

DISH Network CORP
Form 10-Q
May 02, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011.

OR

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

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number: 0-26176

DISH Network Corporation

(Exact name of registrant as specified in its charter)

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

9601 South Meridian Boulevard
Englewood, Colorado
(Address of principal executive offices)

80112
(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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 20, 2011, the registrant's outstanding common stock consisted of 206,315,632 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:

- We face intense and increasing competition from satellite and cable television providers, telecommunications companies and providers of video content via the Internet, especially as the pay-TV industry matures, which may require us to increase subscriber acquisition and retention spending or accept lower subscriber acquisitions and higher subscriber churn.
- Competition from digital media companies that provide/facilitate the delivery of video content via the Internet, could materially adversely affect us.
- 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.
- If we do not improve 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.
- Economic weakness, including higher unemployment and reduced consumer spending, may adversely affect our ability to grow or maintain our business.
- Programming expenses are increasing and could adversely affect our future financial condition and results of operations.

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- 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 programming offerings.

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- Technology in our industry changes rapidly and could cause our services and products to become obsolete. We may have to upgrade or replace subscriber equipment and make substantial investments in our infrastructure to remain competitive.
- Increased distribution of video content via the Internet could expose us to regulatory risk.
- Our business depends on certain intellectual property rights and on not infringing the intellectual property rights of others.
- Any failure or inadequacy of our information technology infrastructure could harm our business.
- 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.
- If Voom prevails in its breach of contract suit against us, we could be required to pay substantial damages, which would have a material adverse affect on our financial position and results of operations.
- A portion of our investment portfolio is invested in securities that have experienced limited or no liquidity and may not be immediately accessible to support our financing needs.
- We 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 to 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.
- 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.

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- 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 at acceptable rates from local network stations.
- The injunction against our retransmission of distant networks, currently waived, may be reinstated.
- We are subject to significant regulatory oversight and changes in applicable regulatory requirements, including any adoption or modification of laws or regulations relating to the Internet, which 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.
- We have substantial debt outstanding and may incur additional debt.
- We have limited owned and leased satellite capacity and failures or reduced capacity could adversely affect our business.
- Our owned and leased satellites are subject to construction, launch, operational and environmental risks that could limit our ability to utilize these satellites.

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

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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.

Table of Contents**DISH NETWORK CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except share amounts)

(Unaudited)

	March 31, 2011	As of	December 31, 2010
Assets			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 1,163,522		\$ 640,672
Marketable investment securities (Note 4)	2,250,215		2,299,705
Trade accounts receivable - other, net of allowance for doubtful accounts of \$13,418 and \$29,650, respectively	718,979		771,898
Trade accounts receivable - EchoStar, net of allowance for doubtful accounts of zero	21,854		14,155
Inventory	427,699		487,575
Deferred tax assets	233,645		216,899
Other current assets	180,841		142,489
Total current assets	4,996,755		4,573,393
<i>Noncurrent Assets:</i>			
Restricted cash and marketable investment securities (Note 4)	186,440		144,437
Property and equipment, net of accumulated depreciation of \$2,725,748 and \$2,684,521, respectively	3,255,356		3,232,348
FCC authorizations	1,391,441		1,391,441
Marketable and other investment securities (Note 4)	369,535		224,517
Other noncurrent assets, net	81,086		66,017
Total noncurrent assets	5,283,858		5,058,760
Total assets	\$ 10,280,613		\$ 9,632,153
Liabilities and Stockholders Equity (Deficit)			
<i>Current Liabilities:</i>			
Trade accounts payable - other	\$ 120,726		\$ 161,767
Trade accounts payable - EchoStar	250,050		238,997
Deferred revenue and other	845,799		803,768
Accrued programming	1,053,030		1,089,988
Litigation accrual (Note 11)	284,346		619,022
Other accrued expenses	710,100		554,864
Current portion of long-term debt and capital lease obligations	1,027,622		1,030,895
Total current liabilities	4,291,673		4,499,301
<i>Long-Term Obligations, Net of Current Portion:</i>			
Long-term debt and capital lease obligations, net of current portion	5,478,723		5,484,041
Deferred tax liabilities	806,856		567,686
Long-term deferred revenue, distribution and carriage payments and other long-term liabilities	205,833		214,568
Total long-term obligations, net of current portion	6,491,412		6,266,295
Total liabilities	10,783,085		10,765,596
Commitments and Contingencies (Note 9)			

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Stockholders' Equity (Deficit):

Class A common stock, \$.01 par value, 1,600,000,000 shares authorized, 261,149,191 and 260,917,977 shares issued, 205,030,931 and 204,799,717 shares outstanding, respectively	2,611	2,609
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	2,190,738	2,171,799
Accumulated other comprehensive income (loss)	154,861	93,357
Accumulated earnings (deficit)	(1,285,225)	(1,834,619)
Treasury stock, at cost	(1,569,459)	(1,569,459)
Total DISH Network stockholders' equity (deficit)	(504,090)	(1,133,929)
Noncontrolling interest	1,618	486
Total stockholders' equity (deficit)	(502,472)	(1,133,443)
Total liabilities and stockholders' equity (deficit)	\$ 10,280,613	\$ 9,632,153

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

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DISH NETWORK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010
Revenue:		
Subscriber-related revenue	\$ 3,199,099	\$ 3,036,133
Equipment sales and other revenue	16,001	13,830
Equipment sales - EchoStar	3	912
Services and other revenue - EchoStar	9,028	6,520
Total revenue	3,224,131	3,057,395
Costs and Expenses:		
Subscriber-related expenses (exclusive of depreciation shown below - Note 6)	1,693,695	1,639,362
Satellite and transmission expenses (exclusive of depreciation shown below - Note 6):		
EchoStar	108,913	101,478
Other	10,200	9,986
Equipment, services and other cost of sales	22,267	16,902
<i>Subscriber acquisition costs:</i>		
Cost of sales - subscriber promotion subsidies - EchoStar (exclusive of depreciation shown below - Note 6)	54,426	26,903
Other subscriber promotion subsidies	226,841	313,683
Subscriber acquisition advertising	73,632	71,427
Total subscriber acquisition costs	354,899	412,013
General and administrative expenses - EchoStar (exclusive of depreciation shown below - Note 6)	11,940	11,430
General and administrative expenses (exclusive of depreciation shown below - Note 6)	149,844	139,390
Litigation expense (Note 11)	(340,677)	30,193
Depreciation and amortization (Note 6)	229,697	239,662
Total costs and expenses	2,240,778	2,600,416
Operating income (loss)	983,353	456,979
Other Income (Expense):		
Interest income	6,286	5,777
Interest expense, net of amounts capitalized	(120,179)	(112,947)
Other, net	11,633	4,655
Total other income (expense)	(102,260)	(102,515)
Income (loss) before income taxes	881,093	354,464
Income tax (provision) benefit, net	(331,767)	(123,549)
Net income (loss)	549,326	230,915
Less: Net income (loss) attributable to noncontrolling interest	(68)	(32)
Net income (loss) attributable to DISH Network common shareholders	\$ 549,394	\$ 230,947

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Comprehensive Income (Loss):			
Net income (loss)	\$	549,326	\$ 230,915
Unrealized holding gains (losses) on available-for-sale securities		67,800	18,268
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)		(6,296)	(277)
Comprehensive income (loss)		610,830	248,906
Less: Comprehensive income (loss) attributable to noncontrolling interest		(68)	(32)
Comprehensive income (loss) attributable to DISH Network common shareholders	\$	610,898	\$ 248,938

Weighted-average common shares outstanding - Class A and B common stock:			
Basic		443,360	446,732
Diluted		448,850	447,530

Earnings per share - Class A and B common stock:			
Basic net income (loss) per share attributable to DISH Network common shareholders	\$	1.24	\$ 0.52
Diluted net income (loss) per share attributable to DISH Network common shareholders	\$	1.22	\$ 0.52

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

Table of Contents**DISH NETWORK CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010
Cash Flows From Operating Activities:		
Net income (loss)	\$ 549,326	\$ 230,915
<i>Adjustments to reconcile net income (loss) to net cash flows from operating activities:</i>		
Depreciation and amortization	229,697	239,662
Realized and unrealized losses (gains) on investments	(11,618)	(4,527)
Non-cash, stock-based compensation	15,177	6,316
Deferred tax expense (benefit)	221,798	(30,918)
Other, net	3,826	5,676
Change in noncurrent assets	(4,175)	(2,005)
Change in long-term deferred revenue, distribution and carriage payments and other long-term liabilities	(8,738)	329
Changes in current assets and current liabilities, net	(150,998)	280,566
Net cash flows from operating activities	844,295	726,014
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(1,214,236)	(1,576,756)
Sales and maturities of marketable investment securities	1,284,087	1,274,057
Purchases of property and equipment	(232,952)	(320,370)
Launch service assigned from EchoStar (Note 10)		(102,913)
Change in restricted cash and marketable investment securities	(42,000)	17
Purchase of strategic investments included in noncurrent marketable and other investment securities	(122,800)	
Proceeds from sale of strategic investments	11,327	15,000
Other	(291)	(109)
Net cash flows from investing activities	(316,865)	(711,074)
Cash Flows From Financing Activities:		
Repayment of long-term debt and capital lease obligations	(8,498)	(7,079)
Class A common stock repurchases		(14,497)
Net proceeds from Class A common stock options exercised and issued under the Employee Stock Purchase Plan	3,596	709
Other	322	
Net cash flows from financing activities	(4,580)	(20,867)
Net increase (decrease) in cash and cash equivalents	522,850	(5,927)
Cash and cash equivalents, beginning of period	640,672	105,844
Cash and cash equivalents, end of period	\$ 1,163,522	\$ 99,917
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest (including capitalized interest)	\$ 114,752	\$ 119,361
Capitalized interest	\$	\$ 8,302
Cash received for interest	\$ 7,363	\$ 7,481

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Cash paid for income taxes	\$	7,440	\$	35,867
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Business Activities

Principal Business

DISH Network Corporation is a holding company. Its subsidiaries (which together with DISH Network Corporation are referred to as DISH Network, the Company, we, us and/or our) operate the DISH Network® direct broadcast satellite (DBS) subscription television service in the United States which had 14.191 million subscribers as of March 31, 2011. 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, leased fiber network, in-home service and call center operations, and certain other assets utilized in our operations.

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.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required for complete financial statements prepared under GAAP. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Our results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 10-K). Certain prior period amounts have been reclassified to conform to the current period presentation.

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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(Unaudited)

combinations, capital leases, asset impairments, useful lives of property, equipment and intangible assets, retailer incentives, programming expenses, subscriber lives and royalty obligations. Weak economic conditions have increased the inherent uncertainty in the estimates and assumptions indicated above. Actual results may differ from previously estimated amounts, and such differences may be material to the Condensed Consolidated Financial Statements. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected prospectively in the period they occur.

Fair Value of Financial Instruments

As of March 31, 2011 and December 31, 2010, the carrying value for cash and cash equivalents, current 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 or proximity to current market rates.

Fair values for our publicly traded debt securities are based on quoted market prices. The fair values of our private debt is estimated based on an analysis in which we evaluate market conditions, related securities, various public and private offerings, and other publicly available information. In performing this analysis, we make various assumptions regarding, among other things, credit spreads, and the impact of these factors on the value of the notes. See Note 7 for the fair value of our long-term debt.

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

We present both basic earnings per share (EPS) and diluted EPS. Basic EPS excludes potential dilution and is computed by dividing Net income (loss) attributable to DISH Network 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 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 March 31,			
	2011		2010	
	(In thousands, except per share amounts)			
Net income (loss) attributable to DISH Network common shareholders	\$	549,394	\$	230,947

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Weighted-average common shares outstanding - Class A and B common

stock:

Basic	443,360	446,732
Dilutive impact of stock awards outstanding	5,490	798
Diluted	448,850	447,530

Earnings per share - Class A and B common stock:

Basic net income (loss) per share attributable to DISH Network common shareholders	\$	1.24	\$	0.52
Diluted net income (loss) per share attributable to DISH Network common shareholders	\$	1.22	\$	0.52

As of March 31, 2011 and 2010, there were stock awards to purchase 7.1 million and 12.1 million shares, respectively, of Class A common stock outstanding, not included in the weighted-average common shares outstanding above, as their effect is antidilutive.

Table of Contents**DISH NETWORK CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** Continued

(Unaudited)

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 March 31,	
	2011	2010
	(In thousands)	
Performance based options	10,859	9,219
Restricted Performance Units and other	1,101	1,016
Total	11,960	10,235

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

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

	March 31, 2011	As of (In thousands)	December 31, 2010
Marketable investment securities:			
Current marketable investment securities - VRDNs	\$ 1,165,177		\$ 1,334,081
Current marketable investment securities - strategic	198,708		211,141
Current marketable investment securities - other	886,330		754,483
<i>Total current marketable investment securities</i>	<i>2,250,215</i>		<i>2,299,705</i>
Restricted marketable investment securities (1)	80,390		62,196
Noncurrent marketable investment securities - ARS and MBS (2)	123,191		119,121
Total marketable investment securities	2,453,796		2,481,022
Restricted cash and cash equivalents (1)	106,050		82,241
Other investment securities:			
Other investment securities - cost method	2,805		2,805
Other investment securities	243,539		102,591
Total other investment securities (2)	246,344		105,396
Total marketable investment securities, restricted cash and other investment securities	\$ 2,806,190		\$ 2,668,659

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- (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.

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

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 March 31, 2011, a significant portion of our strategic investment portfolio consisted of securities of several issuers, and the value of that portfolio depends on those issuers.

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 and carrying value, which is equal to fair value, of these securities as of March 31, 2011 and December 31, 2010 was \$16 million. The total discount on these securities was \$2 million as of March 31, 2011 with \$2 million classified as accretable yield. The total discount on these securities was \$3 million as of December 31, 2010 with \$3 million classified as accretable yield.

Current Marketable Investment Securities - Other

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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 March 31, 2011 and December 31, 2010, our restricted marketable investment securities, together with our restricted cash, included amounts required as collateral for our letters of credit or surety bonds and for our litigation with TiVo (See Note 11) and ESPN (See Note 9).

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 below for further discussion on the July 1, 2010 fair value election on certain ARS investments.

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

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

Fair Value Election. As of March 31, 2011 our ARS and MBS noncurrent marketable investment securities portfolio of \$123 million includes \$66 million of securities accounted for under the fair value method. 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 ARS portfolio 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 was included as a cumulative-effect adjustment to Accumulated earnings (deficit). All changes in the fair value of these investments after June 30, 2010 are recognized in our results of operations and included in Other, net income and expense on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and detailed in the table titled Gains and Losses on Sales and Changes in Carrying Value of Investments below.

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.

DBSD North America (ICO)

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Over the past several years, we have made various strategic investments in DBSD North America Inc. (DBSD North America), a subsidiary of ICO Global Communications (Holdings) Limited (ICO). DBSD North America is developing an advanced hybrid system which combines both satellite and terrestrial communications capabilities capable of supporting wireless voice, data and/or Internet services throughout the United States. We have committed, through various agreements described below, to acquire 100% of the equity of reorganized DBSD North America for approximately \$1.4 billion. Our ultimate acquisition of 100% of the equity of reorganized DBSD North America is subject to the satisfaction of certain conditions, including approval by the FCC and DBSD North America's emergence from bankruptcy.

Investment in DBSD North America as of the Balance Sheet Dates. As of March 31, 2011 and December 31, 2010, our other investment securities portfolio included DBSD North America's 7.5% Convertible Senior Secured Notes due 2009 of \$112 million and \$56 million, respectively. In addition, as of March 31, 2011 and December 31, 2010, we held a \$47 million line of credit pursuant to the Amended and Restated Revolving Credit Agreement, dated as of April 7, 2008 between us and DBSD North America. During the quarter ended March 31, 2011, we made additional investments in DBSD North America pursuant to various agreements discussed below.

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DISH NETWORK CORPORATION

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(Unaudited)

Investment Agreement. On February 1, 2011, we entered into an \$87.5 million Credit Facility with DBSD North America and committed to acquire 100% of the equity of reorganized DBSD North America (the Investment Agreement) for approximately \$1.4 billion subject to certain adjustments, including interest accruing on DBSD North America's existing debt. As of March 31, 2011, we had funded \$50 million under the Credit Facility.

On February 24, 2011 and again on March 15, 2011, we amended the Investment Agreement (the Revised Investment Agreement). Pursuant to the Revised Investment Agreement, on March 22, 2011, we initiated a tender offer to purchase all of DBSD North America's outstanding 7.5% Convertible Senior Secured Notes due 2009, certain claims against a DBSD North America's debtor affiliate and certain allowed claims against DBSD North America. The tender offer expired on April 18, 2011 and on April 20, 2011 we made payments of approximately \$746 million to purchase tendered DBSD North America's 7.5% Convertible Senior Secured Notes due 2009, certain claims against a DBSD's debtor affiliate and claims against DBSD North America.

Restructuring Support Agreement and Implementation Agreement. In connection with the Revised Investment Agreement on March 15, 2011, we entered into a Restructuring Support Agreement and an Implementation Agreement with ICO Global Communications (Holdings) Limited (ICO), the parent company of DBSD North America, pursuant to which ICO provided us with certain assets, rights and ICO's support of the reorganization of DBSD North America in exchange for approximately \$325 million in consideration, \$290 million of which will be creditable against any amounts payable to ICO or any successor under the plan of reorganization of DBSD North America. We have also agreed to indemnify ICO against certain liabilities in connection with certain pending litigation related to DBSD North America.

On March 21, 2011, we paid \$35 million to ICO pursuant to the Implementation Agreement, which is included in Marketable and other investment securities on the Condensed Consolidated Balance Sheets as of March 31, 2011. On April 26, 2011, subsequent to the date of the Condensed Consolidated Balance Sheet, we made a second payment of approximately \$280 million to ICO pursuant to the Implementation Agreement for the capital stock of DBSD North America.

Unrealized Gains (Losses) on Marketable Investment Securities

As of March 31, 2011 and December 31, 2010, we had accumulated net unrealized gains of \$155 million and \$93 million, both net of related tax effect, respectively, as a part of Accumulated other comprehensive income (loss) within Total stockholders' equity (deficit). A full valuation allowance has been established against any deferred taxes that are capital in nature. The components of our available-for-sale investments are detailed in the table below.

As of March 31, 2011

As of December 31, 2010

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	Marketable Investment Securities			Marketable Investment Securities			Marketable Investment Securities		
	Gains	Unrealized Losses	Net	Gains	Unrealized Losses	Net	Gains	Unrealized Losses	Net
	(In thousands)								
Debt securities:									
VRDNs	\$ 1,165,177	\$	\$	\$	\$ 1,334,081	\$	\$	\$	\$
ARS and MBS	57,377	906	(10,152)	(9,246)	56,430	902	(12,262)	(11,360)	
Other (including restricted)	1,094,404	89,372	(1,271)	88,101	888,621	32,256	(1,676)	30,580	
Equity securities:									
Other	182,669	83,953	(7,949)	76,004	195,022	82,565	(8,429)	74,136	
Subtotal	2,499,627	\$ 174,231	\$ (19,372)	\$ 154,859	2,474,154	\$ 115,723	\$ (22,367)	\$ 93,356	
ARS fair value election	65,814				62,691				
Less certain other investment securities	(111,645)				(55,823)				
Total marketable investment securities	\$ 2,453,796				\$ 2,481,022				

As of March 31, 2011, restricted and non-restricted marketable investment securities include debt securities of \$1.951 billion with contractual maturities of one year or less and \$432 million with contractual maturities greater than one year. Actual maturities may differ from contractual maturities as a result of our ability to sell these securities prior to maturity.

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(Unaudited)

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 March 31, 2011 and December 31, 2010, the unrealized losses on our investments in equity securities represent a company 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 March 31, 2011 and December 31, 2010, 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.

Investment Category	Primary Reason for Unrealized Loss	Total Fair Value	Less than Six Months Fair Value	Unrealized Loss	As of March 31, 2011		Nine Months or More	
					Six to Nine Months Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In thousands)								
Debt securities	Temporary market fluctuations	\$ 370,957	\$ 275,992	\$ (268)	\$ 1,340	\$ (7)	\$ 93,625	\$ (11,148)
Equity securities	Temporary market fluctuations	27,942	27,942	(7,949)				
Total		\$ 398,899	\$ 303,934	\$ (8,217)	\$ 1,340	\$ (7)	\$ 93,625	\$ (11,148)
As of December 31, 2010 (In thousands)								
Debt securities	Temporary market fluctuations	\$ 312,857	\$ 93,072	\$ (174)	\$ 26,182	\$ (103)	\$ 193,603	\$ (13,661)
Equity securities	Temporary market fluctuations	26,890	26,890	(8,429)				
Total		\$ 339,747	\$ 119,962	\$ (8,603)	\$ 26,182	\$ (103)	\$ 193,603	\$ (13,661)

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:

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

- Level 2, defined as observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

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

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(Unaudited)

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

	As of							
	Total	March 31, 2011			December 31, 2010			Level 3
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(In thousands)							
Debt securities:								
VRDNs	\$ 1,165,177	\$	\$ 1,165,177	\$	\$ 1,334,081	\$	\$ 1,334,081	\$
ARS and MBS	123,191		5,622	117,569	119,121		6,031	113,090
Other (including restricted)	1,094,404	17,586	965,039	111,779	888,621	21,835	810,883	55,903
Equity securities	182,669	182,669			195,022	195,022		
Subtotal	2,565,441	\$ 200,255	\$ 2,135,838	\$ 229,348	2,536,845	\$ 216,857	\$ 2,150,995	\$ 168,993
Less certain other investment securities	(111,645)				(55,823)			
Total marketable investment securities	\$ 2,453,796				\$ 2,481,022			

Changes in Level 3 instruments are as follows:

	Level 3 Investment Securities (In thousands)
Balance as of December 31, 2010	\$ 168,993
Net realized and unrealized gains (losses) included in earnings	3,314
Net realized and unrealized gains (losses) included in other comprehensive income (loss)	57,803
Settlements	(762)
Balance as of March 31, 2011	\$ 229,348

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:

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Other Income (Expense):	For the Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Marketable investment securities - gains (losses) on sales/exchanges	\$ 6,391	\$ (49)
Marketable investment securities - unrealized gains (losses) on investments accounted for at fair value	(4,773)	
Other investment securities - gains (losses) on sales/exchanges	10,000	1,552
Other investment securities - unrealized gains (losses) on fair value investments and other-than-temporary impairments		3,024
Other	15	128
Total		