DISH Network CORP
Form 10-Q/A
August 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012.

OR

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

Commission File Number: 0-26176

DISH Network Corporation

(Exact name of registrant as specified in its charter)

Nevada	**88-0336997**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9601 South Meridian Boulevard **Englewood, Colorado**	**80112**
(Address of principal executive offices)	(Zip code)

(303) 723-1000

(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 o No x

As of August 1, 2012, the registrant s outstanding common stock consisted of 212,215,601 shares of Class A common stock and 238,435,208 shares of Class B common stock.

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EXPLANATORY NOTE

We are filing this Form 10-Q/A to amend our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, originally filed with the Securities and Exchange Commission (SEC) on August 8, 2012 (the Form 10-Q). The sole purpose of the amendment is to correct the number of shares of our Class A Common Stock outstanding as of August 1, 2012 set forth on the cover of the Form 10-Q.

This Form 10-Q/A continues to speak as of the date of the Form 10-Q and no attempt has been made in this Form 10-Q/A to modify or update disclosures in the original Form 10-Q except as noted above. This Form 10-Q/A does not reflect events occurring after the filing of the Form 10-Q or modify or update any related disclosures and information not affected by the amendment is unchanged and reflects the disclosure made at the time of the filing of the Form 10-Q with the SEC. In particular, any forward-looking statements included in this Form 10-Q/A represent management s view as of the filing date of the Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with any documents incorporated by reference therein and our filings made with the SEC subsequent to the filing of the Form 10-Q, including any amendments to those filings.

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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 completely and with the understanding that actual future results may be materially different from what we expect. Whether actual events or results will conform with our expectations and predictions is subject to a number of risks and uncertainties. The risks and uncertainties include, but are not limited to, the following:

Competition and Economic Risks Affecting our Business

- We face intense and increasing competition from satellite television providers, cable companies and telecommunications companies, especially as the pay-TV industry matures, which may require us to increase subscriber acquisition and retention spending or accept lower subscriber activations and higher subscriber churn.

- Competition from digital media companies that provide or facilitate the delivery of video content via the Internet may reduce our gross new subscriber activations and may cause our subscribers to purchase fewer services from us or to cancel our services altogether, resulting in less revenue to us.

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

- Our competitors may be able to leverage their relationships with programmers to reduce their programming costs and offer exclusive content that will place them at a competitive advantage to us.

- We face increasing competition from other distributors of foreign language programming that may limit our ability to maintain our foreign language programming subscriber base.

Operational and Service Delivery Risks Affecting our Business

- If we do not continue improving our operational performance and customer satisfaction, our gross new subscriber activations may decrease and our subscriber churn may increase.

- If our gross new subscriber activations decrease, or if subscriber churn, subscriber acquisition costs or retention costs increase, our financial performance will be adversely affected.

- Programming expenses are increasing and could adversely affect our future financial condition and results of operations.

- We depend on others to provide the programming that we offer to our subscribers and, if we lose access to this programming, our gross new subscriber activations may decline and subscriber churn may increase.

- We may be required to make substantial additional investments to maintain competitive programming offerings.

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

- We depend on EchoStar Corporation and its subsidiaries, or EchoStar, to design, develop and manufacture all of our new set-top boxes and certain related components, and to provide transponder capacity, digital broadcast operations and other services to us. Our business would be adversely affected if EchoStar ceases to provide these products and services to us and we are unable to obtain suitable replacement products and services from third parties.

- We operate in an extremely competitive environment and our success may depend in part on our timely introduction and implementation of, and effective investment in, new competitive products and services, the failure of which could negatively impact our business.

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- Technology in our industry changes rapidly and our inability to offer new subscribers and upgrade existing subscribers with more advanced equipment could cause our products and services to become obsolete.

- We rely on a single vendor or a limited number of vendors to provide certain key products or services to us such as information technology support, billing systems, and security access devices, and the inability of these key vendors to meet our needs could have a material adverse effect on our business.

- Our sole supplier of new set-top boxes, EchoStar, relies on a few suppliers and in some cases a single supplier, for many components of our new set-top boxes, and any reduction or interruption in supplies or significant increase in the price of supplies could have a negative impact on our business.

- Our programming signals are subject to theft, and we are vulnerable to other forms of fraud that could require us to make significant expenditures to remedy.

- We depend on third parties to solicit orders for DISH services that represent a significant percentage of our total gross new subscriber activations.

- Our local programming strategy faces uncertainty because we may not be able to obtain necessary retransmission consent agreements at acceptable rates from local network stations.

- We have limited owned and leased satellite capacity and failures or reduced capacity could adversely affect our business.

- Our owned and leased satellites are subject to construction, launch, operational and environmental risks that could limit our ability to utilize these satellites.

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

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

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

Acquisition and Capital Structure Risks Affecting our Business

- We made a substantial investment to acquire certain wireless spectrum licenses and other assets from DBSD North America and TerreStar. These licenses are subject to a pending Federal Communications Commission (FCC) proposed rule making proceeding, the outcome and timing of which we cannot predict. Depending, among other things, upon the outcome and timing of this regulatory proceeding, we will be required to make significant additional investments or partner with others to commercialize these assets.

- We made a substantial investment to acquire certain 700 MHz wireless spectrum licenses and will be required to make significant additional investments or partner with others to commercialize these licenses.

- Our Blockbuster business, and retail stores in particular, face risks, including, among other things, operational challenges and increasing competition from video rental kiosk, streaming and mail order businesses that may negatively impact the business, financial condition or results of operations of Blockbuster.

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

- 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.

- A portion of our investment portfolio is invested in securities that have experienced limited or no liquidity and may not be immediately accessible to support our financing needs.

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

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

- We are controlled by one principal stockholder who is also our Chairman.

Legal and Regulatory Risks Affecting our Business

- If Voom prevails in its breach of contract suit against us, we could be required to pay substantial damages, which would have a material adverse affect on our financial position and results of operations.

- Our business depends on certain intellectual property rights and on not infringing the intellectual property rights of others.

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

- Increased distribution of video content via the Internet could expose us to regulatory risk.

- We depend on the Cable Act for access to programming from cable-affiliate programmers at non-discriminatory rates.

- The injunction against our retransmission of distant networks, which is currently waived, may be reinstated.

- We are subject to significant regulatory oversight, and changes in applicable regulatory requirements, including any adoption or modification of laws or regulations relating to the Internet, could adversely affect our business.

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

- We are subject to digital high-definition (HD) carry-one, carry-all requirements that cause capacity constraints.

- There can be no assurance that there will not be deficiencies leading to material weaknesses in our internal control over financial reporting.

- We may face other risks described from time to time in periodic and current reports we file with the Securities and Exchange Commission, or SEC.

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

Unless otherwise required by the context, in this report, the words DISH Network, the Company, we, our and us refer to DISH Network Corporation and its subsidiaries, EchoStar refers to EchoStar Corporation and its subsidiaries, and DISH DBS refers to DISH DBS Corporation and its subsidiaries, a wholly-owned, indirect subsidiary of DISH Network.

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Item 1. FINANCIAL STATEMENTS

DISH NETWORK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	As of	
	June 30, 2012	**December 31, 2011**
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,595,694	$ 609,108
Marketable investment securities (Note 5)	2,243,493	1,431,745
Trade accounts receivable - other, net of allowance for doubtful accounts of $14,633 and $12,350, respectively	814,686	778,443
Trade accounts receivable - EchoStar, net of allowance for doubtful accounts of zero	16,140	16,374
Inventory	647,222	707,151
Deferred tax assets	44,417	73,014
Other current assets	135,376	131,988
Total current assets	6,497,028	3,747,823
Noncurrent Assets:		
Restricted cash and marketable investment securities (Note 5)	133,970	132,435
Property and equipment, net of accumulated depreciation of $2,964,479 and $2,862,626, respectively (Note 7 and 8)	4,347,672	3,169,891
FCC authorizations (Note 7 and 8)	3,272,665	1,391,441
Marketable and other investment securities (Note 5)	106,518	112,132
Investment in DBSD North America (Note 8)		1,297,614
TerreStar Transaction (Note 8)		1,345,000
Other noncurrent assets, net	163,310	273,895
Total noncurrent assets	8,024,135	7,722,408
Total assets	$ 14,521,163	$ 11,470,231
Liabilities and Stockholders Equity (Deficit)		
Current Liabilities:		
Trade accounts payable - other	$ 209,429	$ 225,556
Trade accounts payable - EchoStar	255,829	229,852
Deferred revenue and other	841,370	832,390
Accrued programming	1,172,777	1,067,625
Litigation accrual (Note 11)	70,999	65,580
Other accrued expenses	930,795	763,863
Current portion of long-term debt and capital lease obligations (Note 9)	34,498	35,645
Total current liabilities	3,515,697	3,220,511
Long-Term Obligations, Net of Current Portion:		
Long-term debt and capital lease obligations, net of current portion (Note 9)	9,364,972	7,458,134
Deferred tax liabilities	1,259,928	974,414

Long-term deferred revenue, distribution and carriage payments and other long-term liabilities		208,188		236,175
Total long-term obligations, net of current portion		10,833,088		8,668,723
Total liabilities		14,348,785		11,889,234
Commitments and Contingencies (Note 11)				
Stockholders Equity (Deficit):				
Class A common stock, $.01 par value, 1,600,000,000 shares authorized, 268,243,361 and 264,732,074 shares issued, 212,125,101 and 208,613,814 shares outstanding, respectively		2,682		2,647
Class B common stock, $.01 par value, 800,000,000 shares authorized, 238,435,208 shares issued and outstanding		2,384		2,384
Class C common stock, $.01 par value, 800,000,000 shares authorized, none issued and outstanding				
Additional paid-in capital		2,380,686		2,274,005
Accumulated other comprehensive income (loss)		(19,063)		82,043
Accumulated earnings (deficit)		(625,948)		(1,211,990)
Treasury stock, at cost		(1,569,459)		(1,569,459)
Total DISH Network stockholders equity (deficit)		171,282		(420,370)
Noncontrolling interest		1,096		1,367
Total stockholders equity (deficit)		172,378		(419,003)
Total liabilities and stockholders equity (deficit)	$	14,521,163	$	11,470,231

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

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DISH NETWORK 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,	
	2012	2011	2012	2011
Revenue:				
Subscriber-related revenue	$ 3,295,831	$ 3,311,340	$ 6,520,296	$ 6,510,439
Equipment and merchandise sales, rental and other revenue	270,257	270,018	620,994	286,019
Equipment sales, services and other revenue - EchoStar	5,678	8,803	12,345	17,834
Total revenue	3,571,766	3,590,161	7,153,635	6,814,292
Costs and Expenses (exclusive of depreciation shown separately below - Note 7):				
Subscriber-related expenses	1,825,808	1,728,959	3,588,561	3,422,654
Satellite and transmission expenses:				
EchoStar	107,082	115,358	216,936	224,271
Other	9,178	9,819	20,857	20,019
Cost of sales - equipment, merchandise, services, rental and other	130,061	89,403	272,323	111,670
Subscriber acquisition costs:				
Cost of sales - subscriber promotion subsidies - EchoStar	51,580	62,868	133,854	117,294
Other subscriber promotion subsidies	234,300	211,949	460,689	438,790
Subscriber acquisition advertising	118,619	67,984	207,993	141,616
Total subscriber acquisition costs	404,499	342,801	802,536	697,700
General and administrative expenses - EchoStar	14,790	13,190	26,872	25,130
General and administrative expenses	312,877	312,072	676,970	461,916
Litigation expense (Note 11)		23,728		(316,949)
Depreciation and amortization (Note 7)	299,119	237,049	507,817	466,746
Total costs and expenses	3,103,414	2,872,379	6,112,872	5,113,157
Operating income (loss)	468,352	717,782	1,040,763	1,701,135
Other Income (Expense):				
Interest income	20,204	8,601	27,293	14,887
Interest expense, net of amounts capitalized	(109,301)	(143,564)	(247,314)	(263,743)
Other, net	(7,448)	(19,794)	102,834	(8,161)
Total other income (expense)	(96,545)	(154,757)	(117,187)	(257,017)
Income (loss) before income taxes	371,807	563,025	923,576	1,444,118
Income tax (provision) benefit, net	(146,211)	(228,187)	(337,854)	(559,954)
Net income (loss)	225,596	334,838	585,722	884,164
Less: Net income (loss) attributable to noncontrolling interest	(136)	78	(320)	10
Net income (loss) attributable to DISH Network	$ 225,732	$ 334,760	$ 586,042	$ 884,154

Weighted-average common shares outstanding - Class A and B common stock:				
Basic	450,292	445,579	448,791	444,475
Diluted	453,077	447,297	451,425	445,794
Earnings per share - Class A and B common stock:				
Basic net income (loss) per share attributable to DISH Network	$ 0.50	$ 0.75	$ 1.31	$ 1.99
Diluted net income (loss) per share attributable to DISH Network	$ 0.50	$ 0.75	$ 1.30	$ 1.98
Comprehensive Income (Loss):				
Net income (loss)	$ 225,596	$ 334,838	$ 585,722	$ 884,164
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1,965)	(6,900)	1,288	(6,900)
Unrealized holding gains (losses) on available-for-sale securities	(69,393)	25,269	(18,372)	93,069
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	(3,135)	4,658	(84,022)	(1,638)
Deferred income tax (expense) benefit				
Total other comprehensive income (loss), net of tax	(74,493)	23,027	(101,106)	84,531
Comprehensive income (loss)	151,103	357,865	484,616	968,695
Less: Comprehensive income (loss) attributable to noncontrolling interest	(136)	78	(320)	10
Comprehensive income (loss) attributable to DISH Network	$ 151,239	$ 357,787	$ 484,936	$ 968,685

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

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DISH NETWORK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2012	**2011**
Cash Flows From Operating Activities:		
Net income (loss)	$ 585,722	$ 884,164
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	507,817	466,746
Realized and unrealized losses (gains) on investments	(101,638)	7,776
Non-cash, stock-based compensation	30,199	18,895
Deferred tax expense (benefit)	68,683	405,185
Other, net	7,841	3,535
Change in noncurrent assets	27,230	(92,723)
Change in long-term deferred revenue, distribution and carriage payments and other long-term liabilities	(29,170)	(12,555)
Changes in current assets and current liabilities, net	251,380	(422,678)
Net cash flows from operating activities	1,348,064	1,258,345
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(1,996,257)	(3,635,968)
Sales and maturities of marketable investment securities	1,221,341	3,297,028
Purchases of property and equipment	(420,185)	(402,744)
Change in restricted cash and marketable investment securities	(1,535)	19,861
DBSD North America Transaction, less cash acquired of $5,230 (Note 8)	(40,015)	(1,115,960)
TerreStar Transaction (Note 8)	(36,942)	(68,750)
Purchase of Blockbuster assets, net of cash acquired of $107,061		(126,523)
Purchase of other strategic investments		(9,275)
Proceeds from sale of strategic investments		11,327
Other	(15,867)	4,973
Net cash flows from investing activities	(1,289,460)	(2,026,031)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	1,900,000	2,000,000
Debt issuance costs	(9,564)	(27,167)
Repayment of long-term debt and capital lease obligations	(18,949)	(17,600)
Net proceeds from Class A common stock options exercised and stock issued under the Employee Stock Purchase Plan	49,852	23,897
Other	5,770	3,930
Net cash flows from financing activities	1,927,109	1,983,060
Effect of exchange rates on cash and cash equivalents	873	(796)
Net increase (decrease) in cash and cash equivalents	1,986,586	1,214,578
Cash and cash equivalents, beginning of period	609,108	640,672
Cash and cash equivalents, end of period	$ 2,595,694	$ 1,855,250

Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest (including capitalized interest)	$	268,800	$	234,693
Capitalized interest	$	38,643	$	
Cash received for interest	$	19,383	$	14,912
Cash paid for income taxes	$	243,861	$	22,062
Employee benefits paid in Class A common stock	$	22,280	$	24,768
Satellites and other assets financed under capital lease obligations	$		$	3,583

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

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Business Activities

Principal Business

DISH Network Corporation is a holding company. Its subsidiaries (which together with DISH Network Corporation are referred to as DISH Network, the Company, we, us and/or our, unless otherwise required by the context) operate three primary segments.

- ***DISH.*** The DISH® branded direct broadcast satellite (DBS) pay-TV service had 14.061 million subscribers in the United States as of June 30, 2012. The DISH branded pay-TV service consists of Federal Communications Commission (FCC) licenses authorizing us to use DBS and Fixed Satellite Service (FSS) spectrum, our owned and leased satellites, receiver systems, third-party broadcast operations, customer service facilities, a third-party leased fiber network, in-home service and call center operations, and certain other assets utilized in our operations.

- ***Blockbuster.*** On April 26, 2011, we completed the acquisition of most of the assets of Blockbuster, Inc. (the Blockbuster Acquisition).The financial results of our Blockbuster operations are included in our financial results beginning April 26, 2011. Blockbuster primarily offers movies and video games for sale and rental through multiple distribution channels such as retail stores, by-mail, digital devices, the blockbuster.com website and the BLOCKBUSTER On Demand® service.

- ***Wireless Spectrum.*** In 2008, we paid $712 million to acquire certain 700 MHz wireless spectrum licenses, which were granted to us by the FCC in February 2009 subject to certain build-out requirements. On March 9, 2012, we completed the acquisitions of 100% of the equity of reorganized DBSD North America, Inc. (DBSD North America) and substantially all of the assets of TerreStar Networks, Inc. (TerreStar), pursuant to which we acquired, among other things, 40 MHz of 2 GHz wireless spectrum licenses held by DBSD North America and TerreStar. The financial results of DBSD North America and TerreStar were included in our financial results as of March 9, 2012. The total consideration to acquire these assets was approximately $2.860 billion. This amount includes $1.364 billion for DBSD North America (the DBSD Transaction), $1.382 billion for TerreStar (the TerreStar Transaction), and the net payment of $114 million to Sprint pursuant to the Sprint Settlement Agreement. See Note 8 for further information.

We currently generate an immaterial amount of revenue and incur operating expenses associated with certain satellite operations and regulatory compliance from our wireless spectrum assets. As we review our options for the commercialization of this wireless spectrum, we may incur significant additional expenses and may have to make significant investments related to, among other things, research and development, wireless testing and construction of a wireless network.

On March 21, 2012, the FCC released a notice of proposed rule making (NPRM) that could result in the elimination of the Mobile-Satellite Service (MSS) integrated service and other requirements that attach to the 2 GHz licenses. Among other things, the FCC has proposed to modify our licenses to allow us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. We submitted filings in the initial comment round and in the reply comment round. We cannot predict the outcome or timing of the NPRM, including, without limitation, any associated build-out requirements with which we may need to comply to avail ourselves of any changes to the rules. See Note 11 for further information.

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DISH NETWORK 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, 2011 (2011 10-K). Certain prior period amounts have been reclassified to conform to the current period presentation.

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, self-insurance obligations, deferred taxes and related valuation allowances, uncertain tax positions, loss contingencies, the useful lives and residual value surrounding our rental library inventory, estimated accruals related to revenue-sharing titles that are subject to performance guarantees, 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, estimates of future cash flows used to evaluate impairments, useful lives of property, equipment and intangible assets, asset retirement obligations, retailer incentives, programming expenses, subscriber lives and royalty obligations. Weak economic conditions have increased the inherent uncertainty in the estimates and assumptions indicated

above. Actual results may differ from previously estimated amounts, and such differences may be material to the Condensed Consolidated Financial Statements. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected prospectively in the period they occur.

Fair Value Measurements

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

- Level 1, defined as observable inputs being quoted prices in active markets for identical assets;

- Level 2, defined as observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that

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are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

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

As of June 30, 2012 and December 31, 2011, the carrying value for cash and cash equivalents, marketable investment securities, trade accounts receivable, net of allowance for doubtful accounts, and current liabilities, excluding the Current portion of long-term debt and capital lease obligations, is equal to or approximates fair value due to their short-term nature or proximity to current market rates. See Note 5.

Fair values for our publicly traded debt securities are based on quoted market prices, when available. The fair values of our private debt is estimated based on an analysis in which we evaluate market conditions, related securities, various public and private offerings, and other publicly available information. In performing this analysis, we make various assumptions regarding, among other things, credit spreads, and the impact of these factors on the value of the notes. See Note 9 for the fair value of our long-term debt.

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 DISH Network 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,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Net income (loss) attributable to DISH Network	$ 225,732	$ 334,760	$ 586,042	$ 884,154
Weighted-average common shares outstanding - Class A and B common stock:				
Basic	450,292	445,579	448,791	444,475
Dilutive impact of stock awards outstanding	2,785	1,718	2,634	1,319

Diluted	453,077	447,297	451,425	445,794
Earnings per share - Class A and B common stock:				
Basic net income (loss) per share attributable to DISH Network	$ 0.50	$ 0.75	$ 1.31	$ 1.99
Diluted net income (loss) per share attributable to DISH Network	$ 0.50	$ 0.75	$ 1.30	$ 1.98

As of June 30, 2012 and 2011, there were stock awards to purchase 3.3 million and 5.5 million shares, respectively, of Class A common stock outstanding, not included in the weighted-average common shares outstanding above, as their effect is antidilutive.

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

	As of June 30,	
	2012	2011
	(In thousands)	
Performance-based options	7,976	10,997
Restricted Performance Units	1,198	1,387
Total	9,174	12,384

4. Other Comprehensive Income (Loss)

The following table presents the tax effects on each component of Other comprehensive income (loss). A full valuation allowance has been established against any deferred tax assets that are capital in nature.

	For the Three Months Ended June 30,					
	2012			2011		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(In thousands)					
Foreign currency translation adjustments	$ (1,965)	$	$ (1,965)	$ (6,900)	$	$ (6,900)
Unrealized holding gains (losses) on available-for-sale securities	(69,393)		(69,393)	25,269		25,269
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	(3,135)		(3,135)	4,658		4,658
Other comprehensive income (loss)	$ (74,493)	$	$ (74,493)	$ 23,027	$	$ 23,027

	For the Six Months Ended June 30,					
	2012			2011		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount

	(In thousands)					
Foreign currency translation adjustments	$ 1,288	$	$ 1,288	$ (6,900)	$	$ (6,900)
Unrealized holding gains (losses) on available-for-sale securities	(18,372)		(18,372)	93,069		93,069
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	(84,022)		(84,022)	(1,638)		(1,638)
Other comprehensive income (loss)	$ (101,106)	$	$ (101,106)	$ 84,531	$	$ 84,531

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The Accumulated other comprehensive income (loss) is detailed in the following table.

Accumulated Other Comprehensive Income (Loss)	Foreign Currency Translation Adjustment	Unrealized / Recognized Gains (Losses)	Total
		(In thousands)	
Balance as of December 31, 2011	$ (9,139)	$ 91,182	$ 82,043
Current period activity	1,288	(102,394)	(101,106)
Tax (expense) benefit			
Balance as of June 30, 2012	$ (7,851)	$ (11,212)	$ (19,063)

5. Marketable Investment Securities, Restricted Cash and Cash Equivalents, and Other Investment Securities

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

	As of	
	June 30, 2012	December 31, 2011
	(In thousands)	
Marketable investment securities:		
Current marketable investment securities - VRDNs	$ 49,303	$ 160,555
Current marketable investment securities - strategic	737,400	360,052
Current marketable investment securities - other	1,456,790	911,138
Total current marketable investment securities	2,243,493	1,431,745
Restricted marketable investment securities (1)	79,920	65,843
Noncurrent marketable investment securities - ARS and MBS (2)	103,639	109,327
Total marketable investment securities	2,427,052	1,606,915
Restricted cash and cash equivalents (1)	54,050	66,592
Other investment securities:		
Other investment securities - cost method (2)	2,879	2,805
Investment in DBSD North America (Note 8)		1,297,614
Total other investment securities	2,879	1,300,419
Total marketable investment securities, restricted cash and cash equivalents, and other investment securities	$ 2,483,981	$ 2,973,926

(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.

(2) Noncurrent marketable investment securities auction rate securities (ARS), mortgage backed securities (MBS) and other investment securities are included in Marketable and other 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, except as specified below.

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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 include strategic and financial investments in public companies that are highly speculative and have experienced and continue to experience volatility. As of June 30, 2012, our strategic investment portfolio consisted of securities of a small number of issuers, and as a result the value of that portfolio depends on the value of those issuers. In addition, a significant portion of the value of these investments is concentrated in the debt securities of a single issuer. The carrying value of the securities of that single issuer as of June 30, 2012 and December 31, 2011 was $396 million and $16 million, respectively. The fair value of the securities of that single issuer as of June 30, 2012 and December 31, 2011 was $393 million and $17 million, respectively. That single issuer has indicated that it will need substantial additional capital to meet its business and financial obligations beyond the next 12 months. The fair value of certain of the debt securities in our investment portfolio, including those of that single issuer, can be adversely impacted by, among other things, the issuers respective performance and ability to obtain any necessary additional financing on acceptable terms, or at all.

Current Marketable Investment Securities - Other

Our 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, 2012 and December 31, 2011, our restricted marketable investment securities, together with our restricted cash, included amounts required as collateral for our letters of credit or surety bonds and for litigation (See Note 11).

Noncurrent Marketable Investment Securities ARS and MBS

We have investments in ARS and MBS which are either classified as available-for-sale securities or are accounted for under the fair value method. Previous events in the credit markets reduced or eliminated current liquidity for certain of our ARS and MBS investments. As a result, we classify these investments as noncurrent assets, as we intend to hold these investments until they recover or mature.

The valuation of our ARS and MBS investments portfolio is subject to uncertainties that are difficult to estimate. Due to the lack of observable market quotes for identical assets, we utilize analyses that rely on Level 2 and/or Level 3 inputs, as defined in Fair Value Measurements. These inputs include, among other things, observed prices on similar assets as well as our assumptions and estimates related to the counterparty credit quality, default risk underlying the security and overall capital market liquidity. These securities were also compared, when possible, to other observable market data for financial instruments with similar characteristics.

Fair Value Election. As of June 30, 2012, our ARS and MBS noncurrent marketable investment securities portfolio of $104 million includes $58 million of securities accounted for under the fair value method.

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Other Investment Securities

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

Our ability to realize value from our strategic investments in companies that are not publicly traded depends on the success of those companies businesses and their ability to obtain sufficient capital to execute their business plans. Because private markets are not as liquid as public markets, there is also increased risk that we will not be able to sell these investments, or that when we desire to sell them we will not be able to obtain fair value for them.

Unrealized Gains (Losses) on Marketable Investment Securities

As of June 30, 2012 and December 31, 2011, we had accumulated net unrealized losses of $11 million and net unrealized gains of $91 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 deferred taxes that are capital in nature. The components of our available-for-sale investments are summarized in the table below.

	As of June 30, 2012				As of December 31, 2011			
	Marketable Investment Securities	Unrealized Gains	Unrealized Losses	Net	Marketable Investment Securities	Unrealized Gains	Unrealized Losses	Net
	(In thousands)							
Debt securities:								
VRDNs	$ 49,303	$	$	$	$ 160,555	$	$	$
ARS and MBS	45,781	1,212	(12,703)	(11,491)	46,657	848	(14,486)	(13,638)
ARS fair value election	57,858				62,670			
Other (including restricted)	1,973,467	1,038	(3,001)	(1,963)	994,021	5,526	(6,565)	(1,039)
Equity securities:								
Other	300,643	89,789	(87,547)	2,242	343,012	89,044	(61,934)	27,110
Subtotal	2,427,052	92,039	(103,251)	(11,212)	1,606,915	95,418	(82,985)	12,433
Investment in DBSD North America (1)					839,009	78,749		78,749
Total	$ 2,427,052	$ 92,039	$ (103,251)	$ (11,212)	$ 2,445,924	$ 174,167	$ (82,985)	$ 91,182

(1) Of our total investment in DBSD North America of $1.298 billion as of December 31, 2011, $839 million was invested in 7.5% Convertible Senior Secured Notes due 2009, which were accounted for as available-for-sale investments prior to the DBSD Transaction.

As of June 30, 2012, restricted and non-restricted marketable investment securities include debt securities of $1.197 billion with contractual maturities of one year or less and $929 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, 2012, the unrealized losses on our investments in equity securities represent investments in broad-based indexes and several companies in the telecommunications and technology industries. We are not aware of any specific factors which indicate the unrealized losses in these investments are due to anything other than temporary market fluctuations. As of June 30, 2012 and December 31, 2011, the unrealized losses on our investments in debt securities primarily represent investments in auction rate and mortgage backed securities. We do not intend to sell our investments in these debt securities before they recover or mature, and it is more likely than not that we will hold these 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.

	As of			
	June 30, 2012		December 31, 2011	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)			
Debt Securities:				
Less than 12 months	$ 910,852	$ (1,375)	$ 694,199	$ (4,793)
12 months or more	143,294	(14,329)	98,240	(16,258)
Equity Securities:				
Less than 12 months	79,353	(36,269)	247,683	(61,934)
12 months or more	59,620	(51,278)		
Total	$ 1,193,119	$ (103,251)	$ 1,040,122	$ (82,985)

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

	As of							
	June 30, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(In thousands)							
Cash equivalents (including restricted)	$ 2,392,319	$ 45,974	$ 2,346,345	$	$ 397,777	$ 46,371	$ 351,406	$
Debt securities:								
VRDNs	$ 49,303	$	$ 49,303	$	$ 160,555	$	$ 160,555	$
ARS and MBS	103,639		1,666	101,973	109,327		3,412	105,915
Other (including restricted)	1,973,467		1,973,467		994,021		994,021	
Equity securities	300,643	300,643			343,012	343,012		

Subtotal	2,427,052	300,643	2,024,436	101,973	1,606,915	343,012	1,157,988	105,915
Investment in DBSD North America (1)					839,009			839,009
Total	$ 2,427,052	$ 300,643	$ 2,024,436	$ 101,973	$ 2,445,924	$ 343,012	$ 1,157,988	$ 944,924

(1) Of our total investment in DBSD North America of $1.298 billion as of December 31, 2011, $839 million was invested in 7.5% Convertible Senior Secured Notes due 2009, which were accounted for as available-for-sale investments prior to the DBSD Transaction.

As of June 30, 2012, our Level 3 investments consist predominately of ARS and MBS. On a quarterly basis we evaluate the reasonableness of significant unobservable inputs used in those measurements. The valuation models used for some of our ARS investments require an evaluation of the underlying instruments held by the trusts that

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issue these securities. For our other ARS and MBS securities, our evaluation uses, among other things, the terms of the underlying instruments, the credit ratings of the issuers, current market conditions, and other relevant factors. Based on these factors, we assess the risk of realizing expected cash flows and we apply an observable discount rate that reflects this risk. We may also reduce our valuations to reflect other claims to trust assets or to reflect a liquidity discount based on the lack of an active market for these securities.

Changes in Level 3 instruments are as follows:

	Level 3 Investment Securities (In thousands)
Balance as of December 31, 2011	$ 944,924
Net realized and unrealized gains (losses) included in earnings	74,108
Net realized and unrealized gains (losses) included in other comprehensive income (loss)	(76,704)
Purchases	
Settlements (1)	(840,355)
Issuances	
Transfers from level 2 to level 3	
Balance as of June 30, 2012	$ 101,973

(1) For the six months ended June 30, 2012, this amount primarily relates to the conversion of our DBSD North America 7.5% Convertible Senior Secured Notes due 2009 in connection with the completion of the DBSD Transaction. See Note 8 for further information.

Gains and Losses on Sales and Changes in Carrying Values of Investments

Other, net income and expense included on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) includes other changes in the carrying amount of our marketable and non-marketable investments as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Other Income (Expense):	**2012**	**2011**	**2012**	**2011**
	(In thousands)			
Marketable investment securities - gains (losses) on sales/exchanges	$ 3,117	$ (4,659)	$ 7,736	$ 1,732

Marketable investment securities - unrealized gains (losses) on investments accounted for at fair value	(11,541)	(14,735)	(3,062)	(19,508)
Marketable investment securities - gains (losses) on conversion of DBSD North America Notes (1)			99,445	
Other investment securities - gains (losses) on sales/exchanges				10,000
Marketable investment securities - other-than-temporary impairments			(2,481)	
Other	976	(400)	1,196	(385)
Total	$ (7,448)	$ (19,794)	$ 102,834	$ (8,161)

(1) During the six months ended June 30, 2012, we recognized a $99 million non-cash gain related to the conversion of our DBSD North America 7.5% Convertible Senior Secured Notes due 2009 in connection with the completion of the DBSD Transaction. See Note 8 for further information.

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6. Inventory

Inventory consists of the following:

	As of	
	June 30, 2012	December 31, 2011
	(In thousands)	
DISH:		
Finished goods - DBS	$ 251,679	$ 295,058
Raw materials	166,282	183,711
Work-in-process - used	64,317	29,228
Work-in-process - new	535	2,308
Total DISH inventory	482,813	510,305
Blockbuster:		
Rental library	83,547	104,238
Merchandise	79,243	92,608
Total Blockbuster inventory	162,790	196,846
Wireless Spectrum:		
Finished goods	1,619	
Total Wireless Spectrum inventory	1,619	
Total inventory	$ 647,222	$ 707,151

7. Property and Equipment

Property and equipment, net on our Condensed Consolidated Balance Sheets totaled $4.348 billion as of June 30, 2012, a $1.178 billion increase compared to December 31, 2011. This increase was primarily related to the closing of the DBSD Transaction and the TerreStar Transaction and the associated purchase price allocation to the assets acquired and the liabilities assumed. See Note 8 for further information.

As we prepare for commercialization of our 2 GHz wireless spectrum licenses, interest expense related to its carrying value is being capitalized within Property and equipment, net on our Condensed Consolidated Balance Sheets. During the three months ended June 30, 2012 and 2011, we recorded capitalized interest of $39 million and zero, respectively. During the six months ended June 30, 2012 and 2011, we recorded capitalized interest of $39 million and zero, respectively.

Depreciation and Amortization Expense

Depreciation and amortization expense consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Equipment leased to customers	$ 163,474	$ 189,030	$ 315,917	$ 372,017
Satellites	38,616	32,087	72,453	64,178
Buildings, furniture, fixtures, equipment and other	29,253	15,932	51,671	30,551
148 degree orbital location (1)	67,776		67,776	
Total depreciation and amortization	$ 299,119	$ 237,049	$ 507,817	$ 466,746

(1) See *FCC Authorizations* below.

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Cost of sales and operating expense categories included in our accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) do not include depreciation expense related to satellites or equipment leased to customers.

DBS Satellites

We currently utilize 13 DBS satellites in geostationary orbit approximately 22,300 miles above the equator, six of which we own and depreciate over the useful life of each satellite. We currently utilize capacity on five DBS satellites from EchoStar, which are accounted for as operating leases. See Note 13 for further discussion of our satellite leases with EchoStar. We also lease two DBS satellites from third parties, which are accounted for as capital leases and are depreciated over the shorter of the economic life of the satellite or the term of the satellite agreement.

S-band Satellites

As a result of the DBSD Transaction and the TerreStar Transaction, three S-band satellites were added to our satellite fleet, including two in-orbit satellites and one satellite under construction, discussed below. We are currently evaluating our options for these satellites.

D1. D1, formerly known as EchoStar G1, was launched in April 2008 by DBSD North America and is currently located at the 92.85 degree orbital location. D1 was designed to meet a minimum 15-year useful life.

T1. T1, formerly known as EchoStar T1, was launched in July 2009 by TerreStar and currently operates at the 111.1 degree orbital location. T1 was designed to meet a minimum 15-year useful life. Prior to the TerreStar Transaction, this satellite experienced certain solar array anomalies. While these anomalies did not reduce the estimated useful life of the satellite to less than 15 years or impact commercial operation of the satellite, there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation.

T2. In December 2007, TerreStar entered into an agreement with Space Systems/Loral, Inc. for the design and manufacture of T2, formerly known as EchoStar T2. The construction of T2 is close to completion.

Satellite Anomalies

Operation of our pay-TV service requires that we have adequate DBS satellite transmission capacity for the programming we offer. Moreover, current competitive conditions require that we continue to expand our offering of new programming, particularly by expanding local high definition (HD) coverage and offering more HD national channels. While we generally have had in-orbit DBS satellite capacity sufficient to transmit our existing channels and some backup capacity to recover the transmission of certain critical programming, our backup capacity is limited.

In the event of a failure or loss of any of our satellites, we may need to acquire or lease additional satellite capacity or relocate one of our other satellites and use it as a replacement for the failed or lost satellite. Such a failure could result in a prolonged loss of critical programming or a significant delay in our plans to expand programming as necessary to remain competitive and thus may have a material adverse effect on our business, financial condition and results of operations.

Prior to 2012, certain of our satellites have experienced anomalies, some of which have had a significant adverse impact on their remaining useful life and/or commercial operation. There can be no assurance that future anomalies will not further impact the remaining useful life and/or commercial operation of any of the satellites in our fleet. See *Long-Lived DBS 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 do not anticipate carrying insurance for any of the in-orbit satellites that we use, and we will bear the risk

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associated with any in-orbit satellite failures. Recent developments with respect to certain of our satellites are discussed below.

Owned Satellites

EchoStar I. EchoStar I was designed to meet a minimum 12 year useful life. During the first quarter 2012, we determined that EchoStar I experienced a communications receiver anomaly. While this anomaly did not impact commercial operation of the satellite, there can be no assurance that future anomalies will not impact its future commercial operation. EchoStar I was fully depreciated during 2007.

EchoStar XI. EchoStar XI was designed to meet a minimum 12-year useful life. During the first quarter 2012, we determined that EchoStar XI experienced solar array anomalies that reduced the total power available for use by the spacecraft. While these anomalies did not reduce the estimated useful life of the satellite to less than 12 years or impact commercial operation of the satellite, there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation.

EchoStar XIV. EchoStar XIV was designed to meet a minimum 15-year useful life. During the third quarter 2011 and the first quarter 2012, we determined that EchoStar XIV experienced solar array anomalies that reduced the total power available for use by the spacecraft. While these anomalies did not reduce the estimated useful life of the satellite to less than 15 years or impact commercial operation of the satellite, there can be no assurance that future anomalies will not reduce its useful life or impact its commercial operation.

Leased Satellites

EchoStar VI. Prior to 2012, EchoStar VI experienced solar array anomalies which impacted the commercial operation of the satellite. EchoStar VI also previously experienced the loss of traveling wave tube amplifiers (TWTAs). During the first quarter 2012, EchoStar determined that EchoStar VI experienced the loss of two additional TWTAs increasing the total number of TWTAs lost to five. During the second quarter 2012, EchoStar VI lost an additional solar array string, which reduced the total power available for use by the spacecraft. While the recent losses of TWTAs and the solar array string did not impact current commercial operation of the satellite, there can be no assurance that future anomalies will not impact its commercial operation.

Long-Lived DBS Satellite Assets. We evaluate our DISH branded pay-TV DBS satellite fleet for impairment as one asset group and test for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. While certain of the anomalies discussed above, and previously disclosed, may be considered to represent a significant adverse change in the physical condition of an

individual satellite, based on the redundancy designed within each satellite and considering the asset grouping, these anomalies are not considered to be significant events that would require evaluation for impairment recognition. Unless and until a specific satellite is abandoned or otherwise determined to have no service potential, the net carrying amount related to the satellite would not be written off.

FCC Authorizations

FCC authorizations on our Condensed Consolidated Balance Sheets totaled $3.273 billion as of June 30, 2012, a $1.881 billion increase compared to December 31, 2011. This increase was related to the closing of the DBSD Transaction and the TerreStar Transaction and the associated purchase price allocation to the assets acquired and the liabilities assumed. See Note 8 for further discussion of the DBSD Transaction and the TerreStar Transaction.

On May 31, 2012, the International Bureau of the FCC announced the termination of our license for use of the 148 degree orbital location associated with our DISH segment. We have not had a satellite positioned at the 148 degree orbital location since the retirement of EchoStar V in August 2009. Our license for use of the 148 degree orbital location had a $68 million carrying value. This amount was recorded as Depreciation and amortization expense

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on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) in the second quarter 2012 due to the termination of this license by the FCC.

8. Acquisitions

DBSD North America and TerreStar Transactions

On March 2, 2012, the FCC approved the transfer of 40 MHz of 2 GHz wireless spectrum licenses held by DBSD North America and TerreStar to us. On March 9, 2012, we completed the DBSD Transaction and the TerreStar Transaction, pursuant to which we acquired, among other things, certain satellite assets and wireless spectrum licenses held by DBSD North America and TerreStar. In addition, during the fourth quarter 2011, we and Sprint Nextel Corporation (Sprint) entered into a mutual release and settlement agreement (the Sprint Settlement Agreement) pursuant to which all disputed issues relating to the DBSD Transaction and the TerreStar Transaction were resolved between us and Sprint, including, but not limited to, issues relating to costs allegedly incurred by Sprint to relocate users from the spectrum then licensed to DBSD North America and TerreStar. Pursuant to the Sprint Settlement Agreement, we made a net payment of approximately $114 million to Sprint. The total consideration to acquire these assets was approximately $2.860 billion. This amount includes $1.364 billion for the DBSD Transaction, $1.382 billion for the TerreStar Transaction, and the net payment of $114 million to Sprint pursuant to the Sprint Settlement Agreement.

Our consolidated FCC applications for approval of the license transfers from DBSD North America and TerreStar were accompanied by requests for waiver of the FCC s MSS integrated service and spare satellite requirements and various technical provisions. The FCC denied our requests for waiver of the integrated service and spare satellite requirements. The FCC has not yet acted on the request for waiver of various technical provisions, and we cannot predict the outcome or timing of any action by the FCC with respect to that waiver request. Waiver of the integrated service requirement would have allowed us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. On March 21, 2012, the FCC released an NPRM that could result in the elimination of the integrated service and other requirements that attach to the 2 GHz licenses. Among other things, the FCC has proposed to modify our licenses to allow us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. The NPRM was published in the Federal Register on April 17, 2012. Initial comments on the NPRM were due on or before May 17, 2012, and reply comments were due on or before June 1, 2012. We submitted filings in the initial comment round and in the reply comment round. While the FCC has indicated its intent to complete the NPRM during 2012, we cannot predict the outcome or timing of the NPRM, including, without limitation, any associated build-out requirements with which we may need to comply to avail ourselves of any changes to the rules.

As a result of the completion of the DBSD Transaction and the TerreStar Transaction, we will likely be required to make significant additional investments or partner with others to, among other things, finance the commercialization and build-out requirements of these licenses and our integration efforts including compliance with regulations applicable to the acquired licenses. Depending on the nature and scope of such commercialization and build-out, any such investment or partnership could vary significantly. There can be no assurance that we will be able to

develop and implement a business model that will realize a return on these spectrum investments or that we will be able to profitably deploy the assets represented by these spectrum investments, which may affect the carrying value of these assets and our future financial condition or results of operations.

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For the purposes of acquisition accounting, management determined that the DBSD Transaction and the TerreStar Transaction, together with the net payment pursuant to the Sprint Settlement Agreement, should be accounted for as a single transaction. In reaching this conclusion, management considered, among other things, the fact that the transactions occurred in contemplation of one another and the expectation that the acquired assets will be utilized as a single integrated service. The total consideration of approximately $2.860 billion in connection with the DBSD Transaction and the TerreStar Transaction included $2.761 billion in cash and a $99 million non-cash gain related to the conversion of our DBSD North America 7.5% Convertible Senior Secured Notes due 2009. Of this non-cash gain, $78 million was included as a component of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit), on our Condensed Consolidated Balance Sheets as of December 31, 2011. We have recognized the acquired assets and assumed liabilities based on our preliminary estimates of fair value at their acquisition date. We expense all transaction costs related to the acquisition as incurred.

		Preliminary Purchase Price Allocation (In thousands)
Cash	$	5,230
Current and noncurrent assets		6,705
Property and equipment		1,206,663
Goodwill (1)		24,935
FCC authorizations		1,949,000
Current liabilities		(62,692)
Noncurrent liabilities		(270,193)
Total acquisition consideration	$	2,859,648

(1) This amount is deductible for tax purposes and is included as a component of Other noncurrent assets, net on our Condensed Consolidated Balance Sheets.

The determination of the fair value of the acquired assets and assumed liabilities requires significant analysis and judgment. As of the date of issuance of these financial statements, we have not completed our valuation analysis and calculations in sufficient detail necessary to finalize our estimates. The assets acquired in the DBSD Transaction and the TerreStar Transaction consist primarily of certain satellite assets and wireless spectrum licenses. The fair value of satellite assets and wireless spectrum licenses are the most significant areas not yet finalized. We expect to complete our final fair value determinations no later than the first quarter 2013. Our final fair value determinations may be significantly different than those reflected in our Condensed Consolidated Financial Statements at June 30, 2012.

Pro forma revenue and earnings associated with the DBSD Transaction and the TerreStar Transaction are not included in this filing. Due to the material ongoing modifications of the business, management has determined that insufficient information exists to accurately develop meaningful historical pro forma financial information. Moreover, the historical results of operations of DBSD North America and TerreStar are not indicative of their potential prospective operations because DBSD North America and TerreStar were in bankruptcy proceedings and did not have significant operations in periods prior to the transactions. As such, any historical pro forma information would not prove useful in

assessing our post transaction earnings and cash flows. We generated less than $1 million of revenue for each of the three and six months ended June 30, 2012 from our wireless spectrum segment. In addition, we incurred $18 million and $26 million in operating expenses for the three and six months ended June 30, 2012, respectively.

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9. Long-Term Debt

4 5/8% Senior Notes due 2017

On May 16, 2012, we issued $900 million aggregate principal amount of our five-year, 4 5/8% Senior Notes due July 15, 2017 at an issue price of 100.0%. Interest accrues at an annual rate of 4 5/8% and is payable semi-annually in cash, in arrears on January 15 and July 15 of each year, commencing on January 15, 2013.

The 4 5/8% 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 related indenture, together with accrued and unpaid interest. Prior to July 15, 2015, we may also redeem up to 35.0% of each of the 4 5/8% Senior Notes at specified premiums with the net cash proceeds from certain equity offerings or capital contributions.

The 4 5/8% Senior Notes are:

- general unsecured senior obligations of DISH DBS;
- ranked equally in right of payment with all of DISH DBS and the guarantors existing and future unsecured senior debt; and
- ranked effectively junior to our and the guarantors current and future secured senior indebtedness up to the value of the collateral securing such indebtedness.

The indenture related to the 4 5/8% Senior Notes contains restrictive covenants that, among other things, impose limitations on the ability of DISH DBS and its restricted subsidiaries to:

- incur additional debt;
- pay dividends or make distributions on DISH DBS capital stock or repurchase DISH DBS capital stock;

- make certain investments;
- create liens or enter into sale and leaseback transactions;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- transfer or sell assets.

In the event of a change of control, as defined in the related indenture, we would be required to make an offer to repurchase all or any part of a holder s 4 5/8% 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.

5 7/8% Senior Notes due 2022

On May 16, 2012, we issued $1.0 billion aggregate principal amount of our ten-year, 5 7/8% Senior Notes due July 15, 2022 at an issue price of 100.0%. Interest accrues at an annual rate of 5 7/8% and is payable semi-annually in cash, in arrears on January 15 and July 15 of each year, commencing on January 15, 2013.

On July 26, 2012, we issued an additional $1.0 billion aggregate principal amount of our ten-year, 5 7/8% Senior Notes due July 15, 2022 at an issue price of 100.75% plus accrued interest from May 16, 2012. These notes were issued as additional notes under the related indenture, pursuant to which we issued on May 16, 2012 $1.0 billion in aggregate principal amount of our 5 7/8% Senior Notes due 2022 discussed above. These notes and the notes previously issued under the related indenture will be treated as a single class of debt securities under the related indenture.

The 5 7/8% 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 related indenture, together with accrued and unpaid

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interest. Prior to July 15, 2015, we may also redeem up to 35.0% of each of the 5 7/8% Senior Notes at specified premiums with the net cash proceeds from certain equity offerings or capital contributions.

The 5 7/8% Senior Notes are:

- general unsecured senior obligations of DISH DBS;
- ranked equally in right of payment with all of DISH DBS and the guarantors existing and future unsecured senior debt; and
- ranked effectively junior to our and the guarantors current and future secured senior indebtedness up to the value of the collateral securing such indebtedness.

The indenture related to the 5 7/8% Senior Notes contains restrictive covenants that, among other things, impose limitations on the ability of DISH DBS and its restricted subsidiaries to:

- incur additional debt;
- pay dividends or make distributions on DISH DBS capital stock or repurchase DISH DBS capital stock;
- make certain investments;
- create liens or enter into sale and leaseback transactions;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- transfer or sell assets.

In the event of a change of control, as defined in the related indenture, we would be required to make an offer to repurchase all or any part of a holder s 5 7/8% 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, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
7 % Senior Notes due 2013	$ 500,000	$ 527,500	$ 500,000	$ 535,000
6 5/8% Senior Notes due 2014	1,000,000	1,075,330	1,000,000	1,060,000
7 3/4% Senior Notes due 2015	750,000	834,375	750,000	817,500
7 1/8% Senior Notes due 2016	1,500,000	1,653,750	1,500,000	1,593,750
4 5/8% Senior Notes due 2017	900,000	884,250		
7 7/8% Senior Notes due 2019	1,400,000	1,606,500	1,400,000	1,589,000
6 3/4% Senior Notes due 2021	2,000,000	2,151,800	2,000,000	2,140,000
5 7/8% Senior Notes due 2022 (1)	1,000,000	1,005,000		
Mortgages and other notes payable	92,998	92,998	71,871	71,871
Subtotal	9,142,998	$ 9,831,503	7,221,871	$ 7,807,121
Capital lease obligations (2)	256,472	NA	271,908	NA
Total long-term debt and capital lease obligations (including current portion)	$ 9,399,470		$ 7,493,779	

(1) Excludes $1.0 billion in additional 5 7/8% Senior Notes due 2022 issued on July 26, 2012.

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

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

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10. 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, 2012, we had outstanding under these plans stock options to acquire 18.8 million shares of our Class A common stock and 1.2 million restricted stock units. Stock options granted prior to and on June 30, 2012 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 approximately ten years. While historically we have issued stock awards subject to vesting, typically at the rate of 20% 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, 2012, we had 72.7 million shares of our Class A common stock available for future grant under our stock incentive plans.

During December 2011, we paid a dividend in cash of $2.00 per share on our outstanding Class A and Class B common stock to shareholders of record on November 17, 2011. In light of such dividend, during January 2012, the exercise price of 21.2 million stock options, affecting approximately 600 employees, was reduced by $2.00 per share (the 2012 Stock Option Adjustment). Except as noted below, all information discussed below reflects the 2012 Stock Option Adjustment.

On January 1, 2008, we completed the distribution of our technology and set-top box business and certain infrastructure assets (the Spin-off) into a separate publicly-traded company, EchoStar. DISH Network and EchoStar operate 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.

In connection with the Spin-off, as permitted by our 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.

- 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.

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The following stock awards were outstanding:

	As of June 30, 2012			
	DISH Network Awards		EchoStar Awards	
Stock Awards Outstanding	Stock Options	Restricted Stock Units	Stock Options	Restricted Stock Units
Held by DISH Network employees	16,240,574	1,102,581	762,003	46,020
Held by EchoStar employees	2,555,901	94,999	N/A	N/A
Total	18,796,475	1,197,580	762,003	46,020

We are responsible for fulfilling all stock awards related to DISH Network common stock and EchoStar is responsible for fulfilling all stock awards related to EchoStar common stock, regardless of whether such stock awards are held by our or EchoStar 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 DISH Network or EchoStar. Accordingly, stock-based compensation that we expense with respect to EchoStar 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, 2012	
	Options	Weighted-Average Exercise Price
Total options outstanding, beginning of period (1)	21,336,159	$ 20.53
Granted	501,500	$ 32.14
Exercised	(2,633,284)	$ 18.22
Forfeited and cancelled	(407,900)	$ 20.42
Total options outstanding, end of period	18,796,475	$ 18.99
Performance-based options outstanding, end of period (2)	7,976,150	$ 18.84
Exercisable at end of period	7,847,529	$ 18.38

(1) The beginning of period weighted-average exercise price of $20.53 does not reflect the 2012 Stock Option Adjustment, which occurred subsequent to December 31, 2011.

(2) These stock options are included in the caption Total options outstanding, end of period. See discussion of the 2005 LTIP, 2008 LTIP and other employee performance awards below.

We realized tax benefits from stock awards exercised as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Tax benefit from stock awards exercised	$ 10,204	$ 5,614	$ 11,947	$ 6,409

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Based on the closing market price of our Class A common stock on June 30, 2012, the aggregate intrinsic value of our stock options was as follows:

	As of June 30, 2012	
	Options Outstanding	Options Exercisable
	(In thousands)	
Aggregate intrinsic value	$ 184,022	$ 81,864

Our restricted stock unit activity was as follows:

	For the Six Months Ended June 30, 2012	
	Restricted Stock Units	Weighted-Average Grant Date Fair Value
Total restricted stock units outstanding, beginning of period	1,284,708	$ 23.25
Granted		$
Vested	(24,795)	$ 22.94
Forfeited and cancelled	(62,333)	$ 25.94
Total restricted stock units outstanding, end of period	1,197,580	$ 23.06
Restricted Performance Units outstanding, end of period (1)	1,197,580	$ 23.06

(1) These Restricted Performance Units are included in the caption Total restricted stock units outstanding, end of period. See discussion of the 2005 LTIP, 2008 LTIP and other employee performance awards below.

Long-Term Performance-Based Plans

2005 LTIP. During 2005, we 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 the foregoing vesting schedule and a performance condition that a company-specific subscriber 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 management concludes achievement of the performance condition is probable. Given the competitive nature of our business, small variations in subscriber churn, gross new subscriber activation rates and certain other factors can significantly impact subscriber growth. Consequently, while it was determined that achievement of the goal was not probable as of June 30, 2012, that assessment could change in the future.

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, 2012, 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.

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		2005 LTIP	
	Total		Vested Portion (1)
		(In thousands)	
DISH Network awards held by DISH Network employees	$	35,608	$ 29,390
EchoStar awards held by DISH Network employees		6,409	5,391
Total	$	42,017	$ 34,781

(1) Represents the amount of this award that has met the foregoing vesting schedule and would therefore vest upon achievement of the performance condition.

2008 LTIP. During 2008, we adopted a long-term, performance-based stock incentive plan (the 2008 LTIP). The 2008 LTIP provides stock options and restricted stock units, either alone or in combination, which vest based on company-specific subscriber and financial goals. Exercise of the stock awards is contingent on achieving these goals by December 31, 2015.

Although no awards vest until the Company attains the performance goals, compensation related to the 2008 LTIP will be recorded based on management s assessment of the probability of meeting the remaining goals. If the remaining goals are probable of being achieved, we will begin recognizing the associated non-cash, stock-based compensation expense on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) over the estimated period to achieve the goal. See table below titled Estimated Remaining Non-Cash, Stock-Based Compensation Expense.

During the first quarter 2011, we determined that all of the 2008 LTIP performance goals are probable of achievement. As of June 30, 2012, approximately 70% of the 2008 LTIP awards had vested. We are recognizing the associated non-cash stock-based compensation expense on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) over the estimated period for vesting of the approximately 30% of the awards remaining, as indicated in the table below titled Non-Cash, Stock-Based Compensation Expense Recognized.

Other Employee Performance Awards. In addition to the above long-term, performance stock incentive plans, we have other stock awards that vest based on certain other company-specific subscriber, operational and financial goals. Exercise of these stock awards is contingent on achieving certain performance goals.

Additional compensation related to these awards will be recorded based on management s assessment of the probability of meeting the remaining performance goals. If the remaining goals are probable of being achieved, we will begin recognizing the associated non-cash, stock-based compensation expense on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) over the estimated period to achieve the goal. See table below titled Estimated Remaining Non-Cash, Stock-Based Compensation Expense.

Although no awards vest until the performance goals are attained, we determined that certain goals were probable of achievement and, as a result, recorded non-cash, stock-based compensation expense for the three and six months ended June 30, 2012 and 2011, as indicated in the table below titled Non-Cash, Stock-Based Compensation Expense Recognized.

Given the competitive nature of our business, small variations in subscriber churn, gross new subscriber activation rates and certain other factors can significantly impact subscriber growth. Consequently, while it was determined that achievement of certain company-specific subscriber and financial goals was not probable as of June 30, 2012, that assessment could change in the future.

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The non-cash stock-based compensation expense associated with these awards is as follows:

Non-Cash, Stock-Based Compensation Expense Recognized	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
2008 LTIP	$ 2,340	$ 1,495	$ 8,179	$ 14,299
Other employee performance awards	1,433	(87)	4,572	(12)
Total non-cash, stock-based compensation expense recognized for performance-based awards	$ 3,773	$ 1,408	$ 12,751	$ 14,287

Estimated Remaining Non-Cash, Stock-Based Compensation Expense	2008 LTIP	Other Employee Performance Awards
	(In thousands)	
Remaining expense estimated to be recognized during 2012	$ 1,916	$ 2,128
Estimated contingent expense subsequent to 2012	2,020	46,559
Total estimated remaining expense over the term of the plan	$ 3,936	$ 48,687

Of the 18.8 million stock options and 1.2 million restricted stock units outstanding under our stock incentive plans, the following awards were outstanding pursuant to our performance-based stock incentive plans:

	As of June 30, 2012	
	Number of Awards	Weighted-Average Exercise Price
Performance-Based Stock Options		
2005 LTIP	3,217,500	$ 21.10
2008 LTIP	1,758,650	$ 10.77
Other employee performance awards	3,000,000	$ 21.16
Total	7,976,150	$ 18.84
Restricted Performance Units		
2005 LTIP	321,830	
2008 LTIP	10,750	
Other employee performance awards	865,000	
Total	1,197,580	

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Stock-Based Compensation

During the six months ended June 30, 2012, we incurred $14 million of additional non-cash, stock-based compensation expense in connection with the 2012 Stock Option Adjustment discussed previously. This amount is included in the table below. Total non-cash, stock-based compensation expense for all of our employees is shown in the following table 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,	
	2012	2011	2012	2011
	(In thousands)			
Subscriber-related	$ 357	$ 340	$ 1,194	$ 1,317
General and administrative	6,660	3,378	29,005	17,578
Total non-cash, stock-based compensation	$ 7,017	$ 3,718	$ 30,199	$ 18,895

As of June 30, 2012, our total unrecognized compensation cost related to our non-performance based unvested stock awards was $26 million and includes compensation expense that we will recognize for EchoStar 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 3.8% per year and will be recognized over a weighted-average period of approximately two 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.

Valuation

The fair value of each stock option for the three and six months ended June 30, 2012 and 2011 was originally 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	**2012**	**2011**	**2012**	**2011**
Risk-free interest rate	0.41% - 0.87%	1.76% - 3.18%	0.41% - 1.29%	1.76% - 3.18%
Volatility factor	33.15% - 38.87%	31.74% - 41.00%	33.15% - 39.34%	31.74% - 41.00%

Expected term of options in years	3.1 - 5.8	4.7 - 10.0	3.1 - 5.9	4.7 - 10.0
Weighted-average fair value of options granted	$6.72 - $10.72	$11.33 - $14.77	$6.72 - $12.69	$9.16 - $14.77

On December 1, 2011, we paid a $2.00 cash dividend per share on our outstanding Class A and Class B common stock. While we currently do not intend to declare additional dividends on our common stock, we may elect to do so from time to time. 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 highly 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.

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11. Commitments and Contingencies

Wireless Spectrum

In 2008, we paid $712 million to acquire certain 700 MHz wireless spectrum licenses, which were granted to us by the FCC in February 2009 subject to certain build-out requirements. To commercialize these licenses and satisfy the associated FCC build-out requirements, we will be required to make significant additional investments or partner with others to, among other things, finance the commercialization and build-out requirements of these licenses and our integration efforts including compliance with regulations applicable to these licenses. Depending on the nature and scope of such commercialization and build-out, any such investment or partnership could vary significantly, which may affect our future financial condition or results of operations. Part or all of these licenses may be terminated if the associated FCC build-out requirements are not satisfied. There can be no assurance that we will be able to develop and implement a business model that will realize a return on these investments and profitably deploy the spectrum represented by the 700 MHz licenses.

On March 2, 2012, the FCC approved the transfer of 40 MHz of 2 GHz wireless spectrum licenses held by DBSD North America and TerreStar to us. On March 9, 2012, we completed the DBSD Transaction and the TerreStar Transaction, pursuant to which we acquired, among other things, certain satellite assets and wireless spectrum licenses held by DBSD North America and TerreStar. The total consideration to acquire these assets was approximately $2.860 billion. This amount includes $1.364 billion for the DBSD Transaction, $1.382 billion for the TerreStar Transaction, and the net payment of $114 million to Sprint pursuant to the Sprint Settlement Agreement.

Our consolidated FCC applications for approval of the license transfers from DBSD North America and TerreStar were accompanied by requests for waiver of the FCC s MSS integrated service and spare satellite requirements and various technical provisions. The FCC denied our requests for waiver of the integrated service and spare satellite requirements. The FCC has not yet acted on the request for waiver of various technical provisions, and we cannot predict the outcome or timing of any action by the FCC with respect to that waiver request. Waiver of the integrated service requirement would have allowed us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. On March 21, 2012, the FCC released an NPRM that could result in the elimination of the integrated service and other requirements that attach to the 2 GHz licenses. Among other things, the FCC has proposed to modify our licenses to allow us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. The NPRM was published in the Federal Register on April 17, 2012. Initial comments on the NPRM were due on or before May 17, 2012, and reply comments were due on or before June 1, 2012. We submitted filings in the initial comment round and in the reply comment round. While the FCC has indicated its intent to complete the NPRM during 2012, we cannot predict the outcome or timing of the NPRM, including, without limitation, any associated build-out requirements with which we may need to comply to avail ourselves of any changes to the rules.

As a result of the completion of the DBSD Transaction and the TerreStar Transaction, we will likely be required to make significant additional investments or partner with others to, among other things, finance the commercialization and build-out requirements of these licenses and our integration efforts including compliance with regulations applicable to the acquired licenses. Depending on the nature and scope of such

commercialization and build-out, any such investment or partnership could vary significantly. There can be no assurance that we will be able to develop and implement a business model that will realize a return on these spectrum investments or that we will be able to profitably deploy the assets represented by these spectrum investments, which may affect the carrying value of these assets and our future financial condition or results of operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Guarantees

In connection with the Spin-off, we distributed certain satellite lease agreements to EchoStar and remained the guarantor under those capital leases for payments totaling approximately $148 million over approximately the next three years.

In addition, during the third quarter 2009, EchoStar entered into a new satellite transponder service agreement for the Nimiq 5 satellite through 2024. We sublease this capacity from EchoStar and also guarantee a certain portion of its payment obligations under this agreement through 2019. As of June 30, 2012, the remaining payment obligations under this agreement that we guarantee are $470 million.

As of June 30, 2012, we have not recorded a liability on the balance sheet for any of these guarantees.

Contingencies

Separation Agreement

In connection with the Spin-off, we entered into a separation agreement with EchoStar that provides, among other things, for the division of certain liabilities, including liabilities resulting from litigation. Under the terms of the separation agreement, EchoStar has assumed certain liabilities that relate to its business including certain designated liabilities for acts or omissions that occurred prior to the Spin-off. Certain specific provisions govern intellectual property related claims under which, generally, EchoStar will only be liable for its acts or omissions following the Spin-off and we will indemnify EchoStar for any liabilities or damages resulting from intellectual property claims relating to the period prior to the Spin-off as well as our acts or omissions following the Spin-off.

Litigation

We are involved in a number of legal proceedings (including those described below) concerning matters arising in connection with the conduct of our business activities. Many of these proceedings are at preliminary stages, and many of these proceedings seek an indeterminate amount of damages. We regularly evaluate the status of the legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss or an additional loss may have been incurred and to determine if accruals are appropriate. If accruals are not

appropriate, we further evaluate each legal proceeding to assess whether an estimate of the possible loss or range of possible loss can be made.

For certain cases described on the following pages, management is unable to provide a meaningful estimate of the possible loss or range of possible loss because, among other reasons, (i) the proceedings are in various stages; (ii) damages have not been sought; (iii) damages are unsupported and/or exaggerated; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; and/or (vi) there are novel legal issues or unsettled legal theories to be presented or a large number of parties (as with many patent-related cases). For these cases, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on our financial condition, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

c4cast.com, Inc.

On May 7, 2012, c4cast.com, Inc. filed a complaint against us and our wholly-owned subsidiary, Blockbuster L.L.C., in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 7,958,204 (the 204 patent), which is entitled Community-Selected Content. The 204 patent relates to systems, methods and techniques for providing resources to participants over an electronic network.

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We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Channel Bundling Class Action

During 2007, a purported class of cable and satellite subscribers filed an antitrust action against our wholly-owned subsidiary, DISH Network L.L.C., in the United States District Court for the Central District of California. The suit also names as defendants DirecTV, Comcast, Cablevision, Cox, Charter, Time Warner, Inc., Time Warner Cable, NBC Universal, Viacom, Fox Entertainment Group and Walt Disney Company. The suit alleges, among other things, that the defendants engaged in a conspiracy to provide customers with access only to bundled channel offerings as opposed to giving customers the ability to purchase channels on an a la carte basis. On October 16, 2009, the District Court entered an order granting the defendants motion to dismiss with prejudice. On June 3, 2011, the U.S. Court of Appeals for the Ninth Circuit affirmed the District Court s order. The plaintiff class sought rehearing en banc. On October 31, 2011, the Ninth Circuit issued an order vacating the previous June 3, 2011 order, directing that a 3-judge panel be reconstituted, and denying the plaintiff class motion for rehearing. On March 30, 2012, the reconstituted panel of the Ninth Circuit again affirmed the District Court s order. On April 10, 2012, the plaintiff class again filed a petition for rehearing en banc, which was denied on May 4, 2012. On August 2, 2012, the plaintiff class filed a petition seeking review by the United States Supreme Court.

We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Cyberfone Systems, LLC (f/k/a LVL Patent Group, LLC)

On September 15, 2011, LVL Patent Group, LLC filed a complaint against our wholly-owned subsidiary, DISH Network L.L.C., as well as EchoStar, EchoStar Technologies L.L.C., a wholly-owned subsidiary of EchoStar, and DirecTV in the United States District Court for the District of Delaware alleging infringement of United States Patent No. 6,044,382, which is entitled Data Transaction Assembly Server. DirecTV was dismissed from the case on January 4, 2012. On July 12, 2012, Cyberfone Systems, LLC (f/k/a LVL Patent Group, LLC) filed the operative second amended complaint making the same claim.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential

liability or damages.

ESPN

During 2008, our wholly-owned subsidiary, DISH Network L.L.C., filed a lawsuit against ESPN, Inc., ESPN Classic, Inc., ABC Cable Networks Group, Soapnet L.L.C. and International Family Entertainment (collectively, ESPN) for breach of contract in New York State Supreme Court. Our complaint alleges that ESPN failed to provide us with certain high-definition feeds of the Disney Channel, ESPN News, Toon and ABC Family. In October 2011, the jury returned a verdict in favor of the defendants. We intend to appeal.

ESPN had asserted a counterclaim alleging that we owed approximately $35 million under the applicable affiliation agreements. On April 15, 2009, the New York State Supreme Court granted, in part, ESPN s motion for summary judgment on the counterclaim, finding that we are liable for some of the amount alleged to be owing but that the actual amount owing is disputed. On December 29, 2010, the New York State Supreme Court, Appellate Division, First Department affirmed the partial grant of ESPN s motion on the counterclaim. After the partial grant of ESPN s motion for summary judgment, ESPN sought an additional $30 million under the applicable affiliation agreements. On March 15, 2010, the New York State Supreme Court affirmed the prior grant of ESPN s motion and ruled that

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we owe the full amount of approximately $66 million under the applicable affiliation agreement. As of December 31, 2010, we had $42 million recorded as a Litigation accrual on our Condensed Consolidated Balance Sheets.

On June 21, 2011, the First Department affirmed the New York Supreme Court s ruling that we owe approximately $66 million under the applicable affiliation agreements and, on October 18, 2011, denied our motion for leave to appeal that decision to New York s highest court, the New York Court of Appeals. We sought leave to appeal directly to the New York Court of Appeals and, on January 10, 2012, the New York Court of Appeals dismissed our motion for leave on the ground that the ruling upon which we appealed does not fully resolve all claims in the action. As a result of the First Department s June 2011 ruling, during 2011, we recorded $24 million of Litigation Expense on our Consolidated Statements of Operations and Comprehensive Income (Loss). On February 6, 2012, ESPN filed a motion seeking $5 million in attorneys fees as the prevailing party on both our claim and ESPN s counterclaim, which we have opposed. As a result, during the six months ended June 30, 2012, we recorded $5 million of General and administrative expenses and increased our Litigation accrual to a total of $71 million related to this case as of June 30, 2012. This reflects our estimated exposure for ESPN s counterclaim. We intend to vigorously prosecute and defend this case.

The Hopper Litigation

On May 24, 2012, our wholly-owned subsidiary, DISH Network L.L.C., filed a lawsuit in the United States District Court for the Southern District of New York against American Broadcasting Companies, Inc., CBS Corporation, Fox Entertainment Group, Inc., Fox Television Holdings, Inc., Fox Cable Network Services, L.L.C. and NBCUniversal Media, LLC. In the lawsuit, we are seeking a declaratory judgment that we are not infringing any defendant s copyright, or breaching any defendant s retransmission consent agreement, by virtue of the AutoHop feature, which works in conjunction with the PrimeTime Anytime feature, on our Hopper set-top boxes. The AutoHop feature allows a subscriber, at his or her option, to watch certain recordings the subscriber made with our PrimeTime Anytime feature, commercial-free, if played back the next day after the show s original airing. The PrimeTime Anytime feature allows a user of our Hopper set-top box, at his or her option, to record certain HD primetime programs airing on ABC, CBS, Fox, and/or NBC up to every night, and to store those recordings for up to eight days.

Later on May 24, 2012, (i) Fox Broadcasting Company, Twentieth Century Fox Film Corp. and Fox Television Holdings, Inc. filed a lawsuit against us and DISH Network L.L.C. in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature, the AutoHop feature, as well as Sling place-shifting functionality infringe their copyrights and breach their retransmission consent agreements, (ii) NBC Studios LLC, Universal Network Television, LLC, Open 4 Business Productions LLC and NBCUniversal Media, LLC filed a lawsuit against us and DISH Network L.L.C. in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature and the AutoHop feature infringe their copyrights, and (iii) CBS Broadcasting Inc., CBS Studios Inc. and Survivor Productions LLC filed a lawsuit against us and DISH Network L.L.C. in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature and the AutoHop feature infringe their copyrights. The Central District of California matters have been assigned to a single judge.

On July 2, 2012, the Court in our action in the Southern District of New York heard our motion for an anti-suit injunction to enjoin prosecution of the networks respective lawsuits in the Central District of California (so that all of the matters could be heard and determined in a single action in the Southern District of New York) and Fox s, NBC s and CBS s motions to dismiss our complaint. In an order dated July 9, 2012, the Court denied our motion, granted the Fox defendants motion and granted, in part, the NBC and CBS defendants respective motions to dismiss our complaint, such that only our contract-based claims against the NBC and CBS defendants will proceed in the New York action. Our claims against the ABC defendants were unaffected by the Court s order. ABC has filed a counterclaim against us in the New York action, alleging breach of contract and copyright infringement claims.

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We intend to vigorously prosecute and defend our position in these cases. In the event that a court ultimately determines that we infringe the asserted copyrights, we may be subject to substantial damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. In addition, as a result of this litigation, we may not be able to renew certain of our retransmission consent agreements and other programming agreements on favorable terms or at all. If we are unable to renew these agreements, there can be no assurance that we would be able to obtain substitute programming, or that such substitute programming would be comparable in quality or cost to our existing programming. Loss of access to existing programming could have a material adverse effect on our business, financial condition and results of operations, including, among other things, our gross new subscriber activations and subscriber churn rate. We cannot predict with any degree of certainty the outcome of these suits or determine the extent of any potential liability or damages.

Norman IP Holdings, Inc.

On September 15, 2011, Norman IP Holdings, Inc. (Norman) filed a patent infringement complaint against Brother International Corporation and Lexmark International Corporation in the United States District Court for the Eastern District of Texas alleging infringement of U.S. Patent No. 5,592,555 (the 555 patent) and U.S. Patent No. 5,502,689 (the 689 patent). On December 9, 2011, Norman filed a first amended complaint that added Ricoh Americas Corporation and dropped Brother International Corporation as a defendant. On January 27, 2012, Norman filed a second amended complaint that added us as a defendant, in addition to adding Belkin International, Inc., BMW of North America LLC, Daimler North America Corporation, Mercedes-Benz USA, LLC, D-Link Systems, Inc., Ford Motor Company, Garmin International, Inc., Garmin USA, Inc., General Electric Company, General Motors Company, JVC Americas Corporation, Novatel Wireless, Inc., Novatel Wireless Solutions, Inc., Novatel Wireless Technology, Inc., TomTom, Inc., ViewSonic Corporation, Vizio, Inc., Volkswagen Group of America, Inc., Xerox Corporation, ZTE USA, Inc., and ZTE Solutions, Inc. The 555 patent relates to a wireless communications privacy method and system and the 689 patent relates to a clock generator capable of shut-down mode and clock generation method. Norman is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

NorthPoint Technology, Ltd.

On July 2, 2009, NorthPoint Technology, Ltd. (NorthPoint) filed suit against us, EchoStar and DirecTV in the United States District Court for the Western District of Texas alleging infringement of United States Patent No. 6,208,636 (the 636 patent). The 636 patent relates to the use of multiple low-noise block converter feedhorns, or LNBFs, which are antennas used for satellite reception. On April 21, 2011, the U.S. Patent and Trademark Office issued an order granting reexamination of the 636 patent. On June 21, 2011, the District Court entered summary judgment in our favor, finding that all asserted claims of the 636 patent are invalid. NorthPoint appealed and, on May 11, 2012, the United States Court of

Appeals for the Federal Circuit affirmed the District Court s judgment.

We cannot predict with certainty whether NorthPoint will seek further appeal or the outcome of any appeal or extent of any potential liability or damages if they are successful on appeal. If they do appeal, we intend to vigorously defend this case. In the event that an appeal were successful and a court ultimately determined that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers.

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Olympic Developments AG, LLC

On January 20, 2011, Olympic Developments AG, LLC (Olympic) filed suit against our wholly-owned subsidiary, DISH Network L.L.C., Atlantic Broadband, Inc., Bright House Networks, LLC, Cable One, Inc., Cequel Communications Holdings I, LLC, CSC Holdings, LLC, GCI Communication Corp., Insight Communications Company, Inc., Knology, Inc., Mediacom Communications Corporation and RCN Telecom Services, LLC in the United States District Court for the Central District of California alleging infringement of United States Patent Nos. 5,475,585 and 6,246,400. The patents relate to on-demand services. Olympic is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. On June 13, 2011, the case was transferred to the Northern District of California. On November 4, 2011, the case was stayed pending reexamination by the U.S. Patent and Trademark Office.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Personalized Media Communications, Inc.

During 2008, Personalized Media Communications, Inc. (PMC) filed suit against us, EchoStar and Motorola Inc. in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent Nos. 5,109,414, 4,965,825, 5,233,654, 5,335,277, and 5,887,243, which relate to satellite signal processing. PMC is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. Subsequently, Motorola Inc. settled with PMC, leaving EchoStar and us as defendants. On July 18, 2012, pursuant to a Court order, PMC filed a Second Amended Complaint that added Rovi Guides, Inc. (f/k/a/ Gemstar-TV Guide International, Inc.) and TVG-PMC, Inc. (collectively, Gemstar) as a party, and added a new claim against all defendants seeking a declaratory judgment as to the scope of Gemstar s license to the patents in suit, under which we and EchoStar are sublicensees. The Court has stayed all deadlines in the case (trial had been set for August 20, 2012) pending entry of a new Docket Control Order.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Premier International Associates, LLC

On August 3, 2012, Premier International Associates, LLC (Premier International Associates) filed a complaint against us, our wholly-owned subsidiaries DISH DBS and DISH Network L.L.C., and EchoStar and its wholly-owned subsidiary EchoStar Technologies L.L.C., in the United States District Court for the Northern District of Illinois alleging infringement of United States Patent No. 6,243,725 (the 725 patent), which is entitled List Building System. The 725 patent relates to a system for building an inventory of audio/visual works. Premier International Associates is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Preservation Technologies, LLC

In December 2011, Preservation Technologies, LLC (Preservation Technologies) filed suit against us in the United States District Court for the Central District of California. In the Operative Fifth Amended Complaint, filed on May 24, 2012, Preservation Technologies also names Netflix, Inc., Facebook, Inc., Hulu, LLC, AT&T Services, Inc., Cox Communications, Inc., Time Warner Cable, Inc., The Walt Disney Company, American Broadcasting Companies, Inc. and Yahoo! Inc. as defendants. Preservation Technologies alleges that our BLOCKBUSTER On Demand, DISH branded pay-TV and DISH Online services infringe U.S. Patent Nos. 5,813,014, 5,832,499, 6,092,080, 6,353,831, 6,574,638, 6,199,060, 5,832,495, 6,549,911, 6,212,527 and 6,477,537. The patents relate to digital libraries, the management of multimedia assets, and the cataloging of multimedia data. Preservation Technologies is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. Time Warner Cable Inc. was dismissed from the case on July 19, 2012.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an

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injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Ronald A. Katz Technology Licensing, L.P.

During 2007, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a patent infringement action against our wholly-owned subsidiary, DISH Network L.L.C., in the United States District Court for the Northern District of California. The suit alleges infringement of 19 patents owned by Katz. The patents relate to interactive voice response, or IVR, technology. The case has been transferred and consolidated for pretrial purposes in the United States District Court for the Central District of California by order of the Judicial Panel on Multidistrict Litigation. Only four patents remain in the case against us, one of which is subject to a reexamination request before the U.S. Patent and Trademark Office, which was filed on February 13, 2012.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Technology Development and Licensing L.L.C.

On January 22, 2009, Technology Development and Licensing L.L.C. (TDL) filed suit against us and EchoStar in the United States District Court for the Northern District of Illinois alleging infringement of United States Patent No. Re. 35,952, which relates to certain favorite channel features. TDL is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. In July 2009, the Court granted our motion to stay the case pending two reexamination petitions before the U.S. Patent and Trademark Office.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

TQP Development, LLC

On April 4, 2012, TQP Development, LLC (TQP Development) filed suit against our wholly-owned subsidiary, DISH Network L.L.C., in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 5,412,730 titled Encrypted Data Transmission System Employing Means for Randomly Altering the Encryption Keys. TQP Development is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Tse

On May 30, 2012, Ho Keung Tse filed a complaint against our wholly-owned subsidiary, Blockbuster L.L.C., in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 6,665,797, which is entitled Protection of Software Again [sic] Against Unauthorized Use. Mr. Tse is the named inventor on the patent. On the same day that he sued Blockbuster, Mr. Tse filed a separate action in the same court

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alleging infringement of the same patent against Google, Samsung and HTC. He also has earlier-filed litigation on the same patent pending in the United States District Court for the Northern District of California against Sony Connect, Inc., Napster, Inc., Apple Computer, Inc., Realnetworks, Inc., and MusicMatch, Inc.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Vigilos, LLC

On February 23, 2011, Vigilos, LLC (Vigilos) filed suit against EchoStar, two EchoStar subsidiaries, Sling Media, Inc. and EchoStar Technologies L.L.C., and Monsoon Multimedia, Inc. in the U.S. District Court for the Eastern District of Texas alleging infringement of U.S. Patent No. 6,839,731, which is entitled System and Method for Providing Data Communication in a Device Network. Subsequently in 2011, Vigilos added DISH Network L.L.C., our wholly-owned subsidiary, as a defendant in its First Amended Complaint and the case was transferred to the Northern District of California. Later in 2011, Vigilos filed a Second Amended Complaint that added claims for infringement of a second patent, U.S. Patent No. 7,370,074, which is entitled System and Method for Implementing Open-Protocol Remote Device Control. Vigilos is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Voom HD Holdings

In January 2008, Voom HD Holdings (Voom) filed a lawsuit against our wholly-owned subsidiary, DISH Network L.L.C., in New York Supreme Court, alleging breach of contract and other claims arising from our termination of the affiliation agreement governing carriage of certain Voom HD channels on the DISH branded pay-TV service. At that time, Voom also sought a preliminary injunction to prevent us from terminating the agreement. The Court denied Voom s request, finding, among other things, that Voom had not demonstrated that it was likely to prevail on the merits. In April 2010, we and Voom each filed motions for summary judgment. Voom later filed two motions seeking discovery sanctions. On November 9, 2010, the Court issued a decision denying both motions for summary judgment, but granting Voom s motions for discovery sanctions. The Court s decision provides for an adverse inference jury instruction at trial and precludes our damages expert from

testifying at trial. We appealed the grant of Voom s motion for discovery sanctions to the New York State Supreme Court, Appellate Division, First Department. On January 31, 2012, the appellate court affirmed the order imposing discovery sanctions and precluding our damages expert from testifying at trial. We sought leave to appeal to New York s highest state court, the Court of Appeals, but that motion was denied on April 26, 2012. The trial date has been set for September 18, 2012. Voom is claiming over $2.5 billion in damages. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Other

In addition to the above actions, we are subject to various other legal proceedings and claims which arise in the ordinary course of business, including, among other things, disputes with programmers regarding fees. In our opinion, the amount of ultimate liability with respect to any of these actions is unlikely to materially affect our financial position, results of operations or liquidity, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

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12. Segment Reporting

Operating segments are components of an enterprise for which separate financial information is available and regularly evaluated by the chief operating decision maker(s) of an enterprise. Under this definition, we operated three primary segments during the six months ended June 30, 2012.

- ***DISH.*** The DISH branded pay-TV service had 14.061 million subscribers in the United States as of June 30, 2012. The DISH branded pay-TV service consists of FCC licenses authorizing us to use DBS and FSS spectrum, our owned and leased satellites, receiver systems, third-party broadcast operations, customer service facilities, a third-party leased fiber network, in-home service and call center operations, and certain other assets utilized in our operations.

- ***Blockbuster.*** On April 26, 2011, we completed the Blockbuster Acquisition. The financial results of our Blockbuster operations are included in our financial results beginning April 26, 2011. Blockbuster primarily offers movies and video games for sale and rental through multiple distribution channels such as retail stores, by-mail, digital devices, the blockbuster.com website and the BLOCKBUSTER On Demand® service.

- ***Wireless Spectrum.*** In 2008, we paid $712 million to acquire certain 700 MHz wireless spectrum licenses, which were granted to us by the FCC in February 2009 subject to certain build-out requirements. On March 9, 2012, we completed the DBSD Transaction and the TerreStar Transaction, pursuant to which we acquired, among other things, 40 MHz of 2 GHz wireless spectrum licenses held by DBSD North America and TerreStar. The financial results of DBSD North America and TerreStar were included in our financial results as of March 9, 2012. The total consideration to acquire these assets was approximately $2.860 billion. This amount includes $1.364 billion for the DBSD Transaction, $1.382 billion for the TerreStar Transaction, and the net payment of $114 million to Sprint pursuant to the Sprint Settlement Agreement. See Note 8 for further information.

We currently generate an immaterial amount of revenue and incur operating expenses associated with certain satellite operations and regulatory compliance from our wireless spectrum assets. As we review our options for the commercialization of this wireless spectrum, we may incur significant additional expenses and may have to make significant investments related to, among other things, research and development, wireless testing and construction of a wireless network.

On March 21, 2012, the FCC released an NPRM that could result in the elimination of the MSS integrated service and other requirements that attach to the 2 GHz licenses. Among other things, the FCC has proposed to modify our licenses to allow us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. We submitted filings in the initial comment round and in the reply comment

round. We cannot predict the outcome or timing of the NPRM, including, without limitation, any associated build-out requirements with which we may need to comply to avail ourselves of any changes to the rules. See Note 11 for further information.

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The total assets, revenue and operating income by segment are as follows:

	As of	
	June 30, 2012	December 31, 2011
	(In thousands)	
Total assets:		
DISH (1)	$ 10,965,190	$ 11,104,003
Blockbuster	405,608	453,661
Wireless Spectrum (1)	3,922,914	
Eliminations	(772,549)	(87,433)
Total assets	$ 14,521,163	$ 11,470,231

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Revenue:				
DISH	$ 3,324,099	$ 3,336,208	$ 6,577,021	$ 6,560,269
Blockbuster	253,312	253,953	587,303	253,953
Wireless Spectrum	296		329	70
Eliminations	(5,941)		(11,018)	
Total revenue	$ 3,571,766	$ 3,590,161	$ 7,153,635	$ 6,814,292
Operating income (loss):				
DISH	$ 499,373	$ 707,377	$ 1,065,918	$ 1,690,660
Blockbuster	(13,333)	10,405	624	10,405
Wireless Spectrum	(17,688)		(25,779)	70
Total operating income (loss)	$ 468,352	$ 717,782	$ 1,040,763	$ 1,701,135

(1) The decrease in DISH total assets resulted from the reclassification of assets to the wireless spectrum segment.

Geographic Information. Revenues are attributed to geographic regions based upon the location where the products are delivered and services are provided. The following table summarizes revenue attributed to the United States and other foreign locations.

For the Three Months Ended June 30,	For the Six Months Ended June 30,

	2012	2011	2012	2011
	(In thousands)			
Revenue:				
United States	$ 3,453,353	$ 3,486,303	$ 6,909,992	$ 6,710,434
United Kingdom	69,523	63,660	140,234	63,660
Mexico	35,383	28,030	76,689	28,030
Other	13,507	12,168	26,720	12,168
Total revenue	$ 3,571,766	$ 3,590,161	$ 7,153,635	$ 6,814,292

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

13. Related Party Transactions

Related Party Transactions with EchoStar

Following the Spin-off, EchoStar has operated as a separate public company, and we have no continued ownership interest in EchoStar. 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.

EchoStar is our primary supplier of set-top boxes and digital broadcast operations and our key supplier of transponder capacity. Generally, the amounts we pay EchoStar for products and services are based on pricing equal to EchoStar s cost plus a fixed margin (unless noted differently below), which will vary depending on the nature of the products and services provided.

Since the Spin-off, we and EchoStar have entered into certain agreements pursuant to which we obtain certain products, services and rights from EchoStar; EchoStar obtains certain products, services and rights from us; and we and EchoStar have indemnified each other against certain liabilities arising from our respective businesses. We also may enter into additional agreements with EchoStar in the future. The following is a summary of the terms of our principal agreements with EchoStar that may have an impact on our financial position and results of operations.

Equipment sales - EchoStar

Remanufactured Receiver Agreement. We entered into a remanufactured receiver agreement with EchoStar pursuant to which EchoStar has the right, but not the obligation, to purchase remanufactured receivers and accessories from us at cost plus a fixed margin, which varies depending on the nature of the equipment purchased. In November 2011, we and EchoStar extended this agreement until December 31, 2012. EchoStar may terminate the remanufactured receiver agreement for any reason upon at least 60 days notice to us. We may also terminate this agreement if certain entities acquire us.

Services and other revenue - EchoStar

Professional Services Agreement. Prior to 2010, in connection with the Spin-off, we entered into various agreements with EchoStar including the Transition Services Agreement, Satellite Procurement Agreement and Services Agreement, which all expired on January 1, 2010 and were replaced by a Professional Services Agreement. During 2009, we and EchoStar agreed that EchoStar shall continue to have the right, but not the obligation, to receive the following services from us, among others, certain of which were previously provided under the Transition Services Agreement: information technology, travel and event coordination, internal audit, legal, accounting and tax, benefits administration, program acquisition services and other support services. Additionally, we and EchoStar agreed that we shall continue to have the right, but not the obligation, to engage EchoStar to manage the process of procuring new satellite capacity for us (previously provided under the Satellite Procurement Agreement) and receive logistics, procurement and quality assurance services from EchoStar (previously provided under the Services Agreement). The Professional Services Agreement automatically renewed on January 1, 2012 for an additional one-year period until January 1, 2013 and renews automatically for successive one-year periods thereafter, unless terminated earlier by either party upon at least 60 days notice. However, either party may terminate the Professional Services Agreement in part with respect to any particular service it receives for any reason upon at least 30 days notice.

Management Services Agreement. We have a Management Services Agreement with EchoStar pursuant to which we make certain of our officers available to provide services (which are primarily legal and accounting services) to EchoStar. Specifically, Paul W. Orban remains employed by us, but also served as EchoStar s Senior Vice President and Controller through April 2012. In addition, R. Stanton Dodge remains employed by us, but also

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

served as EchoStar s Executive Vice President, General Counsel and Secretary through November 2011. EchoStar makes payments to us based upon an allocable portion of the personnel costs and expenses incurred by us with respect to such officers (taking into account wages and fringe benefits). These allocations are based upon the estimated percentages of time to be spent by our executive officers performing services for EchoStar under the Management Services Agreement. EchoStar also reimburses us for direct out-of-pocket costs incurred by us for management services provided to EchoStar. We and EchoStar evaluate all charges for reasonableness at least annually and make any adjustments to these charges as we and EchoStar mutually agree upon.

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

Satellite Capacity Leased to EchoStar. During 2009, we entered into a satellite capacity agreement pursuant to which EchoStar leases certain satellite capacity from us on EchoStar I. The fee for the services provided under this satellite capacity agreement depends, among other things, upon the orbital location of the satellite and the length of the lease. The lease generally terminates upon the earlier of: (i) the end of life or replacement of the satellite (unless EchoStar determines to renew on a year-to-year basis); (ii) the date the satellite fails; (iii) the date the transponder on which service is being provided fails; or (iv) a certain date, which depends, among other things, upon the estimated useful life of the satellite, whether the replacement satellite fails at launch or in orbit prior to being placed into service, and the exercise of certain renewal options. EchoStar generally has the option to renew this lease on a year-to-year basis through the end of the satellite s life. There can be no assurance that any options to renew this agreement will be exercised.

Real Estate Lease Agreement. During 2008, we entered into a sublease for space at 185 Varick Street, New York, New York to EchoStar for a period of approximately seven years. The rent on a per square foot basis for this sublease was comparable to per square foot rental rates of similar commercial property in the same geographic area at the time of the sublease, and EchoStar is responsible for its portion of the taxes, insurance, utilities and maintenance of the premises.

Satellite and transmission expenses EchoStar

Broadcast Agreement. In connection with the Spin-off, we and EchoStar entered into a broadcast agreement pursuant to which EchoStar provided certain broadcast services to us, including teleport services such as transmission and downlinking, channel origination services, and channel management services for a period ending on January 1, 2012 (the Prior Broadcast Agreement). We had the ability to terminate channel origination services and channel management services for any reason and without any liability upon at least 60 days notice to EchoStar. If we terminated teleport services for a reason other than EchoStar s breach, we were obligated to pay EchoStar the aggregate amount of the remainder of the expected cost of providing the teleport services. The fees for the services provided under the Prior Broadcast Agreement were calculated at cost plus a fixed margin, which varied depending on the nature of the products and services provided.

Effective January 1, 2012, we and EchoStar entered into a new broadcast agreement (the 2012 Broadcast Agreement) pursuant to which EchoStar will continue to provide broadcast services to us, for the period from January 1, 2012 to December 31, 2016. The material terms of the 2012 Broadcast Agreement are substantially the same as the material terms of the Prior Broadcast Agreement, except that: (i) the fees for services provided under the 2012 Broadcast Agreement are calculated at either: (a) EchoStar s cost of providing the relevant service plus a fixed dollar fee, which is subject to certain adjustments; or (b) EchoStar s cost of providing the relevant service plus a fixed margin, which will depend on the nature of the services provided; and (ii) if we terminate the teleport services provided under the 2012 Broadcast Agreement for a reason other than EchoStar s breach, we are generally obligated to reimburse EchoStar for any direct costs EchoStar incurs related to any such termination that it cannot reasonably mitigate.

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Broadcast Agreement for Certain Sports Related Programming. During May 2010, we and EchoStar entered into a broadcast agreement pursuant to which EchoStar provides certain broadcast services to us in connection with our carriage of certain sports related programming. The term of this agreement is for ten years. If we terminate this agreement for a reason other than EchoStar s breach, we are generally obligated to reimburse EchoStar for any direct costs EchoStar incurs related to any such termination that it cannot reasonably mitigate. The fees for the broadcast services provided under this agreement depend, among other things, upon the cost to develop and provide such services.

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

EchoStar VI, VIII and XII. We lease certain satellite capacity from EchoStar on EchoStar VI, VIII and XII. The leases generally terminate upon the earlier of: (i) the end of life or replacement of the satellite (unless we determine to renew on a year-to-year basis); (ii) the date the satellite fails; (iii) the date the transponders on which service is being provided fails; or (iv) a certain date, which depends upon, among other things, the estimated useful life of the satellite, whether the replacement satellite fails at launch or in orbit prior to being placed into service and the exercise of certain renewal options. We generally have the option to renew each lease on a year-to-year basis through the end of the respective satellite s life. There can be no assurance that any options to renew such agreements will be exercised.

EchoStar IX. We lease certain satellite capacity from EchoStar on EchoStar IX. Subject to availability, we generally have the right to continue to lease satellite capacity from EchoStar on EchoStar IX on a month-to-month basis.

EchoStar XVI. We will lease certain satellite capacity from EchoStar on EchoStar XVI after its service commencement date and this lease generally terminates upon the earlier of: (i) the end of life or replacement of the satellite; (ii) the date the satellite fails; (iii) the date the transponder(s) on which service is being provided under the agreement fails; or (iv) ten years following the actual service commencement date. Upon expiration of the initial term, we have the option to renew on a year-to-year basis through the end of life of the satellite. There can be no assurance that any options to renew this agreement will be exercised. EchoStar XVI is expected to be launched during the second half of 2012.

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

Nimiq 5 Agreement. During 2009, EchoStar entered into a fifteen-year satellite service agreement with Telesat Canada (Telesat) to receive service on all 32 DBS transponders on the Nimiq 5 satellite at the 72.7 degree orbital location (the Telesat Transponder Agreement). During 2009, EchoStar also entered into a satellite service agreement (the DISH Nimiq 5 Agreement) with us, pursuant to which we currently receive service from EchoStar on all 32 of the DBS transponders covered by the Telesat Transponder Agreement. We have also guaranteed certain obligations of EchoStar under the Telesat Transponder Agreement. See discussion under Guarantees in Note 11.

Under the terms of the DISH Nimiq 5 Agreement, we make certain monthly payments to EchoStar that commenced in September 2009 when the Nimiq 5 satellite was placed into service and continue through the service term. Unless earlier terminated under the terms and conditions of the DISH Nimiq 5 Agreement, the service term will expire ten years following the date it was placed into service. Upon expiration of the initial term we have the option to renew the DISH Nimiq 5 Agreement on a year-to-year basis through the end of life of the Nimiq 5 satellite. Upon in-orbit

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(Unaudited)

failure or end of life of the Nimiq 5 satellite, and in certain other circumstances, we have certain rights to receive service from EchoStar on a replacement satellite. There can be no assurance that any options to renew the DISH Nimiq 5 Agreement will be exercised or that we will exercise our option to receive service on a replacement satellite.

QuetzSat-1 Lease Agreement. During 2008, EchoStar entered into a ten-year satellite service agreement with SES Latin America S.A. (SES), which provides, among other things, for the provision by SES to EchoStar of service on 32 DBS transponders on the QuetzSat-1 satellite. During 2008, EchoStar also entered into a transponder service agreement (QuetzSat-1 Transponder Agreement) with us pursuant to which we will receive service from EchoStar on 24 of the DBS transponders. The QuetzSat-1 Transponder Agreement will be accounted for as an operating lease. QuetzSat-1 was launched on September 29, 2011 and was placed into service during the fourth quarter 2011 at the 67.1 degree orbital location while we and EchoStar explore alternative uses for the QuetzSat-1 satellite. In the interim, EchoStar is providing us with alternate capacity at the 77 degree orbital location.

Under the terms of the QuetzSat-1 Transponder Agreement, we will make certain monthly payments to EchoStar commencing when the QuetzSat-1 satellite is placed into service at the 77 degree orbital location and continuing through the remainder of the service term. Unless earlier terminated under the terms and conditions of the QuetzSat-1 Transponder Agreement, the initial service term will expire in November 2021. Upon expiration of the initial term, we have the option to renew the QuetzSat-1 Transponder Agreement on a year-to-year basis through the end of life of the QuetzSat-1 satellite. Upon an in-orbit failure or end of life of the QuetzSat-1 satellite, and in certain other circumstances, we have certain rights to receive service from EchoStar on a replacement satellite. There can be no assurance that any options to renew the QuetzSat-1 Transponder Agreement will be exercised or that we will exercise our option to receive service on a replacement satellite.

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

Effective January 1, 2012, we entered into a TT&C agreement pursuant to which we will continue to receive TT&C services from EchoStar for a period ending on December 31, 2016 (the 2012 TT&C Agreement). The material terms of the 2012 TT&C Agreement are substantially the same as the material terms of the Prior TT&C Agreement, except that the fees for services provided under the 2012 TT&C Agreement are calculated at either: (i) a fixed fee; or (ii) cost plus a fixed margin, which will vary depending on the nature of the services provided.

DBSD North America Agreement. On March 9, 2012, we completed the DBSD Transaction. During the second quarter 2011, EchoStar acquired Hughes Communications, Inc. (Hughes). Prior to our acquisition of DBSD North America and EchoStar s acquisition of Hughes, DBSD North America and Hughes Network Systems, LLC (HNS), a wholly-owned subsidiary of Hughes, entered into an agreement pursuant to which HNS provides, among other things, hosting, operations and maintenance services for DBSD North America s satellite gateway and associated ground infrastructure. This agreement was renewed for a one year period ending on February 15, 2013, and renews for four

successive one-year periods unless terminated by DBSD North America upon at least 30 days notice prior to the expiration of any renewal term.

TerreStar Agreement. On March 9, 2012, we completed the TerreStar Transaction. Prior to our acquisition of substantially all the assets of TerreStar and EchoStar s acquisition of Hughes, TerreStar and HNS entered into various agreements pursuant to which HNS provides, among other things, hosting, operations and maintenance services for TerreStar s satellite gateway and associated ground infrastructure. These agreements generally may be terminated by us at any time for convenience.

RUS Implementation Agreement. In September 2010, DISH Broadband L.L.C. (DISH Broadband), our wholly-owned subsidiary, was selected by the Rural Utilities Service (RUS) of the United States Department of

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Agriculture to receive up to approximately $14 million in broadband stimulus grant funds (the Grant Funds). Effective November 2011, DISH Broadband and Hughes entered into a RUS Implementation Agreement (the RUS Agreement) pursuant to which Hughes provides certain portions of the equipment and broadband service used to implement our RUS program. The initial term of the RUS Agreement shall continue until the earlier of: (i) September 24, 2013; or (ii) the date that the Grant Funds have been exhausted. In addition, DISH Broadband may terminate the RUS Agreement for convenience upon 45 days prior written notice to Hughes.

Cost of sales subscriber promotion subsidies EchoStar

Receiver Agreement. EchoStar is currently our sole supplier of set-top box receivers. The table below indicates the dollar value of set-top boxes and other equipment that we purchased from EchoStar as well as the amount of purchases that are included in Cost of sales subscriber promotion subsidies EchoStar on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). The remaining amount is included in Inventory and Property and equipment, net on our Condensed Consolidated Balance Sheets.

Purchases from EchoStar	For the Three Months Ended June 30, 2012	2011	For the Six Months Ended June 30, 2012	2011
		(In thousands)		
Set-top boxes and other equipment	$ 254,350	$ 270,629	$ 491,715	$ 542,755
Set-top boxes and other equipment included in Cost of sales subscriber promotion subsidies EchoStar	$ 51,580	$ 62,868	$ 133,854	$ 117,294

In connection with the Spin-off, we and EchoStar entered into a receiver agreement pursuant to which we had the right, but not the obligation, to purchase digital set-top boxes and related accessories, and other equipment from EchoStar for a period ending on January 1, 2012 (the Prior Receiver Agreement). The Prior Receiver Agreement allowed us to purchase digital set-top boxes, related accessories and other equipment from EchoStar at cost plus a fixed percentage margin, which varied depending on the nature of the equipment purchased. Additionally, EchoStar provided us with standard manufacturer warranties for the goods sold under the Prior Receiver Agreement. We were able to terminate the Prior Receiver Agreement for any reason upon at least 60 days notice to EchoStar. EchoStar was able to terminate the Prior Receiver Agreement if certain entities were to acquire us. The Prior Receiver Agreement also included an indemnification provision, whereby the parties indemnified each other for certain intellectual property matters.

Effective January 1, 2012, we and EchoStar entered into a new agreement (the 2012 Receiver Agreement) pursuant to which we continue to have the right, but not the obligation, to purchase digital set-top boxes, related accessories, and other equipment from EchoStar for the period from January 1, 2012 to December 31, 2014. We have an option, but not the obligation, to extend the 2012 Receiver Agreement for one additional year upon 180 days notice prior to the end of the term. The material terms of the 2012 Receiver Agreement are substantially the same as the material terms of the Prior Receiver Agreement, except that the 2012 Receiver Agreement allows us to purchase digital set-top boxes, related accessories and other equipment from EchoStar either: (i) at a cost (decreasing as EchoStar reduces costs and increasing as costs

increase) plus a dollar mark-up which will depend upon the cost of the product subject to a collar on EchoStar s mark-up; or (ii) at cost plus a fixed margin, which will depend on the nature of the equipment purchased. Under the 2012 Receiver Agreement, EchoStar s margins will be increased if they are able to reduce the costs of their digital set-top boxes and their margins will be reduced if these costs increase.

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

General and administrative expenses EchoStar

Product Support Agreement. In connection with the Spin-off, we entered into a product support agreement pursuant to which we have the right, but not the obligation, to receive product support from EchoStar (including certain engineering and technical support services) for all set-top boxes and related accessories that EchoStar has previously sold and in the future may sell to us. The fees for the services provided under the product support agreement are calculated at cost plus a fixed margin, which varies depending on the nature of the services provided. The term of the product support agreement is the economic life of such receivers and related accessories, unless terminated earlier. We may terminate the product support agreement for any reason upon at least 60 days notice. In the event of an early termination of this agreement, we are entitled to a refund of any unearned fees paid to EchoStar for the services.

Real Estate Lease Agreements. We have entered into lease agreements pursuant to which we lease certain real estate from EchoStar. The rent on a per square foot basis for each of the leases is comparable to per square foot rental rates of similar commercial property in the same geographic area, and EchoStar is responsible for its portion of the taxes, insurance, utilities and maintenance of the premises. The term of each of the leases is set forth below:

- *Inverness Lease Agreement.* The lease for certain space at 90 Inverness Circle East in Englewood, Colorado is for a period ending on December 31, 2016. This agreement can be terminated by either party upon six months prior notice.

- *Meridian Lease Agreement.* The lease for all of 9601 S. Meridian Blvd. in Englewood, Colorado is for a period ending on December 31, 2016.

- *Santa Fe Lease Agreement.* The lease for all of 5701 S. Santa Fe Dr. in Littleton, Colorado is for a period ending on December 31, 2016 with a renewal option for one additional year.

- *EchoStar Data Networks Sublease Agreement*. The sublease for certain space at 211 Perimeter Center in Atlanta, Georgia is for a period ending on October 31, 2016.

- *Gilbert Lease Agreement.* The lease for certain space at 801 N. DISH Dr. in Gilbert, Arizona is a month-to-month lease and can be terminated by either party upon 30 days prior notice.

- *Cheyenne Lease Agreement.* The lease for certain space at 530 EchoStar Drive in Cheyenne, Wyoming is for a period ending on December 31, 2031.

DISHOnline.com Services Agreement. Effective January 1, 2010, we entered into a two-year agreement with EchoStar pursuant to which we will receive certain services associated with an online video portal. The fees for the services provided under this services agreement depend, among other things, upon the cost to develop and operate such services. We have the option to renew this agreement for three successive one year terms and the agreement may be terminated for any reason upon at least 120 days notice to EchoStar. In November 2011, we exercised our right to renew this agreement for a one-year period ending on December 31, 2012.

DISH Remote Access Services Agreement. Effective February 23, 2010, we entered into an agreement with EchoStar pursuant to which we will receive, among other things, certain remote DVR management services. The fees for the services provided under this services agreement depend, among other things, upon the cost to develop and operate such services. This agreement has a term of five years with automatic renewal for successive one year terms and may be terminated for any reason upon at least 120 days notice to EchoStar.

SlingService Services Agreement. Effective February 23, 2010, we entered into an agreement with EchoStar pursuant to which we will receive certain place-shifting services. The fees for the services provided under this

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DISH NETWORK CORPORATION

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(Unaudited)

services agreement depend, among other things, upon the cost to develop and operate such services. This agreement has a term of five years with automatic renewal for successive one year terms and may be terminated for any reason upon at least 120 days notice to EchoStar.

Blockbuster. On April 26, 2011, we completed the Blockbuster Acquisition. During the second quarter 2011, EchoStar acquired Hughes. Blockbuster purchased certain broadband products and services from Hughes pursuant to an agreement that was entered into prior to the Blockbuster Acquisition and EchoStar s acquisition of Hughes. Subsequent to these transactions, Blockbuster entered into a new agreement with Hughes which extends for a period through October 31, 2014, pursuant to which Blockbuster may continue to purchase certain broadband products and services from Hughes. Blockbuster has the option to renew the agreement for an additional one year period.

Additionally, on August 5, 2011, we entered into a letter agreement with EchoStar pursuant to which certain assets used to support Blockbuster s website were transferred to EchoStar and they agreed to provide certain technical and infrastructure support for the Blockbuster website to us. The fees for the services provided under the letter agreement are calculated at cost plus a fixed margin, which varies depending upon the nature of the services provided. The letter agreement provides that it shall continue in effect until the completion of a definitive agreement between EchoStar and us setting forth the terms of the support of the Blockbuster website. In addition to the services expensed, during the three and six months ended June 30, 2012, we capitalized $3 million and $7 million of these services, respectively, which are included in Property and equipment, net and Other noncurrent assets on our Condensed Consolidated Balance Sheets.

Move Networks Services Agreement. In the fourth quarter 2011, EchoStar granted us the right to use Move Network s software and video publishing systems, which facilitate the streaming, downloading and distribution of audio and video content to set-top boxes via the Internet. The fees for the services provided under this agreement are based upon a fixed fee which varies based upon the number of set-top boxes in a given month that access Move Network s software. This agreement has a term of five years with automatic renewal for successive one year terms and may be terminated for any reason upon at least 180 days notice to EchoStar.

Other Agreements EchoStar

Tax Sharing Agreement. In connection with the Spin-off, we entered into a tax sharing agreement with EchoStar which governs our respective rights, responsibilities and obligations after the Spin-off with respect to taxes for the periods ending on or before the Spin-off. Generally, all pre-Spin-off taxes, including any taxes that are incurred as a result of restructuring activities undertaken to implement the Spin-off, are borne by us, and we will indemnify EchoStar for such taxes. However, we are not liable for and will not indemnify EchoStar for any taxes that are incurred as a result of the Spin-off or certain related transactions failing to qualify as tax-free distributions pursuant to any provision of Section 355 or Section 361 of the Internal Revenue Code of 1986, as amended (the Code) because of: (i) a direct or indirect acquisition of any of EchoStar s stock, stock options or assets; (ii) any action that EchoStar takes or fails to take; or (iii) any action that EchoStar takes that is inconsistent with the information and representations furnished to the IRS in connection with the request for the private letter ruling, or to counsel in connection with any opinion being delivered by counsel with respect to the Spin-off or certain related transactions. In such case, EchoStar is solely liable for, and will indemnify us for, any resulting taxes, as well as any losses, claims and expenses. The tax sharing

agreement will only terminate after the later of the full period of all applicable statutes of limitations, including extensions, or once all rights and obligations are fully effectuated or performed.

TiVo. On April 29, 2011, we and EchoStar entered into a settlement agreement with TiVo, Inc. (TiVo). The settlement resolved all pending litigation between us and EchoStar, on the one hand, and TiVo, on the other hand, including litigation relating to alleged patent infringement involving certain DISH digital video recorders, or DVRs, which litigation is described in our 2011 10-K under the caption *Item 3. Legal Proceedings TiVo Inc.*

Under the settlement agreement, all pending litigation has been dismissed with prejudice and all injunctions that permanently restrain, enjoin or compel any action by us or EchoStar have been dissolved. We and EchoStar are jointly

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DISH NETWORK CORPORATION

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(Unaudited)

responsible for making payments to TiVo in the aggregate amount of $500 million, including an initial payment of $300 million and the remaining $200 million in six equal annual installments between 2012 and 2017. Pursuant to the terms and conditions of the agreements entered into in connection with the Spin-off of EchoStar from us, we made the initial payment to TiVo in May 2011, except for the contribution from EchoStar totaling approximately $10 million, representing an allocation of liability relating to EchoStar s sales of DVR-enabled receivers to an international customer. Future payments will be allocated between us and EchoStar based on historical sales of certain licensed products, with us being responsible for 95% of each annual payment.

We and EchoStar, on the one hand, and TiVo, on the other hand, have also agreed on mutual releases of certain related claims and agreed not to challenge each other s DVR technology-related patents that are licensed under the settlement agreement.

Because both we and EchoStar were defendants in the TiVo lawsuit, we and EchoStar were jointly and severally liable to TiVo for any final damages and sanctions that could have been awarded by the District Court. As previously disclosed, we determined that we were obligated under the agreements entered into in connection with the Spin-off to indemnify EchoStar for substantially all liability arising from this lawsuit. EchoStar contributed an amount equal to its $5 million intellectual property liability limit under the receiver agreement. We and EchoStar further agreed that EchoStar s $5 million contribution would not exhaust EchoStar s liability to us for other intellectual property claims that may arise under the receiver agreement. We and EchoStar also agreed that we would each be entitled to joint ownership of, and a cross-license to use, any intellectual property developed in connection with any potential new alternative technology. Any amounts that EchoStar is responsible for under the settlement agreement with TiVo are in addition to the $5 million contribution previously made by EchoStar.

Patent Cross-License Agreements. During December 2011, we and EchoStar entered into separate patent cross-license agreements with the same third party whereby: (i) EchoStar and such third party licensed their respective patents to each other subject to certain conditions; and (ii) we and such third party licensed our respective patents to each other subject to certain conditions (each, a Cross-License Agreement). Each Cross-License Agreement covers patents acquired by the respective party prior to January 1, 2017 and aggregate payments under both Cross-License Agreements total less than $10 million. Each Cross-License Agreement also contains an option to extend each Cross-License Agreement to include patents acquired by the respective party prior to January 1, 2022. If both options are exercised, the aggregate additional payments to such third party would total less than $3 million. However, we and EchoStar may elect to extend our respective Cross-License Agreement independently of each other. Since the aggregate payments under both Cross-License Agreements were based on the combined annual revenues of us and EchoStar, we and EchoStar agreed to allocate our respective payments to such third party based on our respective percentage of combined total revenue.

Sprint Settlement Agreement. On November 3, 2011, we and Sprint entered into the Sprint Settlement Agreement pursuant to which all disputed issues relating to the DBSD Transaction and the TerreStar Transaction were resolved between us and Sprint, including, but not limited to, issues relating to the costs allegedly incurred by Sprint to relocate users from the spectrum then licensed to DBSD North America and TerreStar (the Sprint Clearing Costs). EchoStar was a party to the Sprint Settlement Agreement solely for the purposes of executing a mutual release between it and Sprint relating to the Sprint Clearing Costs. EchoStar was a holder of certain TerreStar debt instruments. In March 2012, EchoStar s remaining debt instruments were exchanged for a right to receive a distribution in accordance with the terms of the liquidating trust established pursuant to TerreStar s chapter 11 plan of liquidation. Pursuant to the terms of the Sprint Settlement Agreement, we made a net payment of approximately $114 million to Sprint.

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DISH NETWORK CORPORATION

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Other Agreements

In November 2009, Mr. Roger Lynch became employed by both us and EchoStar as Executive Vice President. Mr. Lynch is responsible for the development and implementation of advanced technologies that are of potential utility and importance to both DISH Network and EchoStar. Mr. Lynch s compensation consists of cash and equity compensation and is borne by both EchoStar and DISH Network.

Related Party Transactions with NagraStar L.L.C.

NagraStar is a joint venture between EchoStar and Nagra USA, Inc. that is our provider of encryption and related security systems intended to assure that only authorized customers have access to our programming.

The table below summarizes our transactions with NagraStar.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Purchases (including fees):				
Purchases from NagraStar	$ 17,355	$ 19,716	$ 34,839	$ 40,445

	As of	
	June 30, 2012	December 31, 2011
	(In thousands)	
Amounts Payable and Commitments:		
Amounts payable to NagraStar	$ 6,374	$ 5,853

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and notes to the financial statements included elsewhere in this quarterly report. This management s discussion and analysis is intended to help provide an understanding of our financial condition, changes in financial condition and results of our operations and contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in our Annual Report on Form 10-K for the year ended December 31, 2011, our Quarterly Report on Form 10-Q for the three months ended March 31, 2012 and this Amendment No. 1 to the Quarterly Report on Form 10-Q under the caption Item 1A. Risk Factors.

EXECUTIVE SUMMARY

Overview

DISH lost approximately 10,000 net subscribers during the three months ended June 30, 2012, compared to a loss of approximately 135,000 net subscribers during the same period in 2011. This decrease in the number of net subscribers lost versus the same period in 2011 resulted from higher gross new subscriber activations and a lower churn rate. Higher gross new subscriber activations were primarily due to increased advertising associated with our Hopper set-top box during the second quarter 2012. During the three months ended June 30, 2012, DISH added approximately 665,000 gross new subscribers compared to approximately 572,000 gross new subscribers during the same period in 2011, an increase of 16.3%.

Our average monthly subscriber churn rate for the three months ended June 30, 2012 was 1.60% compared to 1.67% for the same period in 2011. While churn improved compared to the same period in 2011, increased competitive pressures could increase churn in the future. Our churn rate is also impacted by, among other things, the credit quality of previously acquired subscribers, our ability to consistently provide outstanding customer service, and our ability to control piracy.

Our gross new subscriber activations continue to be negatively impacted by increased competitive pressures, including aggressive marketing and discounted promotional offers. In addition, telecommunications companies continue to grow their customer bases. Our gross new subscriber activations continue to be adversely affected by sustained economic weakness and uncertainty, including, among other things, the weak housing market and lower discretionary spending.

DISH added approximately 94,000 net subscribers during the six months ended June 30, 2012, compared to a loss of approximately 77,000 net subscribers during the same period in 2011. The increase versus the same period in 2011 primarily resulted from a decrease in our average monthly subscriber churn rate and higher gross new subscriber activations due to increased advertising associated with our Hopper set-top box. Our average monthly subscriber churn rate for the six months ended June 30, 2012 was 1.48% compared to 1.57% for the same period in 2011. Our churn rate was positively impacted in part because we did not have a programming package price increase in the first quarter 2012, but did during the same period in 2011. During the six months ended June 30, 2012, DISH added approximately 1.338 million gross new subscribers compared to approximately 1.253 million gross new subscribers during the same period in 2011, an increase of 6.8%.

Net income (loss) attributable to DISH Network for the three and six months ended June 30, 2012 was $226 million and $586 million, respectively, compared to $335 million and $884 million, respectively, for the same periods in 2011. During the three months ended June 30, 2012, Net income (loss) attributable to DISH Network decreased primarily due to higher subscriber-related expenses from higher programming costs, increased advertising associated with our Hopper set-top box and $68 million of depreciation expense related to the 148 degree orbital location during the second quarter 2012. See Note 7 in the Notes to the Condensed Consolidated Financial Statements for further discussion. During the six months ended June 30, 2012, Net income (loss) attributable to DISH Network decreased primarily due to higher subscriber-related expenses from higher programming costs, increased advertising associated with our Hopper set-top box, a reversal of our accrued expenses related to the TiVo Inc. settlement during 2011 and $68 million of depreciation expense related to the 148 degree orbital location during

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the second quarter 2012. This decrease was partially offset by the non-cash gain of $99 million during 2012 related to the conversion of our DBSD North America 7.5% Convertible Senior Secured Notes due 2009 in connection with the completion of the DBSD Transaction. See Note 8 in the Notes to the Condensed Consolidated Financial Statements.

Programming costs represent a large percentage of our Subscriber-related expenses. Going forward, our margins may face pressure if we are unable to renew our long-term programming contracts on favorable pricing and other economic terms. Additionally, our gross new subscriber activations and subscriber churn rate may be negatively impacted if we are unable to renew our long-term programming contracts before they expire. On June 30, 2012, we replaced three AMC Networks channels (IFC, WE and AMC) with HDNet Movies, Style and HDNet. We notified AMC Networks earlier in the year of our decision not to renew our contract. This programming change had an immaterial impact on our second quarter churn rate and gross new subscriber activations. We cannot predict with any certainty the future impact to our gross new subscriber activations and subscriber churn resulting from this programming change.

As the pay-TV industry matures, we and our competitors increasingly must seek to attract a greater proportion of new subscribers from each other s existing subscriber bases rather than from first-time purchasers of pay-TV services. Some of our competitors have been especially aggressive by offering discounted programming and services for both new and existing subscribers. In addition, programming offered over the Internet has become more prevalent as the speed and quality of broadband networks have improved. Significant changes in consumer behavior with regard to the means by which they obtain video entertainment and information in response to digital media competition could materially adversely affect our business, results of operations and financial condition or otherwise disrupt our business.

While economic factors have impacted the entire pay-TV industry, our relative performance has also been driven by issues specific to DISH. In the past, our subscriber growth has been adversely affected by signal theft and other forms of fraud and by operational inefficiencies at DISH. To combat signal theft and improve the security of our broadcast system, we completed the replacement of our security access devices to re-secure our system during 2009. We expect that additional future replacements of these devices will be necessary to keep our system secure. To combat other forms of fraud, we continue to expect that our third party distributors and retailers will adhere to our business rules.

While we have made improvements in responding to and dealing with customer service issues, we continue to focus on the prevention of these issues, which is critical to our business, financial position and results of operations. We implemented a new billing system as well as new sales and customer care systems in the first quarter 2012. To improve our operational performance, we continue to make significant investments in staffing, training, information systems, and other initiatives, primarily in our call center and in-home service operations. These investments are intended to help combat inefficiencies introduced by the increasing complexity of our business, improve customer satisfaction, reduce churn, increase productivity, and allow us to scale better over the long run. We cannot, however, be certain that our spending will ultimately be successful in improving our operational performance.

We have been deploying receivers that utilize 8PSK modulation technology and receivers that utilize MPEG-4 compression technology for several years. These technologies, when fully deployed, will allow more programming channels to be carried over our existing satellites. Many of our customers today, however, do not have receivers that use MPEG-4 compression and a smaller but still significant percentage do not have receivers that use 8PSK modulation. We may choose to invest significant capital to accelerate the conversion of customers to MPEG-4 and/or 8PSK to realize the bandwidth benefits sooner. In addition, given that all of our HD content is broadcast in MPEG-4, any growth in HD penetration will naturally accelerate our transition to these newer technologies and may increase our subscriber acquisition and retention costs. All new receivers that we purchase from EchoStar have MPEG-4 technology. Although we continue to refurbish and redeploy MPEG-2

receivers, as a result of our HD initiatives and current promotions, we currently activate most new customers with higher priced MPEG-4 technology. This limits our ability to redeploy MPEG-2 receivers and, to the extent that our promotions are successful, will accelerate the transition to MPEG-4 technology, resulting in an adverse effect on our average subscriber acquisition costs per new subscriber activation.

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From time to time, we change equipment for certain subscribers to make more efficient use of transponder capacity in support of HD and other initiatives. We believe that the benefit from the increase in available transponder capacity outweighs the short-term cost of these equipment changes.

To maintain and enhance our competitiveness over the long term, we recently introduced the Hopper™ set-top box that allows, among other things, recorded programming to be viewed in HD in multiple rooms. We are also promoting a suite of integrated products designed to maximize the convenience and ease of watching TV anytime and anywhere, which we refer to as TV Everywhere™ which utilizes, among other things, online access and Slingbox placeshifting technology. There can be no assurance that these integrated products will positively affect our results of operations or our gross new subscriber activations.

Blockbuster

On April 26, 2011, we completed the Blockbuster Acquisition. We acquired Blockbuster operations in the United States and in certain foreign countries. Our winning bid in the bankruptcy court auction was valued at $321 million. We paid $238 million, including $226 million in cash and $12 million in certain assumed liabilities. Of the $226 million paid in cash, $20 million was placed in escrow. Subsequent to this payment, we received a $4 million refund from escrow, resulting in a net purchase price of $234 million. This transaction was accounted for as a business combination and therefore the purchase price was allocated to the assets acquired based on their estimated fair value. Since the purchase prices of future inventory are expected to be higher than the fair value of the inventory acquired, our cost of sales as a percentage of revenue will be higher in the future.

Blockbuster primarily offers movies and video games for sale and rental through multiple distribution channels such as retail stores, by-mail, digital devices, the blockbuster.com website and the BLOCKBUSTER On Demand® service. The Blockbuster Acquisition complements our core business of delivering high-quality video entertainment to consumers. We are promoting our new Blockbuster offerings including the Blockbuster@Home™ service which provides movies, games and TV shows through Internet streaming, mail and in-store exchanges and online. This offering is only available to DISH subscribers.

Blockbuster operations are included in our financial results beginning April 26, 2011. During the three months ended June 30, 2012, Blockbuster operations contributed $253 million in revenue with a $13 million operating loss compared to $254 million in revenue and $10 million in operating income for the same period in 2011. The operating loss during the three months ended June 30, 2012 was primarily a result of lower monthly revenue and higher inventory costs per unit relative to the fair value of the inventory costs per unit acquired in the Blockbuster Acquisition. During the first quarter 2012, we closed approximately 500 domestic stores and during the second quarter 2012, we closed approximately 150 domestic stores, leaving us with approximately 900 domestic stores as of June 30, 2012. We continue to evaluate the impact of certain factors, including, among other things, competitive pressures, the scale of our Blockbuster retail operations and other issues impacting the store-level financial performance of our Blockbuster retail stores. These factors, or other reasons, could lead us to close additional Blockbuster retail stores. In addition, to streamline administrative expenses, we moved the Blockbuster headquarters to Denver during June 2012.

During the six months ended June 30, 2012, Blockbuster operations contributed $587 million in revenue with less than $1 million in operating income compared to $254 million in revenue and $10 million in operating income for the same period in 2011. The decline in operating income during the six months ended June 30, 2012 was primarily a result of lower monthly revenue and higher inventory costs per unit relative to the fair value of the inventory costs per unit acquired in the Blockbuster Acquisition, partially offset by the benefit from the sale of inventory from domestic retail stores that were closed primarily during the first quarter 2012, discussed above.

Wireless Spectrum

In 2008, we paid $712 million to acquire certain 700 MHz wireless spectrum licenses, which were granted to us by the Federal Communications Commission (FCC) in February 2009 subject to certain build-out requirements. On March 9, 2012, we completed the acquisitions of 100% of the equity of reorganized DBSD North America, Inc. (DBSD North America) and substantially all of the assets of TerreStar Networks, Inc. (TerreStar), pursuant to

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which we acquired, among other things, certain satellite assets and wireless spectrum licenses held by DBSD North America and TerreStar. In addition, during the fourth quarter 2011, we and Sprint Nextel Corporation (Sprint) entered into a mutual release and settlement agreement (the Sprint Settlement Agreement) pursuant to which all disputed issues relating to the acquisitions of DBSD North America and TerreStar were resolved between us and Sprint, including, but not limited to, issues relating to costs allegedly incurred by Sprint to relocate users from the spectrum then licensed to DBSD North America and TerreStar. The total consideration to acquire these assets was approximately $2.860 billion. This amount includes $1.364 billion for DBSD North America (the DBSD Transaction), $1.382 billion for TerreStar (the TerreStar Transaction), and the net payment of $114 million to Sprint pursuant to the Sprint Settlement Agreement. The financial results of DBSD North America and TerreStar were included in our results as of March 9, 2012.

We generated less than $1 million of revenue for each of the three and six months ended June 30, 2012 from our wireless spectrum segment. In addition, we incurred $18 million and $26 million in operating expenses for the three and six months ended June 30, 2012, respectively. We incurred general and administrative expenses associated with certain satellite operations and regulatory compliance from our wireless spectrum assets. We also incurred depreciation and amortization expenses associated with certain assets of DBSD North America and TerreStar. This depreciation and amortization expense is based on our initial estimate of the fair value of these assets as disclosed in Note 8 in the Notes to the Condensed Consolidated Financial Statements. As we review our options for the commercialization of this wireless spectrum, we may incur significant additional expenses and may have to make significant investments related to, among other things, research and development, wireless testing and construction of a wireless network.

Operational Liquidity

Like many companies, we make general investments in property such as satellites, set-top boxes, information technology and facilities that support our overall business. As a subscriber-based company, however, we also make subscriber-specific investments to acquire new subscribers and retain existing subscribers. While the general investments may be deferred without impacting the business in the short-term, the subscriber-specific investments are less discretionary. Our overall objective is to generate sufficient cash flow over the life of each subscriber to provide an adequate return against the upfront investment. Once the upfront investment has been made for each subscriber, the subsequent cash flow is generally positive.

There are a number of factors that impact our future cash flow compared to the cash flow we generate at a given point in time. The first factor is how successful we are at retaining our current subscribers. As we lose subscribers from our existing base, the positive cash flow from that base is correspondingly reduced. The second factor is how successful we are at maintaining our subscriber-related margins. To the extent our Subscriber-related expenses grow faster than our Subscriber-related revenue, the amount of cash flow that is generated per existing subscriber is reduced. The third factor is the rate at which we acquire new subscribers. The faster we acquire new subscribers, the more our positive ongoing cash flow from existing subscribers is offset by the negative upfront cash flow associated with new subscribers. Finally, our future cash flow is impacted by the rate at which we make general investments and any cash flow from financing activities.

Our subscriber-specific investments to acquire new subscribers have a significant impact on our cash flow. While fewer subscribers might translate into lower ongoing cash flow in the long-term, cash flow is actually aided, in the short-term, by the reduction in subscriber-specific investment spending. As a result, a slow down in our business due to external or internal factors does not introduce the same level of short-term liquidity risk as it might in other industries.

Availability of Credit and Effect on Liquidity

The ability to raise capital has generally existed for us despite the weak economic conditions. Modest fluctuations in the cost of capital will not likely impact our current operational plans.

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Future Liquidity

Wireless Spectrum

In 2008, we paid $712 million to acquire certain 700 MHz wireless spectrum licenses, which were granted to us by the FCC in February 2009 subject to certain build-out requirements. To commercialize these licenses and satisfy the associated FCC build-out requirements, we will be required to make significant additional investments or partner with others to, among other things, finance the commercialization and build-out requirements of these licenses and our integration efforts including compliance with regulations applicable to these licenses. Depending on the nature and scope of such commercialization and build-out, any such investment or partnership could vary significantly, which may affect our future financial condition or results of operations. Part or all of these licenses may be terminated if the associated FCC build-out requirements are not satisfied. There can be no assurance that we will be able to develop and implement a business model that will realize a return on these investments and profitably deploy the spectrum represented by the 700 MHz licenses.

On March 2, 2012, the FCC approved the transfer of 40 MHz of 2 GHz wireless spectrum licenses held by DBSD North America and TerreStar to us. On March 9, 2012, we completed the DBSD Transaction and the TerreStar Transaction, pursuant to which we acquired, among other things, certain satellite assets and wireless spectrum licenses held by DBSD North America and TerreStar. The total consideration to acquire these assets was approximately $2.860 billion. This amount includes $1.364 billion for the DBSD Transaction, $1.382 billion for the TerreStar Transaction, and the net payment of $114 million to Sprint pursuant to the Sprint Settlement Agreement.

Our consolidated FCC applications for approval of the license transfers from DBSD North America and TerreStar were accompanied by requests for waiver of the FCC s Mobile Satellite Service (MSS) integrated service and spare satellite requirements and various technical provisions. The FCC denied our requests for waiver of the integrated service and spare satellite requirements. The FCC has not yet acted on the request for waiver of various technical provisions, and we cannot predict the outcome or timing of any action by the FCC with respect to that waiver request. Waiver of the integrated service requirement would have allowed us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. On March 21, 2012, the FCC released a notice of proposed rule making (NPRM) that could result in the elimination of the integrated service and other requirements that attach to the 2 GHz licenses. Among other things, the FCC has proposed to modify our licenses to allow us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. The NPRM was published in the Federal Register on April 17, 2012. Initial comments on the NPRM were due on or before May 17, 2012, and reply comments were due on or before June 1, 2012. We submitted filings in the initial comment round and in the reply comment round. While the FCC has indicated its intent to complete the NPRM during 2012, we cannot predict the outcome or timing of the NPRM, including, without limitation, any associated build-out requirements with which we may need to comply to avail ourselves of any changes to the rules.

As a result of the completion of the DBSD Transaction and the TerreStar Transaction, we will likely be required to make significant additional investments or partner with others to, among other things, finance the commercialization and build-out requirements of these licenses and our integration efforts including compliance with regulations applicable to the acquired licenses. Depending on the nature and scope of such commercialization and build-out, any such investment or partnership could vary significantly. There can be no assurance that we will be able to develop and implement a business model that will realize a return on these spectrum investments or that we will be able to profitably deploy the assets represented by these spectrum investments, which may affect the carrying value of these assets and our future financial condition or results of operations.

Voom HD Holdings

If Voom HD Holdings (Voom) prevails in its breach of contract suit against us, we could be required to pay substantial damages, which would have a material adverse affect on our financial position and results of operations. In January 2008, Voom filed a lawsuit against our wholly-owned subsidiary, DISH Network L.L.C., in New York Supreme Court, alleging breach of contract and other claims arising from our termination of the affiliation agreement governing carriage of certain Voom HD channels on the DISH branded pay-TV service. At that time, Voom also sought a preliminary injunction to prevent us from terminating the agreement. The Court denied Voom s

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request, finding, among other things, that Voom had not demonstrated that it was likely to prevail on the merits. In April 2010, we and Voom each filed motions for summary judgment. Voom later filed two motions seeking discovery sanctions. On November 9, 2010, the Court issued a decision denying both motions for summary judgment, but granting Voom s motions for discovery sanctions. The Court s decision provides for an adverse inference jury instruction at trial and precludes our damages expert from testifying at trial. We appealed the grant of Voom s motion for discovery sanctions to the New York State Supreme Court, Appellate Division, First Department. On February 15, 2011, the appellate court granted our motion to stay the trial pending our appeal. On January 31, 2012, the appellate court affirmed the order imposing discovery sanctions and precluding our damages expert from testifying at trial. We sought leave to appeal to New York s highest state court, the Court of Appeals, but that motion was denied on April 26, 2012. The trial date has been set for September 18, 2012. Voom is claiming over $2.5 billion in damages.

EXPLANATION OF KEY METRICS AND OTHER ITEMS

Subscriber-related revenue. Subscriber-related revenue consists principally of revenue from basic, premium movie, local, HD programming, pay-per-view, Latino and international subscription television services, equipment rental fees and other hardware related fees, including fees for DVRs, equipment upgrade fees and additional outlet fees from subscribers with receivers with multiple tuners, advertising services, fees earned from our in-home service operations and other subscriber revenue. Certain of the amounts included in Subscriber-related revenue are not recurring on a monthly basis.

Equipment and merchandise sales, rental and other revenue. Equipment and merchandise sales, rental and other revenue principally includes the non-subsidized sales of DBS accessories to retailers and other third-party distributors of our equipment domestically and to DISH subscribers. Effective April 26, 2011, revenue from merchandise sold to customers including movies, video games and other items, and revenue from the rental of movies and video games and the sale of previously rented titles related to our Blockbuster operations are included in this category. Effective March 9, 2012, revenue related to our wireless spectrum operations is included in this category.

Equipment sales, services and other revenue EchoStar. Equipment sales, services and other revenue EchoStar includes revenue related to equipment sales, services, and other agreements with EchoStar.

Subscriber-related expenses. Subscriber-related expenses principally include programming expenses, which represent a substantial majority of these expenses. Subscriber-related expenses also include costs incurred in connection with our in-home service and call center operations, billing costs, refurbishment and repair costs related to receiver systems, subscriber retention and other variable subscriber expenses.

Satellite and transmission expenses EchoStar. Satellite and transmission expenses EchoStar includes the cost of leasing satellite and transponder capacity from EchoStar and the cost of digital broadcast operations provided to us by EchoStar, including satellite uplinking/downlinking, signal processing, conditional access management, telemetry, tracking and control, and other professional services.

Satellite and transmission expenses other. Satellite and transmission expenses other includes executory costs associated with capital leases and costs associated with transponder leases and other related services. Effective March 9, 2012, expenses related to our wireless spectrum operations are included in this category.

Cost of sales - equipment, merchandise, services, rental and other. Cost of sales - equipment, merchandise, services, rental and other principally includes the cost of non-subsidized sales of DBS accessories to retailers and other third-party distributors of our equipment domestically and to DISH subscribers. Effective April 26, 2011, the cost of movies and video games including rental title purchases or revenue sharing to studios, packaging and online delivery costs and cost of merchandise sold including movies, video games and other items related to our Blockbuster operations are included in this category. In addition, Cost of sales - equipment, merchandise, services, rental and other includes costs related to equipment sales, services, and other agreements with EchoStar.

Subscriber acquisition costs. In addition to leasing receivers, we generally subsidize installation and all or a portion of the cost of our receiver systems to attract new DISH subscribers. Our Subscriber acquisition costs include the cost of subsidized sales of receiver systems to retailers and other third-party distributors of our equipment, the cost of

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subsidized sales of receiver systems directly by us to subscribers, including net costs related to our promotional incentives, costs related to our direct sales efforts and costs related to installation and acquisition advertising. We exclude the value of equipment capitalized under our lease program for new subscribers from Subscriber acquisition costs.

SAC. Subscriber acquisition cost measures are commonly used by those evaluating companies in the pay-TV industry. We are not aware of any uniform standards for calculating the average subscriber acquisition costs per new subscriber activation, or SAC, and we believe presentations of SAC may not be calculated consistently by different companies in the same or similar businesses. Our SAC is calculated as Subscriber acquisition costs, plus the value of equipment capitalized under our lease program for new subscribers, divided by gross new subscriber activations. We include all the costs of acquiring subscribers (e.g., subsidized and capitalized equipment) as we believe it is a more comprehensive measure of how much we are spending to acquire subscribers. We also include all new DISH subscribers in our calculation, including DISH subscribers added with little or no subscriber acquisition costs.

General and administrative expenses. General and administrative expenses consists primarily of employee-related costs associated with administrative services such as legal, information systems, accounting and finance, including non-cash, stock-based compensation expense. It also includes outside professional fees (e.g., legal, information systems and accounting services) and other items associated with facilities and administration.

Litigation expense. Litigation expense primarily consists of legal settlements, judgments or accruals associated with certain significant litigation.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized primarily includes interest expense, prepayment premiums and amortization of debt issuance costs associated with our senior debt (net of capitalized interest), and interest expense associated with our capital lease obligations.

Other, net. The main components of Other, net are gains and losses realized on the sale of investments, impairment of marketable and non-marketable investment securities, unrealized gains and losses from changes in fair value of marketable and non-marketable strategic investments accounted for at fair value, and equity in earnings and losses of our affiliates.

Earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA is defined as Net income (loss) attributable to DISH Network plus Interest expense, net of amounts capitalized net of Interest income, Taxes and Depreciation and amortization. This non-GAAP measure is reconciled to Net income (loss) attributable to DISH Network in our discussion of Results of Operations below.

DISH subscribers. We include customers obtained through direct sales, third-party retailers and other third-party distribution relationships in our DISH subscriber count. We also provide DISH service to hotels, motels and other commercial accounts. For certain of these commercial accounts, we divide our total revenue for these commercial accounts by an amount approximately equal to the retail price of our DISH America

programming package, and include the resulting number, which is substantially smaller than the actual number of commercial units served, in our DISH subscriber count. Effective during the first quarter 2011, we made two changes to this calculation methodology compared to prior periods. Beginning February 1, 2011, the retail price of our DISH America programming package was used in the calculation rather than America s Top 120 programming package, which had been used in prior periods. We also determined that two of our commercial business lines, which had previously been included in the described calculation, could be more accurately reflected through actual subscriber counts. The net impact of these two changes was to increase our subscriber count by approximately 6,000 subscribers in the first quarter 2011. Prior period DISH subscriber counts have not been adjusted for this revised commercial accounts calculation as the impacts were immaterial.

Average monthly revenue per subscriber. We are not aware of any uniform standards for calculating ARPU and believe presentations of ARPU may not be calculated consistently by other companies in the same or similar businesses. We calculate average monthly revenue per subscriber, or ARPU, by dividing average monthly Subscriber-related revenue for the period (total Subscriber-related revenue during the period divided by the number of months in the period) by our average number of DISH subscribers for the period. The average number of

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DISH subscribers is calculated for the period by adding the average number of DISH subscribers for each month and dividing by the number of months in the period. The average number of DISH subscribers for each month is calculated by adding the beginning and ending DISH subscribers for the month and dividing by two.

Average monthly subscriber churn rate. We are not aware of any uniform standards for calculating subscriber churn rate and believe presentations of subscriber churn rates may not be calculated consistently by different companies in the same or similar businesses. We calculate subscriber churn rate for any period by dividing the number of DISH subscribers who terminated service during the period by the average number of DISH subscribers for the same period, and further dividing by the number of months in the period. When calculating subscriber churn, the same methodology for calculating average number of DISH subscribers is used as when calculating ARPU.

Free cash flow. We define free cash flow as Net cash flows from operating activities less Purchases of property and equipment, as shown on our Condensed Consolidated Statements of Cash Flows.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2012 Compared to the Three Months Ended June 30, 2011.

Statements of Operations Data	For the Three Months Ended June 30, 2012	2011	Variance Amount	%
		(In thousands)		
Revenue:				
Subscriber-related revenue	$ 3,295,831	$ 3,311,340	$ (15,509)	(0.5)
Equipment and merchandise sales, rental and other revenue	270,257	270,018	239	0.1
Equipment sales, services and other revenue - EchoStar	5,678	8,803	(3,125)	(35.5)
Total revenue	3,571,766	3,590,161	(18,395)	(0.5)
Costs and Expenses:				
Subscriber-related expenses	1,825,808	1,728,959	96,849	5.6
% of Subscriber-related revenue	**55.4%**	**52.2%**		
Satellite and transmission expenses - EchoStar	107,082	115,358	(8,276)	(7.2)
% of Subscriber-related revenue	**3.2%**	**3.5%**		
Satellite and transmission expenses - Other	9,178	9,819	(641)	(6.5)
% of Subscriber-related revenue	**0.3%**	**0.3%**		
Cost of sales - equipment, merchandise, services, rental and other	130,061	89,403	40,658	45.5
Subscriber acquisition costs	404,499	342,801	61,698	18.0
General and administrative expenses	327,667	325,262	2,405	0.7
% of Total revenue	**9.2%**	**9.1%**		
Litigation expense		23,728	(23,728)	(100.0)
Depreciation and amortization	299,119	237,049	62,070	26.2
Total costs and expenses	3,103,414	2,872,379	231,035	8.0
Operating income (loss)	468,352	717,782	(249,430)	(34.8)
Other Income (Expense):				
Interest income	20,204	8,601	11,603	*
Interest expense, net of amounts capitalized	(109,301)	(143,564)	34,263	23.9
Other, net	(7,448)	(19,794)	12,346	62.4
Total other income (expense)	(96,545)	(154,757)	58,212	37.6
Income (loss) before income taxes	371,807	563,025	(191,218)	(34.0)
Income tax (provision) benefit, net	(146,211)	(228,187)	81,976	35.9
Effective tax rate	**39.3%**	**40.5%**		
Net income (loss)	225,596	334,838	(109,242)	(32.6)
Less: Net income (loss) attributable to noncontrolling interest	(136)	78	(214)	*
Net income (loss) attributable to DISH Network	$ 225,732	$ 334,760	$ (109,028)	(32.6)
Other Data:				
DISH Network subscribers, as of period end (in millions)	14.061	14.056	0.005	0.0

DISH Network subscriber additions, gross (in millions)		0.665		0.572		0.093		16.3
DISH Network subscriber additions, net (in millions)		(0.010)		(0.135)		0.125		92.6
Average monthly subscriber churn rate		1.60%		1.67%		(0.07)%		(4.2)
Average monthly revenue per subscriber (ARPU)	$	78.11	$	78.06	$	0.05		0.1
Average subscriber acquisition cost per subscriber (SAC)	$	806	$	795	$	11		1.4
EBITDA	$	760,159	$	934,959	$	(174,800)		(18.7)

* Percentage is not meaningful.

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DISH subscribers. DISH lost approximately 10,000 net subscribers during the three months ended June 30, 2012, compared to a loss of approximately 135,000 net subscribers during the same period in 2011. This decrease in the number of net subscribers lost versus the same period in 2011 resulted from higher gross new subscriber activations and a lower churn rate. Higher gross new subscriber activations were primarily due to increased advertising associated with our Hopper set-top box during the second quarter 2012. During the three months ended June 30, 2012, DISH added approximately 665,000 gross new subscribers compared to approximately 572,000 gross new subscribers during the same period in 2011, an increase of 16.3%.

Our average monthly subscriber churn rate for the three months ended June 30, 2012 was 1.60% compared to 1.67% for the same period in 2011. While churn improved compared to the same period in 2011, increased competitive pressures could increase churn in the future. Our churn rate is also impacted by, among other things, the credit quality of previously acquired subscribers, our ability to consistently provide outstanding customer service, and our ability to control piracy.

Our gross new subscriber activations continue to be negatively impacted by increased competitive pressures, including aggressive marketing and discounted promotional offers. In addition, telecommunications companies continue to grow their customer bases. Our gross new subscriber activations continue to be adversely affected by sustained economic weakness and uncertainty, including, among other things, the weak housing market and lower discretionary spending.

We have not always met our own standards for performing high-quality installations, effectively resolving subscriber issues when they arise, answering subscriber calls in an acceptable timeframe, effectively communicating with our subscriber base, reducing calls driven by the complexity of our business, improving the reliability of certain systems and subscriber equipment, and aligning the interests of certain third party retailers and installers to provide high-quality service. Most of these factors have affected both gross new subscriber activations as well as existing subscriber churn. Our future gross new subscriber activations and subscriber churn may be negatively impacted by these factors, which could in turn adversely affect our revenue growth.

Subscriber-related revenue. DISH Subscriber-related revenue totaled $3.296 billion for the three months ended June 30, 2012, a decrease of $16 million or 0.5% compared to the same period in 2011. This change was primarily related to a decrease in the average number of subscribers during the three months ended June 30, 2012 compared to the same period in 2011.

ARPU. Average monthly revenue per subscriber was $78.11 during the three months ended June 30, 2012 versus $78.06 during the same period in 2011. The $0.05 or 0.1% increase in ARPU was primarily attributable to higher hardware related revenue.

Equipment and merchandise sales, rental and other revenue. Equipment and merchandise sales, rental and other revenue totaled $270 million for the three months ended June 30, 2012, an increase of less than $1 million or 0.1% compared to the same period in 2011. This increase was primarily driven by three months of revenue in 2012 compared to approximately two months in the previous year from the rental of movies and video games, the sale of previously rented titles, and other merchandise sold to customers including movies, video games and other items related to our Blockbuster operations, partially offset by decreased revenue related to fewer Blockbuster domestic stores as a result of store closings during the first half of 2012. Blockbuster operations are included in our financial results beginning April 26, 2011.

Subscriber-related expenses. Subscriber-related expenses totaled $1.826 billion during the three months ended June 30, 2012, an increase of $97 million or 5.6% compared to the same period in 2011. The increase in Subscriber-related expenses was primarily attributable to higher programming costs. The increase in programming costs was driven by rate increases in certain of our programming contracts, including the renewal of certain contracts at higher rates. Subscriber-related expenses represented 55.4% and 52.2% of Subscriber-related revenue during the three months ended June 30, 2012 and 2011, respectively. The change in this expense to revenue ratio primarily resulted from higher programming costs, discussed above.

In the normal course of business, we enter into contracts to purchase programming content in which our payment obligations are fully contingent on the number of subscribers to whom we provide the respective content. Our

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programming expenses will continue to increase to the extent we are successful in growing our subscriber base. In addition, our Subscriber-related expenses may face further upward pressure from price increases and the renewal of long-term programming contracts on less favorable pricing terms.

Cost of sales equipment, merchandise, services, rental and other. Cost of sales equipment, merchandise, services, rental and other totaled $130 million for the three months ended June 30, 2012, an increase of $41 million or 45.5% compared to the same period in 2011. This increase is primarily driven by three months of expense in 2012 compared to approximately two months in the previous year associated with the cost of rental title purchases or revenue sharing to studios, packaging and on-line delivery costs as well as the cost of merchandise sold such as movies, video games and other items related to our Blockbuster operations, partially offset by fewer Blockbuster domestic stores as a result of store closings during the first half of 2012. Blockbuster operations are included in our financial results beginning April 26, 2011.

Subscriber acquisition costs. Subscriber acquisition costs totaled $404 million for the three months ended June 30, 2012, an increase of $62 million or 18.0% compared to the same period in 2011. This increase was primarily attributable to the increase in gross new subscriber activations and SAC described below.

SAC. SAC was $806 during the three months ended June 30, 2012 compared to $795 during the same period in 2011, an increase of $11 or 1.4%. This increase was primarily attributable to increased advertising associated with our Hopper set-top box.

During the three months ended June 30, 2012 and 2011, the amount of equipment capitalized under our lease program for new subscribers totaled $132 million and $112 million, respectively. This increase in capital expenditures under our lease program for new subscribers resulted primarily from an increase in gross new subscriber activations. To remain competitive we upgrade or replace subscriber equipment periodically as technology changes, and the costs associated with these upgrades may be substantial. To the extent technological changes render a portion of our existing equipment obsolete, we would be unable to redeploy all returned equipment and consequently would realize less benefit from the SAC reduction associated with redeployment of that returned lease equipment.

Our SAC calculation does not reflect any benefit from payments we received in connection with equipment not returned to us from disconnecting lease subscribers and returned equipment that is made available for sale or used in our existing customer lease program rather than being redeployed through our new customer lease program. During the three months ended June 30, 2012 and 2011, these amounts totaled $36 million and $21 million, respectively.

We have been deploying receivers that utilize 8PSK modulation technology and receivers that utilize MPEG-4 compression technology for several years. These technologies, when fully deployed, will allow more programming channels to be carried over our existing satellites. Many of our customers today, however, do not have receivers that use MPEG-4 compression and a smaller but still significant percentage do not have receivers that use 8PSK modulation. We may choose to invest significant capital to accelerate the conversion of customers to MPEG-4 and/or 8PSK to realize the bandwidth benefits sooner. In addition, given that all of our HD content is broadcast in MPEG-4, any growth in HD penetration will naturally accelerate our transition to these newer technologies and may increase our subscriber acquisition and retention costs. All new receivers that we purchase from EchoStar have MPEG-4 technology. Although we continue to refurbish and redeploy MPEG-2 receivers, as a result of our HD initiatives and current promotions, we currently activate most new customers with higher priced MPEG-4

technology. This limits our ability to redeploy MPEG-2 receivers and, to the extent that our promotions are successful, will accelerate the transition to MPEG-4 technology, resulting in an adverse effect on our SAC.

Our Subscriber acquisition costs and SAC may materially increase in the future to the extent that we transition to newer technologies, introduce more aggressive promotions, or provide greater equipment subsidies. See further discussion under *Liquidity and Capital Resources Subscriber Acquisition and Retention Costs.*

Litigation expense. Litigation expense related to legal settlements, judgments or accruals associated with certain significant litigation totaled zero during the three months ended June 30, 2012. During the three months ended June 30, 2011, Litigation expense totaled $24 million. See Note 11 in the Notes to the Condensed Consolidated Financial Statements for further discussion.

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Depreciation and amortization. Depreciation and amortization expense totaled $299 million during the three months ended June 30, 2012, a $62 million or 26.2% increase compared to the same period in 2011. This change in Depreciation and amortization expense was primarily due to $68 million of depreciation expense related to the 148 degree orbital location, partially offset by a decrease in depreciation expense on equipment leased to subscribers. See Note 7 in the Notes to the Condensed Consolidated Financial Statements for further discussion.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized totaled $109 million during the three months ended June 30, 2012, a decrease of $34 million or 23.9% compared to the same period in 2011. This change primarily resulted from capitalized interest of $39 million related to our wireless spectrum acquisition, partially offset by the net interest expense associated with the issuances and redemption of our senior notes during the three months ended June 30, 2012 and the year ended December 31, 2011.

Earnings before interest, taxes, depreciation and amortization. EBITDA was $760 million during the three months ended June 30, 2012, a decrease of $175 million or 18.7% compared to the same period in 2011. The following table reconciles EBITDA to the accompanying financial statements.

	For the Three Months Ended June 30,	
	2012	2011
	(In thousands)	
EBITDA	$ 760,159	$ 934,959
Interest expense, net	(89,097)	(134,963)
Income tax (provision) benefit, net	(146,211)	(228,187)
Depreciation and amortization	(299,119)	(237,049)
Net income (loss) attributable to DISH Network	$ 225,732	$ 334,760

EBITDA is not a measure determined in accordance with accounting principles generally accepted in the United States (GAAP) and should not be considered a substitute for operating income, net income or any other measure determined in accordance with GAAP. EBITDA is used as a measurement of operating efficiency and overall financial performance and we believe it to be a helpful measure for those evaluating companies in the pay-TV industry. Conceptually, EBITDA measures the amount of income generated each period that could be used to service debt, pay taxes and fund capital expenditures. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Income tax (provision) benefit, net. Our income tax provision was $146 million during the three months ended June 30, 2012, a decrease of $82 million compared to the same period in 2011. The decrease in the provision was primarily related to the decrease in Income (loss) before income taxes and a decrease in our effective tax rate.

Net income (loss) attributable to DISH Network. Net income (loss) attributable to DISH Network was $226 million during the three months ended June 30, 2012, a decrease of $109 million compared to $335 million for the same period in 2011. This decrease was primarily attributable to the changes in revenue and expenses discussed above.

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

Statements of Operations Data	For the Six Months Ended June 30, 2012	2011	Variance Amount	%
		(In thousands)		
Revenue:				
Subscriber-related revenue	$ 6,520,296	$ 6,510,439	$ 9,857	0.2
Equipment and merchandise sales, rental and other revenue	620,994	286,019	334,975	*
Equipment sales, services and other revenue - EchoStar	12,345	17,834	(5,489)	(30.8)
Total revenue	7,153,635	6,814,292	339,343	5.0
Costs and Expenses:				
Subscriber-related expenses	3,588,561	3,422,654	165,907	4.8
% of Subscriber-related revenue	**55.0%**	**52.6%**		
Satellite and transmission expenses - EchoStar	216,936	224,271	(7,335)	(3.3)
% of Subscriber-related revenue	**3.3%**	**3.4%**		
Satellite and transmission expenses - Other	20,857	20,019	838	4.2
% of Subscriber-related revenue	**0.3%**	**0.3%**		
Cost of sales - equipment, merchandise, services, rental and other	272,323	111,670	160,653	*
Subscriber acquisition costs	802,536	697,700	104,836	15.0
General and administrative expenses	703,842	487,046	216,796	44.5
% of Total revenue	**9.8%**	**7.1%**		
Litigation expense		(316,949)	316,949	100.0
Depreciation and amortization	507,817	466,746	41,071	8.8
Total costs and expenses	6,112,872	5,113,157	999,715	19.6
Operating income (loss)	1,040,763	1,701,135	(660,372)	(38.8)
Other Income (Expense):				
Interest income	27,293	14,887	12,406	83.3
Interest expense, net of amounts capitalized	(247,314)	(263,743)	16,429	6.2
Other, net	102,834	(8,161)	110,995	*
Total other income (expense)	(117,187)	(257,017)	139,830	54.4
Income (loss) before income taxes	923,576	1,444,118	(520,542)	(36.0)
Income tax (provision) benefit, net	(337,854)	(559,954)	222,100	39.7
Effective tax rate	**36.6%**	**38.8%**		
Net income (loss)	585,722	884,164	(298,442)	(33.8)
Less: Net income (loss) attributable to noncontrolling interest	(320)	10	(330)	*
Net income (loss) attributable to DISH Network	$ 586,042	$ 884,154	$ (298,112)	(33.7)
Other Data:				
DISH Network subscribers, as of period end (in millions)	14.061	14.056	0.005	0.0
DISH Network subscriber additions, gross (in millions)	1.338	1.253	0.085	6.8
DISH Network subscriber additions, net (in millions)	0.094	(0.077)	0.171	*
Average monthly subscriber churn rate	1.48%	1.57%	(0.09)%	(5.7)
Average monthly revenue per subscriber (ARPU)	$ 77.41	$ 76.72	$ 0.69	0.9

Average subscriber acquisition cost per subscriber (SAC)	$	778	$	757	$	21	2.8
EBITDA	$	1,651,734	$	2,159,710	$	(507,976)	(23.5)

* Percentage is not meaningful.

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DISH subscribers. DISH added approximately 94,000 net subscribers during the six months ended June 30, 2012, compared to a loss of approximately 77,000 net subscribers during the same period in 2011. The increase versus the same period in 2011 primarily resulted from a decrease in our average monthly subscriber churn rate and higher gross new subscriber activations due to increased advertising associated with our Hopper set-top box. Our average monthly subscriber churn rate for the six months ended June 30, 2012 was 1.48% compared to 1.57% for the same period in 2011. Our churn rate was positively impacted in part because we did not have a programming package price increase in the first quarter 2012, but did during the same period in 2011. During the six months ended June 30, 2012, DISH added approximately 1.338 million gross new subscribers compared to approximately 1.253 million gross new subscribers during the same period in 2011, an increase of 6.8%.

Subscriber-related revenue. DISH Subscriber-related revenue totaled $6.520 billion for the six months ended June 30, 2012, an increase of $10 million or 0.2% compared to the same period in 2011. This change was primarily related to the increase in ARPU discussed below.

ARPU. Average monthly revenue per subscriber was $77.41 during the six months ended June 30, 2012 versus $76.72 during the same period in 2011. The $0.69 or 0.9% increase in ARPU was primarily attributable to our programming package price increase in February 2011 and higher hardware related revenue.

Equipment and merchandise sales, rental and other revenue. Equipment and merchandise sales, rental and other revenue totaled $621 million for the six months ended June 30, 2012, an increase of $335 million compared to the same period in 2011. This increase was primarily driven by six months of revenue in 2012 compared to approximately two months in the previous year from the rental of movies and video games, the sale of previously rented titles, and other merchandise sold to customers including movies, video games and other items related to our Blockbuster operations. Blockbuster operations are included in our financial results beginning April 26, 2011.

Subscriber-related expenses. Subscriber-related expenses totaled $3.589 billion during the six months ended June 30, 2012, an increase of $166 million or 4.8% compared to the same period in 2011. The increase in Subscriber-related expenses was primarily attributable to higher programming costs, partially offset by a decrease in customer retention expense. The increase in programming costs was driven by rate increases in certain of our programming contracts, including the renewal of certain contracts at higher rates. Subscriber-related expenses represented 55.0% and 52.6% of Subscriber-related revenue during the six months ended June 30, 2012 and 2011, respectively. The change in this expense to revenue ratio primarily resulted from higher programming costs, discussed above.

Cost of sales equipment, merchandise, services, rental and other. Cost of sales equipment, merchandise, services, rental and other totaled $272 million for the six months ended June 30, 2012, an increase of $161 million compared to the same period in 2011. This increase was primarily driven by six months of expense in 2012 compared to approximately two months in the previous year of rental title purchases or revenue sharing to studios, packaging and on-line delivery costs as well as the cost of merchandise sold such as movies, video games and other items related to our Blockbuster operations. Blockbuster operations are included in our financial results beginning April 26, 2011.

Subscriber acquisition costs. Subscriber acquisition costs totaled $803 million for the six months ended June 30, 2012, an increase of $105 million or 15.0% compared to the same period in 2011. This increase was primarily attributable to the increase in gross new subscriber activations and SAC described below.

SAC. SAC was $778 during the six months ended June 30, 2012 compared to $757 during the same period in 2011, an increase of $21 or 2.8%. This increase was primarily attributable to increased advertising associated with our Hopper set-top box.

During the six months ended June 30, 2012 and 2011, the amount of equipment capitalized under our lease program for new subscribers totaled $239 million and $251 million, respectively. This decrease in capital expenditures under our lease program for new subscribers resulted primarily from lower hardware costs per activation. To remain competitive we upgrade or replace subscriber equipment periodically as technology changes, and the costs associated with these upgrades may be substantial. To the extent technological changes render a portion of our existing equipment obsolete, we would be unable to redeploy all returned equipment and consequently would realize less benefit from the SAC reduction associated with redeployment of that returned lease equipment.

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Our SAC calculation does not reflect any benefit from payments we received in connection with equipment not returned to us from disconnecting lease subscribers and returned equipment that is made available for sale or used in our existing customer lease program rather than being redeployed through our new customer lease program. During the six months ended June 30, 2012 and 2011, these amounts totaled $66 million and $42 million, respectively.

General and administrative expenses. General and administrative expenses totaled $704 million during the six months ended June 30, 2012, a $217 million or 44.5% increase compared to the same period in 2011. This increase was primarily due to six months of costs in 2012 for personnel, building and maintenance and other administrative costs associated with our Blockbuster operations compared to two months during the previous year. Blockbuster operations are included in our financial results beginning April 26, 2011.

Litigation expense. Litigation expense related to legal settlements, judgments or accruals associated with certain significant litigation totaled zero during the six months ended June 30, 2012. During the six months ended June 30, 2011, Litigation expense totaled a negative $317 million. During the six months ended June 30, 2011, we reversed $341 million related to the April 29, 2011 settlement agreement with TiVo, which was previously recorded as an expense. See Note 13 in the Notes to the Condensed Consolidated Financial Statements for further discussion.

Depreciation and amortization. Depreciation and amortization expense totaled $508 million during the six months ended June 30, 2012, a $41 million or 8.8% increase compared to the same period in 2011. This change in Depreciation and amortization expense was primarily due to $68 million of depreciation expense related to the 148 degree orbital location, partially offset by a decrease in depreciation expense on equipment leased to subscribers. See Note 7 in the Notes to the Condensed Consolidated Financial Statements for further discussion.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized totaled $247 million during the six months ended June 30, 2012, a decrease of $16 million or 6.2% compared to the same period in 2011. This change primarily resulted from capitalized interest of $39 million related to our wireless spectrum acquisition, partially offset by the net interest expense associated with the issuances and redemption of our senior notes during the six months ended June 30, 2012 and the year ended December 31, 2011.

Other, net. Other, net income totaled $103 million during the six months ended June 30, 2012, compared to a loss of $8 million during the same period in 2011. This change primarily resulted from a $99 million non-cash gain related to the conversion of our DBSD North America 7.5% Convertible Senior Secured Notes due 2009 in connection with the completion of the DBSD Transaction during the first quarter 2012. See Note 8 in the Notes to the Condensed Consolidated Financial Statements.

Earnings before interest, taxes, depreciation and amortization. EBITDA was $1.652 billion during the six months ended June 30, 2012, a decrease of $508 million or 23.5% compared to the same period in 2011. EBITDA for the six months ended June 30, 2011 was favorably impacted by the reversal of $341 million of Litigation expense related to the April 29, 2011 settlement agreement with TiVo, which had been previously recorded as an expense prior to the first quarter 2011. EBITDA for the six months ended June 30, 2012 was impacted by a $99 million non-cash gain related to the conversion of our DBSD North America 7.5% Convertible Senior Secured Notes due 2009 in connection with the completion of the DBSD Transaction. The following table reconciles EBITDA to the accompanying financial statements.

	For the Six Months Ended June 30,	
	2012	2011
	(In thousands)	
EBITDA	$ 1,651,734	$ 2,159,710
Interest expense, net	(220,021)	(248,856)
Income tax (provision) benefit, net	(337,854)	(559,954)
Depreciation and amortization	(507,817)	(466,746)
Net income (loss) attributable to DISH Network	$ 586,042	$ 884,154

EBITDA is not a measure determined in accordance with GAAP and should not be considered a substitute for operating income, net income or any other measure determined in accordance with GAAP. EBITDA is used as a

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measurement of operating efficiency and overall financial performance and we believe it to be a helpful measure for those evaluating companies in the pay-TV industry. Conceptually, EBITDA measures the amount of income generated each period that could be used to service debt, pay taxes and fund capital expenditures. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Income tax (provision) benefit, net. Our income tax provision was $338 million during the six months ended June 30, 2012, a decrease of $222 million compared to the same period in 2011. The decrease in the provision was primarily related to the decrease in Income (loss) before income taxes and a decrease in our effective tax rate. Our effective tax rate was positively impacted by the change in our valuation allowances against certain deferred tax assets that are capital in nature.

Net income (loss) attributable to DISH Network. Net income (loss) attributable to DISH Network was $586 million during the six months ended June 30, 2012, a decrease of $298 million compared to $884 million for the same period in 2011. This decrease was primarily attributable to the changes in revenue and expenses discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Cash, Cash Equivalents and Current Marketable Investment Securities

We consider all liquid investments purchased within 90 days of their maturity to be cash equivalents. See Item 3. Quantitative and Qualitative Disclosures About Market Risk for further discussion regarding our marketable investment securities. As of June 30, 2012, our cash, cash equivalents and current marketable investment securities totaled $4.839 billion compared to $2.041 billion as of December 31, 2011, an increase of $2.798 million. This increase in cash, cash equivalents and current marketable investment securities was primarily related to cash generated from operations of $1.348 billion, and the net proceeds of $1.890 billion related to the issuance of our 5 7/8% Senior Notes due 2022 and our 4 5/8% Senior Notes due 2017, partially offset by capital expenditures of $420 million.

We have investments in various debt and equity instruments including corporate bonds, corporate equity securities, government bonds and variable rate demand notes (VRDNs). VRDNs are long-term floating rate municipal bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. Our VRDN portfolio is comprised of investments in many municipalities, which are backed by financial institutions or other highly rated companies that serve as the pledged liquidity source. While they are classified as marketable investment securities, the put option allows VRDNs to be liquidated generally on a same day or on a five business day settlement basis. As of June 30, 2012 and December 31, 2011, we held VRDNs, within our current marketable investment securities portfolio, with fair values of $49 million and $161 million, respectively.

Cash Flow

The following discussion highlights our cash flow activities during the six months ended June 30, 2012.

Cash flows from operating activities

For the six months ended June 30, 2012, we reported Net cash flows from operating activities of $1.348 billion primarily attributable to $992 million of net income adjusted to exclude non-cash charges for Depreciation and amortization expense and Realized and unrealized losses (gains) on investments, as well as a source of cash related to the changes in operating assets and liabilities related to timing differences between book expense and cash payments.

Cash flows from investing activities

For the six months ended June 30, 2012, we reported net cash outflows from investing activities of $1.289 billion primarily related to capital expenditures of $420 million, net purchases of marketable investment securities of $775 million and purchases of strategic investments of $77 million. The capital expenditures included $336 million associated with our subscriber acquisition and retention lease programs, and $84 million of other corporate capital

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expenditures. The purchases of strategic investments included net payments in connection with the DBSD Transaction of $40 million and the TerreStar Transaction of $37 million.

Cash flows from financing activities

For the six months ended June 30, 2012, we reported net cash inflows from financing activities of $1.927 billion primarily related to the net proceeds of $1.890 billion related to the issuance of our 5 7/8% Senior Notes due 2022 and our 4 5/8% Senior Notes due 2017.

Free Cash Flow

We define free cash flow as Net cash flows from operating activities less Purchases of property and equipment, as shown on our Condensed Consolidated Statements of Cash Flows. We believe free cash flow is an important liquidity metric because it measures, during a given period, the amount of cash generated that is available to repay debt obligations, make investments, fund acquisitions and for certain other activities. Free cash flow is not a measure determined in accordance with GAAP and should not be considered a substitute for Operating income, Net income, Net cash flows from operating activities or any other measure determined in accordance with GAAP. Since free cash flow includes investments in operating assets, we believe this non-GAAP liquidity measure is useful in addition to the most directly comparable GAAP measure Net cash flows from operating activities.

During the six months ended June 30, 2012 and 2011, free cash flow was significantly impacted by changes in operating assets and liabilities and in Purchases of property and equipment as shown in the Net cash flows from operating activities and Net cash flows from investing sections, respectively, of our Condensed Consolidated Statements of Cash Flows included herein. Operating asset and liability balances can fluctuate significantly from period to period and there can be no assurance that free cash flow will not be negatively impacted by material changes in operating assets and liabilities in future periods, since these changes depend upon, among other things, management s timing of payments and control of inventory levels, and cash receipts. In addition to fluctuations resulting from changes in operating assets and liabilities, free cash flow can vary significantly from period to period depending upon, among other things, subscriber growth, subscriber revenue, subscriber churn, subscriber acquisition costs including amounts capitalized under our equipment lease programs, operating efficiencies, increases or decreases in purchases of property and equipment, and other factors.

The following table reconciles free cash flow to Net cash flows from operating activities.

	For the Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Free cash flow	$ 927,879	$ 855,601

Add back:				
Purchases of property and equipment		420,185		402,744
Net cash flows from operating activities	$	1,348,064	$	1,258,345

Subscriber Base

DISH added approximately 94,000 net subscribers during the six months ended June 30, 2012, compared to a loss of approximately 77,000 net subscribers during the same period in 2011. The increase versus the same period in 2011 primarily resulted from a decrease in our average monthly subscriber churn rate and higher gross new subscriber activations due to increased advertising associated with our Hopper set-top box during the second quarter 2012. See Results of Operations above for further discussion. There are a number of factors that impact our future cash flow compared to the cash flow we generate at any given point in time, including subscriber churn and how successful we are at retaining our current subscribers. As we lose subscribers from our existing base, the positive cash flow from that base is correspondingly reduced.

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Satellites

Operation of the DISH branded pay-TV service requires that we have adequate satellite transmission capacity for the programming we offer. Moreover, current competitive conditions require that we continue to expand our offering of new programming, particularly by expanding local HD coverage and offering more national HD channels. While we generally have had in-orbit satellite capacity sufficient to transmit our existing channels and some backup capacity to recover the transmission of certain critical programming, our backup capacity is limited. In the event of a failure or loss of any of our satellites, we may need to acquire or lease additional satellite capacity or relocate one of our other satellites and use it as a replacement for the failed or lost satellite. Such a loss or failure could result in a prolonged loss of critical programming or a significant delay in our plans to expand programming as necessary to remain competitive and cause us to expend a significant portion of our cash to acquire or lease additional satellite capacity.

Security Systems

Increases in theft of our signal or our competitors signals could, in addition to reducing new subscriber activations, also cause subscriber churn to increase. We use microchips embedded in credit card-sized access cards, called smart cards, or security chips in our receiver systems to control access to authorized programming content (Security Access Devices). Our signal encryption has been compromised in the past and may be compromised in the future even though we continue to respond with significant investment in security measures, such as Security Access Device replacement programs and updates in security software, that are intended to make signal theft more difficult. It has been our prior experience that security measures may only be effective for short periods of time or not at all and that we remain susceptible to additional signal theft. During 2009, we completed the replacement of our Security Access Devices and re-secured our system. We expect additional future replacements of these devices will be necessary to keep our system secure. We cannot ensure that we will be successful in reducing or controlling theft of our programming content and we may incur additional costs in the future if our system s security is compromised.

Stock Repurchases

Our Board of Directors previously authorized the repurchase of up to $1.0 billion of our Class A common stock. On November 1, 2011, our Board of Directors extended the plan and authorized an increase in the maximum dollar value of shares that may be repurchased under the plan, such that we are currently authorized to repurchase up to $1.0 billion of outstanding shares of our Class A common stock through and including December 31, 2012. As of June 30, 2012, we may repurchase up to $1.0 billion under this plan.

Subscriber Acquisition and Retention Costs

We incur significant upfront costs to acquire subscribers, including advertising, retailer incentives, equipment subsidies, installation services, and new customer promotions. While we attempt to recoup these upfront costs over the lives of their subscription, there can be no assurance that we will. We employ business rules such as minimum credit requirements and we strive to provide outstanding customer service, to increase the

likelihood of customers keeping their DISH service over longer periods of time. Our subscriber acquisition costs may vary significantly from period to period.

We incur significant costs to retain our existing customers, mostly by upgrading their equipment to HD and DVR receivers. As with our subscriber acquisition costs, our retention spending includes the cost of equipment and installation services. In certain circumstances, we also offer free programming and/or promotional pricing for limited periods for existing customers in exchange for a commitment to receive service for a minimum term. A component of our retention efforts includes the installation of equipment for customers who move. Our subscriber retention costs may vary significantly from period to period.

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Seasonality

Historically, the first half of the year generally produces fewer gross new subscriber activations than the second half of the year, as is typical in the pay-TV service industry. In addition, the first and fourth quarter generally produce a lower churn rate than the second and third quarter. However, we can not provide assurance that this will continue in the future.

Covenants and Restrictions Related to our Senior Notes

The indentures related to our outstanding senior notes contain restrictive covenants that, among other things, impose limitations on the ability of DISH DBS Corporation (DISH DBS) and its restricted subsidiaries to: (i) incur additional indebtedness; (ii) enter into sale and leaseback transactions; (iii) pay dividends or make distributions on DISH DBS capital stock or repurchase DISH DBS capital stock; (iv) make certain investments; (v) create liens; (vi) enter into certain transactions with affiliates; (vii) merge or consolidate with another company; and (viii) transfer or sell assets. Should we fail to comply with these covenants, all or a portion of the debt under the senior notes could become immediately payable. The senior notes also provide that the debt may be required to be prepaid if certain change-in-control events occur. As of the date of filing, DISH DBS was in compliance with the covenants.

Other

We are also vulnerable to fraud, particularly in the acquisition of new subscribers. While we are addressing the impact of subscriber fraud through a number of actions, there can be no assurance that we will not continue to experience fraud, which could impact our subscriber growth and churn. Sustained economic weakness may create greater incentive for signal theft and subscriber fraud, which could lead to higher subscriber churn and reduced revenue.

Obligations and Future Capital Requirements

Future Capital Requirements

5 7/8% Senior Notes Due 2022

On July 26, 2012, we issued an additional $1.0 billion aggregate principal amount of our ten-year, 5 7/8% Senior Notes due July 15, 2022 at an issue price of 100.75% plus accrued interest from May 16, 2012. Interest accrues at an annual rate of 5 7/8% and is payable semi-annually in cash, in arrears on January 15 and July 15 of each year, commencing on January 15, 2013. These notes were issued as additional notes under the related indenture, pursuant to which we issued on May 16, 2012 $1.0 billion in aggregate principal amount of our 5 7/8% Senior Notes due 2022. These notes and the notes previously issued under the related indenture will be treated as a single class of debt securities under the related indenture.

Wireless Spectrum

In 2008, we paid $712 million to acquire certain 700 MHz wireless spectrum licenses, which were granted to us by the FCC in February 2009 subject to certain build-out requirements. To commercialize these licenses and satisfy the associated FCC build-out requirements, we will be required to make significant additional investments or partner with others to, among other things, finance the commercialization and build-out requirements of these licenses and our integration efforts including compliance with regulations applicable to these licenses. Depending on the nature and scope of such commercialization and build-out, any such investment or partnership could vary significantly, which may affect our future financial condition or results of operations. Part or all of these licenses may be terminated if the associated FCC build-out requirements are not satisfied. There can be no assurance that we will be able to develop and implement a business model that will realize a return on these investments and profitably deploy the spectrum represented by the 700 MHz licenses.

On March 2, 2012, the FCC approved the transfer of 40 MHz of 2 GHz wireless spectrum licenses held by DBSD North America and TerreStar to us. On March 9, 2012, we completed the DBSD Transaction and the TerreStar

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Continued

Transaction, pursuant to which we acquired, among other things, certain satellite assets and wireless spectrum licenses held by DBSD North America and TerreStar. The total consideration to acquire these assets was approximately $2.860 billion. This amount includes $1.364 billion for the DBSD Transaction, $1.382 billion for the TerreStar Transaction, and the net payment of $114 million to Sprint pursuant to the Sprint Settlement Agreement.

Our consolidated FCC applications for approval of the license transfers from DBSD North America and TerreStar were accompanied by requests for waiver of the FCC s MSS integrated service and spare satellite requirements and various technical provisions. The FCC denied our requests for waiver of the integrated service and spare satellite requirements. The FCC has not yet acted on the request for waiver of various technical provisions, and we cannot predict the outcome or timing of any action by the FCC with respect to that waiver request. Waiver of the integrated service requirement would have allowed us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. On March 21, 2012, the FCC released an NPRM that could result in the elimination of the integrated service and other requirements that attach to the 2 GHz licenses. Among other things, the FCC has proposed to modify our licenses to allow us to offer single-mode terrestrial terminals to customers who do not desire satellite functionality. The NPRM was published in the Federal Register on April 17, 2012. Initial comments on the NPRM were due on or before May 17, 2012, and reply comments were due on or before June 1, 2012. We submitted filings in the initial comment round and in the reply comment round. While the FCC has indicated its intent to complete the NPRM during 2012, we cannot predict the outcome or timing of the NPRM, including, without limitation, any associated build-out requirements with which we may need to comply to avail ourselves of any changes to the rules.

As a result of the completion of the DBSD Transaction and the TerreStar Transaction, we will likely be required to make significant additional investments or partner with others to, among other things, finance the commercialization and build-out requirements of these licenses and our integration efforts including compliance with regulations applicable to the acquired licenses. Depending on the nature and scope of such commercialization and build-out, any such investment or partnership could vary significantly. There can be no assurance that we will be able to develop and implement a business model that will realize a return on these spectrum investments or that we will be able to profitably deploy the assets represented by these spectrum investments, which may affect the carrying value of these assets and our future financial condition or results of operations.

Voom HD Holdings

If Voom prevails in its breach of contract suit against us, we could be required to pay substantial damages, which would have a material adverse affect on our financial position and results of operations. In January 2008, Voom filed a lawsuit against our wholly-owned subsidiary, DISH Network L.L.C., in New York Supreme Court, alleging breach of contract and other claims arising from our termination of the affiliation agreement governing carriage of certain Voom HD channels on the DISH branded pay-TV service. At that time, Voom also sought a preliminary injunction to prevent us from terminating the agreement. The Court denied Voom s request, finding, among other things, that Voom had not demonstrated that it was likely to prevail on the merits. In April 2010, we and Voom each filed motions for summary judgment. Voom later filed two motions seeking discovery sanctions. On November 9, 2010, the Court issued a decision denying both motions for summary judgment, but granting Voom s motions for discovery sanctions. The Court s decision provides for an adverse inference jury instruction at trial and precludes our damages expert from testifying at trial. We appealed the grant of Voom s motion for discovery sanctions to the New York State Supreme Court, Appellate Division, First Department. On February 15, 2011, the appellate court granted our motion to stay the trial pending our appeal. On January 31, 2012, the appellate court affirmed the order imposing discovery sanctions and precluding our damages expert from testifying at trial. We sought leave to appeal to New York s highest state court, the Court of Appeals, but that motion was denied on April 26, 2012. The trial date has been set for September 18, 2012. Voom is claiming over $2.5 billion in damages.

Strategic Investments or Acquisitions

From time to time we evaluate opportunities for strategic investments or acquisitions that may complement our current services and products, enhance our technical capabilities, improve or sustain our competitive position, or otherwise offer growth opportunities. We may make investments in or partner with others to expand our business into mobile and portable video, IPTV, data and voice services. Future material investments or acquisitions may require that we obtain additional capital, assume third party debt or incur other long-term obligations.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Continued

Investments in ARS/MBS

A portion of our investment portfolio is invested in auction rate securities (ARS), mortgage backed securities (MBS), and strategic investments, and as a result a portion of our portfolio has restricted liquidity. Liquidity in the markets for these investments has been adversely impacted. If the credit ratings of these securities deteriorate or the lack of liquidity in the marketplace continues, we may be required to record impairment charges. Moreover, the sustained uncertainty of domestic and global financial markets has greatly affected the volatility and value of our marketable investment securities. To the extent we require access to funds, we may need to sell these securities under unfavorable market conditions, record further impairment charges and fall short of our financing needs.

Off-Balance Sheet Arrangements

Other than the Guarantees disclosed in Note 11 in the Notes to our Condensed Consolidated Financial Statements, we generally do not engage in off-balance sheet financing activities.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks Associated With Financial Instruments

Our investments and debt are exposed to market risks, discussed below.

Cash, Cash Equivalents and Current Marketable Investment Securities

As of June 30, 2012, our cash, cash equivalents and current marketable investment securities had a fair value of $4.839 billion. Of that amount, a total of $4.102 billion was invested in: (a) cash; (b) VRDNs convertible into cash at par value plus accrued interest generally in five business days or less; (c) debt instruments of the United States Government and its agencies; (d) commercial paper and corporate notes with an overall average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; and/or (e) instruments with similar risk, duration and credit quality characteristics to the commercial paper and corporate obligations described above. The primary purpose of these investing activities has been to preserve principal until the cash is required to, among other things, fund operations, make strategic investments and expand the business. Consequently, the size of this portfolio fluctuates significantly as cash is received and used in our business. The value of this portfolio is negatively impacted by credit losses; however, this risk is mitigated through diversification that limits our exposure to any one issuer.

Interest Rate Risk

A change in interest rates would affect the fair value of our cash, cash equivalents and current marketable investment securities portfolio; however, we normally hold these investments to maturity. Based on our June 30, 2012 current non-strategic investment portfolio of $4.102 billion, a hypothetical 10% change in average interest rates would not have a material impact on the fair value due to the limited duration of our investments.

Our cash, cash equivalents and current marketable investment securities had an average annual rate of return for the six months ended June 30, 2012 of 0.6%. A change in interest rates would affect our future annual interest income from this portfolio, since funds would be re-invested at different rates as the instruments mature. A hypothetical 10% decrease in average interest rates during 2012 would result in a decrease of approximately $2 million in annual interest income.

Strategic Marketable Investment Securities

As of June 30, 2012, we held strategic and financial debt and equity investments of public companies with a fair value of $737 million. These investments, which are held for strategic and financial purposes, are concentrated in a small number of companies, are highly speculative and have experienced and continue to experience volatility. In addition, a significant portion of the value of these investments is concentrated in the debt securities of a single issuer. That single issuer has indicated that it will need substantial additional capital to meet its business and financial obligations beyond the next 12 months. The fair value of certain of the debt securities in our investment

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - Continued

portfolio, including those of that single issuer, can be adversely impacted by, among other things, the issuers respective performance and ability to obtain any necessary additional financing on acceptable terms, or at all.

The fair value of our strategic and financial debt and equity investments can be significantly impacted by the risk of adverse changes in securities markets generally, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair value due to the volatility of the securities markets and of the underlying businesses. In general, the debt instruments held in our strategic marketable investment securities portfolio are not significantly impacted by interest rate fluctuations as their value is more closely related to factors specific to the underlying business. A hypothetical 10% adverse change in the price of our public strategic debt and equity investments would result in a decrease of approximately $74 million in the fair value of these investments.

Restricted Cash and Marketable Investment Securities and Noncurrent Marketable and Other Investment Securities

Restricted Cash and Marketable Investment Securities

As of June 30, 2012, we had $134 million of restricted cash and marketable investment securities invested in: (a) cash; (b) VRDNs convertible into cash at par value plus accrued interest generally in five business days or less; (c) debt instruments of the United States Government and its agencies; (d) commercial paper and corporate notes with an overall average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; and/or (e) instruments with similar risk, duration and credit quality characteristics to the commercial paper described above. Based on our June 30, 2012 investment portfolio, a hypothetical 10% increase in average interest rates would not have a material impact in the fair value of our restricted cash and marketable investment securities.

Noncurrent Auction Rate and Mortgage Backed Securities

As of June 30, 2012, we held investments in ARS and MBS of $104 million, which are reported at fair value. Events in the credit markets have reduced or eliminated current liquidity for certain of our ARS and MBS investments. As a result, we classify these investments as noncurrent assets as we intend to hold these investments until they recover or mature, and therefore interest rate risk associated with these securities is mitigated. A hypothetical 10% adverse change in the price of these investments would result in a decrease of approximately $10 million in the fair value of these investments.

Long-Term Debt

As of June 30, 2012, we had long-term debt of $9.143 billion, excluding capital lease obligations, on our Condensed Consolidated Balance Sheets. We estimated the fair value of this debt to be approximately $9.832 billion using quoted market prices for our publicly traded debt, which constitutes approximately 99% of our debt. The fair value of our debt is affected by fluctuations in interest rates. A hypothetical 10% decrease in assumed interest rates would increase the fair value of our debt by approximately $241 million. To the extent interest rates increase, our costs of financing would increase at such time as we are required to refinance our debt. As of June 30, 2012, a hypothetical 10% increase in assumed interest rates would increase our annual interest expense by approximately $62 million.

Derivative Financial Instruments

From time to time, we speculate using derivative financial instruments; such amounts, however, are typically insignificant.

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Item 4. CONTROLS AND PROCEDURES

Conclusion regarding disclosure controls and procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting

On March 9, 2012, we completed the DBSD Transaction and the TerreStar Transaction. We are currently integrating policies, processes, people, technology and operations for each of the combined companies. Management will continue to evaluate our internal control over financial reporting as we execute integration activities. Except as discussed above, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are involved in a number of legal proceedings (including those described below) concerning matters arising in connection with the conduct of our business activities. Many of these proceedings are at preliminary stages, and many of these proceedings seek an indeterminate amount of damages. We regularly evaluate the status of the legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss or an additional loss may have been incurred and to determine if accruals are appropriate. If accruals are not appropriate, we further evaluate each legal proceeding to assess whether an estimate of the possible loss or range of possible loss can be made.

For certain cases described on the following pages, management is unable to provide a meaningful estimate of the possible loss or range of possible loss because, among other reasons, (i) the proceedings are in various stages; (ii) damages have not been sought; (iii) damages are unsupported and/or exaggerated; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; and/or (vi) there are novel legal issues or unsettled legal theories to be presented or a large number of parties (as with many patent-related cases). For these cases, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on our financial condition, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

c4cast.com, Inc.

On May 7, 2012, c4cast.com, Inc. filed a complaint against us and our wholly-owned subsidiary, Blockbuster L.L.C., in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 7,958,204 (the 204 patent), which is entitled Community-Selected Content. The 204 patent relates to systems, methods and techniques for providing resources to participants over an electronic network.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Channel Bundling Class Action

During 2007, a purported class of cable and satellite subscribers filed an antitrust action against our wholly-owned subsidiary, DISH Network L.L.C., in the United States District Court for the Central District of California. The suit also names as defendants DirecTV, Comcast, Cablevision, Cox, Charter, Time Warner, Inc., Time Warner Cable, NBC Universal, Viacom, Fox Entertainment Group and Walt Disney Company. The suit alleges, among other things, that the defendants engaged in a conspiracy to provide customers with access only to bundled channel offerings as opposed to giving customers the ability to purchase channels on an a la carte basis. On October 16, 2009, the District Court

entered an order granting the defendants motion to dismiss with prejudice. On June 3, 2011, the U.S. Court of Appeals for the Ninth Circuit affirmed the District Court s order. The plaintiff class sought rehearing en banc. On October 31, 2011, the Ninth Circuit issued an order vacating the previous June 3, 2011 order, directing that a 3-judge panel be reconstituted, and denying the plaintiff class motion for rehearing. On March 30, 2012, the reconstituted panel of the Ninth Circuit again affirmed the District Court s order. On April 10, 2012, the plaintiff class again filed a petition for rehearing en banc, which was denied on May 4, 2012. On August 2, 2012, the plaintiff class filed a petition seeking review by the United States Supreme Court.

We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Cyberfone Systems, LLC (f/k/a LVL Patent Group, LLC)

On September 15, 2011, LVL Patent Group, LLC filed a complaint against our wholly-owned subsidiary, DISH Network L.L.C., as well as EchoStar, EchoStar Technologies L.L.C., a wholly-owned subsidiary of EchoStar, and DirecTV in the United States District Court for the District of Delaware alleging infringement of United States Patent No. 6,044,382, which is entitled Data Transaction Assembly Server. DirecTV was dismissed from the case on January 4, 2012. On July 12, 2012, Cyberfone

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PART II OTHER INFORMATION Continued

Systems, LLC (f/k/a LVL Patent Group, LLC) filed the operative second amended complaint making the same claim.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

ESPN

During 2008, our wholly-owned subsidiary, DISH Network L.L.C., filed a lawsuit against ESPN, Inc., ESPN Classic, Inc., ABC Cable Networks Group, Soapnet L.L.C. and International Family Entertainment (collectively, ESPN) for breach of contract in New York State Supreme Court. Our complaint alleges that ESPN failed to provide us with certain high-definition feeds of the Disney Channel, ESPN News, Toon and ABC Family. In October 2011, the jury returned a verdict in favor of the defendants. We intend to appeal.

ESPN had asserted a counterclaim alleging that we owed approximately $35 million under the applicable affiliation agreements. On April 15, 2009, the New York State Supreme Court granted, in part, ESPN s motion for summary judgment on the counterclaim, finding that we are liable for some of the amount alleged to be owing but that the actual amount owing is disputed. On December 29, 2010, the New York State Supreme Court, Appellate Division, First Department affirmed the partial grant of ESPN s motion on the counterclaim. After the partial grant of ESPN s motion for summary judgment, ESPN sought an additional $30 million under the applicable affiliation agreements. On March 15, 2010, the New York State Supreme Court affirmed the prior grant of ESPN s motion and ruled that we owe the full amount of approximately $66 million under the applicable affiliation agreement. As of December 31, 2010, we had $42 million recorded as a Litigation accrual on our Condensed Consolidated Balance Sheets.

On June 21, 2011, the First Department affirmed the New York Supreme Court s ruling that we owe approximately $66 million under the applicable affiliation agreements and, on October 18, 2011, denied our motion for leave to appeal that decision to New York s highest court, the New York Court of Appeals. We sought leave to appeal directly to the New York Court of Appeals and, on January 10, 2012, the New York Court of Appeals dismissed our motion for leave on the ground that the ruling upon which we appealed does not fully resolve all claims in the action. As a result of the First Department s June 2011 ruling, during 2011, we recorded $24 million of Litigation Expense on our Consolidated Statements of Operations and Comprehensive Income (Loss). On February 6, 2012, ESPN filed a motion seeking $5 million in attorneys fees as the prevailing party on both our claim and ESPN s counterclaim, which we have opposed. As a result, during the six months ended June 30, 2012, we recorded $5 million of General and administrative expenses and increased our Litigation accrual to a total of $71 million related to this case as of June 30, 2012. This reflects our estimated exposure for ESPN s counterclaim. We intend to vigorously prosecute and defend this case.

The Hopper Litigation

On May 24, 2012, our wholly-owned subsidiary, DISH Network L.L.C., filed a lawsuit in the United States District Court for the Southern District of New York against American Broadcasting Companies, Inc., CBS Corporation, Fox Entertainment Group, Inc., Fox Television Holdings, Inc., Fox Cable Network Services, L.L.C. and NBCUniversal Media, LLC. In the lawsuit, we are seeking a declaratory judgment that we are not infringing any defendant s copyright, or breaching any defendant s retransmission consent agreement, by virtue of the AutoHop feature, which works in conjunction with the PrimeTime Anytime feature, on our Hopper set-top boxes. The AutoHop feature allows a subscriber, at his or her option, to watch certain recordings the subscriber made with our PrimeTime Anytime feature, commercial-free, if played back the next day after the show s original airing. The PrimeTime Anytime feature allows a user of our Hopper set-top box, at his or her option, to record certain HD primetime programs airing on ABC, CBS, Fox, and/or NBC up to every night, and to store those recordings for up to eight days.

Later on May 24, 2012, (i) Fox Broadcasting Company, Twentieth Century Fox Film Corp. and Fox Television Holdings, Inc. filed a lawsuit against us and DISH Network L.L.C. in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature, the AutoHop feature, as well as Sling place-

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PART II OTHER INFORMATION Continued

shifting functionality infringe their copyrights and breach their retransmission consent agreements, (ii) NBC Studios LLC, Universal Network Television, LLC, Open 4 Business Productions LLC and NBCUniversal Media, LLC filed a lawsuit against us and DISH Network L.L.C. in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature and the AutoHop feature infringe their copyrights, and (iii) CBS Broadcasting Inc., CBS Studios Inc. and Survivor Productions LLC filed a lawsuit against us and DISH Network L.L.C. in the United States District Court for the Central District of California, alleging that the PrimeTime Anytime feature and the AutoHop feature infringe their copyrights. The Central District of California matters have been assigned to a single judge.

On July 2, 2012, the Court in our action in the Southern District of New York heard our motion for an anti-suit injunction to enjoin prosecution of the networks respective lawsuits in the Central District of California (so that all of the matters could be heard and determined in a single action in the Southern District of New York) and Fox s, NBC s and CBS s motions to dismiss our complaint. In an order dated July 9, 2012, the Court denied our motion, granted the Fox defendants motion and granted, in part, the NBC and CBS defendants respective motions to dismiss our complaint, such that only our contract-based claims against the NBC and CBS defendants will proceed in the New York action. Our claims against the ABC defendants were unaffected by the Court s order. ABC has filed a counterclaim against us in the New York action, alleging breach of contract and copyright infringement claims.

We intend to vigorously prosecute and defend our position in these cases. In the event that a court ultimately determines that we infringe the asserted copyrights, we may be subject to substantial damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. In addition, as a result of this litigation, we may not be able to renew certain of our retransmission consent agreements and other programming agreements on favorable terms or at all. If we are unable to renew these agreements, there can be no assurance that we would be able to obtain substitute programming, or that such substitute programming would be comparable in quality or cost to our existing programming. Loss of access to existing programming could have a material adverse effect on our business, financial condition and results of operations, including, among other things, our gross new subscriber activations and subscriber churn rate. We cannot predict with any degree of certainty the outcome of these suits or determine the extent of any potential liability or damages.

Norman IP Holdings, Inc.

On September 15, 2011, Norman IP Holdings, Inc. (Norman) filed a patent infringement complaint against Brother International Corporation and Lexmark International Corporation in the United States District Court for the Eastern District of Texas alleging infringement of U.S. Patent No. 5,592,555 (the 555 patent) and U.S. Patent No. 5,502,689 (the 689 patent). On December 9, 2011, Norman filed a first amended complaint that added Ricoh Americas Corporation and dropped Brother International Corporation as a defendant. On January 27, 2012, Norman filed a second amended complaint that added us as a defendant, in addition to adding Belkin International, Inc., BMW of North America LLC, Daimler North America Corporation, Mercedes-Benz USA, LLC, D-Link Systems, Inc., Ford Motor Company, Garmin International, Inc., Garmin USA, Inc., General Electric Company, General Motors Company, JVC Americas Corporation, Novatel Wireless, Inc., Novatel Wireless Solutions, Inc., Novatel Wireless Technology, Inc., TomTom, Inc., ViewSonic Corporation, Vizio, Inc., Volkswagen Group of America, Inc., Xerox Corporation, ZTE USA, Inc., and ZTE Solutions, Inc. The 555 patent relates to a wireless communications privacy method and system and the 689 patent relates to a clock generator capable of shut-down mode and clock generation method. Norman is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain

features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

NorthPoint Technology, Ltd.

On July 2, 2009, NorthPoint Technology, Ltd. (NorthPoint) filed suit against us, EchoStar and DirecTV in the United States District Court for the Western District of Texas alleging infringement of United States Patent No.

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PART II OTHER INFORMATION Continued

6,208,636 (the 636 patent). The 636 patent relates to the use of multiple low-noise block converter feedhorns, or LNBFs, which are antennas used for satellite reception. On April 21, 2011, the U.S. Patent and Trademark Office issued an order granting reexamination of the 636 patent. On June 21, 2011, the District Court entered summary judgment in our favor, finding that all asserted claims of the 636 patent are invalid. NorthPoint appealed and, on May 11, 2012, the United States Court of Appeals for the Federal Circuit affirmed the District Court s judgment.

We cannot predict with certainty whether NorthPoint will seek further appeal or the outcome of any appeal or extent of any potential liability or damages if they are successful on appeal. If they do appeal, we intend to vigorously defend this case. In the event that an appeal were successful and a court ultimately determined that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers.

Olympic Developments AG, LLC

On January 20, 2011, Olympic Developments AG, LLC (Olympic) filed suit against our wholly-owned subsidiary, DISH Network L.L.C., Atlantic Broadband, Inc., Bright House Networks, LLC, Cable One, Inc., Cequel Communications Holdings I, LLC, CSC Holdings, LLC, GCI Communication Corp., Insight Communications Company, Inc., Knology, Inc., Mediacom Communications Corporation and RCN Telecom Services, LLC in the United States District Court for the Central District of California alleging infringement of United States Patent Nos. 5,475,585 and 6,246,400. The patents relate to on-demand services. Olympic is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. On June 13, 2011, the case was transferred to the Northern District of California. On November 4, 2011, the case was stayed pending reexamination by the U.S. Patent and Trademark Office.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Personalized Media Communications, Inc.

During 2008, Personalized Media Communications, Inc. (PMC) filed suit against us, EchoStar and Motorola Inc. in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent Nos. 5,109,414, 4,965,825, 5,233,654, 5,335,277, and 5,887,243, which relate to satellite signal processing. PMC is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. Subsequently, Motorola Inc. settled with PMC, leaving EchoStar and us as defendants. On July 18, 2012, pursuant to a Court order, PMC filed a Second Amended Complaint that added Rovi Guides, Inc. (f/k/a/ Gemstar-TV Guide International, Inc.) and TVG-PMC, Inc. (collectively, Gemstar) as a party, and added a new claim against all defendants seeking a declaratory judgment as to the scope of Gemstar s license to the patents in suit, under which we and EchoStar are sublicensees. The Court has stayed all deadlines in the case (trial had been set for August 20, 2012) pending entry of a new Docket Control Order.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Premier International Associates, LLC

On August 3, 2012, Premier International Associates, LLC (Premier International Associates) filed a complaint against us, our wholly-owned subsidiaries DISH DBS and DISH Network L.L.C., and EchoStar and its wholly-owned subsidiary EchoStar Technologies L.L.C., in the United States District Court for the Northern District of Illinois alleging infringement of United States Patent No. 6,243,725 (the 725 patent), which is entitled List Building System. The 725 patent relates to a system for building an inventory of audio/visual works. Premier International Associates is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Preservation Technologies, LLC

In December 2011, Preservation Technologies, LLC (Preservation Technologies) filed suit against us in the United States District Court for the Central District of California. In the Operative Fifth Amended Complaint, filed on May 24, 2012, Preservation Technologies also names Netflix, Inc., Facebook, Inc., Hulu, LLC, AT&T Services, Inc., Cox Communications, Inc., Time Warner Cable, Inc., The Walt Disney Company, American Broadcasting Companies, Inc. and Yahoo! Inc. as defendants. Preservation Technologies alleges that our BLOCKBUSTER On Demand, DISH branded pay-TV and DISH Online services infringe U.S. Patent Nos.

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PART II OTHER INFORMATION Continued

5,813,014, 5,832,499, 6,092,080, 6,353,831, 6,574,638, 6,199,060, 5,832,495, 6,549,911, 6,212,527 and 6,477,537. The patents relate to digital libraries, the management of multimedia assets, and the cataloging of multimedia data. Preservation Technologies is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. Time Warner Cable Inc. was dismissed from the case on July 19, 2012.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Ronald A. Katz Technology Licensing, L.P.

During 2007, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a patent infringement action against our wholly-owned subsidiary, DISH Network L.L.C., in the United States District Court for the Northern District of California. The suit alleges infringement of 19 patents owned by Katz. The patents relate to interactive voice response, or IVR, technology. The case has been transferred and consolidated for pretrial purposes in the United States District Court for the Central District of California by order of the Judicial Panel on Multidistrict Litigation. Only four patents remain in the case against us, one of which is subject to a reexamination request before the U.S. Patent and Trademark Office, which was filed on February 13, 2012.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Technology Development and Licensing L.L.C.

On January 22, 2009, Technology Development and Licensing L.L.C. (TDL) filed suit against us and EchoStar in the United States District Court for the Northern District of Illinois alleging infringement of United States Patent No. Re. 35,952, which relates to certain favorite channel features. TDL is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. In July 2009, the Court granted our motion to stay the case pending two reexamination petitions before the U.S. Patent and Trademark Office.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

TQP Development, LLC

On April 4, 2012, TQP Development, LLC (TQP Development) filed suit against our wholly-owned subsidiary, DISH Network L.L.C., in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 5,412,730 titled Encrypted Data Transmission System Employing Means for Randomly Altering the Encryption Keys. TQP Development is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

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PART II OTHER INFORMATION Continued

Tse

On May 30, 2012, Ho Keung Tse filed a complaint against our wholly-owned subsidiary, Blockbuster L.L.C., in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent No. 6,665,797, which is entitled Protection of Software Again [sic] Against Unauthorized Use. Mr. Tse is the named inventor on the patent. On the same day that he sued Blockbuster, Mr. Tse filed a separate action in the same court alleging infringement of the same patent against Google, Samsung and HTC. He also has earlier-filed litigation on the same patent pending in the United States District Court for the Northern District of California against Sony Connect, Inc., Napster, Inc., Apple Computer, Inc., Realnetworks, Inc., and MusicMatch, Inc.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patent, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Vigilos, LLC

On February 23, 2011, Vigilos, LLC (Vigilos) filed suit against EchoStar, two EchoStar subsidiaries, Sling Media, Inc. and EchoStar Technologies L.L.C., and Monsoon Multimedia, Inc. in the U.S. District Court for the Eastern District of Texas alleging infringement of U.S. Patent No. 6,839,731, which is entitled System and Method for Providing Data Communication in a Device Network. Subsequently in 2011, Vigilos added DISH Network L.L.C., our wholly-owned subsidiary, as a defendant in its First Amended Complaint and the case was transferred to the Northern District of California. Later in 2011, Vigilos filed a Second Amended Complaint that added claims for infringement of a second patent, U.S. Patent No. 7,370,074, which is entitled System and Method for Implementing Open-Protocol Remote Device Control. Vigilos is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein.

We intend to vigorously defend this case. In the event that a court ultimately determines that we infringe the asserted patents, we may be subject to substantial damages, which may include treble damages, and/or an injunction that could require us to materially modify certain features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Voom HD Holdings

In January 2008, Voom filed a lawsuit against our wholly-owned subsidiary, DISH Network L.L.C., in New York Supreme Court, alleging breach of contract and other claims arising from our termination of the affiliation agreement governing carriage of certain Voom HD channels on the DISH branded pay-TV service. At that time, Voom also sought a preliminary injunction to prevent us from terminating the agreement. The Court denied Voom s request, finding, among other things, that Voom had not demonstrated that it was likely to prevail on the merits. In

April 2010, we and Voom each filed motions for summary judgment. Voom later filed two motions seeking discovery sanctions. On November 9, 2010, the Court issued a decision denying both motions for summary judgment, but granting Voom s motions for discovery sanctions. The Court s decision provides for an adverse inference jury instruction at trial and precludes our damages expert from testifying at trial. We appealed the grant of Voom s motion for discovery sanctions to the New York State Supreme Court, Appellate Division, First Department. On January 31, 2012, the appellate court affirmed the order imposing discovery sanctions and precluding our damages expert from testifying at trial. We sought leave to appeal to New York s highest state court, the Court of Appeals, but that motion was denied on April 26, 2012. The trial date has been set for September 18, 2012. Voom is claiming over $2.5 billion in damages. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Other

In addition to the above actions, we are subject to various other legal proceedings and claims which arise in the ordinary course of business, including, among other things, disputes with programmers regarding fees. In our opinion, the amount of ultimate liability with respect to any of these actions is unlikely to materially affect our

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PART II OTHER INFORMATION Continued

financial position, results of operations or liquidity, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

Item 1A. RISK FACTORS

Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2011 and our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, include a detailed discussion of our risk factors.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table provides information regarding repurchases of our Class A common stock from April 1, 2012 through June 30, 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (In thousands, except share data)	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (1)
April 1 - April 30, 2012		$		$ 1,000,000
May 1 - May 31, 2012		$		$ 1,000,000
June 1 - June 30, 2012		$		$ 1,000,000
Total		$		$ 1,000,000

(1) Our Board of Directors previously authorized stock repurchases of up to $1.0 billion of our Class A common stock. On November 1, 2011, our Board of Directors extended the plan and authorized an increase in the maximum dollar value of shares that may be repurchased under the plan, such that we are currently authorized to repurchase up to $1.0 billion of our outstanding Class A common stock through and including December 31, 2012. Purchases under our repurchase program may be made through open market purchases, privately negotiated transactions, or Rule 10b5-1 trading plans, subject to market conditions and other factors. We may elect not to purchase the maximum amount of shares allowable under this program and we may also enter into additional share repurchase programs authorized by our Board of Directors.

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PART II OTHER INFORMATION Continued

Item 6. EXHIBITS

(a) Exhibits.

4.1*	Indenture, relating to the 4 5/8% Senior Notes Due 2017, dated as of May 16, 2012 between DISH DBS Corporation, the guarantors named on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of DISH Network Corporation filed May 16, 2012, Commission File No. 0-26176).
4.2*	Indenture, relating to the 5 7/8% Senior Notes Due 2022, dated as of May 16, 2012 between DISH DBS Corporation, the guarantors named on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of DISH Network Corporation filed May 16, 2012, Commission File No. 0-26176).
4.3*	Registration Rights Agreement, relating to the 4 5/8% Senior Notes Due 2017 and the 5 7/8% Senior Notes Due 2022, dated as of May 16, 2012, among DISH DBS Corporation, the guarantors named on the signature pages thereto and Deutsche Bank Securities Inc. (incorporated by reference from Exhibit 4.3 to the Current Report on Form 8-K of DISH Network Corporation filed May 16, 2012, Commission File No. 0-26176).
31.1o	Section 302 Certification of Chief Executive Officer.
31.2o	Section 302 Certification of Chief Financial Officer.
32.1o	Section 906 Certification of Chief Executive Officer.
32.2o	Section 906 Certification of Chief Financial Officer.
101o	The following materials from the Quarterly Report on Form 10-Q of DISH Network for the quarter ended June 30, 2012, filed on August 10, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Condensed Consolidated Statements of Cash Flows and (iv) related notes to these financial statements.

o Filed herewith.

* Incorporated by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DISH NETWORK CORPORATION

By: */s/ Joseph P. Clayton*
Joseph P. Clayton
President and Chief Executive Officer
(Duly Authorized Officer)

By: */s/ Robert E. Olson*
Robert E. Olson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 10, 2012