DISH Network CORP
Form 10-Q
August 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010.

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File Number: 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 ¨

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 ¨

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 ¨
Non-Accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

As of July 26, 2010, the registrant s outstanding common stock consisted of 209,345,179 shares of Class A common stock and 238,435,208 shares of Class B common stock.

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PART I FINANCIAL INFORMATION

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

Weak economic conditions, including higher unemployment and reduced consumer spending, may adversely affect our ability to grow or maintain our business.

We face intense and increasing competition from satellite television providers, cable television providers and telecommunications companies which may require us to increase subscriber acquisition and retention spending or accept lower subscriber acquisitions and higher subscriber churn.

If we do not maintain our operational performance and customer satisfaction, our gross new subscriber additions may decrease and our subscriber churn may increase.

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

If we are unsuccessful in overturning the District Court s ruling on Tivo s motion for contempt, we are not successful in developing and deploying potential new alternative technology and we are unable to reach a license agreement with Tivo on reasonable terms, we would be subject to substantial liability and would be prohibited from offering DVR functionality that would result in a significant loss of subscribers and place us at a significant disadvantage to our competitors.

Emerging digital media competition including companies that provide/facilitate the delivery of video content via the Internet could materially adversely affect us.

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 additions may decline and subscriber churn may increase.

We may be required to make substantial additional investments to maintain competitive high definition, or HD, programming offerings.

Technology in our industry changes rapidly and could cause our services and products to become obsolete.

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.

AT&T s termination of its distribution agreement with us may increase churn.

As technology changes, and to remain competitive, we may have to upgrade or replace subscriber equipment and make substantial investments in our infrastructure.

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

We rely on one or a limited number of vendors, and the inability of these key vendors to meet our needs could have a material adverse effect on our business.

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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 Network services that represent a significant percentage of our total gross subscriber acquisitions.

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

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

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

Our local programming strategy faces uncertainty because we may not be able to obtain necessary retransmission consents from local network stations.

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.

We have made a substantial investment in certain 700 MHz wireless licenses and will be required to make significant additional investments or partner with others to commercialize these licenses and recoup our investment.

We have substantial debt outstanding and may incur additional debt.

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

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

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

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

We generally do not have commercial insurance coverage on the satellites we own 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.

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

We 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.

Our business depends on Federal Communications Commission, or 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 HD carry-one-carry-all requirements that cause capacity constraints.

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

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We are controlled by one principal stockholder who is also our Chairman, President and Chief Executive Officer.

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.

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

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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, 2010	**December 31, 2009**
Assets		
Current Assets:		
Cash and cash equivalents	$ 308,447	$ 105,844
Marketable investment securities	2,286,031	2,033,492
Trade accounts receivable - other, net of allowance for doubtful accounts of $19,247 and $16,372, respectively	815,295	741,524
Trade accounts receivable - EchoStar, net of allowance for doubtful accounts of zero	11,498	38,347
Inventory	464,912	295,950
Deferred tax assets	144,114	139,708
Prepaid income taxes		35,106
Other current assets	71,208	85,981
Total current assets	4,101,505	3,475,952
Noncurrent Assets:		
Restricted cash and marketable investment securities	144,776	141,493
Property and equipment, net of accumulated depreciation of $2,626,474 and $2,487,092, respectively	3,150,962	3,042,262
FCC authorizations	1,391,441	1,391,441
Marketable and other investment securities	170,760	170,224
Other noncurrent assets, net	71,575	73,971
Total noncurrent assets	4,929,514	4,819,391
Total assets	$ 9,031,019	$ 8,295,343
Liabilities and Stockholders Equity (Deficit)		
Current Liabilities:		
Trade accounts payable - other	$ 156,490	$ 146,824
Trade accounts payable - EchoStar	339,146	373,454
Deferred revenue and other	820,525	815,878
Accrued programming	1,066,488	985,928
Tivo litigation accrual	454,468	393,566
Other accrued expenses	627,132	545,113
Current portion of long-term debt and capital lease obligations	28,694	26,518
Total current liabilities	3,492,943	3,287,281
Long-Term Obligations, Net of Current Portion:		
Long-term debt and capital lease obligations, net of current portion	6,477,876	6,470,046
Deferred tax liabilities	357,709	312,775

Long-term deferred revenue, distribution and carriage payments and other long-term liabilities	282,798	316,929
Total long-term obligations, net of current portion	7,118,383	7,099,750
Total liabilities	10,611,326	10,387,031
Commitments and Contingencies (Note 10)		
Stockholders Equity (Deficit):		
Class A common stock, $.01 par value, 1,600,000,000 shares authorized, 260,627,248 and 258,852,336 shares issued, 209,714,697 and 208,754,183 shares outstanding, respectively	2,606	2,589
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	2,162,985	2,120,211
Accumulated other comprehensive income (loss)	802	5,614
Accumulated earnings (deficit)	(2,272,652)	(2,760,589)
Treasury stock, at cost	(1,476,877)	(1,462,380)
Total DISH Network stockholders equity (deficit)	(1,580,752)	(2,092,171)
Noncontrolling interest	445	483
Total stockholders equity (deficit)	(1,580,307)	(2,091,688)
Total liabilities and stockholders equity (deficit)	$ 9,031,019	$ 8,295,343

The accompanying notes are an integral part of the 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,	
	2010	2009	2010	2009
Revenue:				
Subscriber-related revenue	$ 3,141,326	$ 2,878,115	$ 6,177,459	$ 5,743,054
Equipment sales and other revenue	16,507	19,137	30,337	51,483
Equipment sales - EchoStar	1,281	2,526	2,193	5,209
Services and other revenue - EchoStar	9,928	3,923	16,448	9,276
Total revenue	3,169,042	2,903,701	6,226,437	5,809,022
Costs and Expenses:				
Subscriber-related expenses (exclusive of depreciation shown below - Note 6)	1,648,458	1,532,076	3,287,820	3,082,154
Satellite and transmission expenses (exclusive of depreciation shown below - Note 6):				
EchoStar	107,107	87,198	208,585	167,955
Other	10,102	8,718	20,088	15,739
Equipment, services and other cost of sales	22,004	27,094	38,906	67,593
Subscriber acquisition costs:				
Cost of sales - subscriber promotion subsidies - EchoStar (exclusive of depreciation shown below - Note 6)	39,733	71,786	66,636	95,922
Other subscriber promotion subsidies	266,428	248,171	580,111	465,731
Subscriber acquisition advertising	99,229	68,315	170,656	118,822
Total subscriber acquisition costs	405,390	388,272	817,403	680,475
General and administrative expenses - EchoStar	11,539	12,413	22,969	23,555
General and administrative expenses	143,477	143,466	282,867	269,231
Tivo litigation expense	30,709	196,405	60,902	196,405
Depreciation and amortization (Note 6)	264,446	245,300	504,108	468,593
Total costs and expenses	2,643,232	2,640,942	5,243,648	4,971,700
Operating income (loss)	525,810	262,759	982,789	837,322
Other Income (Expense):				
Interest income	6,314	11,262	12,091	16,046
Interest expense, net of amounts capitalized	(114,690)	(91,132)	(227,637)	(175,069)
Other, net	(3,728)	(44,334)	927	(40,157)
Total other income (expense)	(112,104)	(124,204)	(214,619)	(199,180)

Income (loss) before income taxes	413,706	138,555	768,170	638,142
Income tax (provision) benefit, net	(156,722)	(75,135)	(280,271)	(262,038)
Net income (loss)	256,984	63,420	487,899	376,104
Less: Net income (loss) attributable to noncontrolling interest	(6)		(38)	
Net income (loss) attributable to DISH Network common shareholders	$ 256,990	$ 63,420	$ 487,937	$ 376,104
Comprehensive Income (Loss):				
Net income (loss)	$ 256,984	$ 63,420	$ 487,899	$ 376,104
Foreign currency translation adjustments		274		(106)
Unrealized holding gains (losses) on available-for-sale securities	(21,977)	59,155	(3,709)	44,807
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	(826)	7,171	(1,103)	5,455
Deferred income tax (expense) benefit		(103)		128
Comprehensive income (loss)	234,181	129,917	483,087	426,388
Less: Comprehensive income (loss) attributable to noncontrolling interest	(6)		(38)	
Comprehensive income (loss) attributable to DISH Network common shareholders	$ 234,187	$ 129,917	$ 483,125	$ 426,388
Weighted-average common shares outstanding - Class A and B common stock:				
Basic	447,986	446,752	447,362	446,813
Diluted	448,868	447,421	448,182	448,263
Earnings per share - Class A and B common stock:				
Basic net income (loss) per share attributable to DISH Network common shareholders	$ 0.57	$ 0.14	$ 1.09	$ 0.84
Diluted net income (loss) per share attributable to DISH Network common shareholders	$ 0.57	$ 0.14	$ 1.09	$ 0.84

The accompanying notes are an integral part of the 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, 2010	2009
Cash Flows From Operating Activities:		
Net income (loss)	$ 487,899	$ 376,104
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	504,108	468,593
Equity in losses (earnings) of affiliates		4,149
Realized and unrealized losses (gains) on investments	(3,701)	39,687
Non-cash, stock-based compensation	9,210	7,275
Deferred tax expense (benefit)	39,903	29,819
Other, net	10,775	2,412
Change in noncurrent assets	(1,227)	5,095
Change in long-term deferred revenue, distribution and carriage payments and other long-term liabilities	(34,131)	47,606
Changes in current assets and current liabilities, net	103,025	265,103
Net cash flows from operating activities	1,115,861	1,245,843
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(3,008,617)	(1,767,305)
Sales and maturities of marketable investment securities	2,746,086	1,094,018
Purchases of property and equipment	(537,279)	(466,733)
Launch service assigned from EchoStar (Note 11)	(102,913)	
Change in restricted cash and marketable investment securities	(3,280)	(62,473)
Proceeds from sale of strategic investments	16,413	
Other	(227)	(529)
Net cash flows from investing activities	(889,817)	(1,203,022)
Cash Flows From Financing Activities:		
Repayment of long-term debt and capital lease obligations	(12,780)	(11,814)
Class A common stock repurchases	(14,497)	(18,594)
Net proceeds from Class A common stock options exercised and issued under the Employee Stock Purchase Plan	3,836	1,874
Net cash flows from financing activities	(23,441)	(28,534)
Net increase (decrease) in cash and cash equivalents	202,603	14,287
Cash and cash equivalents, beginning of period	105,844	98,574
Cash and cash equivalents, end of period	$ 308,447	$ 112,861
Supplemental Disclosure of Cash Flow Information:		

Cash paid for interest	$ 237,977	$ 177,614
Capitalized interest	$ 14,803	$ 8,451
Cash received for interest	$ 20,610	$ 8,321
Cash paid for income taxes	$ 232,059	$ 245,976
Employee benefits paid in Class A common stock	$ 29,127	$ 12,198
Vendor financing	$ 22,000	$
Satellites and other assets financed under capital lease obligations	$ 786	$ 130,714

The accompanying notes are an integral part of the 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) operate the DISH Network® direct broadcast satellite (DBS) subscription television service in t United States which had 14.318 million subscribers as of June 30, 2010. We have deployed substantial resources to develop the DISH Network DBS System. The DISH Network DBS System consists of our licensed Federal Communications Commission (FCC) authorized DBS and Fixed Satellite Service (FSS) spectrum, our owned and leased satellites, receiver systems, third-party broadcast operations, customer service facilities, in-home service and call center operations and certain other assets utilized in our operations.

On January 1, 2008, we completed a distribution of our technology and set-top box business and certain infrastructure assets (the Spin-off) into a separate publicly-traded company, EchoStar Corporation (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, President and Chief Executive Officer or by certain trusts established by Mr. Ergen for the benefit of his family.

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, 2009 (2009 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, 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

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

combinations, capital leases, asset impairments, useful lives of property, equipment and intangible assets, retailer incentives, programming expenses, subscriber lives and royalty obligations. Weakened 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 of Financial Instruments

The carrying value for cash and cash equivalents, marketable investment securities, trade accounts receivable, net of allowance for doubtful accounts, and current liabilities is equal to or approximates fair value due to their short-term nature. See Note 7 for the fair value of our long-term debt.

New Accounting Pronouncements

Revenue Recognition Multiple-Deliverable Arrangements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2009-13 (ASU 2009-13), Revenue Recognition - Multiple-Deliverable Revenue Arrangements. ASU 2009-13 changes the requirements for establishing separate units of accounting in a multiple deliverable arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. We are currently evaluating the impact, if any, ASU 2009-13 will have on our consolidated financial statements, when adopted, as required, on January 1, 2011.

Embedded Credit Derivatives

In March 2010, the FASB issued Accounting Standards Update 2010-11 (ASU 2010-11), Derivatives and Hedging: Scope Exception Related to Embedded Credit Derivatives. ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from certain bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption - one that is related to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than subordination may need to separately account for the embedded credit derivative feature.

On July 1, 2010, we elected to apply the fair value option to certain of our auction rate securities (ARS) impacted by ASU 2010-11. As a result, a $50 million loss, net of tax, related to these ARS in Accumulated other comprehensive income (loss) within Total stockholders equity (deficit) as of June 30, 2010 will be included as a cumulative-effect adjustment to beginning Accumulated earnings (deficit) effective January 1, 2010. All changes in the fair value of these investments after June 30, 2010 will be recognized in our results of operations.

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

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 common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock awards were exercised and convertible securities were converted to common stock.

The potential dilution from our subordinated notes convertible into common stock was computed using the if converted method. 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,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Basic net income (loss) attributable to DISH Network common shareholders	$ 256,990	$ 63,420	$ 487,937	$ 376,104
Interest on dilutive subordinated convertible note, net of related tax effect				234
Diluted net income (loss) attributable to DISH Network common shareholders	$ 256,990	$ 63,420	$ 487,937	$ 376,338
Weighted-average common shares outstanding - Class A and B common stock:				
Basic	447,986	446,752	447,362	446,813
Dilutive impact of stock awards outstanding	882	669	820	968
Dilutive impact of subordinated note convertible into common shares				482
Diluted	448,868	447,421	448,182	448,263
Earnings per share - Class A and B common stock:				
Basic net income (loss) per share attributable to DISH Network common shareholders	$ 0.57	$ 0.14	$ 1.09	$ 0.84
Diluted net income (loss) per share attributable to DISH Network common shareholders	$ 0.57	$ 0.14	$ 1.09	$ 0.84
Shares of Class A common stock issuable upon conversion of:				
3% Convertible Subordinated Note due 2011 (repaid in October 2009)		482		482

As of June 30, 2010 and 2009, there were stock awards to purchase 10.6 million shares and 10.7 million shares, respectively, of Class A common stock outstanding, not included in the weighted-average common shares outstanding above, as their effect is antidilutive.

Vesting of options and rights to acquire shares of our Class A common stock (Restricted Performance Units) granted pursuant to our performance-based stock incentive plans is contingent upon meeting certain goals 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,	
	2010	2009
	(In thousands)	
Performance-based options	11,070	10,300
Restricted Performance Units and other	1,571	1,126
Total	12,641	11,426

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

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

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

	As of	
	June 30, 2010	December 31, 2009
	(In thousands)	
Marketable investment securities:		
Current marketable investment securities - VRDNs	$ 1,455,133	$ 1,053,826
Current marketable investment securities - strategic	233,186	163,997
Current marketable investment securities - other	597,712	815,669
Total current marketable investment securities	2,286,031	2,033,492
Restricted marketable investment securities (1)	20,657	21,360
Noncurrent marketable investment securities - ARS and MBS (2)	121,186	120,650
Total marketable investment securities	2,427,874	2,175,502
Restricted cash and cash equivalents (1)	124,119	120,133
Other investment securities:		
Other investment securities - cost method	49,574	49,574
Total other investment securities (2)	49,574	49,574
Total marketable investment securities, restricted cash and other investment securities	$ 2,601,567	$ 2,345,209

(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.

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, 2010, a significant portion of our strategic investment portfolio consisted of securities of several issuers and the value of that portfolio depends on those issuers.

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(Unaudited)

We account for certain debt securities acquired at a discount under the cost recovery method, partial accrual or full accrual methods based on management s quarterly evaluation of these securities. These debt securities were purchased at a discount due to their credit quality. As a result, the yield that may be accreted (accretable yield) is limited to the excess of our estimate of undiscounted expected principal, interest, and other cash flows (including the effects of prepayments) expected to be collected over our initial investment. The face value of these securities as of June 30, 2010 and December 31, 2009 was $137 million. The carrying value, which is equal to fair value, of these securities as of June 30, 2010 and December 31, 2009 was $81 million and $80 million, respectively. The total discount on these securities was $89 million as of June 30, 2010 with $10 million classified as accretable yield and the remaining $79 million classified as non-accretable yield. The total discount on these securities was $91 million as of December 31, 2009 with $12 million classified as accretable yield and the remaining $79 million classified as non-accretable yield.

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, 2010 and December 31, 2009, our restricted marketable investment securities, together with our restricted cash, included amounts required as collateral for our letters of credit or surety bonds. Restricted cash and marketable investment securities as of June 30, 2010 included $62 million related to our litigation with Tivo.

Noncurrent Marketable Investment Securities ARS and MBS

We have investments in ARS and MBS which are classified as available-for-sale securities and 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. See Note 2 for further discussion on the July 1, 2010 fair value election on certain ARS investments.

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.

Other Investment Securities

We have a few strategic investments in certain debt and equity securities that are included in noncurrent Marketable and other investment securities on our Condensed Consolidated Balance Sheets 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.

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Unrealized Gains (Losses) on Marketable Investment Securities

As of June 30, 2010 and December 31, 2009, we had accumulated net unrealized losses of $8 million and $3 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 the net deferred tax assets associated with these unrealized capital losses. The components of our available-for-sale investments are detailed in the table below.

	As of June 30, 2010				As of December 31, 2009			
	Marketable Investment Securities	Unrealized Gains	Unrealized Losses	Net	Marketable Investment Securities	Unrealized Gains	Unrealized Losses	Net
				(In thousands)				
Debt securities:								
VRDNs	$ 1,455,133	$ 1	$	$ 1	$ 1,053,826	$ 1	$ (3)	$ (2)
ARS and MBS	121,186	1,474	(64,597)	(63,123)	120,650	1,114	(69,167)	(68,053)
Other (including restricted)	699,369	38,724	(2,735)	35,989	917,069	39,490	(1,645)	37,845
Equity securities:								
Other	152,186	49,934	(30,408)	19,526	83,957	27,415		27,415
Total marketable investment securities	$ 2,427,874	$ 90,133	$ (97,740)	$ (7,607)	$ 2,175,502	$ 68,020	$ (70,815)	$ (2,795)

As of June 30, 2010, restricted and non-restricted marketable investment securities include debt securities of $2.090 billion with contractual maturities of one year or less and $186 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.

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, 2010, the unrealized losses on our investments in equity securities represent investments in broad-based indexes and in several companies in the technology industry. 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, 2010 and December 31, 2009, the unrealized losses on our investments in debt securities primarily represent investments in auction rate, mortgage and asset-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, 2010					
	Primary	Total	Less than Six Months		Six to Nine Months		Nine Months or More	
Investment Category	Reason for Unrealized Loss	Fair Value	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
					(In thousands)			
Debt securities		$ 415,162	$ 212,932	$ (962)	$ 30,775	$ (86)	$ 171,455	$ (66,284)

	Temporary market fluctuations							
Equity securities	Temporary market fluctuations	95,710	95,710	(30,408)				
Total		$ 510,872	$ 308,642	$ (31,370)	$ 30,775	$ (86)	$ 171,455	$ (66,284)

		As of December 31, 2009 (In thousands)						
Debt securities	Temporary market fluctuations	$ 348,995	$ 180,359	$ (306)	$ 7,535	$ (45)	$ 161,101	$ (70,464)
Total		$ 348,995	$ 180,359	$ (306)	$ 7,535	$ (45)	$ 161,101	$ (70,464)

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(Unaudited)

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 including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring assumptions based on the best information available.

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

	Total Fair Value As of June 30, 2010				Total Fair Value As of December 31, 2009			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(In thousands)							
Debt securities:								
VRDNs	$ 1,455,133	$	$ 1,455,133	$	$ 1,053,826	$	$ 1,053,826	$
ARS and MBS	121,186		7,153	114,033	120,650		7,907	112,743
Other (including restricted)	699,369	20,661	622,805	55,903	917,069	22,031	894,770	268
Equity securities	152,186	152,186			83,957	83,957		
Total marketable investment securities	$ 2,427,874	$ 172,847	$ 2,085,091	$ 169,936	$ 2,175,502	$ 105,988	$ 1,956,503	$ 113,011

Changes in Level 3 instruments are as follows:

	Total	Level 3 Current and Noncurrent Marketable Investment Securities	Other Investment Securities
		(In thousands)	

Balance as of December 31, 2009	$ 113,011	$ 113,011	$
Net realized/unrealized gains (losses) included in earnings	(1,156)	(1,156)	
Net realized/unrealized gains (losses) included in other comprehensive income (loss)	4,040	4,040	
Purchases, issuances and settlements, net	(1,782)	(1,782)	
Transfers from level 2 to level 3	55,823	55,823	
Balance as of June 30, 2010	$ 169,936	$ 169,936	$

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(Unaudited)

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:

Other Income (Expense):	For the Three Months Ended June 30, 2010	2009	For the Six Months Ended June 30, 2010	2009
	(In thousands)			
Marketable investment securities - gains (losses) on sales/exchange	$	$ (11,994)	$ (49)	$ (4,732)
Other investment securities - gains (losses) on sales	52		1,604	
Other investment securities - unrealized gains (losses) on fair value investments and other-than-temporary impairments	(877)	(34,020)	2,146	(34,955)
Other	(2,903)	1,680	(2,774)	(470)
Total	$ (3,728)	$ (44,334)	$ 927	$ (40,157)

5. Inventory

Inventory consists of the following:

	As of June 30, 2010	December 31, 2009
	(In thousands)	
Finished goods - DBS	$ 243,667	$ 199,189
Raw materials	183,983	60,837
Work-in-process - used	33,982	34,204
Work-in-process - new	3,280	1,720
Inventory	$ 464,912	$ 295,950

As of June 30, 2010, our inventory balance was $465 million, an increase of $169 million. The increase is due to higher than normal inventory levels at June 30, 2010 as a result of anticipated activation volume. In addition, the lower than normal balance at December 31, 2009 primarily related to the impact of subscriber additions and reduced churn during the last half of 2009.

6. Property and Equipment

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,	
	2010	2009	2010	2009
	(In thousands)			
Equipment leased to customers	$ 225,348	$ 207,382	$ 430,746	$ 399,950
Satellites	25,699	22,181	47,882	42,064
Buildings, furniture, fixtures, equipment and other	13,399	15,737	25,480	26,579
Total depreciation and amortization	$ 264,446	$ 245,300	$ 504,108	$ 468,593

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.

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(Unaudited)

Satellites

We currently utilize 14 satellites in geostationary orbit approximately 22,300 miles above the equator, six of which we own. Each of the owned satellites had an original estimated minimum useful life of at least 12 years. We currently lease capacity on six satellites from EchoStar with terms ranging from two to ten years. We account for these as operating leases. See Note 11 for further discussion of our satellite leases with EchoStar. We also lease two satellites from third parties, which are accounted for as capital leases and are depreciated over the shorter of the economic life or the term of the satellite agreement.

Operation of our programming 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 HD national 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 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.

Certain satellites in our fleet have experienced anomalies, some of which have had a significant adverse impact on their remaining life and commercial operation. There can be no assurance that future anomalies will not further impact the remaining life and commercial operation of any of these satellites. See *Long-Lived Satellite Assets* below for further discussion of evaluation of impairment. There can be no assurance that we can recover critical transmission capacity in the event one or more of our in-orbit satellites were to fail. We do not anticipate carrying insurance for any of the in-orbit satellites that we own, and therefore will bear the risk of any in-orbit failures. Recent developments with respect to our satellites are discussed below.

Owned Satellites

***EchoStar XIV*.** Our EchoStar XIV satellite was launched on March 20, 2010, and commenced commercial operations at the 119 degree orbital location during May 2010. EchoStar XIV is a combination full continental United States (CONUS) and spot beam satellite that will allow us, among other things, to expand our HD offerings.

***EchoStar XV*.** Our EchoStar XV satellite was launched on July 10, 2010, and commenced commercial operations at the 61.5 degree orbital location during August 2010. EchoStar XV is a CONUS satellite that will allow us, among other things, to expand our HD offerings.

Leased Satellites

***EchoStar III*.** EchoStar III was originally designed to operate a maximum of 32 DBS transponders in CONUS mode at approximately 120 watts per channel, switchable to 16 transponders operating at over 230 watts per channel, and was equipped with a total of 44 traveling wave tube amplifiers (TWTAs) to provide redundancy. As a result of TWTA failures in previous years and during January and May 2010, only 12 transponders are currently available for use. It is likely that additional TWTA failures will occur from time to time in the future and such failures could further impact commercial operation of the satellite.

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Long-Lived Satellite Assets

We evaluate our 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.

7. Long-Term Debt

Fair Value of our Long-Term Debt

The following table summarizes the carrying and fair values of our debt facilities as of June 30, 2010 and December 31, 2009:

	As of			
	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
6 3/8 % Senior Notes due 2011	$ 1,000,000	$ 1,026,500	$ 1,000,000	$ 1,028,750
7% Senior Notes due 2013	500,000	518,750	500,000	515,000
6 5/8 % Senior Notes due 2014	1,000,000	1,000,000	1,000,000	1,010,000
7 3/4 % Senior Notes due 2015	750,000	772,500	750,000	789,375
7 1/8 % Senior Notes due 2016	1,500,000	1,503,750	1,500,000	1,548,750
7 7/8 % Senior Notes due 2019	1,400,000	1,468,250	1,400,000	1,473,500
Mortgages and other notes payable	62,273	62,273	42,107	42,107
Subtotal	$ 6,212,273	$ 6,352,023	$ 6,192,107	$ 6,407,482
Capital lease obligations (1)	294,297		304,457	
Total long-term debt and capital lease obligations (including current portion)	$ 6,506,570		$ 6,496,564	

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

8. Stockholders Equity (Deficit)

Common Stock Repurchase Program

Our Board of Directors previously authorized stock repurchases of up to $1.0 billion of our Class A common stock. During the six months ended June 30, 2010, we repurchased 0.8 million shares of our common stock for $14 million. As of June 30, 2010, we may repurchase up to $986 million under this plan.

9. Stock-Based Compensation

Stock Incentive Plans

We maintain stock incentive plans to attract and retain officers, directors and key employees. Stock awards under these plans include both performance and non-performance based stock incentives. As of June 30, 2010, we had outstanding under these plans stock options to acquire 22.5 million shares of our Class A common stock and 1.7 million restricted stock units. Stock options granted prior to and on June 30, 2010 were granted with exercise prices equal to or greater than the market value of our Class A common stock at the date of grant and with a maximum term of ten years. While historically we have issued stock awards subject to vesting, typically at the rate of 20% 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, 2010, we had 76.3 million shares of our Class A common stock available for future grant under our stock incentive plans.

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During December 2009, 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 20, 2009. In light of such dividend, during February 2010, the exercise price of 20.6 million stock options, affecting approximately 700 employees, was reduced by $2.00 per share (the Stock Option Adjustment). Except as noted below, all information discussed below reflects the Stock Option Adjustment.

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.

As of June 30, 2010, the following stock awards were outstanding:

	As of June 30, 2010			
	DISH Network Awards		EchoStar Awards	
Stock Awards Outstanding	Stock Options	Restricted Stock Units	Stock Options	Restricted Stock Units
Held by DISH Network employees	18,814,801	1,334,326	1,086,364	59,767
Held by EchoStar employees	3,653,102	379,103	N/A	N/A
Total	22,467,903	1,713,429	1,086,364	59,767

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.

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(Unaudited)

Stock Award Activity

Our stock option activity for the six months ended June 30, 2010 was as follows:

	For the Six Months Ended June 30, 2010	
	Options	Weighted-Average Exercise Price
Total options outstanding, beginning of period (1)	21,861,691	$ 21.71
Granted	2,304,500	18.29
Exercised	(309,013)	8.94
Forfeited and cancelled	(1,389,275)	22.38
Total options outstanding, end of period	22,467,903	18.62
Performance-based options outstanding, end of period (2)	11,070,000	15.94
Exercisable at end of period	7,544,523	22.97

(1) The beginning of period weighted-average exercise price of $21.71 does not reflect the Stock Option Adjustment, which occurred subsequent to December 31, 2009.

(2) These stock options, which are included in the caption Total options outstanding, end of period, were issued pursuant to performance-based stock incentive plans. Vesting of these stock options is contingent upon meeting certain company goals which are not yet probable of being achieved. See discussion of the 2005 LTIP, 2008 LTIP and other employee performance awards below.

We realized tax benefits from stock awards exercised during the three and six months ended June 30, 2010 and 2009 as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Tax benefit from stock awards exercised	$ 1,184	$ 15	$ 1,271	$ 15

Based on the closing market price of our Class A common stock on June 30, 2010, the aggregate intrinsic value of our stock options was as follows:

As of June 30, 2010

	Options Outstanding	Options Exercisable
	(In thousands)	
Aggregate intrinsic value	$ 64,050	$ 6,167

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(Unaudited)

Our restricted stock unit activity for the six months ended June 30, 2010 was as follows:

	For the Six Months Ended June 30, 2010	
	Restricted Stock Units	Weighted-Average Grant Date Fair Value
Total restricted stock units outstanding, beginning of period	1,246,284	$ 25.93
Granted	600,000	18.15
Vested		
Forfeited and cancelled	(132,855)	23.55
Total restricted stock units outstanding, end of period	1,713,429	23.39
Restricted performance units outstanding, end of period (1)	1,570,679	22.67

(1) These restricted performance units, which are included in the caption Total restricted stock units outstanding, end of period, were issued pursuant to performance-based stock incentive plans. Vesting of these restricted performance units is contingent upon meeting certain company goals which are not yet probable of being achieved. 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 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 addition 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, 2010, that assessment could change at any time.

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, 2010, we would have recorded total non-cash, stock-based compensation expense for our employees as indicated in the table below. If the goal is met and there are unvested stock awards at that time, the vested amounts would be expensed immediately on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), with the unvested portion recognized ratably over the remaining vesting period.

	2005 LTIP Total

		Vested Portion
	(In thousands)	
DISH Network awards held by DISH Network employees	$ 38,744	$ 17,906
EchoStar awards held by DISH Network employees	7,586	3,500
Total	$ 46,330	$ 21,406

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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.

During 2009, we generated cumulative free cash flow in excess of $1.0 billion, which resulted in approximately 10% of the 2008 LTIP stock awards vesting. We recorded non-cash, stock-based compensation expense as indicated in the table below. Additional compensation related to the 2008 LTIP 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 and stock awards vest, we will recognize the additional non-cash, stock-based compensation expense on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) over the term of this stock incentive plan.

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 and financial goals. Exercise of these stock awards is contingent on achieving certain performance goals within specified time frames. During the six months ended June 30, 2010, we determined that certain performance goals were probable of achievement and, as a result, recorded non-cash, stock-based compensation expense as indicated in the table below.

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 and stock awards vest, we will recognize the additional non-cash, stock-based compensation expense on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) over the term of this stock incentive plan.

Given the competitive nature of our business, small variations in subscriber churn, gross new subscriber addition 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, 2010, that assessment could change at any time.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
2008 LTIP	$ 1,028	$ 809	$ 1,611	$ 1,357
Other employee performance awards	(76)	72	232	145
Total non-cash, stock-based compensation expense recognized for performance-based awards	$ 952	$ 881	$ 1,843	$ 1,502

Estimated Remaining Non-Cash, Stock-Based Compensation Expense	2008 LTIP	Other Employee Performance Awards
	(In thousands)	
Remaining expense estimated to be recognized during 2010	$ 1,053	$ 316
Estimated contingent expense subsequent to 2010	28,061	42,253

Total estimated remaining expense over the term of the plan	$ 29,114	$ 42,569

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(Unaudited)

Of the 22.5 million stock options and 1.7 million restricted stock units outstanding under our stock incentive plans as of June 30, 2010, the following awards were outstanding pursuant to our performance-based stock incentive plans:

	As of June 30, 2010	
Performance-Based Stock Options	**Number of Awards**	**Weighted-Average Exercise Price**
2005 LTIP	3,560,750	$ 23.00
2008 LTIP	5,509,250	10.48
Other employee performance awards	2,000,000	18.41
Total	11,070,000	15.94
Restricted Performance Units and Other		
2005 LTIP	483,911	
2008 LTIP	54,750	
Other employee performance awards	1,032,018	
Total	1,570,679	

Stock-Based Compensation

During the six months ended June 30, 2010, we incurred $3 million of additional non-cash, stock-based compensation cost in connection with the 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 for the three and six months ended June 30, 2010 and 2009 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,	
	2010	2009	2010	2009
	(In thousands)			
Subscriber-related	$ 234	$ 247	$ 683	$ 506
General and administrative	2,660	3,819	8,527	6,769
Total non-cash, stock-based compensation	$ 2,894	$ 4,066	$ 9,210	$ 7,275

As of June 30, 2010, our total unrecognized compensation cost related to our non-performance based unvested stock awards was $24 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 4.1% per year and will be recognized over a weighted-average period of approximately three years. Share-based compensation expense is recognized based on stock awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Changes in the estimated forfeiture rate can have a significant effect on share-based compensation expense since the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

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Valuation

The fair value of each stock award for the three and six months ended June 30, 2010 and 2009 was estimated at the date of the grant using a Black-Scholes option valuation model with the following assumptions:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Stock Options	**2010**	**2009**	**2010**	**2009**
Risk-free interest rate	2.07% - 2.60%	2.86% - 3.19%	2.07% - 2.89%	1.97% - 3.19%
Volatility factor	33.33% - 36.29%	31.78% - 33.59%	33.33% - 36.29%	29.72% - 33.59%
Expected term of options in years	5.7 - 7.5	6.1 - 7.0	5.7 - 7.5	6.0 - 7.3
Weighted-average fair value of options granted	$ 6.83 - $7.54	$ 6.19 - $6.53	$ 6.83 - $8.14	$ 3.86 - $6.53

In December 2009, we paid a $2.00 cash dividend per share on our outstanding Class A and Class B common stock. We do not currently intend to pay additional dividends on our common stock and accordingly, the dividend yield percentage used in the Black-Scholes option valuation model is set at zero for all periods. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded stock options which have no vesting restrictions and are fully transferable. Consequently, our estimate of fair value may differ from other valuation models. Further, the Black-Scholes option valuation model requires the input of subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate. Therefore, we do not believe the existing models provide as reliable a single measure of the fair value of stock-based compensation awards as a market-based model would.

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

10. Commitments and Contingencies

Commitments

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 $312 million over the next five years.

In addition, during the third quarter 2009, EchoStar entered into a new satellite transponder service agreement for Nimiq 5 through 2024. We sublease this capacity from EchoStar and also guarantee a certain portion of its obligation under this agreement through 2019. As of June 30, 2010, the remaining obligation under this agreement was $575 million.

As of June 30, 2010, we have not recorded a liability on the balance sheet for any of these guarantees.

Contingencies

In connection with the Spin-off, we entered into a separation agreement with EchoStar, which 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 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.

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Acacia

During 2004, Acacia Media Technologies (Acacia) filed a lawsuit against us and EchoStar in the United States District Court for the Northern District of California. The suit also named DirecTV, Comcast, Charter, Cox and a number of smaller cable companies as defendants. Acacia is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. The suit alleges infringement of United States Patent Nos. 5,132,992; 5,253,275; 5,550,863; 6,002,720; and 6,144,702, which relate to certain systems and methods for transmission of digital data. On September 25, 2009, the District Court granted summary judgment to the defendants on invalidity grounds, and dismissed the action with prejudice. The plaintiffs have appealed.

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 user-friendly 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.

Broadcast Innovation, L.L.C.

During 2001, Broadcast Innovation, L.L.C. (Broadcast Innovation) filed a lawsuit against us, EchoStar, DirecTV, Thomson Consumer Electronics and others in United States District Court in Denver, Colorado. Broadcast Innovation is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. The suit alleges infringement of United States Patent Nos. 6,076,094 (the 094 patent) and 4,992,066 (the 066 patent). The 094 patent relates to certain methods and devices for transmitting and receiving data along with specific formatting information for the data. The 066 patent relates to certain methods and devices for providing the scrambling circuitry for a pay television system on removable cards. Subsequently, DirecTV and Thomson settled with Broadcast Innovation leaving us as the only defendant.

During 2004, the District Court issued an order finding the 066 patent invalid. Also in 2004, the District Court found the 094 patent invalid in a parallel case filed by Broadcast Innovation against Charter and Comcast. In 2005, the United States Court of Appeals for the Federal Circuit overturned that finding of invalidity with respect to the 094 patent and remanded the Charter case back to the District Court. During June 2006, Charter filed a reexamination request with the United States Patent and Trademark Office. The District Court has stayed the Charter case pending reexamination, and our case has been stayed pending resolution of the Charter case.

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 user-friendly 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 us 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 granted defendants motion to dismiss with prejudice. The plaintiffs have appealed. 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.

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ESPN

During 2008, we 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. ESPN asserted a counterclaim, and then filed a motion for summary judgment, alleging that we owed approximately $35 million under the applicable affiliation agreements. We brought a motion to amend our complaint to assert that ESPN was in breach of certain most-favored-nation provisions under the applicable affiliation agreements. On April 15, 2009, the trial court granted our motion to amend the complaint, and granted, in part, ESPN s motion 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. We appealed the partial grant of ESPN s motion to the New York trial court. After the partial grant of ESPN s motion, ESPN sought an additional $30 million under the applicable affiliation agreements. On March 15, 2010, the trial court affirmed the prior grant of ESPN s motion and ruled that we owe the full amount of approximately $65 million under the applicable affiliation agreement. Although the court ruled we owe approximately $65 million, there can be no assurance that ESPN will not seek, and that the court will not award, an amount that exceeds this amount. We have appealed the court s ruling. We intend to vigorously prosecute and 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.

Finisar Corporation

Finisar Corporation (Finisar) obtained a $100 million verdict in the United States District Court for the Eastern District of Texas against DirecTV for patent infringement. Finisar, an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein, alleged that DirecTV s electronic program guide and other elements of its system infringe United States Patent No. 5,404,505 (the 505 patent).

During 2006, we and EchoStar, together with NagraStar LLC, filed a Complaint for Declaratory Judgment in the United States District Court for the District of Delaware against Finisar that asks the Court to declare that we do not infringe, and have not infringed, any valid claim of the 505 patent. Finisar brought counterclaims against us, EchoStar and NagraStar alleging that we infringed the 505 patent. During April 2008, the Federal Circuit reversed the judgment against DirecTV and ordered a new trial. On remand, the District Court granted summary judgment in favor of DirecTV and during January 2010, the Federal Circuit affirmed the District Court s grant of summary judgment, and dismissed the action with prejudice. Finisar then agreed to dismiss its counterclaims against us, EchoStar and NagraStar without prejudice. We also agreed to dismiss our Declaratory Judgment action without prejudice.

Katz Communications

During 2007, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a patent infringement action against us 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.

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 user-friendly 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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NorthPoint Technology

On July 2, 2009, NorthPoint Technology, Ltd. 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.

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.

Personalized Media Communications

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. 4,694,490; 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.

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 user-friendly 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.

Retailer Class Actions

During 2000, lawsuits were filed by retailers in Colorado state and federal courts attempting to certify nationwide classes on behalf of certain of our retailers. The plaintiffs are requesting the Courts declare certain provisions of, and changes to, alleged agreements between us and the retailers invalid and unenforceable, and to award damages for lost incentives and payments, charge backs and other compensation. We have asserted a variety of counterclaims. The federal court action has been stayed during the pendency of the state court action. We filed a motion for summary judgment on all counts and against all plaintiffs. The plaintiffs filed a motion for additional time to conduct discovery to enable them to respond to our motion. The state court granted limited discovery which ended during 2004. The plaintiffs claimed we did not provide adequate disclosure during the discovery process. The state court agreed, and denied our motion for summary judgment as a result. In April 2008, the state court granted plaintiff s class certification motion and in January 2009, the state court entered an order excluding certain evidence that we can present at trial based on the prior discovery issues. The state court also denied plaintiffs request to dismiss our counterclaims. In May 2009, plaintiffs filed a motion for default judgment based on new allegations of discovery misconduct. In April 2010, the court denied plaintiffs motion for default judgment, but upheld its prior order excluding certain evidence. Trial is scheduled to commence on October 12, 2010. Before trial, the court will hold a hearing to establish the scope of its prior evidentiary order, including the scope of an adverse inference jury instruction. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the lawsuit or determine the extent of any potential liability or damages.

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Technology Development Licensing

On January 22, 2009, Technology Development and Licensing LLC (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. 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 re-examination petitions before the 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 user-friendly 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.

Tivo Inc.

During January 2008, the United States Court of Appeals for the Federal Circuit affirmed in part and reversed in part the April 2006 jury verdict concluding that certain of our digital video recorders, or DVRs, infringed a patent held by Tivo. As of September 2008, we had recorded a total reserve of $132 million on our Condensed Consolidated Balance Sheets to reflect the April 2006 jury verdict, supplemental damages through September 2006 and pre-judgment interest awarded by the Texas court, together with the estimated cost of potential further software infringement prior to implementation of our alternative technology, discussed below, plus interest subsequent to entry of the judgment. In its January 2008 decision, the Federal Circuit affirmed the jury s verdict of infringement on Tivo s software claims, and upheld the award of damages from the District Court. The Federal Circuit, however, found that we did not literally infringe Tivo s hardware claims, and remanded such claims back to the District Court for further proceedings. On October 6, 2008, the Supreme Court denied our petition for certiorari. As a result, approximately $105 million of the total $132 million reserve was released from an escrow account to Tivo.

We also developed and deployed next-generation DVR software. This improved software was automatically downloaded to our current customers DVRs, and is fully operational (our original alternative technology). The download was completed as of April 2007. We received written legal opinions from outside counsel that concluded our original alternative technology does not infringe, literally or under the doctrine of equivalents, either the hardware or software claims of Tivo s patent. Tivo filed a motion for contempt alleging that we are in violation of the Court s injunction. We opposed this motion on the grounds that the injunction did not apply to DVRs that have received our original alternative technology, that our original alternative technology does not infringe Tivo s patent, and that we were in compliance with the injunction.

In June 2009, the United States District Court granted Tivo s motion for contempt, finding that our original alternative technology was not more than colorably different than the products found by the jury to infringe Tivo s patent, that our original alternative technology still infringed the software claims, and that even if our original alternative technology was non-infringing, the original injunction by its terms required that we disable DVR functionality in all but approximately 192,000 digital set-top boxes in the field. The District Court also amended its original injunction to require that we inform the court of any further attempts to design around Tivo s patent and seek approval from the court before any such design-around is implemented. The District Court awarded Tivo $103 million in supplemental damages and interest for the period from September 2006 through April 2008, based on an assumed $1.25 per subscriber per month royalty rate. We posted a bond to secure that award pending appeal of the contempt order. On July 1, 2009, the Federal Circuit Court of Appeals granted a permanent stay of the District Court s contempt order pending resolution of our appeal.

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The District Court held a hearing on July 28, 2009 on Tivo s claims for contempt sanctions. Tivo sought up to $975 million in contempt sanctions for the period from April 2008 to June 2009 based on, among other things, profits Tivo alleges we made from subscribers using DVRs. We opposed Tivo s request arguing, among other things, that sanctions are inappropriate because we made good faith efforts to comply with the Court s injunction. We also challenged Tivo s calculation of profits. On September 4, 2009, the District Court partially granted Tivo s motion for contempt sanctions and awarded $2.25 per DVR subscriber per month for the period from April 2008 to July 2009 (as compared to the award for supplemental damages for the prior period from September 2006 to April 2008, which was based on an assumed $1.25 per DVR subscriber per month). By the District Court s estimation, the total award for the period from April 2008 to July 2009 is approximately $200 million. The District Court also awarded Tivo its attorneys fees and costs incurred during the contempt proceedings. Enforcement of these awards has been stayed by the District Court pending resolution of our appeal of the underlying June 2009 contempt order. On February 8, 2010, we and Tivo submitted a stipulation to the District Court that the attorneys fees and costs, including expert witness fees and costs, that Tivo incurred during the contempt proceedings amounted to $6 million. During the year ended December 31, 2009 and the six months ended June 30, 2010, we increased our total reserve by $361 million and $61 million, respectively, to reflect the supplemental damages and interest for the period from implementation of our original alternative technology through April 2008 and for the estimated cost of alleged software infringement (including contempt sanctions for the period from April 2008 through June 2009) for the period from April 2008 through June 2010 plus interest. Our total reserve at June 30, 2010 was $454 million and is included in Tivo litigation accrual on our Condensed Consolidated Balance Sheets.

In light of the District Court s finding of contempt, and its description of the manner in which it believes our original alternative technology infringed the 389 patent, we are also developing and testing potential new alternative technology in an engineering environment. As part of EchoStar s development process, EchoStar downloaded several of our design-around options to less than 1,000 subscribers for beta testing. On March 11, 2010, we requested that the District Court approve the implementation of one of our design-around options on an expedited basis. There can be no assurance that the District Court will approve this request.

Oral argument on our appeal of the contempt ruling took place on November 2, 2009, before a three-judge panel of the Federal Circuit Court of Appeals. On March 4, 2010, the Federal Circuit affirmed the District Court s contempt order in a 2-1 decision. On May 14, 2010, our petition for en banc review of that decision by the full Federal Circuit was granted and the opinion of the three-judge panel was vacated. Oral argument is scheduled for November 9, 2010. There can be no assurance that the full Federal Circuit will reverse the decision of the three-judge panel. Tivo has stated that it will seek additional damages for the period from June 2009 to the present. Although we have accrued our best estimate of damages, contempt sanctions and interest through June 30, 2010, there can be no assurance that Tivo will not seek, and that the court will not award, an amount that exceeds our accrual.

On June 4, 2010, the Patent and Trademark Office (the PTO) issued a final office action rejecting the software claims of United States Patent No. 6,233,389 (the 389 patent) as being invalid in light of two prior patents. These are the same software claims that we were found to have infringed and which underlie the contempt ruling that we are now appealing. We believe that the PTO s conclusions are relevant to the issues on appeal. The PTO s conclusions support our position that our original alternative technology is more than colorably different than the devices found to infringe by the jury; that our original alternative technology does not infringe; and that we acted in good faith to design around Tivo s patent.

If we are unsuccessful in overturning the District Court s ruling on Tivo s motion for contempt, we are not successful in developing and deploying potential new alternative technology and we are unable to reach a license agreement with Tivo on reasonable terms, we may be required to eliminate DVR functionality in all but approximately 192,000 digital set-top boxes in the field and cease distribution of digital set-top boxes with DVR functionality. In that event we would be at a significant disadvantage to our competitors who could continue offering DVR functionality, which would likely result in a significant decrease in new subscriber additions as well as a substantial loss of current subscribers. Furthermore, the inability to offer DVR functionality could cause certain of our distribution channels to terminate or significantly decrease their marketing of DISH Network services. The

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adverse effect on our financial position and results of operations if the District Court s contempt order is upheld is likely to be significant. Additionally, the supplemental damage award of $103 million and further award of approximately $200 million does not include damages, contempt sanctions or interest for the period after June 2009. In the event that we are unsuccessful in our appeal, we could also have to pay substantial additional damages, contempt sanctions and interest. Depending on the amount of any additional damage or sanction award or any monetary settlement, we may be required to raise additional capital at a time and in circumstances in which we would normally not raise capital. Therefore, any capital we raise may be on terms that are unfavorable to us, which might adversely affect our financial position and results of operations and might also impair our ability to raise capital on acceptable terms in the future to fund our own operations and initiatives. We believe the cost of such capital and its terms and conditions may be substantially less attractive than our previous financings.

If we are successful in overturning the District Court s ruling on Tivo s motion for contempt, but unsuccessful in defending against any subsequent claim in a new action that our original alternative technology or any potential new alternative technology infringes Tivo s patent, we could be prohibited from distributing DVRs or could be required to modify or eliminate our then-current DVR functionality in some or all set-top boxes in the field. In that event we would be at a significant disadvantage to our competitors who could continue offering DVR functionality and the adverse effect on our business would be material. We could also have to pay substantial additional damages.

Because both we and EchoStar are defendants in the Tivo lawsuit, we and EchoStar are jointly and severally liable to Tivo for any final damages and sanctions that may be awarded by the District Court. We have determined that we are 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 have 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.

Voom

On May 28, 2008, Voom HD Holdings (Voom) filed a complaint against us in New York Supreme Court. The suit alleges breach of contract arising from our termination of the affiliation agreement we had with Voom for the carriage of certain Voom HD channels on the DISH Network satellite television service. In January 2008, Voom sought a preliminary injunction to prevent us from terminating the agreement. The Court denied Voom s motion, finding, among other things, that Voom was not likely to prevail on the merits of its case. 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.

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11. 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 our Chairman, President and Chief Executive Officer, Charles W. Ergen 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 prices charged for products and services provided under the agreements entered into in connection with the Spin-off 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.

In connection with the Spin-off and subsequent to 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 the principal agreements that we have entered into with EchoStar that may have an impact on our financial position and results of operations.

Equipment sales EchoStar

Remanufactured Receiver Agreement. In connection with the Spin-off, we entered into a remanufactured receiver agreement with EchoStar pursuant to which EchoStar had 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 for a two-year period ending on January 1, 2010. In August 2009, we and EchoStar extended this agreement to January 1, 2011. EchoStar may terminate the remanufactured receiver agreement for any reason upon sixty days written notice to us. We may also terminate this agreement if certain entities acquire us.

Services and other revenue EchoStar

Transition Services Agreement. In connection with the Spin-off, we entered into a transition services agreement with EchoStar pursuant to which EchoStar had the right, but not the obligation, to receive the following services from us: finance, information technology, benefits administration, travel and event coordination, human resources, human resources development (training), program management, internal audit, legal, accounting and tax, and other support services. The fees for the services provided under the transition services agreement were calculated at cost plus a fixed margin, which varied depending on the nature of the services provided. The transition services agreement expired on January 1, 2010. However, we and EchoStar have agreed that following January 1, 2010 EchoStar shall continue to have the right, but not the obligation, to receive from us certain of the services previously provided under the transition services agreement pursuant to the Professional Services Agreement, as discussed below.

Professional Services Agreement. During December 2009, we and EchoStar agreed that following January 1, 2010 EchoStar shall continue to have the right, but not the obligation, to receive from us the following services, 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, following January 1, 2010, we shall continue to have the right, but not the obligation, to engage EchoStar to manage the process of procuring new satellite capacity for DISH Network (as discussed below, previously provided under the satellite procurement agreement) and receive logistics, procurement and quality assurance services from EchoStar (as discussed below, previously provided under the services agreement). The professional services agreement has a term of one year ending on January 1, 2011, but renews automatically for successive one-year periods thereafter, unless terminated earlier by either party at the end of the then current term, upon at least 60 days prior notice. However, either party may terminate the services it receives with respect to a particular service for any reason upon 30 days notice.

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Management Services Agreement. In connection with the Spin-off, we entered into 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, R. Stanton Dodge and Paul W. Orban remain employed by us, but also serve as EchoStar s Executive Vice President and General Counsel, and Senior Vice President and Controller, respectively. 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, 2010 for an additional one-year period until January 1, 2011 and renews automatically for successive one-year periods thereafter, unless terminated earlier (i) by EchoStar at any time upon at least 30 days prior written notice; (ii) by us at the end of any renewal term, upon at least 180 days prior notice; or (iii) by us upon written notice to EchoStar, following certain changes in control.

Satellite Capacity Leased to EchoStar. In December 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. 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.

Packout Services Agreement. In connection with the Spin-off, we entered into a packout services agreement with EchoStar, whereby EchoStar had the right, but not the obligation, to engage us to package and ship satellite receivers to customers that are not associated with us. This agreement expired on January 1, 2010.

Satellite and transmission expenses EchoStar

Broadcast Agreement. In connection with the Spin-off, we entered into a broadcast agreement pursuant to which EchoStar provides certain broadcast services to us, including teleport services such as transmission and downlinking, channel origination services, and channel management services. During July 2010, we exercised our right to extend the broadcast agreement until January 1, 2012. We may terminate channel origination services and channel management services for any reason and without any liability upon sixty days written notice to EchoStar. If we terminate teleport services for a reason other than EchoStar s breach, we are obligated to pay EchoStar the aggregate amount of the remainder of the expected cost of providing the teleport services. The fees for services provided under the broadcast agreement are calculated at cost plus a fixed margin, which varies depending on the nature of the products and services provided.

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DISH NETWORK CORPORATION

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(Unaudited)

Broadcast Agreement for Certain Sports Related Programming. During May 2010, we 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. In connection with the Spin-off and subsequent to the Spin-off, we 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. The term of each of the leases is set forth below:

EchoStar III, VI, VIII, and XII. We lease certain satellite capacity from EchoStar on EchoStar III, 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 transponder 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 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 completed during 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 from time to time.

Nimiq 5 Agreement. During September 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 September 2009, EchoStar also entered into a satellite service agreement (the DISH Telesat Agreement) with us, pursuant to which we will receive service from EchoStar on all 32 of the DBS transponders covered by the Telesat Transponder Agreement. We and EchoStar are currently receiving service on 21 of these DBS transponders and will receive service on the remaining 11 DBS transponders over a phase-in period that will be completed in 2012. We have also guaranteed certain obligations of EchoStar under the Telesat Transponder Agreement. See discussions under Guarantees in Note 10.

Under the terms of the DISH Telesat Agreement, we make certain monthly payments to EchoStar that commenced in October 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 Telesat 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 Telesat Agreement on a year-to-year basis through the end of life of the Nimiq 5 satellite. Upon in-orbit failure or end of life of the Nimiq 5 satellite, and in certain other circumstances, we have certain rights to receive service from EchoStar on a replacement satellite. There can be no assurance that any options to renew this agreement will be exercised or that we will exercise our option to receive service on a replacement satellite.

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

EchoStar XV Launch Service. On December 21, 2009, EchoStar assigned certain of its rights under a launch contract to us for EchoStar s fair value of $103 million. We recorded these rights at EchoStar s net book value of $89 million and recorded the $14 million difference between EchoStar s carrying value and our purchase price as a capital transaction with EchoStar. We used these rights for EchoStar XV, which launched on July 10, 2010 and commenced commercial operations in August 2010.

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 expected to be placed into service at the 77 degree orbital location in 2011. 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.

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 and continuing through the service term. Unless earlier terminated under the terms and conditions of the QuetzSat-1 Transponder Agreement, the service term will expire ten years following the actual service commencement date. 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 a launch failure, 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 this agreement will be exercised or that we will exercise our option to receive service on a replacement satellite. QuetzSat-1 is expected to be completed during 2011.

TT&C Agreement. In connection with the Spin-off, we entered into a telemetry, tracking and control (TT&C) agreement pursuant to which we receive TT&C services from EchoStar for a period ending on January 1, 2011. We have the right, but not the obligation, to extend the agreement for up to one additional year. The fees for services provided under the TT&C agreement are calculated at cost plus a fixed margin. We may terminate the TT&C agreement for any reason upon sixty days prior written notice.

Satellite Procurement Agreement. In connection with the Spin-off, we entered into a satellite procurement agreement pursuant to which we had the right, but not the obligation, to engage EchoStar to manage the process of procuring new satellite capacity for us. The satellite procurement agreement expired on January 1, 2010. However, we and EchoStar agreed that following January 1, 2010, 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 pursuant to the Professional Services Agreement as discussed above.

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.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Set-top boxes and other equipment purchased from EchoStar	$ 382,839	$ 204,284	$ 768,687	$ 524,603
	$ 39,733	$ 71,786	$ 66,636	$ 95,922

Set-top boxes and other equipment purchased from EchoStar included in Cost of sales subscriber promotion subsidies EchoStar

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(Unaudited)

In connection with the Spin-off, we entered into a receiver agreement pursuant to which we have the right but not the obligation to purchase digital set-top boxes and related accessories, and other equipment from EchoStar. During July 2010, we exercised our right to extend the receiver agreement until January 1, 2012. The receiver agreement allows us to purchase digital set-top boxes, related accessories and other equipment from EchoStar at cost plus a fixed margin, which varies depending on the nature of the equipment purchased. Additionally, EchoStar provides us with standard manufacturer warranties for the goods sold under the receiver agreement. We may terminate the receiver agreement for any reason upon sixty days written notice to EchoStar. EchoStar may terminate the receiver agreement if certain entities were to acquire us. The receiver agreement also includes an indemnification provision, whereby the parties indemnify each other for certain intellectual property matters.

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 digital set-top boxes and related accessories that EchoStar has previously sold and in the future may sell to us. The fees for 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 sixty days prior written 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 certain 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 expires on January 1, 2011.

Meridian Lease Agreement. During August 2010, we exercised our right to extend this lease for all of 9601 S. Meridian Blvd. in Englewood, Colorado until January 1, 2012. We have the right to extend the Meridian Lease Agreement for one additional year.

Santa Fe Lease Agreement. During August 2010, we exercised our right to extend this lease for all of 5701 S. Santa Fe Dr. in Littleton, Colorado until January 1, 2012. We have the right to extend the Santa Fe Lease Agreement for one additional year.

Gilbert Lease Agreement. The lease for certain space at 801 N. DISH Dr. in Gilbert, Arizona expired on January 1, 2010.

EDN Sublease Agreement. The sublease for certain space at 211 Perimeter Center in Atlanta, Georgia, is for a period of three years, ending on April 30, 2011.

Services Agreement. In connection with the Spin-off, we entered into a services agreement pursuant to which we had the right, but not the obligation, to receive logistics, procurement and quality assurance services from EchoStar. This agreement expired on January 1, 2010. However, we and EchoStar have agreed that following January 1, 2010, we shall continue to have the right, but not the obligation, to receive from EchoStar certain of the services previously provided under the services agreement pursuant to the Professional Services Agreement as discussed above.

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(Unaudited)

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 120 days written notice to EchoStar.

DISH Remote Access Services Agreement. Effective January 1, 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 120 days written 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 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 120 days written notice to EchoStar.

Weather Related Programming Agreement. During May 2010, we entered into an agreement pursuant to which, among other things, EchoStar agreed to develop certain weather related programming and we received the right to distribute such programming. The fees for the content provided under this agreement depend, among other things, upon the cost to develop and provide such content. This agreement was terminated during June 2010.

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 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. Because both we and EchoStar are defendants in the Tivo lawsuit, we and EchoStar are jointly and severally liable to Tivo for any final damages and sanctions that may be awarded by the District Court. We have determined that we are 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 have 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Multimedia Patent Trust. In December 2009, we determined that we are obligated under the agreements entered into in connection with the Spin-off to indemnify EchoStar for all of the costs to settle this lawsuit relating to the period prior to the Spin-off and a portion of such settlement costs relating to the period after the Spin-off. EchoStar has agreed that its contribution towards such settlement costs shall not be applied against EchoStar s aggregate liability cap under the Receiver Agreement.

International Programming Rights Agreement. During the six months ended June 30, 2010, we purchased approximately $2 million of certain international rights for sporting events from EchoStar, included in Subscriber-related expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), of which EchoStar only retained a certain portion. There were no additional purchases during the other periods presented.

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 us and EchoStar. Mr. Lynch s compensation consists of cash and equity compensation and is borne by both EchoStar and us.

Related Party Transactions with NagraStar L.L.C.

Prior to the Spin-off, we owned 50% of NagraStar L.L.C. (NagraStar), which was contributed to EchoStar in connection with the Spin-off. NagraStar is a joint venture that is our provider of encryption and related security systems intended to assure that only paying customers have access to our programming. During the three and six months ended June 30, 2010, we incurred security access and other fees at an aggregate cost to us of $20 million and $40 million, respectively. During the three and six months ended June 30, 2009, we purchased security access devices at an aggregate cost of $1 million and $25 million, respectively, from NagraStar. As of June 30, 2010 and December 31, 2009, amounts payable to NagraStar totaled $13 million and $17 million, respectively.

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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, 2009 and this Quarterly Report on Form 10-Q under the caption Item 1A. Risk Factors.

EXECUTIVE SUMMARY

Overview

DISH Network lost approximately 19,000 net subscribers during the three months ended June 30, 2010, compared to an increase of 26,000 net subscribers for the same period in 2009. The change versus the prior year was driven by an increase in subscriber churn.

Subscriber growth changed substantially from the prior three quarters, in which we averaged net additions of approximately 242,000 per quarter. The primary driver of this change was increased competitive pressures, which negatively impacted both our gross activations and churn in the second quarter 2010.

DISH Network added approximately 218,000 net subscribers for the six months ended June 30, 2010, compared to a loss of approximately 68,000 net subscribers for the same period in 2009. The change versus the prior period was driven by increased gross new subscriber additions and decreased churn primarily during the first quarter 2010. The increased gross new subscriber additions were primarily a result of our sales and marketing promotions during the period. Churn was positively impacted by the completion of our security access device replacement program during 2009 and an increase in our new subscriber commitment period. Historically, we have experienced slightly higher churn in the months following the expiration of commitments for new subscribers. In February 2008, we extended our new subscriber commitment from 18 to 24 months. During the first quarter 2010, due to this change, we had fewer expiring commitments.

When the size of our subscriber base increases, even if our subscriber churn rate remains constant, increasing numbers of gross new DISH Network subscribers are required to sustain net subscriber growth.

The current overall economic environment has negatively impacted many industries including ours. In addition, the overall growth rate in the pay-TV industry has slowed in recent years. Within this maturing industry, competition has intensified with the rapid growth of fiber-based pay-TV services offered by telecommunications companies. Furthermore, 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 this emerging 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 been mostly driven by issues specific to DISH Network. In recent years, DISH Network s position as the low cost provider in the pay-TV industry has been eroded by increasingly aggressive promotional pricing used by our competitors to attract new subscribers and similarly aggressive promotions and tactics used to retain existing subscribers. Some competitors have been especially aggressive and effective in marketing their service. Furthermore, in the past, our subscriber growth has been adversely affected by signal theft and other forms of fraud and by operational inefficiencies at DISH Network. 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.

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

We have been investing more in advanced technology equipment as part of our subscriber acquisition and retention efforts. Recent initiatives to transmit certain programming only in MPEG-4 and to activate most new subscribers only with MPEG-4 receivers have accelerated our deployment of MPEG-4 receivers. To meet current demand, we have increased the rate at which we upgrade existing subscribers to HD and DVR receivers. While these efforts may increase our subscriber acquisition and retention costs, we believe that they will help reduce subscriber churn and costs over the long run.

We have also been changing equipment to migrate certain subscribers to make more efficient use of transponder capacity in support of HD and other initiatives. We expect to continue these initiatives through 2010. We believe that the benefit from the increase in available transponder capacity outweighs the short-term cost of these equipment changes.

To combat signal theft and improve the security of our broadcast system, during 2009, we completed the replacement of our security access devices to re-secure our system. We expect additional future replacements of these devices to be necessary to keep our system secure. To combat other forms of fraud, we have taken a wide range of actions including terminating retailers that we believe were in violation of DISH Network s business rules. While these initiatives may inconvenience our subscribers and disrupt our distribution channels in the short-term, we believe that the long-term benefits will outweigh the costs.

To address our operational inefficiencies, we have streamlined our hardware offerings and 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 increased spending will ultimately be successful in yielding such returns. In the meantime, we may continue to incur higher costs as a result of both our operational inefficiencies and increased spending. The adoption of these measures has contributed to higher expenses and lower margins. While we believe that the increased costs will be outweighed by longer-term benefits, there can be no assurance when or if we will realize these benefits at all.

Programming costs continue to represent an increasing percentage of our Subscriber-related expenses. As a result, our margins may face further downward pressure from price increases and the renewal of long-term programming contracts on less favorable pricing terms.

To maintain and enhance our competitiveness over the long term, we plan to promote 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. TV Everywhere utilizes, among other things, Slingbox placeshifting technology.

Liquidity Drivers

Like many companies, we make general investments in property such as satellites, 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.

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

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

While the ability to raise capital has generally existed for DISH Network despite the weak economic conditions, the cost of such capital has not been as attractive as in prior periods. Because of the cash flow of our company and the absence of any material debt payments until October 2011, the higher cost of capital will not impact our current operational plans. However, we might be less likely to pursue initiatives which could increase shareholder value over the long run, such as making strategic investments, prepaying debt, or buying back our own stock. Alternatively, if we decided to pursue such initiatives, the cost of doing so would be greater. Currently, we have no existing lines of credit, nor have we historically.

Future Liquidity

Our Subscriber-related expenses as a percentage of Subscriber-related revenue was 52.5% during the second quarter 2010 compared to 53.2% during the same period in 2009. ARPU was positively impacted by a price increase in February 2010, partially offset by promotional discounts on programming offered to new subscribers. Subscriber-related expenses continued to be negatively impacted by increased programming costs and initiatives to improve customer service. We continue to focus on addressing operational inefficiencies specific to DISH Network which we believe will contribute to long-term subscriber growth.

If we are unsuccessful in overturning the District Court s ruling on Tivo s motion for contempt, we are not successful in developing and deploying potential new alternative technology and we are unable to reach a license agreement with Tivo on reasonable terms, we may be required to eliminate DVR functionality in all but approximately 192,000 digital set-top boxes in the field and cease distribution of digital set-top boxes with DVR functionality. In that event we would be at a significant disadvantage to our competitors who could continue offering DVR functionality, which would likely result in a significant decrease in new subscriber additions as well as a substantial loss of current subscribers. Furthermore, the inability to offer DVR functionality could cause certain of our distribution channels to terminate or significantly decrease their marketing of DISH Network services. The adverse effect on our financial position and results of operations if the District Court s contempt order is upheld is likely to be significant. Additionally, the supplemental damage award of $103 million and further award of approximately $200 million does not include damages, contempt sanctions or interest for the period after June 2009. In the event that we are unsuccessful in our appeal, we could also have to pay substantial additional damages, contempt sanctions and interest. Depending on the amount of any additional damage or sanction award or any monetary settlement, we may be required to raise additional capital at a time and in circumstances in which we would normally not raise capital. Therefore, any capital we raise may be on terms that are unfavorable to us, which might adversely affect our financial position and results of operations and might also impair our ability to raise capital on acceptable terms in the future to fund our own operations and initiatives. We believe the cost of such capital and its terms and conditions may be substantially less attractive than our previous financings.

If we are successful in overturning the District Court s ruling on Tivo s motion for contempt, but unsuccessful in defending against any subsequent claim in a new action that our original alternative technology or any potential new alternative technology infringes Tivo s patent, we could be prohibited from distributing DVRs or could be required to modify or eliminate our then-current DVR functionality in some or all set-top boxes in the field. In that event we would be at a significant disadvantage to our competitors who could continue offering DVR functionality and the adverse effect on our business would be material. We could also have to pay substantial additional damages.

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

Because both we and EchoStar are defendants in the Tivo lawsuit, we and EchoStar are jointly and severally liable to Tivo for any final damages and sanctions that may be awarded by the District Court. We have determined that we are 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 have 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.

The Spin-off. 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 Corporation (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, President and Chief Executive Officer or by certain trusts established by Mr. Ergen for the benefit of his family.

EXPLANATION OF KEY METRICS AND OTHER ITEMS

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

Equipment sales and other revenue. Equipment sales 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 Network subscribers.

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

Subscriber-related expenses. Subscriber-related expenses principally include programming expenses, 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 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. In addition, this category includes the cost of leasing satellite and transponder capacity on satellites from EchoStar.

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.

Equipment, services and other cost of sales. Equipment, services and other cost of sales 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 Network subscribers. In addition, this category includes costs related to equipment sales, transitional and professional services, and other agreements with EchoStar.

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

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 Network subscribers. Our Subscriber acquisition costs include the cost of our receiver systems sold to retailers and other third party distributors of our equipment, the cost of receiver systems sold 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 additions. We include all the costs of acquiring subscribers (e.g., subsidized and capitalized equipment) as our management believes it is a more comprehensive measure of how much we are spending to acquire subscribers. We also include all new DISH Network subscribers in our calculation, including DISH Network 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.

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 and convertible subordinated debt securities (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 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 common shareholders 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 common shareholders in our discussion of Results of Operations below.

DISH Network subscribers. We include customers obtained through direct sales, third-party retailers and other third-party distribution relationships in our DISH Network subscriber count. We also provide DISH Network 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 America s Top 120 programming package (but taking into account, periodically, price changes and other factors), and include the resulting number, which is substantially smaller than the actual number of commercial units served, in our DISH Network subscriber count.

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

Average monthly revenue per subscriber (ARPU). 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 DISH Network subscribers for the period. Average DISH Network subscribers are calculated for the period by adding the average DISH Network subscribers for each month and dividing by the number of months in the period. Average DISH Network subscribers for each month are calculated by adding the beginning and ending DISH Network 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 Network subscribers who terminated service during the period by the average DISH Network 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 DISH Network 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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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

RESULTS OF OPERATIONS

Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009.

Statements of Operations Data	For the Three Months Ended June 30, 2010	2009	Variance Amount	%
		(In thousands)		
Revenue:				
Subscriber-related revenue	$ 3,141,326	$ 2,878,115	$ 263,211	9.1
Equipment sales and other revenue	16,507	19,137	(2,630)	(13.7)
Equipment sales, services and other revenue - EchoStar	11,209	6,449	4,760	73.8
Total revenue	3,169,042	2,903,701	265,341	9.1
Costs and Expenses:				
Subscriber-related expenses	1,648,458	1,532,076	116,382	7.6
% of Subscriber-related revenue	**52.5%**	**53.2%**		
Satellite and transmission expenses - EchoStar	107,107	87,198	19,909	22.8
% of Subscriber-related revenue	**3.4%**	**3.0%**		
Satellite and transmission expenses - Other	10,102	8,718	1,384	15.9
% of Subscriber-related revenue	**0.3%**	**0.3%**		
Equipment, services and other cost of sales	22,004	27,094	(5,090)	(18.8)
Subscriber acquisition costs	405,390	388,272	17,118	4.4
General and administrative expenses	155,016	155,879	(863)	(0.6)
% of Total revenue	**4.9%**	**5.4%**		
Tivo litigation expense	30,709	196,405	(165,696)	(84.4)
Depreciation and amortization	264,446	245,300	19,146	7.8
Total costs and expenses	2,643,232	2,640,942	2,290	0.1
Operating income (loss)	525,810	262,759	263,051	100.1
Other Income (Expense):				
Interest income	6,314	11,262	(4,948)	(43.9)
Interest expense, net of amounts capitalized	(114,690)	(91,132)	(23,558)	(25.9)
Other, net	(3,728)	(44,334)	40,606	91.6
Total other income (expense)	(112,104)	(124,204)	12,100	9.7
Income (loss) before income taxes	413,706	138,555	275,151	NM
Income tax (provision) benefit, net	(156,722)	(75,135)	(81,587)	(108.6)
Effective tax rate	**37.9%**	**54.2%**		
Net income (loss)	256,984	63,420	193,564	NM
Less: Net income (loss) attributable to noncontrolling interest	(6)		(6)	NM

Net income (loss) attributable to DISH Network common shareholders	$ 256,990	$ 63,420	$ 193,570	NM
Other Data:				
DISH Network subscribers, as of period end (in millions)	14.318	13.610	0.708	5.2
DISH Network subscriber additions, gross (in millions)	0.747	0.731	0.016	2.2
DISH Network subscriber additions, net (in millions)	(0.019)	0.026	(0.045)	NM
Average monthly subscriber churn rate	1.78%	1.73%	0.05%	2.9
Average monthly revenue per subscriber (ARPU)	$ 73.05	$ 70.73	$ 2.32	3.3
Average subscriber acquisition cost per subscriber (SAC)	$ 743	$ 708	$ 35	4.9
EBITDA	$ 786,534	$ 463,725	$ 322,809	69.6

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

Overview. Revenue totaled $3.169 billion for the three months ended June 30, 2010, an increase of $265 million or 9.1% compared to the same period in 2009. Net income (loss) attributable to DISH Network common shareholders totaled $257 million, an increase of $194 million.

DISH Network lost approximately 19,000 net subscribers during the three months ended June 30, 2010, compared to an increase of 26,000 net subscribers for the same period in 2009. The change versus the prior year was driven by an increase in subscriber churn.

Subscriber growth changed substantially from the prior three quarters, in which we averaged net additions of approximately 242,000 per quarter. The primary driver of this change was increased competitive pressures, which negatively impacted both our gross activations and churn in the second quarter 2010.

When the size of our subscriber base increases, even if our subscriber churn rate remains constant, increasing numbers of gross new DISH Network subscribers are required to sustain net subscriber growth.

DISH Network subscribers. As of June 30, 2010, we had approximately 14.318 million DISH Network subscribers compared to approximately 13.610 million subscribers at June 30, 2009, an increase of 5.2%. DISH Network added approximately 747,000 gross new subscriber additions for the three months ended June 30, 2010 compared to approximately 731,000 gross new subscriber additions during the same period in 2009, an increase of 2.2%.

DISH Network lost approximately 19,000 net subscribers during the three months ended June 30, 2010 compared to an increase of approximately 26,000 net subscribers during the same period in 2009. Our average monthly subscriber churn rate for the three months ended June 30, 2010 was 1.78%, compared to 1.73% for the same period in 2009. We believe this decrease in net new subscribers and the increase in churn primarily resulted from the factors discussed in the Overview above. Churn increased during the quarter as a result of the increasingly competitive nature of our industry and the current economic conditions. We may not be able to reduce churn without increasing our spending on customer retention incentives, which would have a negative effect on our results of operations and free cash flow. Our distribution agreements with CenturyTel and Embarq (which are now both known as CenturyLink) expired on July 31, 2010. These agreements have historically represented less than 5% of our gross new subscriber additions over the past several years.

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 additions as well as existing subscriber churn. Our future gross new subscriber additions and subscriber churn may be negatively impacted by these factors, which could in turn adversely affect our revenue growth.

Subscriber-related revenue. DISH Network Subscriber-related revenue totaled $3.141 billion for the three months ended June 30, 2010, an increase of $263 million or 9.1% compared to the same period in 2009. This change was primarily related to a larger subscriber base during the second quarter 2010 compared to the same period in 2009 and the increase in ARPU discussed below.

ARPU. Average monthly revenue per subscriber was $73.05 during the three months ended June 30, 2010 versus $70.73 during the same period in 2009. The $2.32 or 3.3% increase in ARPU was primarily attributable to price increases in February 2010 and changes in the sales mix toward more advanced hardware offerings. ARPU continues to increase as a result of higher hardware related fees, which include rental fees, fees for DVRs, upgrade fees and fees earned from our in-home service operations. These increases were partially offset by increases in the amount of promotional discounts on programming offered to new subscribers.

Subscriber-related expenses. Subscriber-related expenses totaled $1.648 billion during the three months ended June 30, 2010, an increase of $116 million or 7.6% compared to the same period 2009. 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, and an

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

increase in subscribers. We continue to address our operational inefficiencies by streamlining our hardware offerings and making significant investments in staffing, training, information systems, and other initiatives, primarily in our call centers and in-home service operations.

Subscriber-related expenses represented 52.5% and 53.2% of Subscriber-related revenue during the three months ended June 30, 2010 and 2009, respectively. The improvement in this expense to revenue ratio primarily resulted from an increase in Subscriber-related revenue, partially offset by 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 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.

Satellite and transmission expenses EchoStar. Satellite and transmission expenses EchoStar totaled $107 million during the three months ended June 30, 2010, an increase of $20 million or 22.8% compared to the same period in 2009. The increase in Satellite and transmission expenses EchoStar is related to an increase in transponder capacity leased from EchoStar primarily related to the Nimiq 5 satellite, which was placed into service in October 2009, and the increase in monthly lease rates per transponder on certain satellites based on the terms of our amended lease agreements. See Note 11 in the Notes to the Condensed Consolidated Financial Statements for further discussion. Satellite and transmission expenses EchoStar as a percentage of Subscriber-related revenue increased to 3.4% in 2010 from 3.0% in 2009 primarily as a result of the increase in expenses discussed above.

Subscriber acquisition costs. Subscriber acquisition costs totaled $405 million for the three months ended June 30, 2010, an increase of $17 million or 4.4% compared to the same period in 2009. This increase was primarily attributable to higher SAC discussed below and the increase in gross new subscriber additions discussed previously.

SAC. SAC was $743 during the three months ended June 30, 2010 compared to $708 during the same period in 2009, an increase of $35 or 4.9%. This increase was driven primarily by increased advertising expenditures.

During the three months ended June 30, 2010 and 2009, the amount of equipment capitalized under our lease program for new subscribers totaled $149 million and $130 million, respectively. This increase in capital expenditures under our lease program for new subscribers resulted primarily from the increase in hardware cost per activation due to a decrease in the redeployment of remanufactured receivers and the increase in gross new subscriber additions.

Capital expenditures resulting from our equipment lease program for new subscribers were partially mitigated by the redeployment of equipment returned by disconnecting lease program subscribers. However, 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 lease program. During the three months ended June 30, 2010 and 2009, these amounts totaled $16 million and $25 million, respectively.

Several years ago, we began deploying receivers that utilize 8PSK modulation technology and receivers that utilize MPEG-4 compression technology. These technologies, when fully deployed, will allow more programming channels to be carried over our existing satellites. A majority 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 now 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.

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

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.*

Tivo litigation expense. We recorded $31 million of additional Tivo litigation expense during the three months ended June 30, 2010 for supplemental damages and interest, a $166 million or 84.4% decrease compared to the same period in 2009. See Note 10 in the Notes to the Condensed Consolidated Financial Statements for further discussion.

Depreciation and amortization. Depreciation and amortization expense totaled $264 million during the three months ended June 30, 2010, a $19 million or 7.8% increase compared to the same period in 2009. This change in Depreciation and amortization expense was primarily due to an increase in depreciation of equipment leased to subscribers and other depreciable assets placed into service to support the DISH Network service. We expect Depreciation and amortization expense to increase in 2010 as a result of EchoStar XIV and EchoStar XV being placed into service.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized totaled $115 million during the three months ended June 30, 2010, an increase of $24 million or 25.9% compared to the same period in 2009. This change primarily resulted from an increase in interest expense related to the issuance of debt during the second half of 2009.

Other, net. Other, net expense totaled $4 million during the three months ended June 30, 2010 compared to $44 million during the same period in 2009, a decrease of $41 million. This decrease primarily resulted from lower impairment charges on marketable and other investment securities in 2010 compared to 2009.

Earnings before interest, taxes, depreciation and amortization. EBITDA was $787 million during the three months ended June 30, 2010, an increase of $323 million or 69.6% compared to the same period in 2009. EBITDA for the three months ended June 30, 2010 was positively impacted by the decrease of $166 million in Tivo litigation expense. The following table reconciles EBITDA to the accompanying financial statements.

	For the Three Months Ended June 30,	
	2010	2009
	(In thousands)	
EBITDA	$ 786,534	$ 463,725
Interest expense, net	(108,376)	(79,870)
Income tax (provision) benefit, net	(156,722)	(75,135)
Depreciation and amortization	(264,446)	(245,300)
Net income (loss) attributable to DISH Network common shareholders	$ 256,990	$ 63,420

EBITDA is not a measure determined in accordance with accounting principles generally accepted in the United States, or 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.

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

Income tax (provision) benefit, net. Our income tax provision was $157 million during the three months ended June 30, 2010, an increase of $82 million compared to the same period in 2009. The increase in the provision was primarily related to the increase in Income (loss) before income taxes, partially offset by a decline in our effective tax rate. Our effective tax rate during the three months ended June 30, 2009 was negatively impacted by the establishment of valuation allowances related to certain deferred tax assets which are capital in nature.

Net income (loss) attributable to DISH Network common shareholders. Net income (loss) attributable to DISH Network common shareholders was $257 million during the three months ended June 30, 2010, an increase of $194 million compared to $63 million for the same period in 2009. The increase was primarily attributable to the changes in revenue and expenses discussed above.

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

RESULTS OF OPERATIONS

Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009.

Statements of Operations Data	For the Six Months Ended June 30, 2010	2009	Variance Amount	%
		(In thousands)		
Revenue:				
Subscriber-related revenue	$ 6,177,459	$ 5,743,054	$ 434,405	7.6
Equipment sales and other revenue	30,337	51,483	(21,146)	(41.1)
Equipment sales, services and other revenue - EchoStar	18,641	14,485	4,156	28.7
Total revenue	6,226,437	5,809,022	417,415	7.2
Costs and Expenses:				
Subscriber-related expenses	3,287,820	3,082,154	205,666	6.7
% of Subscriber-related revenue	**53.2%**	**53.7%**		
Satellite and transmission expenses - EchoStar	208,585	167,955	40,630	24.2
% of Subscriber-related revenue	**3.4%**	**2.9%**		
Satellite and transmission expenses - Other	20,088	15,739	4,349	27.6
% of Subscriber-related revenue	**0.3%**	**0.3%**		
Equipment, services and other cost of sales	38,906	67,593	(28,687)	(42.4)
Subscriber acquisition costs	817,403	680,475	136,928	20.1
General and administrative expenses	305,836	292,786	13,050	4.5
% of Total revenue	**4.9%**	**5.0%**		
Tivo litigation expense	60,902	196,405	(135,503)	(69.0)
Depreciation and amortization	504,108	468,593	35,515	7.6
Total costs and expenses	5,243,648	4,971,700	271,948	5.5
Operating income (loss)	982,789	837,322	145,467	17.4
Other Income (Expense):				
Interest income	12,091	16,046	(3,955)	(24.6)
Interest expense, net of amounts capitalized	(227,637)	(175,069)	(52,568)	(30.0)
Other, net	927	(40,157)	41,084	102.3
Total other income (expense)	(214,619)	(199,180)	(15,439)	(7.8)
Income (loss) before income taxes	768,170	638,142	130,028	20.4
Income tax (provision) benefit, net	(280,271)	(262,038)	(18,233)	(7.0)
Effective tax rate	**36.5%**	**41.1%**		
Net income (loss)	487,899	376,104	111,795	29.7
Less: Net income (loss) attributable to noncontrolling interest	(38)		(38)	NM

Net income (loss) attributable to DISH Network common shareholders	$ 487,937	$ 376,104	$ 111,833	29.7
Other Data:				
DISH Network subscribers, as of period end (in millions)	14.318	13.610	0.708	5.2
DISH Network subscriber additions, gross (in millions)	1.580	1.384	0.196	14.2
DISH Network subscriber additions, net (in millions)	0.218	(0.068)	0.286	NM
Average monthly subscriber churn rate	1.59%	1.78%	(0.19%)	(10.7)
Average monthly revenue per subscriber (ARPU)	$ 72.11	$ 70.38	$ 1.73	2.5
Average subscriber acquisition cost per subscriber (SAC)	$ 742	$ 685	$ 57	8.3
EBITDA	$ 1,487,862	$ 1,265,758	$ 222,104	17.5

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

DISH Network subscribers. DISH Network added approximately 218,000 net subscribers for the six months ended June 30, 2010, compared to a loss of approximately 68,000 net subscribers for the same period in 2009. The change versus the prior period was driven by increased gross new subscriber additions and decreased churn primarily during the first quarter 2010. The increased gross new subscriber additions were primarily a result of our sales and marketing promotions during the period. Churn was positively impacted by the completion of our security access device replacement program during 2009 and an increase in our new subscriber commitment period. Historically, we have experienced slightly higher churn in the months following the expiration of commitments for new subscribers. In February 2008, we extended the new subscriber commitment from 18 to 24 months. During the first quarter 2010, due to this change, we had fewer expiring commitments.

Subscriber-related revenue. DISH Network Subscriber-related revenue totaled $6.177 billion for the six months ended June 30, 2010, an increase of $434 million or 7.6% compared to the same period in 2009. This change was primarily related to a higher subscriber base during the first half of 2010 compared to the same period in 2009 and the increase in ARPU discussed below.

ARPU. Average monthly revenue per subscriber was $72.11 during the six months ended June 30, 2010 versus $70.38 during the same period in 2009. The $1.73 or 2.5% increase in ARPU was primarily attributable to price increases in February 2010 and changes in the sales mix toward more advanced hardware offerings. ARPU continues to increase as a result of higher hardware related fees, which include rental fees, fees for DVRs, upgrade fees, and fees earned from our in-home service operations. These increases were partially offset by increases in the amount of promotional discounts on programming offered to our new subscribers.

Equipment sales and other revenue. Equipment sales and other revenue totaled $30 million during the six months ended June 30, 2010, a decrease of $21 million or 41.1% compared to the same period 2009. The decrease in Equipment sales and other revenue primarily resulted from lower sales of non-subsidized digital converter boxes and DBS accessories in 2010 compared to the same period in 2009.

Subscriber-related expenses. Subscriber-related expenses totaled $3.288 billion during the six months ended June 30, 2010, an increase of $206 million or 6.7% compared to the same period 2009. 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, and an increase in subscribers. In addition, the six months ended June 30, 2009 was positively impacted by a non-recurring programming expense adjustment of approximately $27 million. We continue to address our operational inefficiencies by streamlining our hardware offerings and making significant investments in staffing, training, information systems, and other initiatives, primarily in our call centers and in-home service operations. Subscriber-related expenses represented 53.2% and 53.7% of Subscriber-related revenue during the six months ended June 30, 2010 and 2009, respectively. The improvement in this expense to revenue ratio primarily resulted from an increase in Subscriber-related revenue, partially offset by higher programming costs, discussed above.

Satellite and transmission expenses EchoStar. Satellite and transmission expenses EchoStar totaled $209 million during the six months ended June 30, 2010, an increase of $41 million or 24.2% compared to the same period in 2009. The increase in Satellite and transmission expenses EchoStar is related to an increase in transponder capacity leased from EchoStar primarily related to the Nimiq 5 satellite, which was placed into service in October 2009, and the increase in monthly lease rates per transponder on certain satellites based on the terms of our amended lease agreements. See Note 11 in the Notes to the Condensed Consolidated Financial Statements for further discussion. Satellite and transmission expenses EchoStar as a percentage of Subscriber-related revenue increased to 3.4% in 2010 from 2.9% in 2009 primarily as a result of the increase in expenses discussed above.

Equipment, services and other cost of sales. Equipment, services and other cost of sales totaled $39 million during the six months ended June 30, 2010, a decrease of $29 million or 42.4% compared to the same period in 2009. This decrease in Equipment, services and other cost of sales primarily resulted from lower sales of non-subsidized digital converter boxes and DBS accessories, and lower charges for slow moving and obsolete inventory during the six months ended June 30, 2010 compared to the same period in 2009.

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

Subscriber acquisition costs. Subscriber acquisition costs totaled $817 million for the six months ended June 30, 2010, an increase of $137 million or 20.1% compared to the same period in 2009. This increase was primarily attributable to the increase in gross new subscriber additions discussed previously and higher SAC discussed below.

SAC. SAC was $742 during the six months ended June 30, 2010 compared to $685 during the same period in 2009, an increase of $57 or 8.3%. This increase was driven by increased advertising expenditures and an increase in hardware costs per activation. The increase in hardware cost per activation was due to a decrease in the redeployment of remanufactured receivers driven by lower churn and an increase in the deployment of more advanced set-top boxes, such as HD receivers and HD DVRs. In addition, this increase was partially offset by a reduction in manufacturing costs for new receivers.

During the six months ended June 30, 2010 and 2009, the amount of equipment capitalized under our lease program for new subscribers totaled $354 million and $268 million, respectively. This increase in capital expenditures under our lease program for new subscribers resulted primarily from the increase in hardware cost per activation due to a decrease in the redeployment of remanufactured receivers and the increase in gross new subscriber additions.

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 lease program. During the six months ended June 30, 2010 and 2009, these amounts totaled $39 million and $63 million, respectively.

Tivo litigation expense. We recorded $61 million of additional Tivo litigation expense during the six months ended June 30, 2010 for supplemental damages and interest, a $136 million or 69.0% decrease compared to the same period in 2009. See Note 10 in the Notes to the Condensed Consolidated Financial Statements for further discussion.

Depreciation and amortization. Depreciation and amortization expense totaled $504 million during the six months ended June 30, 2010, a $36 million or 7.6% increase compared to the same period in 2009. The change in Depreciation and amortization expense was primarily due to an increase in depreciation of equipment leased to subscribers and other depreciable assets placed into service to support the DISH Network service.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized totaled $228 million during the six months ended June 30, 2010, an increase of $53 million or 30.0% compared to the same period in 2009. This change primarily resulted from an increase in interest expense related to the issuance of debt during the second half of 2009.

Other, net. Other, net income totaled $1 million during the six months ended June 30, 2010, an increase of $41 million compared to the same period in 2009. This increase primarily resulted from lower impairment charges on marketable and other investment securities in 2010 compared to 2009.

Earnings before interest, taxes, depreciation and amortization. EBITDA was $1.488 billion during the six months ended June 30, 2010, an increase of $222 million or 17.5% compared to the same period in 2009. EBITDA for the six months ended June 30, 2010 was positively impacted by the decrease of $136 million in Tivo litigation expense. The following table reconciles EBITDA to the accompanying financial statements.

	For the Six Months Ended June 30,	
	2010	2009
	(In thousands)	
EBITDA	$ 1,487,862	$ 1,265,758
Interest expense, net	(215,546)	(159,023)
Income tax (provision) benefit, net	(280,271)	(262,038)
Depreciation and amortization	(504,108)	(468,593)

Net income (loss) attributable to DISH Network common shareholders	$ 487,937	$ 376,104

EBITDA is not a measure determined in accordance with accounting principles generally accepted in the United States, or GAAP, and should not be considered a substitute for operating income, net income or any other measure

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

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 $280 million during the six months ended June 30, 2010, an increase of $18 million compared to the same period in 2009. The increase in the provision was primarily related to the increase in Income (loss) before income taxes, partially offset by a decline in our effective tax rate. Our effective tax rate during the six months ended June 30, 2009 was negatively impacted by the establishment of valuation allowances related to certain deferred tax assets which are capital in nature.

Net income (loss) attributable to DISH Network common shareholders. Net income (loss) attributable to DISH Network common shareholders was $488 million during the six months ended June 30, 2010, an increase of $112 million compared to $376 million for the same period in 2009. The increase was primarily attributable to the changes in revenue and expenses discussed above.

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

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, 2010, our cash, cash equivalents and current marketable investment securities totaled $2.594 billion compared to $2.139 billion as of December 31, 2009, an increase of $455 million. This increase in cash, cash equivalents and current marketable investment securities was primarily related to an increase in cash generated from operations of $1.116 billion, partially offset by capital expenditures of $640 million, including the $103 million assignment of certain rights under a launch contract.

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, 2010 and December 31, 2009, we held VRDNs with fair values of $1.455 billion and $1.054 billion, respectively.

The following discussion highlights our cash flow activities during the six months ended June 30, 2010.

Cash Flow

Cash flows from operating activities

For the six months ended June 30, 2010, we reported net cash flows from operating activities of $1.116 billion. This amount is primarily comprised of net income adjusted for Depreciation and amortization and Deferred tax expense (benefit) of $1.032 billion. In addition, our operating cash flow was positively impacted by timing differences between book expense and cash payments related to the Tivo litigation charge of $61 million.

Cash flows from investing activities

For the six months ended June 30, 2010, we reported net cash outflows from investing activities of $890 million primarily related to capital expenditures totaling $640 million and net purchases of marketable investment securities of $263 million. The capital expenditures included $430 million associated with our subscriber acquisition and retention lease programs, $103 million assignment of certain rights under a launch contract from EchoStar for EchoStar XV, $84 million of non-discretionary spending for satellite capital expenditures and $23 million of other corporate capital expenditures.

Cash flows from financing activities

For the six months ended June 30, 2010, we reported net cash outflows from financing activities of $23 million primarily resulting from common stock repurchases of $14 million and debt repayments of $13 million.

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.

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

During the six months ended June 30, 2010 and 2009, free cash flow was significantly impacted by changes in operating assets and liabilities as shown in the Net cash flows from operating activities section 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,	
	2010	2009
	(In thousands)	
Free cash flow	$ 475,669	$ 779,110
Add back:		
Purchases of property and equipment	640,192	466,733
Net cash flows from operating activities	$ 1,115,861	$ 1,245,843

Subscriber Churn

DISH Network added approximately 218,000 net new subscribers for the six months ended June 30, 2010, compared to losing approximately 68,000 net subscribers during the same period in 2009. This increase primarily resulted from an increase in gross new subscriber additions and a decrease in our subscriber churn rate to 1.59% compared to 1.78% for the same period in 2009. See Results of Operations above for further discussion.

Satellites

Operation of our subscription television 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 HD national 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 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 the second quarter 2009, we completed the replacement of our Security Access Devices that re-secured our system. However, 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.

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

Stock Repurchases

Our Board of Directors previously authorized stock repurchases of up to $1.0 billion of our Class A common stock. During the six months ended June 30, 2010, we repurchased 0.8 million shares of our common stock for $14 million. As of June 30, 2010, we may repurchase up to $986 million under this plan.

Subscriber Acquisition and Retention Costs

We incur significant upfront costs to acquire subscribers, including advertising, retailer incentives, equipment, installation, 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 deploy business rules such as minimum credit requirements and we strive to provide outstanding customer service, to increase the likelihood of customers keeping their DISH Network 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. 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.

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. The weak economic conditions 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

We expect to fund our future working capital, capital expenditure and debt service requirements from cash generated from operations, existing cash and marketable investment securities balances, and cash generated through raising additional capital. The amount of capital required to fund our future working capital and capital expenditure needs varies, depending on, among other things, the rate at which we acquire new subscribers and the cost of subscriber acquisition and retention, including capitalized costs associated with our new and existing subscriber equipment lease programs. The majority of our capital expenditures for 2010 are driven by the costs associated with subscriber premises equipment, included in our firm purchase obligations, as well as capital expenditures for our satellite-related obligations. These expenditures are necessary to operate and maintain the DISH Network television service. Consequently, we consider them to be non-discretionary. The amount of capital required will also depend on the levels of investment necessary to support potential strategic initiatives, including our plans to expand our national and local HD offerings and other strategic opportunities that may arise from time to time. Our capital expenditures vary depending on the number of satellites leased or under construction at any point in time, and could increase materially as a result of increased competition, significant satellite failures, or continued weak economic conditions. These factors could require that we raise additional capital in the future.

If we are unsuccessful in overturning the District Court s ruling on Tivo s motion for contempt, we are not successful in developing and deploying potential new alternative technology and we are unable to reach a license agreement with Tivo on reasonable terms, we may be required to eliminate DVR functionality in all but approximately 192,000 digital set-top boxes in the field and cease distribution of digital set-top boxes with DVR functionality. In that event we would be at a significant disadvantage to our competitors who could continue offering DVR functionality, which would likely result in a significant decrease in new subscriber additions as well as a substantial loss of current subscribers. Furthermore, the inability to offer DVR functionality could cause certain

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

of our distribution channels to terminate or significantly decrease their marketing of DISH Network services. The adverse effect on our financial position and results of operations if the District Court s contempt order is upheld is likely to be significant. Additionally, the supplemental damage award of $103 million and further award of approximately $200 million does not include damages, contempt sanctions or interest for the period after June 2009. In the event that we are unsuccessful in our appeal, we could also have to pay substantial additional damages, contempt sanctions and interest. Depending on the amount of any additional damage or sanction award or any monetary settlement, we may be required to raise additional capital at a time and in circumstances in which we would normally not raise capital. Therefore, any capital we raise may be on terms that are unfavorable to us, which might adversely affect our financial position and results of operations and might also impair our ability to raise capital on acceptable terms in the future to fund our own operations and initiatives. We believe the cost of such capital and its terms and conditions may be substantially less attractive than our previous financings.

If we are successful in overturning the District Court s ruling on Tivo s motion for contempt, but unsuccessful in defending against any subsequent claim in a new action that our original alternative technology or any potential new alternative technology infringes Tivo s patent, we could be prohibited from distributing DVRs or could be required to modify or eliminate our then-current DVR functionality in some or all set-top boxes in the field. In that event we would be at a significant disadvantage to our competitors who could continue offering DVR functionality and the adverse effect on our business would be material. We could also have to pay substantial additional damages.

Because both we and EchoStar are defendants in the Tivo lawsuit, we and EchoStar are jointly and severally liable to Tivo for any final damages and sanctions that may be awarded by the District Court. We have determined that we are 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 have 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.

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.

In 2008, we paid $712 million to acquire certain 700 MHz wireless licenses, which were granted to us by the FCC in February 2009. To commercialize these licenses and satisfy FCC build-out requirements, we will be required to make significant additional investments or partner with others. Depending on the nature and scope of such commercialization and build-out, any such investment or partnership could vary significantly. Part or all of our licenses may be terminated for failure to satisfy FCC build-out requirements. We are currently performing a market test to evaluate different technologies and consumer acceptance.

Recent developments in the financial markets have made it more difficult for issuers of high-yield indebtedness, such as us, to access capital markets at acceptable terms. These developments may have a significant effect on our cost of financing and our liquidity position.

A portion of our investment portfolio is invested in auction rate securities, mortgage backed securities, and strategic investments and as a result a portion of our portfolio has restricted liquidity. Liquidity in the markets for these investments has been impacted in the past year and these market conditions have adversely affected our liquidity. In addition, certain of these securities have defaulted or have been materially downgraded, causing us to record impairment charges. If the credit ratings of these securities further deteriorate or the lack of liquidity in the marketplace becomes prolonged, we may be required to record further impairment charges. Moreover, the current significant volatility 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.

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

New Accounting Pronouncements

Revenue Recognition Multiple-Deliverable Arrangements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2009-13 (ASU 2009-13), Revenue Recognition - Multiple-Deliverable Revenue Arrangements. ASU 2009-13 changes the requirements for establishing separate units of accounting in a multiple deliverable arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. We are currently evaluating the impact, if any, ASU 2009-13 will have on our consolidated financial statements, when adopted, as required, on January 1, 2011.

Embedded Credit Derivatives

In March 2010, the FASB issued Accounting Standards Update 2010-11 (ASU 2010-11), Derivatives and Hedging: Scope Exception Related to Embedded Credit Derivatives. ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from certain bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption - one that is related to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than subordination may need to separately account for the embedded credit derivative feature.

On July 1, 2010, we elected to apply the fair value option to certain of our auction rate securities (ARS) impacted by ASU 2010-11. As a result, a $50 million loss, net of tax, related to these ARS in Accumulated other comprehensive income (loss) within Total stockholders equity (deficit) as of June 30, 2010 will be included as a cumulative-effect adjustment to beginning Accumulated earnings (deficit) effective January 1, 2010. All changes in the fair value of these investments after June 30, 2010 will be recognized in our results of operations.

Off-Balance Sheet Arrangements

Other than the Guarantees disclosed in Note 10 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, 2010, our cash, cash equivalents and current marketable investment securities had a fair value of $2.594 billion. Of that amount, a total of $2.361 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. Based on our June 30, 2010 current non-strategic investment portfolio of $2.361

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

billion, a hypothetical 10% increase in average interest rates would result in a decrease of approximately $25 million in fair value of this portfolio. We normally hold these investments to maturity; however, the hypothetical loss in fair value would be realized if we sold the investments prior to maturity.

Our cash, cash equivalents and current marketable investment securities had an average annual rate of return for the six months ended June 30, 2010 of 0.7%. 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 2010 would result in a decrease of approximately $2 million in annual interest income.

Strategic Marketable Investment Securities

As of June 30, 2010, we held strategic and financial debt and equity investments of public companies with a fair value of $233 million. These investments, which are held for strategic and financial purposes, are concentrated in several companies, are highly speculative and have experienced and continue to experience volatility. 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 $23 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, 2010, we had $145 million of restricted cash and marketable investment securities invested in: (a) cash; (b) debt instruments of the United States Government and its agencies; (c) 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 (d) instruments with similar risk, duration and credit quality characteristics to the commercial paper described above. Based on our June 30, 2010 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, 2010, we held investments in auction rate securities (ARS) and mortgage backed securities (MBS) of $121 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 $12 million in the fair value of these investments.

Other Investment Securities

As of June 30, 2010, we had $50 million of nonpublic debt and equity instruments that we hold for strategic business purposes. We account for these investments under the cost, equity and/or fair value methods of accounting. A hypothetical 10% adverse change in the price of these nonpublic debt and equity instruments would result in a decrease of approximately $5 million in the fair value of these investments.

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.

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

Long-Term Debt

As of June 30, 2010, we had long-term debt of $6.212 billion on our Condensed Consolidated Balance Sheets. We estimated the fair value of this debt to be approximately $6.352 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 $183 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, 2010, a hypothetical 10% increase in assumed interest rates would increase our annual interest expense by approximately $44 million.

Derivative Financial Instruments

In general, we do not use derivative financial instruments for hedging or speculative purposes, but we may do so in the future.

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Item 4. 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.

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

In connection with the Spin-off, we entered into a separation agreement with EchoStar, which 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 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.

Acacia

During 2004, Acacia Media Technologies (Acacia) filed a lawsuit against us and EchoStar in the United States District Court for the Northern District of California. The suit also named DirecTV, Comcast, Charter, Cox and a number of smaller cable companies as defendants. Acacia is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. The suit alleges infringement of United States Patent Nos. 5,132,992; 5,253,275; 5,550,863; 6,002,720; and 6,144,702, which relate to certain systems and methods for transmission of digital data. On September 25, 2009, the District Court granted summary judgment to the defendants on invalidity grounds, and dismissed the action with prejudice. The plaintiffs have appealed.

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 user-friendly 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.

Broadcast Innovation, L.L.C.

During 2001, Broadcast Innovation, L.L.C. (Broadcast Innovation) filed a lawsuit against us, EchoStar, DirecTV, Thomson Consumer Electronics and others in United States District Court in Denver, Colorado. Broadcast Innovation is an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein. The suit alleges infringement of United States Patent Nos. 6,076,094 (the 094 patent) and 4,992,066 (the 066 patent). The 094 patent relates to certain methods and devices for transmitting and receiving data along with specific formatting information for the data. The 066 patent relates to certain methods and devices for providing the scrambling circuitry for a pay television system on removable cards. Subsequently, DirecTV and Thomson settled with Broadcast Innovation leaving us as the only defendant.

During 2004, the District Court issued an order finding the 066 patent invalid. Also in 2004, the District Court found the 094 patent invalid in a parallel case filed by Broadcast Innovation against Charter and Comcast. In 2005, the United States Court of Appeals for the Federal Circuit overturned that finding of invalidity with respect to the 094 patent and remanded the Charter case back to the District Court. During June 2006, Charter filed a reexamination request with the United States Patent and Trademark Office. The District Court has stayed the Charter case pending reexamination, and our case has been stayed pending resolution of the Charter case.

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 user-friendly 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

Channel Bundling Class Action

During 2007, a purported class of cable and satellite subscribers filed an antitrust action against us 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 granted defendants motion to dismiss with prejudice. The plaintiffs have appealed. 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.

ESPN

During 2008, we 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. ESPN asserted a counterclaim, and then filed a motion for summary judgment, alleging that we owed approximately $35 million under the applicable affiliation agreements. We brought a motion to amend our complaint to assert that ESPN was in breach of certain most-favored-nation provisions under the applicable affiliation agreements. On April 15, 2009, the trial court granted our motion to amend the complaint, and granted, in part, ESPN s motion 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. We appealed the partial grant of ESPN s motion to the New York trial court. After the partial grant of ESPN s motion, ESPN sought an additional $30 million under the applicable affiliation agreements. On March 15, 2010, the trial court affirmed the prior grant of ESPN s motion and ruled that we owe the full amount of approximately $65 million under the applicable affiliation agreement. Although the court ruled we owe approximately $65 million, there can be no assurance that ESPN will not seek, and that the court will not award, an amount that exceeds this amount. We have appealed the court s ruling. We intend to vigorously prosecute and 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.

Finisar Corporation

Finisar Corporation (Finisar) obtained a $100 million verdict in the United States District Court for the Eastern District of Texas against DirecTV for patent infringement. Finisar, an entity that seeks to license an acquired patent portfolio without itself practicing any of the claims recited therein, alleged that DirecTV s electronic program guide and other elements of its system infringe United States Patent No. 5,404,505 (the 505 patent).

During 2006, we and EchoStar, together with NagraStar LLC, filed a Complaint for Declaratory Judgment in the United States District Court for the District of Delaware against Finisar that asks the Court to declare that we do not infringe, and have not infringed, any valid claim of the 505 patent. Finisar brought counterclaims against us, EchoStar and NagraStar alleging that we infringed the 505 patent. During April 2008, the Federal Circuit reversed the judgment against DirecTV and ordered a new trial. On remand, the District Court granted summary judgment in favor of DirecTV and during January 2010, the Federal Circuit affirmed the District Court s grant of summary judgment, and dismissed the action with prejudice. Finisar then agreed to dismiss its counterclaims against us, EchoStar and NagraStar without prejudice. We also agreed to dismiss our Declaratory Judgment action without prejudice.

Katz Communications

During 2007, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a patent infringement action against us 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.

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PART II OTHER INFORMATION - Continued

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 user-friendly 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

On July 2, 2009, NorthPoint Technology, Ltd. 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.

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.

Personalized Media Communications

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. 4,694,490; 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.

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 user-friendly 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.

Retailer Class Actions

During 2000, lawsuits were filed by retailers in Colorado state and federal courts attempting to certify nationwide classes on behalf of certain of our retailers. The plaintiffs are requesting the Courts declare certain provisions of, and changes to, alleged agreements between us and the retailers invalid and unenforceable, and to award damages for lost incentives and payments, charge backs and other compensation. We have asserted a variety of counterclaims. The federal court action has been stayed during the pendency of the state court action. We filed a motion for summary judgment on all counts and against all plaintiffs. The plaintiffs filed a motion for additional time to conduct discovery to enable them to respond to our motion. The state court granted limited discovery which ended during 2004. The plaintiffs claimed we did not provide adequate disclosure during the discovery process. The state court agreed, and denied our motion for summary judgment as a result. In April 2008, the state court granted plaintiff s class certification motion and in January 2009, the state court entered an order excluding certain evidence that we can present at trial based on the prior discovery issues. The state court also denied plaintiffs request to dismiss our counterclaims. In May 2009, plaintiffs filed a motion for default judgment based on new allegations of discovery misconduct. In April 2010, the court denied plaintiffs motion for default judgment, but upheld its prior order excluding certain evidence. Trial is scheduled to commence on October 12, 2010. Before trial, the court will hold a hearing to establish the scope of its prior evidentiary order, including the scope of an adverse inference jury instruction. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the lawsuit or determine the extent of any potential liability or damages.

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PART II OTHER INFORMATION - Continued

Technology Development Licensing

On January 22, 2009, Technology Development and Licensing LLC (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. 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 re-examination petitions before the 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 user-friendly 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.

Tivo Inc.

During January 2008, the United States Court of Appeals for the Federal Circuit affirmed in part and reversed in part the April 2006 jury verdict concluding that certain of our digital video recorders, or DVRs, infringed a patent held by Tivo. As of September 2008, we had recorded a total reserve of $132 million on our Condensed Consolidated Balance Sheets to reflect the April 2006 jury verdict, supplemental damages through September 2006 and pre-judgment interest awarded by the Texas court, together with the estimated cost of potential further software infringement prior to implementation of our alternative technology, discussed below, plus interest subsequent to entry of the judgment. In its January 2008 decision, the Federal Circuit affirmed the jury s verdict of infringement on Tivo s software claims, and upheld the award of damages from the District Court. The Federal Circuit, however, found that we did not literally infringe Tivo s hardware claims, and remanded such claims back to the District Court for further proceedings. On October 6, 2008, the Supreme Court denied our petition for certiorari. As a result, approximately $105 million of the total $132 million reserve was released from an escrow account to Tivo.

We also developed and deployed next-generation DVR software. This improved software was automatically downloaded to our current customers DVRs, and is fully operational (our original alternative technology). The download was completed as of April 2007. We received written legal opinions from outside counsel that concluded our original alternative technology does not infringe, literally or under the doctrine of equivalents, either the hardware or software claims of Tivo s patent. Tivo filed a motion for contempt alleging that we are in violation of the Court s injunction. We opposed this motion on the grounds that the injunction did not apply to DVRs that have received our original alternative technology, that our original alternative technology does not infringe Tivo s patent, and that we were in compliance with the injunction.

In June 2009, the United States District Court granted Tivo s motion for contempt, finding that our original alternative technology was not more than colorably different than the products found by the jury to infringe Tivo s patent, that our original alternative technology still infringed the software claims, and that even if our original alternative technology was non-infringing, the original injunction by its terms required that we disable DVR functionality in all but approximately 192,000 digital set-top boxes in the field. The District Court also amended its original injunction to require that we inform the court of any further attempts to design around Tivo s patent and seek approval from the court before any such design-around is implemented. The District Court awarded Tivo $103 million in supplemental damages and interest for the period from September 2006 through April 2008, based on an assumed $1.25 per subscriber per month royalty rate. We posted a bond to secure that award pending appeal of the contempt order. On July 1, 2009, the Federal Circuit Court of Appeals granted a permanent stay of the District Court s contempt order pending resolution of our appeal.

The District Court held a hearing on July 28, 2009 on Tivo s claims for contempt sanctions. Tivo sought up to $975 million in contempt sanctions for the period from April 2008 to June 2009 based on, among other things, profits Tivo alleges we made from subscribers using DVRs. We opposed Tivo s request arguing, among other things, that sanctions are inappropriate because we made good faith efforts to comply with the Court s injunction. We also challenged Tivo s calculation of profits. On September 4, 2009, the District Court partially granted Tivo s motion for contempt sanctions and awarded $2.25 per DVR subscriber per month for the period from April 2008 to July 2009 (as compared to the award for supplemental damages for the prior period from September 2006 to April 2008,

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PART II OTHER INFORMATION - Continued

which was based on an assumed $1.25 per DVR subscriber per month). By the District Court s estimation, the total award for the period from April 2008 to July 2009 is approximately $200 million. The District Court also awarded Tivo its attorneys fees and costs incurred during the contempt proceedings. Enforcement of these awards has been stayed by the District Court pending resolution of our appeal of the underlying June 2009 contempt order. On February 8, 2010, we and Tivo submitted a stipulation to the District Court that the attorneys fees and costs, including expert witness fees and costs, that Tivo incurred during the contempt proceedings amounted to $6 million. During the year ended December 31, 2009 and the six months ended June 30, 2010, we increased our total reserve by $361 million and $61 million, respectively, to reflect the supplemental damages and interest for the period from implementation of our original alternative technology through April 2008 and for the estimated cost of alleged software infringement (including contempt sanctions for the period from April 2008 through June 2009) for the period from April 2008 through June 2010 plus interest. Our total reserve at June 30, 2010 was $454 million and is included in Tivo litigation accrual on our Condensed Consolidated Balance Sheets.

In light of the District Court s finding of contempt, and its description of the manner in which it believes our original alternative technology infringed the 389 patent, we are also developing and testing potential new alternative technology in an engineering environment. As part of EchoStar s development process, EchoStar downloaded several of our design-around options to less than 1,000 subscribers for beta testing. On March 11, 2010, we requested that the District Court approve the implementation of one of our design-around options on an expedited basis. There can be no assurance that the District Court will approve this request.

Oral argument on our appeal of the contempt ruling took place on November 2, 2009, before a three-judge panel of the Federal Circuit Court of Appeals. On March 4, 2010, the Federal Circuit affirmed the District Court s contempt order in a 2-1 decision. On May 14, 2010, our petition for en banc review of that decision by the full Federal Circuit was granted and the opinion of the three-judge panel was vacated. Oral argument is scheduled for November 9, 2010. There can be no assurance that the full Federal Circuit will reverse the decision of the three-judge panel. Tivo has stated that it will seek additional damages for the period from June 2009 to the present. Although we have accrued our best estimate of damages, contempt sanctions and interest through June 30, 2010, there can be no assurance that Tivo will not seek, and that the court will not award, an amount that exceeds our accrual.

On June 4, 2010, the Patent and Trademark Office (the PTO) issued a final office action rejecting the software claims of United States Patent No. 6,233,389 (the 389 patent) as being invalid in light of two prior patents. These are the same software claims that we were found to have infringed and which underlie the contempt ruling that we are now appealing. We believe that the PTO s conclusions are relevant to the issues on appeal. The PTO s conclusions support our position that our original alternative technology is more than colorably different than the devices found to infringe by the jury; that our original alternative technology does not infringe; and that we acted in good faith to design around Tivo s patent.

If we are unsuccessful in overturning the District Court s ruling on Tivo s motion for contempt, we are not successful in developing and deploying potential new alternative technology and we are unable to reach a license agreement with Tivo on reasonable terms, we may be required to eliminate DVR functionality in all but approximately 192,000 digital set-top boxes in the field and cease distribution of digital set-top boxes with DVR functionality. In that event we would be at a significant disadvantage to our competitors who could continue offering DVR functionality, which would likely result in a significant decrease in new subscriber additions as well as a substantial loss of current subscribers. Furthermore, the inability to offer DVR functionality could cause certain of our distribution channels to terminate or significantly decrease their marketing of DISH Network services. The adverse effect on our financial position and results of operations if the District Court s contempt order is upheld is likely to be significant. Additionally, the supplemental damage award of $103 million and further award of approximately $200 million does not include damages, contempt sanctions or interest for the period after June 2009. In the event that we are unsuccessful in our appeal, we could also have to pay substantial additional damages, contempt sanctions and interest. Depending on the amount of any additional damage or sanction award or any monetary settlement, we may be required to raise additional capital at a time and in circumstances in which we would normally not raise capital. Therefore, any capital we raise may be on terms that are unfavorable to us, which might adversely affect our financial position and results of operations and might also impair our ability to raise capital on acceptable terms in the future to fund our own operations and initiatives. We believe the cost of such capital and its terms and conditions may be substantially less attractive than our previous financings.

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PART II OTHER INFORMATION - Continued

If we are successful in overturning the District Court s ruling on Tivo s motion for contempt, but unsuccessful in defending against any subsequent claim in a new action that our original alternative technology or any potential new alternative technology infringes Tivo s patent, we could be prohibited from distributing DVRs or could be required to modify or eliminate our then-current DVR functionality in some or all set-top boxes in the field. In that event we would be at a significant disadvantage to our competitors who could continue offering DVR functionality and the adverse effect on our business would be material. We could also have to pay substantial additional damages.

Because both we and EchoStar are defendants in the Tivo lawsuit, we and EchoStar are jointly and severally liable to Tivo for any final damages and sanctions that may be awarded by the District Court. We have determined that we are 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 have 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.

Voom

On May 28, 2008, Voom HD Holdings (Voom) filed a complaint against us in New York Supreme Court. The suit alleges breach of contract arising from our termination of the affiliation agreement we had with Voom for the carriage of certain Voom HD channels on the DISH Network satellite television service. In January 2008, Voom sought a preliminary injunction to prevent us from terminating the agreement. The Court denied Voom s motion, finding, among other things, that Voom was not likely to prevail on the merits of its case. 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.

Item 1A. RISK FACTORS

Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2009 includes a detailed discussion of our risk factors. During the six months ended June 30, 2010, there were no material changes in risk factors as previously disclosed.

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PART II OTHER INFORMATION - Continued

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, 2010 through June 30, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (1) (In thousands)
April 1 - April 30, 2010		$		$ 985,503
May 1 - May 31, 2010		$		$ 985,503
June 1 - June 30, 2010		$		$ 985,503
Total		$		$ 985,503

(1) Our Board of Directors previously authorized stock repurchases of up to $1.0 billion of our Class A common stock. On November 3, 2009, 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 shares through and including December 31, 2010. 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.

31.1¨	Section 302 Certification of Chief Executive Officer.
31.2¨	Section 302 Certification of Chief Financial Officer.
32.1¨	Section 906 Certification of Chief Executive Officer.
32.2¨	Section 906 Certification of Chief Financial Officer.
101*	The following materials from the Quarterly Report on Form 10-Q of DISH Network for the quarter ended June 30, 2010, filed on August 9, 2010, 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 tagged as blocks of text.

¨ Filed herewith.

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

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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/ Charles W. Ergen*
Charles W. Ergen
Chairman, 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 9, 2010