Company

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TiVo Pain May Land at SATS, Not DISH

Downgrade SATS to Sell; Maintain Buy on DISH

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- **In Our Scenario, Four Factors Point to EchoStar, TiVo Merger** — 1) Likely legal victory for TiVo, 2) Synergies between Sling and TiVo, 3) 2Q09 EchoStar indemnification from TiVo liabilities, and 4) De-risking of Dish's business on the heels of a TiVo win.

- **Similar Market Capitalizations Facilitate Transaction** — Both EchoStar and TiVo have similar market capitalizations. Paves way for most consideration to be paid in stock. However, cash premium needs to be from external cash (since EchoStar's equity supported by its cash balance).

- **Expect Dish to Pre-pay NewCo for TiVo Patent** — We suspect Dish will pre-pay NewCo for TiVo rights. We assume $1 a month per box. Over life of TiVo patent, translates to $640 million in net present value. Also translates to 30% cash premium for TiVo equity holders.

- **EchoStar Equity Likely to Fall** — EchoStar share issuance offset by cash payment (from Dish) plus TiVo cash results in lower pro forma cash per share. Depending on size of cash payment, EchoStar equity may stay flat, or fall to as low as to $14.75. As such, lower EchoStar price target from $24 to $17.50; downgrade to Sell.

- **Raising Dish Target Price** — While Street is fixated on reduction to Dish's free cash flow from potential TiVo loss, we think more likely scenario is lift in Dish's debt (of about $640 million) to pre-pay for TiVo rights. This is far less bearish than consensus view. As such, raising price target on Dish from $22 to $24. Maintain Buy rating and lowering risk rating to "Medium" from "High".

	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
DISH	1H	1M	US$22.00	US$24.00	US$1.98	US$1.98	US$2.09	US$2.09
SATS	1H	3H	US$24.00	US$17.50	US$0.08	US$0.08	US$-0.07	US$-0.07

See Appendix A-1 for Analyst Certification and important disclosures.

Several Factors Point to Tie-Up

The more we think about it, the more the possibility exists to us that EchoStar and TiVo merge. We believe there are four factors that point to a potential tie-up: 1) A legal victory for TiVo, 2) Potential synergies between the two firms, 3) EchoStar's 2Q09 indemnification from TiVo liabilities, and 4) De-risking of Dish's business by effectively "controlling" TiVo's intellectual property.

Factor #1: TiVo Legal Victory Likely

You have to go back to 2004 to find the origins of the TiVo lawsuit. But, by 2006, EchoStar suffered its first legal set-back in Texas. Since then, the case has worked its way through the District Court in Texas, the U.S. Patent and Trademark Office, the U.S. Court of Appeals and the Supreme Court (which refused to hear the case).

By March 2010, the US Court of Appeals affirmed the District Court's ruling and found that EchoStar was in contempt. While there are a few legal moves left for EchoStar – including a full en banc hearing and a proposed new design around – most investors (correctly, in our view) think TiVo has won the case.

In truth, we believe a lot of investors have been questioning Mr. Ergen's decision to fight a pitched, protracted – and potentially fruitless – legal battle with TiVo. In our conversations with investors, The Street, it seems, thinks Mr. Ergen should have entered into a commercial agreement long ago (like Comcast, DirecTV and Cox).

But let's take a different view. What if Mr. Ergen coveted TiVo's technology? What better way to ensure that the TiVo patent is real – and defensible – than by fighting a protracted legal battle and, well, losing? Only then would Mr. Ergen be sure that the TiVo patent – and TiVo's equity – was actually worth something.

So, if TiVo ultimately prevails in court, it appears Mr. Ergen has two choices: pay the recurring royalties TiVo requests or acquire the firm. We believe most investors view these outcomes as mutually exclusive. That's because we believe most investors think Dish is the likely suitor. But with EchoStar trading as a separate legal entity, they aren't mutually exclusive at all. In effect, Mr. Ergen could use EchoStar's equity (and cash) to acquire TiVo. Then, Mr. Ergen would – to a large extent – be paying TiVo royalties to himself.

And, we might add, if TiVo is acquired to us it makes no sense for Dish to acquire the firm. EchoStar, after all, is the natural wholesale provider of services to the pay TV space. EchoStar sells boxes, they own Sling, they also sell transponder capacity. TiVo is a natural extension to this emerging wholesale, value-added role that EchoStar is trying to play in the global pay TV space.

Factor #2: Synergies Between Sling and TiVo

But it's not just the big stick emanating from the courts that point to a TiVo acquisition. There is also the carrot of synergies. Recall, EchoStar acquired Sling in 2007 for $320 million. Sling allows consumers to gain access to TV content via any Internet connection (wireless or terrestrial), so called place shifting. And TiVo, of course, allows consumers to record TV content on a hard-drive and access it at a later time, so called time shifting.

Although Sling and TiVo can work together, most consumers need to purchase two boxes. The only integrated DVR and place shifting box we know of is EchoStar's ViP922 (rolled out one year ago). As such, we think it makes sense for these two companies to join forces. There would be several advantages:

- First, consumers would be able to purchase one set-top-box that both place shifts and time shift. (What would the brand managers call it…Slingvo?)
- Second, pay TV distributors – particularly in international markets – may be more inclined to cooperate with TiVo *and* Sling if they were dealing with one company with two differentiated service offerings.
- Third, the two companies could combine R&D efforts: once graphical user interface, one common hardware platform, one set of middleware, one wireless application.
- Fourth, the two firms could consolidate sales efforts into the US and international pay TV markets.
- Fifth, TiVo may be able to benefit from EchoStar's box manufacturing capabilities.

Factor #3: EchoStar Indemnification

It's well known that Mr. Ergen usually has a back-up plan for most business scenarios. However, in our conversations with investors, it seems that few investors have been able to identify Mr. Ergen's escape hatch when it comes to TiVo. But maybe, just maybe, there was a hint last year.

In early SEC filings – dating back to late 2007 – EchoStar made it clear that it was liable for any potential TiVo liabilities from the time that EchoStar became a separate legal entity, or January, 2008.

But, in EchoStar's 2Q09 10Q, the company announced that management decided to indemnify the firm from most liabilities related to the TiVo litigation. (The liabilities are now capped at $5 million.) At the time, this news sent EchoStar's stock substantially higher.

But, we've never been quite sure why EchoStar and Dish Network elected to push most of the (potential) liabilities to one firm. And why was that one firm Dish Network (and not EchoStar)? In effect, the key question is "What changed?"

One answer, we think, is that Mr. Ergen may have become more concerned that TiVo would win its legal case. And, if he contemplated acquiring TiVo on the heels of a TiVo legal victory, there would be two advantages from indemnifying EchoStar:

- First, by pushing all the legal liabilities to one entity, it's far easier for TiVo and a suitor to negotiate a merger. Can you imagine paying a premium for TiVo if the liabilities were split between two firms? The complexities seem daunting.
- Second, by pushing the legal liabilities to Dish Network (rather than EchoStar), Mr. Ergen helped preserve the market capitalization and the cash at EchoStar. This, too, would help facilitate a merger between the two firms. That is, if all of the liabilities were pushed to EchoStar, this would have used a large portion of EchoStar's cash and impinged upon the firm's equity value (which, of course, is largely supported by the cash balance).

Factor #4: De-Risk Dish Network's Business

There is another reason Mr. Ergen may want to acquire TiVo. By owning a large portion of TiVo, it keeps the asset out of the hands of other pay players that may want to ink an exclusive DVR contract with TiVo.

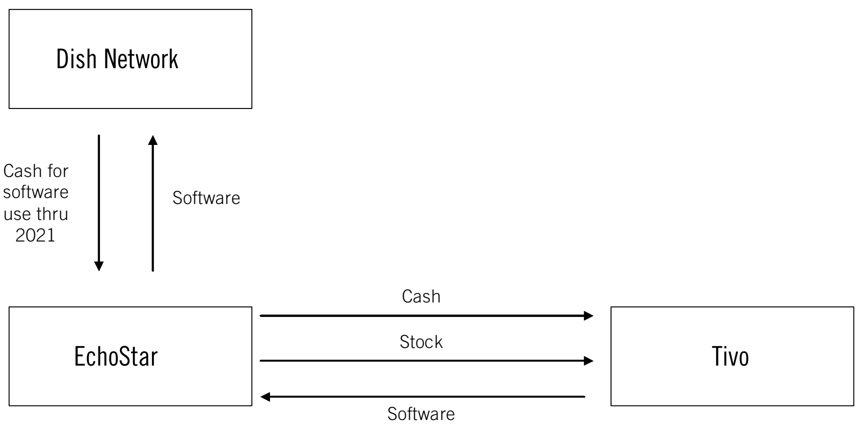
Potential Deal Terms

So far, we've summarized some of the reason we think a TiVo-EchoStar combination makes strategic sense. Now, let's take a look at potential transaction terms.

Potential Value Flows Among The Parties

In Figure 1, we've outlined one potential transaction that seems to make a lot of sense to us. First, EchoStar offers cash and stock to TiVo shareholders. In return, TiVo's patent would reside at a pro forma NewCo (EchoStar-TiVo). Second, NewCo would license this software to Dish Network. And third, Dish Network would pre-pay NewCo for the rights to use the DVR software until the TiVo patent expires in 2021.

Figure 1. Potential Value Flows Between Dish, EchoStar and TiVo



Source: Citi Investment Research and Analysis

There are several merits to this potential transaction:

- First, since the market capitalizations of EchoStar and TiVo are similar, if TiVo receives a premium, it must be in cash. That is, any premium offered to TiVo via a more favorable share exchange ratio with EchoStar would only push EchoStar's equity lower, potentially breaking the transaction (not dissimilar from the failed Comcast offer for Disney back in 2004.) And, crucially, EchoStar can't use the cash on its balance sheet because this cash supports much of EchoStar's stock price.
- Second, NewCo could get incremental cash from Dish Network if Dish prepaid for the DVR software rights. This would have incremental benefits to Dish because it would not lower Dish's recurring free cash flow and would not push Dish's cost structure above rivals, like Comcast and DirecTV.
- Third, NewCo could agree to a license fee that is similar to what rivals pay. Or, alternatively, NewCo could demand a higher fee. That extra cash could be used to fund R&D and accelerate international expansion. In effect, there is lots of flexibility since (pro forma) Mr. Ergen controls both firms and can set the fee as he see fit.

But, there is one drawback to this potential transaction as well. Section 382 of the IRS code eliminates the value of most net operating losses (NOLs) if a change of control occurs. Since TiVo would be selling to EchoStar, this would probably eliminate the vast majority of TiVo's NOLs. (TiVo's 10K suggests the gross amount of the federal NOLs is $410 million, and the state NOLs is $119 million.) While we contemplated other potential transactions – whereby TiVo was the surviving entity – this would require TiVo shareholders to approve a new class of equity (to preserve Mr. Ergen's super-voting shares in NewCo). While possible, this seems both complex and risky. Far easier, it seems for EchoStar to pay for TiVo's NOLs outright.

A Few Potential Figures

Market Capitalization is Similar

Both EchoStar and TiVo have a market capitalization of about $1.8 billion. If we assume EchoStar pays a 30% premium to TiVo equity holders, total consideration for TiVo would be about $2.3 billion. If EchoStar issues shares for most of the offer price, but pays cash for the premium portion of the offer price, it suggests EchoStar would need to come up with about $560 million in cash, or $5.43 per share.

Figure 2. Market Capitalization of EchoStar and TiVo (millions of shares; $ per share; $ millions)

		Low	Mid	High
	EchoStar	**Tivo**	**Tivo**	**Tivo**
Class A	37.2	103.8	103.8	103.8
+ ClassB	47.7	0.0	0.0	0.0
= Total sharse	84.8	103.8	103.8	103.8
x Price (April 7, 2010)	20.65	17.16	17.16	17.16
= Market capitalization	**1,752**	**1,781**	**1,781**	**1,781**
x Premium		120%	130%	140%
= Offer value		**2,138**	**2,316**	**2,494**
- EchoStar equity value		1,752	1,752	1,752
= Cash consideration		**386**	**564**	**742**
memo: Tivo offer price		20.59	22.31	24.02
memo: Cash portion of offer price		3.72	5.43	7.15

Source: Citi Investment Research and Analysis

EchoStar Available Cash is Significant

According to EchoStar's 2009 10K, the firm expects to receive $103 million from Dish Network for the assignment of a launch contract. In addition to this cash, EchoStar has about $1.6 billion worth of marketable investment securities, receivables (primarily from Dish Network) and cash. And, earlier this month, EchoStar announced that the previously disclosed acquisition of SatMex – which would have consumed $267 million of cash – is no longer in the works.

Figure 3. EchoStar Cash Investments ($ millions)

	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Cash and cash equiv (current)	30	665	802	330	24	148	63	47	23
+ Marketable investment securities (current)	491	678	206	633	804	783	887	887	806
+ Restricted cash and marketable securities (non-current)	0	3	3	3	3	3	12	18	18
+ Marketable and other investment securities (non-current)	59	114	472	324	157	183	315	575	562
+ Receivable (net of doubtful accounts)	34	536	333	539	327	342	258	337	458
- Payables	23	408	235	338	228	229	210	276	210
= Total cash	591	1,588	1,581	1,491	1,087	1,230	1,326	1,589	1,657
/ Shares	86.6	86.6	86.6	86.6	86.6	86.5	86.6	85.3	84.8
= Cash per share	**$6.82**	**$18.34**	**$18.26**	**$17.22**	**$12.55**	**$14.22**	**$15.31**	**$18.63**	**$19.54**

Source: Citi Investment Research and Analysis

If we include just the current portion of marketable securities (but exclude the non-current portion), add the Dish Network receivable and include the $103 million for the Dish Network launch contract, it suggests EchoStar could have about $1.3 billion of available cash. If we assume the $103 million payment from Dish – due in 1Q10 – is already deemed a receivable, the balance is a bit lower, about $1.2 billion. But either way, we think EchoStar has the available funds to make an offer to TiVo shareholders.

Figure 4. Potential Available Cash ($ millions)

	Low-end	High-end	Comments
Current marketable securities (1Q10)	809	809	Excludes non-current marketable securites
+ Dish Network receivable (1Q10)	373	373	Dish receivables; zero doubtful account balance
+ Dish payment 1Q10	-	103	May be included in receivables from Dish
= Total cash	**1,182**	**1,285**	

Source: Citi Investment Research and Analysis

A Broken Deal?

However, there is one major complication for EchoStar. To date, the firm has not been particularly successful signing up non-affiliated companies for EchoStar's services (boxes or transponder capacity). That is, about 85% of the firm's revenue comes from Dish Network. As such, we believe the buy-side uses the cash and marketable securities to support EchoStar's stock price. As such, if EchoStar uses its cash to acquire TiVo, EchoStar's equity value may fall by a like amount. This, in turn, would erode much of the headline premium EchStar could offer TiVo.

In Figure 5, we show that if EchoStar offered 0.82 of its shares for every TiVo share, they would receive $16.88 in EchoStar equity. The balance – between $3.72 and $7.15 per TiVo share – would be paid in cash.

If we express the cash portion of the offer in terms of cash per EchoStar share, it varies between $4.55 (20% premium) and $8.75 (40% premium). If EchoStar's equity fell by this amount on the day the deal is announced, then TiVo shareholders would actually receive a 2% *discount* to prevailing market prices for TiVo. Clearly, that's a non-starter for TiVo equity holders.

Figure 5. Offer Premium May Be Eroded ($ per shares; ratio; percent; $ millions)

	Premium in Cash		
	Low	Mid	High
	Tivo	**Tivo**	**Tivo**
EchoStar equity value	20.65	20.65	20.65
x Share exchange ratio	0.8173	0.8173	0.8173
= Equity consideration	16.88	16.88	16.88
+ Cash consideration per Tivo share	3.72	5.43	7.15
= Total offer price for Tivo	**20.59**	**22.31**	**24.02**
memo: headline premium	20%	30%	40%

	Low	Mid	High
	Tivo	**Tivo**	**Tivo**
Cash portion of Tivo offer	386	564	742
/ EchoStar shares	84.8	84.8	84.8
= Cash per EchoStar share	**4.55**	**6.65**	**8.75**
EchoStar share price at time of offer	20.65	20.65	20.65
- Potential erosion per EchoStar share	4.55	6.65	8.75
= Potential EchoStar stock price post offer	16.10	14.00	11.90
x Share exchange ratio	0.8173	0.8173	0.8173
= Equity consideration	13.16	11.45	9.73
+ Cash consideration	3.72	5.43	7.15
= Tivo value at deal close	**16.88**	**16.88**	**16.88**
memo: real premium	-2%	-2%	-2%

Source: Citi Investment Research and Analysis

The only way to mitigate this phenomenon is for EchoStar to pay more in cash that's not on EchoStar's balance sheet. But, where will the cash come from? One potential source is for Dish Network to prepay NewCo for the right to use the TiVo software. But, how much is this worth?

Recall, Dish Network accrued $33 million in 4Q09 for the TiVo litigation, or $11 million a month. What we don't know is the accrual rate per box. If the accrual rate per box is low – around $1.25 – then Dish has about 8.8 million DVRs. However, if the accrual rate is higher – around $2.25 per box – then Dish has only 4.9 million DVR boxes.

Figure 6. Potential Monthly Fees from Dish to TiVo ($ million; $ per month; mil boxes)

	High	Mid	Low
Dish accrual in 4Q09 for Tivo litigation	33	33	33
/ Months per quarter	3	3	3
= Monthly accrual	11	11	11
/ Potential accrual rate per box	1.25	1.75	2.25
= Potential DVR boxes at Dish	**8.8**	**6.3**	**4.9**

No. of Boxes ------------------------------------->	**Low**	**Low**	**Low**	**Mid**	**Mid**	**Mid**	**High**	**High**	**High**
Rate per box------------------------------------->	**Low**	**Mid**	**High**	**Low**	**Mid**	**High**	**Low**	**Mid**	**High**
Dish Network DVRs	4.9	4.9	4.9	6.3	6.3	6.3	8.8	8.8	8.8
x Tivo royalty per month	2.25	2.50	2.75	2.25	2.50	2.75	2.25	2.50	2.75
= Monthly revenue	11.00	12.22	13.44	14.14	15.71	17.29	19.80	22.00	24.20
x Months	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
= Annual revenue	**132**	**147**	**161**	**170**	**189**	**207**	**238**	**264**	**290**

Source: Citi Investment Research and Analysis; Company reports

If we take the mid-point of potential boxes – or 6.3 million – and assume that the Dish accrual rate is below the actual rate TiVo will likely charge Dish – or $2.50 per box per month – then the annual payment from Dish Network to TiVo is $189 million per year. If we grow this payment at 4% per year – to account for higher DVR penetration and inflation – and then assume this payment is made until TiVo's patent expires in 2021, the NPV of these payments (at a 9% WACC) is $1.6 billion.

Figure 7. Total Potential Payment from Dish Network to TiVo ($ million)

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	Patent Expires **2021**	**12 Yr Total**
Annual revenue (mid-pt @ 4% growth)	189	196	204	212	221	229	239	248	258	268	279	290	
/ Cost of capital (9%)	1.09	1.19	1.30	1.41	1.54	1.68	1.83	1.99	2.17	2.37	2.58	2.81	
= NPV of revenue	**173**	**165**	**157**	**150**	**143**	**137**	**131**	**125**	**119**	**113**	**108**	**103**	**1,625**

Source: Citi Investment Research and Analysis

So, in Figure 2 we showed that at a 30% premium TiVo would need to receive about $565 million in cash. And, in Figure 7 we showed that prepaying for TiVo's patent would net NewCo about $1.6 billion. Clearly, the math can work.

Of course, since Mr. Ergen would control both Dish and NewCo under this scenario, the transfer price could be much lower, perhaps closer to what DirecTV and Comcast pay (to prevent Dish from having a cost disadvantage versus peers.) But even if the royalty rate was lower – or $1 per sub per month – the NPV of the royalty payments would still be $640 million (i.e. $1.00/$2.50 x $1.625 billion). In effect, the math still works.

What it Means for the Stocks

So, if we're right, there are clear strategic merits to support a tie-up between EchoStar and TiVo. And, there clearly appears to be a financial way to complete the transaction. EchoStar would issue shares to acquire TiVo's current equity and then pay a premium in cash. And that cash comes from a forward payment from Dish Network for the rights to use TiVo's patent. The unknown, however, is how large the one-time payment might be. At the low-end, we estimated $640 million (or $1 per DVR box per month). At the high-end, we estimated a cash payment of $1.62 billion (or $2.50 per DVR box per month). But, what does this mean for Dish's stock and EchoStar's stock?

Implications for EchoStar

For EchoStar, we simply take the cash and marketable securities of $1.66 billion and add TiVo's cash. On a pro forma basis, that equates to $1.87 billion. We then add $640 million or $1.625 billion to account for the one-time payment from Dish. And, we then divide by the pro forma share count of nearly 170 million shares. This assumes each TiVo share will convert into 0.82 EchoStar shares.

All told, if a low-end one-time payment is made, EchoStar's stock will likely fall to $14.78. If a high-end payment is made, pro forma cash for EchoStar is about $20.59. In effect, we think the likely scenarios suggest the stock is apt to trade flat – or down – on the heels of any M&A.

As such, we are downgrading EchoStar from Buy to Sell and lowering our target to $17.50, or the mid-point of the two scenarios we analyzed.

Figure 8. Potential Impact to EchoStar's Equity ($ millions; mil of shares; $ per share; ratio)

	EchoStar	+	Tivo	=	Pro Forma	Low End Dish	High End Dish
Cash	23		162		185		
+ Marketable securties (current)	806		45		851		
+ Restricted cash	18				18		
+ Marketable securites (non-current)	562				562		
+ Receivables (net of ADA)	458		14		472		
- Payables	210		10		220		
= Total cash	**1,657**		**212**		**1,869**	**1,869**	**1,869**
+ Dish payment						640	1,625
= Total cash						2,509	3,493
/ Pro forma EchoStar shares						169.7	169.7
= Cash per share						**14.78**	**20.59**
Tivo shares						103.8	103.8
x EchoStar shares-to-Tivo shares						0.8173	0.8173
= New EchoStar shares						84.8	84.8
+ Existing EchoStar shares						84.8	84.8
= Pro forma EchoStar shares						**169.7**	**169.7**

Source: Citi Investment Research and Analysis

Implications for Dish Network

For Dish, the math is a bit more complex and it takes three steps:

- First we need to estimate what we think is embedded in the buy-side consensus. We suspect most investors think Dish will pay about $2.50 a month on about 6 million DVR boxes. And we suspect most have removed this cash flow from 2010 estimates. All told, this translates into a reduction in Dish's equity value of about $2.50 per share (using a 10x multiple).

- Second, we estimate that if Dish takes on debt to resolve the TiVo litigation, then unlevered free cash flow will increase, but debt will make up a larger portion of the enterprise. That suggests less is left over for equity holders. Today, the market is paying about $21 for Dish's equity. At the low-end, we think incremental debt of $640 million would lower Dish's equity to $20.04. At the high-end, we think incremental debt of $1.62 billion would lower Dish's equity value to $18.90.

- Third, since the market is likely penalizing Dish about $2.50 a share – but each of these alternative outcomes is less dour – our scenario may actually cause Dish's equity to rise. With the lower $640 million TiVo payment, Dish's equity would rise by $1.79 per share. Even with the larger TiVo payment – of $1.62 billion – Dish's equity would rise by $0.65.

Our target price for Dish was $22. However, since we think EchoStar is apt to acquire TiVo, we think we can raise our target price by about $2 a share (which assumes Dish makes the smaller one-time payment to pro forma EchoStar). As such, we are raising our price target from $22 to $24 and maintaining our Buy rating. In addition, we are lowering our risk rating on Dish from "High" to "Medium" to reflect Dish's mature, stable business model with consistent free cash flow and modest levels of debt.

Figure 9. Implications for Dish Equity (millions; $ per mo; $ mil; $ per share)

	Market View of Outcome for Dish
Dish Network DVRs	6.3
x Tivo royalty per month	2.5
= Monthly revenue	15.7
x Months	12.0
= Annual cost assumed by market	189
x (1 - taxes)	60%
= FCF reduction	113
x Assumed FCF mulitple	10.0x
= Equity reduction	1,131
/ Shares	447.4
= Lift in share price w/o lease fee	**2.53**

	Current Dish	Low End Dish	High End Dish
Incremental debt for Tivo premium	0	640	1,625
x Cost of "Tivo" debt	0	8.0%	8.0%
= Incremental interest	0	51	130
+ 2010 interest at Dish	431	431	431
= Pro forma interest	431	482	561
x (1 - taxes)	60%	60%	60%
= Pro forma after-tax interest	259	289	337
+ 2010 FCF at Dish	963	963	963
= 2010 unlevered FCF	1,222	1,252	1,300
/ Target yield	9.9%	9.9%	9.9%
= Enterprise value	12,295	12,604	13,080
- Debt	6,100	6,100	6,100
- "Tivo" debt	0	640	1,625
+ Cash	3,102	3,102	3,102
= Equity value	9,297	8,966	8,457
/ Shares	447.4	447.4	447.4
= Equity value	**20.78**	**20.04**	**18.90**
Dish equity value with pre-payment		20.04	18.90
- Current equity value		20.78	20.78
= Reduction in equity value		-0.74	-1.88
+ Lift in share price w/o lease fee		2.53	2.53
= Total lift in share price		**1.79**	**0.65**

Source: Citi Investment Research and Analysis

Bottom Lines

We believe that TiVo will likely win in court. And that legal victory will likely cost Mr. Ergen – and the company's shareholders – some money. The key question is how much, and where will the pain be felt.

While the Street seems to be fixated on the risks to Dish Network, we think that's probably the wrong place to focus. In our view, TiVo belongs – for many reasons – at EchoStar, not Dish. And if we're right, we suspect that Dish's stock will actually trade up on this potential announcement. As such, we are maintaining our Buy rating, lowering our risk rating from High to Medium and raising our target price from $22 to $24.

However, more pain, we suspect, will be felt by EchoStar holders. As such, we're downgrading EchoStar from Buy to Sell and lowering our price target from $24 to $17.50.

Company Focus

DISH Network Corp (DISH)

TiVo Pain May Land at SATS, Not DISH

- Please see the body of the report for details on DISH.

Rating change ☑
Target price change ☑

Buy/Medium Risk	**1M**
from Buy/High Risk	
Price (07 Apr 10)	US$20.78
Target price	US$24.00
from US$22.00	
Expected share price return	15.5%
Expected dividend yield	0.0%
Expected total return	**15.5%**
Market Cap	US$9,276M

Price Performance (RIC: DISH.O, BB: DISH US)

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.70A	0.14A	0.18A	0.40A	1.42A	1.42A
2010E	**0.54E**	**0.50E**	**0.39E**	**0.55E**	**1.98E**	**1.90E**
Previous	0.54E	0.50E	0.39E	0.55E	1.98E	na
2011E	**na**	**na**	**na**	**na**	**2.09E**	**2.17E**
Previous	na	na	na	na	2.09E	na
2012E	**na**	**na**	**na**	**na**	**2.05E**	**2.44E**
Previous	na	na	na	na	2.05E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

EchoStar Corporation (SATS)

TiVo Pain May Land at SATS, Not DISH

- Please see body of the report for details on SATS.

Rating change ☑
Target price change ☑

Sell/High Risk	**3H**
from Buy/High Risk	
Price (07 Apr 10)	US$20.65
Target price	US$17.50
from US$24.00	
Expected share price return	-15.3%
Expected dividend yield	0.0%
Expected total return	**-15.3%**
Market Cap	US$1,752M

Price Performance (RIC: SATS.O, BB: SATS US)

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	-0.01A	1.17A	3.45A	-0.37A	4.24A	4.24A
2010E	**0.04E**	**0.01E**	**0.02E**	**0.02E**	**0.08E**	**0.06E**
Previous	0.04E	0.01E	0.02E	0.02E	0.08E	na
2011E	**na**	**na**	**na**	**na**	**-0.07E**	**0.05E**
Previous	na	na	na	na	-0.07E	na
2012E	**na**	**na**	**na**	**na**	**-0.15E**	**0.12E**
Previous	na	na	na	na	-0.15E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

DISH Network Corp

Company description

DISH Network Corporation (DISH) owns and operates the DISH Network. The DISH network is widely regarded as the low-cost video service provider in the industry. The company initially targeted rural markets, but with the roll-out of local channels, DISH has successfully extended its reach into metropolitan markets.

Investment strategy

We rate the shares of DISH Network Corporation (DISH) Buy / Medium Risk (1M) based on compelling valuation, improving fundamentals, notably improved churn and net add growth and positive implications for DISH equity in the event a EchoStar – TiVo merger occurs.

Valuation

We assign DISH a target price of $24. First, we establish a base target price of $22 by applying a 10x multiple to our 2010 free cash flow projection of $2.15. Second, we add an additional $2 per share to account for the potential EchoStar-TiVo merger by: 1. Estimating investors are factoring in a $2.50 / share reduction in Dish equity to account for a potential $2.50 / mo royalty payment, 2. Taking into account a range – $640 million to $1.62 billion – in incremental debt which could reduce Dish's equity to between $18.90 and $20.04. 3. As the market is likely penalizing Dish about $2.50 / share but each of these other outcomes is less dour, it may actually cause Dish's equity to rise between $0.65 and $1.79 per share. As we think EchoStar is apt to acquire Tivo, we add an additional $2 to our base $22 target price to arrive at our $24 price target.

Risks

We assign a Medium Risk rating to DISH based upon the company's stable subscription-based model. Although DISH faces competitive risks from cable, telco and DBS competitors, DISH has been able to consistently generate positive free cash flow. Risks to the stock achieving our target price include the following:

- Higher churn rate may return. Although churn has improved in recent quarters, we expect churn to move higher in 2010. If churn moves significantly higher, DISH shares may not achieve our target price.

- Multi-channel Video Industry is maturing. We believe the multi-channel video universe is maturing, with multi-channel homes already representing roughly 80% of total U.S. households. This suggests video customer adoption rates could slow.

-

EchoStar Corporation

Company description

EchoStar has two main divisions. The first division is a set-top-box business that supplies customer premise equipment to the cable and satellite industries. The second division is the fixed satellite services business that provides wholesale transponder capacity to 3rd parties. The company's largest customer – in both the set-top-box and fixed satellite services business – is DISH Network.

Investment strategy

We rate EchoStar Sell (3H). Our Sell rating is based upon our belief EchoStar will merge with TiVo. As both EchoStar and TiVo have similar market caps, we believe this paves the way for most consideration to be paid in stock. However, we believe EchoStar may issue shares to complete the transaction. Despite a potential cash payment from Dish, we believe pro forma cash per share at the combined EchoStar-TiVo entity will be lower following the transaction. As such, we rate EchoStar Sell (3H).

Valuation

We assign EchoStar a $17.50 target price. We derive this by taking the cash and marketable securities of $1.66 billion at EchoStar and add Tivo’s cash. On a pro forma basis, that equates to $1.87 billion. We then add $640 million or $1.625 billion to account for the one-time payment from Dish. And, we then divide by the pro forma share count of nearly 170 million shares. This assumes each Tivo share will convert into 0.8173 EchoStar shares. All told, if a low-end one-time payment is made, EchoStar’s stock will likely fall to $14.78. If a high-end payment is made, pro forma cash for EchoStar is about $20.59. Our $17.50 target price is based upon the mid-point of the 2 scenarios analyzed.

Risks

We rate EchoStar High risk due to the following: 1) relatively concentrated customer base, 2) a large portion of revenues derived from the its sister firm, Dish Network, 3) a unproven track record of winning large, third party contracts in either of the company's two divisions (set-top-boxes and fixed satellite services). Risks that may cause the stock to outperform our target price include:

DISH exceeds expectations: DISH contributes a majority of SAT's set-top box (STB) revenues. If DISH's gross subscriber adds increase above expectations, SATS may experience higher than estimated revenue, which could increase free cash flow.

New contract wins: SATS has opportunities through Dish Mexico and Slingbox to add new customers, which could drive free cash flow growth above our expectations.

Appendix A-1

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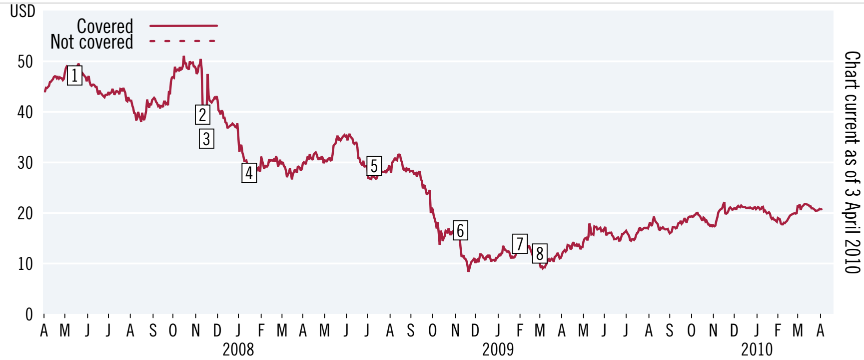
IMPORTANT DISCLOSURES

DISH Network Corp (DISH)

Ratings and Target Price History
Fundamental Research

Analyst: Jason B Bazinet



	Date	Rating	Target Price	Closing Price
1	15-May-07	1H	*59.00	47.74
2	11-Nov-07	*2H	*52.00	48.51
3	16-Nov-07	*1H	52.00	39.83
4	16-Jan-08	1H	*46.00	28.64
5	10-Jul-08	1H	*38.00	27.07
6	10-Nov-08	1H	*32.00	13.24
7	1-Feb-09	1H	*25.00	12.84
8	2-Mar-09	1H	*22.00	9.93

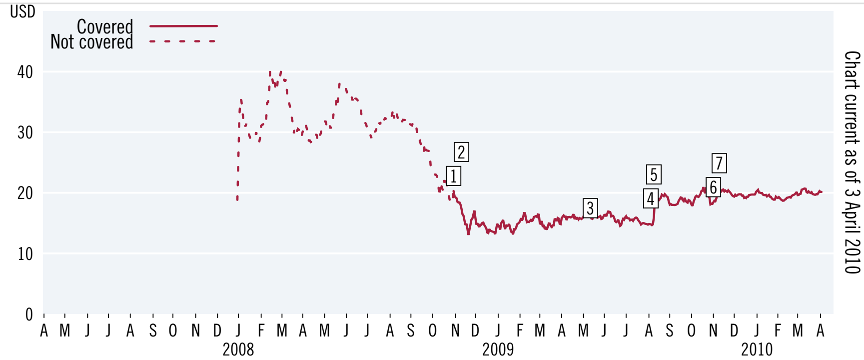
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EchoStar Corporation (SATS)

Ratings and Target Price History
Fundamental Research

Analyst: Jason B Bazinet
Covered since October 31 2008



	Date	Rating	Target Price	Closing Price
1	30-Oct-08	*3H	*18.00	20.30
2	11-Nov-08	3H	*16.50	17.35
3	12-May-09	3H	*16.00	16.61
4	5-Aug-09	3H	*13.50	14.79
5	10-Aug-09	*1H	*21.00	15.97
6	2-Nov-09	1H	*22.00	18.45
7	10-Nov-09	1H	*24.00	19.57

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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