1,860,004)		(1,766,290)
Property and equipment, net		$	2,247,150	$	1,263,303

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Construction in process consists of the following:

	As of	
	June 30, 2011	December 31, 2010
	(In thousands)	
Progress amounts for satellite construction, including certain amounts prepaid under satellite service agreements and launch costs:		
QuetzSat-1	$ 165,120	$ 162,947
EchoStar XVI	179,886	100,312
Jupiter	306,854	
Other	67,131	93,958
Buildings and improvements	43,991	19,291
Uplink equipment	43,611	11,933
Other	29,998	4,657
Construction in process	$ 836,591	$ 393,098

For the three and six months ended June 30, 2011, we recorded $9 million and $18 million, respectively, of capitalized interest related to our satellites under construction. For the three and six months ended June 30, 2010, we did not record any capitalized interest related to our satellites under construction.

Depreciation and amortization expense consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Satellites	$ 24,592	$ 22,902	$ 47,717	$ 47,438
Furniture, fixtures, equipment and other	24,187	24,246	49,564	47,488
Consumer rental equipment	7,580		7,580	
Identifiable intangible assets subject to amortization	12,855	8,266	19,724	16,530
Buildings and improvements	1,845	1,612	3,488	3,219
Total depreciation and amortization	$ 71,059	$ 57,026	$ 128,073	$ 114,675

Cost of sales and other expense categories included in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) do not include depreciation expense.

Satellites

We currently utilize 11 satellites in geostationary orbit approximately 22,300 miles above the equator, four of which are leased. Three of our leased satellites are accounted for as capital leases and are depreciated over the terms of the satellite service agreements. We also lease capacity on one satellite from DISH Network that is accounted for as an operating lease. See Note 13 for further discussion of our satellite leases with DISH Network.

As a result of the Hughes Acquisition, two satellites were added to our satellite fleet, including one in-orbit satellite and one satellite under construction, discussed below.

SPACEWAY 3. SPACEWAYTM 3 satellite (SPACEWAY 3) was launched in August 2007 and started providing service in North America on the SPACEWAY network in April 2008.

Jupiter. In June 2009, Hughes Communications entered into an agreement with Space Systems/Loral, Inc. (SS/L) for the design and manufacture of our next-generation, high throughput geostationary satellite (Jupiter). Jupiter

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will employ a multi-spot beam, bent pipe Ka-band architecture and will provide additional capacity for our HughesNet service to the consumer market in North America. Jupiter is expected to be launched during the first half of 2012.

Satellite Anomalies

Prior to 2011, certain satellites in our fleet 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 these satellites. See *Long-Lived Satellite Assets* below for further discussion of evaluation of impairment. 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 insurance for any of the in-orbit satellites that we use, and therefore we will bear the risk of any uninsured in-orbit failures. Recent developments with respect to certain of our satellites are discussed below.

Owned Satellites

EchoStar IV. During the third quarter of 2011, EchoStar IV was removed from the 77 degree orbital location and retired from commercial service. This retirement did not have a material impact on our results of operations or financial position.

EchoStar VIII. EchoStar VIII was designed to operate 32 direct broadcast satellite (DBS) transponders in the continental United States at approximately 120 watts per channel, switchable to 16 DBS transponders operating at approximately 240 watts per channel. EchoStar VIII was also designed with spot-beam technology. This satellite has experienced several anomalies prior to 2011. In January 2011, the satellite experienced an anomaly which temporarily disrupted electrical power to some of its components, causing an interruption of broadcast service. In addition, one of the two central processing units used to control the satellite failed in connection with this anomaly. None of these anomalies has impacted the commercial operation or estimated useful life of the satellite. However, there can be no assurance that this anomaly or any future anomalies will not reduce its useful life or impact its commercial operation.

Leased Satellites

AMC-16. AMC-16, a fixed satellite services (FSS) satellite commenced commercial operation during February 2005 and currently operates at the 85 degree orbital location. This SES World Skies satellite is equipped with 24 Ku-band FSS transponders that operate at approximately 120 watts per channel and a Ka-band payload consisting of 12 spot beams. During the first quarter of 2010, SES World Skies notified us that

AMC-16 had experienced a solar-power anomaly, which caused a power loss that reduced its capacity. Pursuant to the satellite services agreement, we are entitled to a reduction of our monthly recurring payment in the event of a partial loss of satellite capacity. Effective in March 2010, the monthly recurring payment was reduced and as a result our capital lease obligation and the corresponding asset value was lowered by approximately $35 million. In addition, during May 2011, the monthly recurring payment was reduced as a result of a March 2010 anomaly and as a result our capital lease obligation was lowered by approximately $7 million and a gain was recorded in Other, net on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

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

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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.

7. Intangible Assets and Goodwill

Intangible Assets

As of June 30, 2011 and December 31, 2010, our identifiable intangibles subject to amortization consisted of the following:

	As of			
	June 30, 2011		December 31, 2010	
	Intangible Assets	Accumulated Amortization	Intangible Assets	Accumulated Amortization
	(In thousands)			
Contract-based	$ 262,273	$ (118,700)	$ 190,566	$ (108,361)
Customer relationships	303,726	(27,504)	23,632	(23,605)
Technology-based (1)	152,627	(40,465)	111,848	(35,086)
Trademark portfolio	2,491	(249)		
Total	$ 721,117	$ (186,918)	$ 326,046	$ (167,052)

Amortization of these intangible assets is recorded on a straight line basis over an average finite useful life primarily ranging from approximately one to 20 years. Amortization was $13 million and $8 million during the three months ended June 30, 2011 and 2010, respectively. Amortization was $20 million and $17 million during the six months ended June 30, 2011 and 2010, respectively.

As of June 30, 2011, we have $30 million of identifiable intangibles considered indefinite-lived assets which are not subject to amortization and therefore are not included in the table above.

Estimated future amortization of our identifiable intangible assets as of June 30, 2011 is as follows (in thousands):

For the Years Ended December 31,		
2011 (remaining six months)	$	49,088
2012		92,193
2013		90,090
2014		82,618
2015		68,433
Thereafter (1)		151,777
Total	$	534,199

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(1) On December 31, 2010, we acquired certain assets of Move Networks, Inc. which included in-process research and development (R&D). In-process R&D assets acquired in a business combination initially are considered indefinite-lived assets until either the completion or abandonment of the associated R&D efforts. Upon the successful completion of the development process, we will commence amortization of the balance over the estimated useful life of the project. For purposes of the amortization table, we included the entire in-process R&D balance of $26 million in the category labeled Thereafter until such time that the R&D efforts are finalized or abandoned.

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Goodwill

The excess of our investments in consolidated subsidiaries over net tangible and identifiable intangible asset value at the time of the investment is recorded as goodwill and is not subject to amortization. The goodwill associated with various acquisitions is detailed in the table below.

		Goodwill (In thousands)
Balance as of December 31, 2010	$	6,457
Troppus Acquisition		10,360
Hughes Acquisition		513,712
Balance as of June 30, 2011	$	530,529

8. Long-Term Debt and Capital Lease Obligations

6 1/2% Senior Secured Notes due 2019

On June 1, 2011, EH Holding Corporation (EHHC), our wholly-owned subsidiary, issued $1.1 billion aggregate principal amount of its 6 1/2% Senior Secured Notes (the Senior Secured Notes) at an issue price of 100.0%, pursuant to a Secured Indenture dated June 1, 2011 (the Secured Indenture). The Senior Secured Notes mature on June 15, 2019. Interest accrues at an annual rate of 6 1/2% and is payable semi-annually in cash, in arrears on June 15 and December 15 of each year, commencing on December 15, 2011.

The Senior Secured Notes are redeemable, in whole or in part, at any time at a redemption price equal to 100% of the principal amount thereof plus a make-whole premium, as defined in the Secured Indenture, together with accrued and unpaid interest, if any, to the date of redemption. Prior to June 15, 2014, EHHC may also redeem up to 35% of the aggregate principal amount of the Senior Secured Notes at a redemption price equal to 106.500% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of redemption, with the net cash proceeds from certain equity offerings or capital contributions. In addition, prior to June 15, 2015, EHHC may redeem up to 10% of the outstanding Senior Secured Notes per year at a redemption price equal to 103% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of redemption.

The Senior Secured Notes are:

- general secured obligations of EHHC;
- secured by a first priority security interest in substantially all of the assets of EHHC and certain of its subsidiaries, subject to certain exceptions and Permitted Liens (as defined in the Secured Indenture);
- effectively junior to EHHC s obligations that are secured by assets that are not part of the Collateral (as defined in the Secured Indenture) that is securing the Senior Secured Notes, in each case to the extent of the value of the Collateral securing such obligations;
- effectively senior to EHHC s existing and future unsecured obligations to the extent of the value of the Collateral securing the Senior Secured Notes, after giving effect to Permitted Liens;
- senior in right of payment to all existing and future obligations of EHHC that are expressly subordinated to the Senior Secured Notes;
- structurally junior to any existing and future obligations of any non-Guarantor Subsidiaries (as defined in the Secured Indenture); and
- unconditionally guaranteed, jointly and severally, on a general senior secured basis by each Guarantor (as defined in the Secured Indenture).

Subject to certain exceptions, the Secured Indenture contains restrictive covenants that, among other things, impose limitations on the ability of EHHC and, in certain instances, the ability of its Restricted Subsidiaries (as defined in the Secured Indenture), to:

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(Unaudited)

- pay dividends or make distributions on EHHC s capital stock or repurchase EHHC s capital stock;
- incur additional debt;
- make certain investments;
- create liens or enter into sale and leaseback transactions;
- merge or consolidate with another company;
- transfer and sell assets;
- enter into transactions with affiliates; and
- allow to exist certain restrictions on the ability of certain subsidiaries of EHHC to pay dividends, make distributions, make other payments, or transfer assets to us.

In the event of a change of control, as defined in the Secured Indenture, EHHC would be required to make an offer to repurchase all or any part of a holder s Senior Secured Notes at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon to the date of repurchase.

7 5/8% Senior Notes due 2021

On June 1, 2011, EHHC issued $900 million aggregate principal amount of its 7 5/8% Senior Notes (the Senior Notes) at an issue price of 100.0%, pursuant to an Unsecured Indenture dated June 1, 2011 (the Unsecured Indenture). The Senior Notes mature on June 15, 2021. Interest accrues at an annual rate of 7 5/8% and is payable semi-annually in cash, in arrears on June 15 and December 15 of each year, commencing on December 15, 2011.

The Senior Notes are redeemable, in whole or in part, at any time at a redemption price equal to 100.0% of the principal amount plus a make-whole premium, as defined in the Unsecured Indenture, together with accrued and unpaid interest, if any, to the date of redemption. Prior to June 15, 2014, EHHC may also redeem up to 35% of the aggregate principal amount of the Senior Notes at a redemption price equal to 107.625% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of redemption, with the net cash proceeds from certain equity offerings or capital contributions.

The Senior Notes are:

- general unsecured obligations of EHHC;
- effectively junior to EHHC s obligations that are secured to the extent of the value of the collateral securing such obligations;
- senior in right of payment to all existing and future obligations of EHHC that are expressly subordinated to the Senior Notes;
- structurally junior to any existing and future obligations of any non-Guarantor Subsidiaries (as defined in the Unsecured Indenture); and
- unconditionally guaranteed, jointly and severally, on a general senior basis by each Guarantor (as defined in the Unsecured Indenture).

Subject to certain exceptions, the Unsecured Indenture contains restrictive covenants that, among other things, impose limitations on the ability of EHHC and, in certain instances, the ability of its Restricted Subsidiaries (as defined in the Unsecured Indenture), to:

- pay dividends or make distributions on EHHC s capital stock or repurchase EHHC s capital stock;
- 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;

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- enter into transactions with affiliates; and
- allow to exist certain restrictions on the ability of certain subsidiaries to pay dividends, make distributions, make other payments, or transfer assets to us.

In the event of a change of control, as defined in the Unsecured Indenture, EHHC would be required to make an offer to repurchase all or any part of a holder s Senior Notes at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon to the date of repurchase.

Fair Value of our Long-Term Debt

The following table summarizes the carrying and fair values of our debt facilities as of June 30, 2011 and December 31, 2010:

	As of			
	June 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
6 1/2% Senior Secured Notes due 2019	$ 1,100,000	$ 1,117,600	$	$
7 5/8% Senior Notes due 2021	900,000	915,750		
Mortgages and other notes payable	13,112	13,112	6,535	6,535
Subtotal	2,013,112	$ 2,046,462	6,535	$ 6,535
Capital lease obligations	392,494	NA	406,350	NA
Total long-term debt and capital lease obligations (including current portion)	$ 2,405,606		$ 412,885	

Capital Lease Obligations

As of June 30, 2011 and December 31, 2010, we had $557 million and $535 million, respectively, capitalized for the estimated fair value of satellites acquired under capital leases included in Property and equipment, net, with related accumulated depreciation of $282 million and $268 million, respectively.

In our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), we recognized depreciation expense on satellites acquired under capital lease agreements as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Depreciation expense - capital leases	$ 7,037	$ 6,783	$ 14,043	$ 15,201

The following satellites are accounted for as capital leases and depreciated over the terms of the respective satellite service agreements.

AMC-15. AMC-15, an FSS satellite, commenced commercial operation during January 2005. This lease is renewable by us on a year-to-year basis following the initial ten-year term, and provides us with certain rights to lease capacity on replacement satellites.

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AMC-16. AMC-16 commenced commercial operation during February 2005. This lease is renewable by us on a year-to-year basis following the initial ten-year term, and provides us with certain rights to lease capacity on replacement satellites. During May 2011, the monthly recurring payment was reduced as a result of a March 2010 anomaly and as a result our capital lease obligation was lowered by approximately $7 million and a gain was recorded in Other, net on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Nimiq 5. Nimiq 5 was launched in September 2009 and commenced commercial operation at the 72.7 degree orbital location during October 2009, where it provides additional high-powered capacity to our satellite fleet. See Note 13 for further discussion.

Future minimum lease payments under these capital lease obligations, together with the present value of the net minimum lease payments as of June 30, 2011 are as follows (in thousands):

For the Years Ended December 31,		
2011 (six months remaining)	$	60,160
2012		119,497
2013		119,005
2014		113,641
2015		48,110
Thereafter		411,840
Total minimum lease payments		872,253
Less: Amount representing lease of the orbital location and estimated executory costs (primarily insurance and maintenance) including profit thereon, included in total minimum lease payments		(263,450)
Net minimum lease payments		608,803
Less: Amount representing interest		(216,309)
Present value of net minimum lease payments		392,494
Less: Current portion		(54,129)
Long-term portion of capital lease obligations	$	338,365

9. Stock-Based Compensation

Stock Incentive Plans

We maintain stock incentive plans to attract and retain officers, directors and key employees. Stock awards under these plans include both performance and non-performance based stock incentives. As of June 30, 2011, we had outstanding under these plans stock options to acquire 9.2 million shares of our Class A common stock and 0.2 million restricted stock units. Stock options granted prior to and on June 30, 2011 were

granted with exercise prices equal to or greater than the market value of our Class A common stock at the date of grant and with a maximum term of ten years. While historically we have issued stock awards subject to vesting, typically at the rate of 20% to 33% per year, some stock awards have been granted with immediate vesting and other stock awards vest only upon the achievement of certain company-wide objectives. As of June 30, 2011, we had 4.5 million shares of our Class A common stock available for future grant under our stock incentive plans.

In connection with the Spin-off, as permitted by DISH Network s existing stock incentive plans and consistent with the Spin-off exchange ratio, each DISH Network stock option was converted into two stock options as follows:

- an adjusted DISH Network stock option for the same number of shares that were exercisable under the original DISH Network stock option, with an exercise price equal to the exercise price of the original DISH Network stock option multiplied by 0.831219.

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- a new EchoStar stock option for one-fifth of the number of shares that were exercisable under the original DISH Network stock option, with an exercise price equal to the exercise price of the original DISH Network stock option multiplied by 0.843907.

Similarly, each holder of DISH Network restricted stock units retained his or her DISH Network restricted stock units and received one EchoStar restricted stock unit for every five DISH Network restricted stock units that they held.

Consequently, the fair value of the DISH Network stock award and the new EchoStar stock award immediately following the Spin-off was equivalent to the fair value of such stock award immediately prior to the Spin-off.

As of June 30, 2011, the following stock awards were outstanding:

	As of June 30, 2011			
	EchoStar Awards		DISH Network Awards	
Stock Awards Outstanding	**Stock Options**	**Restricted Stock Units**	**Stock Options**	**Restricted Stock Units**
Held by EchoStar employees	8,269,450	95,665	3,053,078	228,624
Held by DISH Network employees	914,471	55,952	N/A	N/A
Total	9,183,921	151,617	3,053,078	228,624

We are responsible for fulfilling all stock awards related to EchoStar common stock and DISH Network is responsible for fulfilling all stock awards related to DISH Network common stock, regardless of whether such stock awards are held by our or DISH Network s employees. Notwithstanding the foregoing, our stock-based compensation expense, resulting from stock awards outstanding at the Spin-off date, is based on the stock awards held by our employees regardless of whether such stock awards were issued by EchoStar or DISH Network. Accordingly, stock-based compensation that we expense with respect to DISH Network stock awards is included in Additional paid-in capital on our Condensed Consolidated Balance Sheets.

Stock Award Activity

Our stock option activity was as follows:

	For the Six Months Ended June 30, 2011		
	Options		Weighted-Average Exercise Price
Total options outstanding, beginning of period	7,795,373	$	23.24
Granted	2,516,000	$	37.30
Exercised	(943,132)	$	24.04
Forfeited and cancelled	(184,320)	$	20.41
Total options outstanding, end of period	9,183,921	$	27.07
Performance based options outstanding, end of period(1)	675,500	$	25.31
Exercisable at end of period	2,677,257	$	25.49

(1) These stock options, which are included in the caption Total options outstanding, end of period, were issued pursuant to a performance based stock incentive plan. Vesting of these stock options is contingent upon meeting a certain company goal which is not yet probable of being achieved. See discussion of the 2005 LTIP below.

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We realized tax benefits from stock awards exercised during the three and six months ended June 30, 2011 and 2010 as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Tax benefit from stock awards exercised	$ 2,706	$ 252	$ 4,876	$ 952

Based on the closing market price of our Class A common stock on June 30, 2011, the aggregate intrinsic value of our stock options was as follows:

	As of June 30, 2011	
	Options Outstanding	Options Exercisable
	(In thousands)	
Aggregate intrinsic value	$ 88,232	$ 29,314

Our restricted stock unit activity was as follows:

	For the Six Months Ended June 30, 2011	
	Restricted Stock Units	Weighted-Average Grant Date Fair Value
Total restricted stock units outstanding, beginning of period	107,249	$ 27.33
Granted	49,950	$ 36.43
Vested		$
Forfeited and cancelled	(5,582)	$ 28.39
Total restricted stock units outstanding, end of period	151,617	$ 30.28
Restricted Performance Units outstanding, end of period (1)	90,442	$ 26.69

(1) These Restricted Performance Units, which are included in the caption Total restricted stock units outstanding, end of period, were issued pursuant to a performance based stock incentive plan. Vesting of these Restricted Performance Units is contingent upon meeting a certain company goal which is not yet probable of being achieved. See discussion of the 2005 LTIP below.

Long-Term Performance Based Plans

2005 LTIP. During 2005, DISH Network adopted a long-term, performance based stock incentive plan (the 2005 LTIP). The 2005 LTIP provides stock options and restricted stock units, either alone or in combination, which vest over seven years at the rate of 10% per year during the first four years, and at the rate of 20% per year thereafter. Exercise of the stock awards is subject to a performance condition that a company-specific goal is achieved by March 31, 2015.

Contingent compensation related to the 2005 LTIP will not be recorded in our financial statements unless and until the achievement of the performance condition is probable. The competitive nature of our industry and certain other factors can significantly impact achievement of the goal. Consequently, while it was determined that achievement of the goal was not probable as of June 30, 2011, this assessment could change at any time.

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If all of the stock awards under the 2005 LTIP were vested and the goal had been met or if we had determined that achievement of the goal was probable during the six months ended June 30, 2011, we would have recorded total non-cash, stock-based compensation expense for our employees as indicated in the table below. If the goal is met and there are unvested stock awards at that time, the vested amounts would be expensed immediately on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), with the unvested portion recognized ratably over the remaining vesting period.

	2005 LTIP			
		Total		Vested Portion
	(In thousands)			
DISH Network awards held by EchoStar employees	$	17,641	$	13,265
EchoStar awards held by EchoStar employees		3,455		2,593
Total	$	21,096	$	15,858

Of the 9.2 million stock options and 0.2 million restricted stock units outstanding under our stock incentive plans as of June 30, 2011, the following awards were outstanding pursuant to the 2005 LTIP:

	As of June 30, 2011		
	Number of Awards		Weighted-Average Exercise Price
Stock options	675,500	$	25.31
Restricted Performance Units	90,442		
Total	765,942		

Stock-Based Compensation

Total non-cash, stock-based compensation expense for all of our employees is shown in the following table for the three and six months ended June 30, 2011 and 2010 and was allocated to the same expense categories as the base compensation for such employees:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2011		2010		2011		2010	
	(In thousands)							
Research and development expenses	$	609	$	971	$	1,212	$	2,128
		2,952		2,088		5,330		5,173

Selling, general and administrative expenses								
Total non-cash, stock-based compensation	$	3,561	$	3,059	$	6,542	$	7,301

As of June 30, 2011, our total unrecognized compensation cost related to our non-performance based unvested stock awards was $57 million and includes compensation expense that we will recognize for DISH Network stock awards held by our employees as a result of the Spin-off. This cost is based on an estimated future forfeiture rate of approximately 1.5% per year and will be recognized over a weighted-average period of approximately three years. Share-based compensation expense is recognized based on stock awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Changes in the estimated forfeiture rate can have a significant effect on share-based compensation expense since the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

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Valuation

The fair value of each stock option granted for the three and six months ended June 30, 2011 and 2010 was estimated at the date of the grant using a Black-Scholes option valuation model with the following assumptions:

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
Stock Options	**2011**	**2010**	**2011**	**2010**
Risk-free interest rate	1.76% - 2.13%	2.14%	1.76% - 2.57%	2.14% - 2.97%
Volatility factor	35.45% - 38.68%	31.51%	34.68% - 38.68%	31.00% - 31.51%
Expected term of options in years	5.1 - 6.0	6.1	5.1 - 6.0	6.1
Weighted-average fair value of options granted	$13.36 - $13.77	$6.66	$13.36 - $14.42	$6.66 - $7.38

We do not currently intend to pay dividends on our common stock and accordingly, the dividend yield percentage used in the Black-Scholes option valuation model is set at zero for all periods. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded stock options which have no vesting restrictions and are fully transferable. Consequently, our estimate of fair value may differ from other valuation models. Further, the Black-Scholes option valuation model requires the input of subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate.

We will continue to evaluate the assumptions used to derive the estimated fair value of our stock options as new events or changes in circumstances become known.

10.   Acquisitions

When we acquire a business, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component using various valuation techniques, including the market approach, income approach and/or cost approach.

The accounting standard for business combinations requires most identifiable assets, liabilities, noncontrolling interests and goodwill acquired to be recorded at fair value. Transaction costs related to the acquisition of the business are expensed as incurred. Costs associated with the issuance of debt associated with a business combination are capitalized and included as a yield adjustment to the underlying debt s stated rate.

Acquired intangible assets other than goodwill are amortized over their estimated useful lives unless the lives are determined to be indefinite.

Hughes Communications

On June 8, 2011, we completed the Hughes Acquisition, pursuant to the Hughes Agreement by and between us, certain of our 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 in cash and substantially all of the outstanding debt of Hughes Communications was repaid. The funding of the Hughes Acquisition was supported by the issuance of $1.1 billion of senior secured notes and $900 million of senior unsecured notes.

In connection with the Hughes Acquisition, each share of unvested restricted stock and unvested stock option of Hughes Communications, Inc. were converted into the right to receive $60.70 (minus any applicable exercise price) in cash on the vesting date of the stock award. As of June 30, 2011, our maximum liability for these unvested stock options of Hughes Communications, Inc. was approximately $39 million, which is payable based on the original vesting terms of the stock option. Of the $39 million, $18 million was accrued as of June 30, 2011, the remainder of which will be recognized over the remaining vesting period.

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In addition, we are also liable to pay approximately $17 million, of which $3 million was accrued as of June 30, 2011, in change of control bonuses and retention bonuses to certain of the executives of Hughes Communications within the next six to 12 months.

Hughes is the global leader in broadband satellite technologies and services and a leading provider of managed network services. The two companies together will have an extensive fleet of owned and leased satellites, experienced personnel and communications facilities around the world. The acquisition significantly expands our ability to provide new video and data products and solutions.

The Hughes Acquisition was accounted for as a business combination. However, we have not completed allocating the purchase price among the assets that were acquired and thus the allocation in the table below may change.

		Preliminary Purchase Price Allocation (In thousands)
Cash	$	84,768
Marketable investment securities		22,148
Other current assets		281,205
Property and equipment		929,797
Intangibles		431,657
Goodwill		513,712
FCC Authorizations		400,000
Other noncurrent assets		63,991
Current liabilities		(265,903)
Deferred tax liabilities		(257,959)
Long-term liabilities		(17,735)
Non-controlling interest		(10,748)
Total purchase price	$	2,174,933

In connection with the Hughes Acquisition, we incurred $35 million of acquisition related transaction costs consisting primarily of banking, bond forfeiture, legal and accounting fees. These costs are included in Other, net on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

In connection with the issuance of our 6 1/2% Senior Secured Notes due 2019 and our 7 5/8% Senior Notes due 2021, we incurred $56 million of debt issuance costs, which are included in Other noncurrent assets, net on our Condensed Consolidated Balance Sheets. For each of the three and six months ended June 30, 2011, we amortized $1 million of debt issuance costs.

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The following unaudited pro forma condensed consolidated operating results for the three and six months ended June 30, 2011 and 2010 give 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 these transactions 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.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Supplemental pro forma financial information (Unaudited)	**2011**	**2010**	**2011**	**2010**
	(In thousands)			
Total revenue				