

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

Washington, D.C. 20549

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**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 MARCH 31, 2011.**

**OR**

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

**FOR THE TRANSITION PERIOD FROM                      TO                      .**

**Commission File Number: 0-26176**

**DISH Network Corporation**

(Exact name of registrant as specified in its charter)

**Nevada**

**88-0336997**

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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 ☐  
(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 ☒

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.

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**DISH NETWORK CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except share amounts)

(Unaudited)

	March 31, 2011	As of	December 31, 2010
<b>Assets</b>			
<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
<b>Liabilities and Stockholders' Equity (Deficit)</b>			
<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)

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenue:</b>		
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
<b>Costs and Expenses:</b>		
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
<b>Other Income (Expense):</b>		
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)

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash Flows From Operating Activities:</b>		
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
<b>Net cash flows from operating activities</b>	<b>844,295</b>	<b>726,014</b>
<b>Cash Flows From Investing Activities:</b>		
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)
<b>Net cash flows from investing activities</b>	<b>(316,865)</b>	<b>(711,074)</b>
<b>Cash Flows From Financing Activities:</b>		
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	
<b>Net cash flows from financing activities</b>	<b>(4,580)</b>	<b>(20,867)</b>
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
<b>Supplemental Disclosure of Cash Flow Information:</b>		
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.

		<b>For the Three Months Ended March 31,</b>	
		<b>2011</b>	<b>2010</b>
		<b>(In thousands, except per share amounts)</b>	
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.

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(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
<b>Marketable investment securities:</b>			
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
<b>Total marketable investment securities</b>	<b>2,453,796</b>		<b>2,481,022</b>
<b>Restricted cash and cash equivalents (1)</b>	<b>106,050</b>		<b>82,241</b>
<b>Other investment securities:</b>			
Other investment securities - cost method	2,805		2,805
Other investment securities	243,539		102,591
<b>Total other investment securities (2)</b>	<b>246,344</b>		<b>105,396</b>
<b>Total marketable investment securities, restricted cash and other investment securities</b>	<b>\$ 2,806,190</b>		<b>\$ 2,668,659</b>

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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**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS   Continued**

(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	Gains	Unrealized Losses	Net (In thousands)	Marketable Investment Securities	Gains	Unrealized Losses	Net
<b>Debt securities:</b>								
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
<b>Equity securities:</b>								
Other	182,669	83,953	(7,949)	76,004	195,022	82,565	(8,429)	74,136
<b>Subtotal</b>	<b>2,499,627</b>	<b>\$ 174,231</b>	<b>\$ (19,372)</b>	<b>\$ 154,859</b>	<b>2,474,154</b>	<b>\$ 115,723</b>	<b>\$ (22,367)</b>	<b>\$ 93,356</b>
ARS fair value election	65,814				62,691			
Less certain other investment securities	(111,645)				(55,823)			
<b>Total marketable investment securities</b>	<b>\$ 2,453,796</b>				<b>\$ 2,481,022</b>			

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				
					Six to Nine Months Fair Value	Unrealized Loss	Nine Months or More		
					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)					
<b>Total</b>		<b>\$ 398,899</b>	<b>\$ 303,934</b>	<b>\$ (8,217)</b>	<b>\$ 1,340</b>	<b>\$ (7)</b>	<b>\$ 93,625</b>	<b>\$ (11,148)</b>	
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)					
<b>Total</b>		<b>\$ 339,747</b>	<b>\$ 119,962</b>	<b>\$ (8,603)</b>	<b>\$ 26,182</b>	<b>\$ (103)</b>	<b>\$ 193,603</b>	<b>\$ (13,661)</b>	

***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							
	March 31, 2011		December 31, 2010					
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(In thousands)							
<b>Debt securities:</b>								
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
<b>Equity securities</b>	182,669	182,669			195,022	195,022		
<b>Subtotal</b>	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)			
<b>Total marketable investment securities</b>	\$ 2,453,796				\$ 2,481,022			

Changes in Level 3 instruments are as follows:

	Level 3 Investment Securities (In thousands)
<b>Balance as of December 31, 2010</b>	\$ 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)
<b>Balance as of March 31, 2011</b>	\$ 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
<b>Total</b>	<b>\$ 11,633</b>	<b>\$ 4,655</b>

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

(Unaudited)

**5.        Inventory**

Inventory consists of the following:

		As of	
	March 31,	December 31,	
	2011	2010	
	(In thousands)		
Finished goods - DBS	\$ 301,402	\$ 305,068	
Raw materials	87,426	143,111	
Work-in-process - used	35,352	36,186	
Work-in-process - new	3,519	3,210	
Total inventory	\$ 427,699	\$ 487,575	

**6.        Property and Equipment*****Depreciation and Amortization Expense***

Depreciation and amortization expense consists of the following:

		For the Three Months Ended March 31,	
	2011	2010	
	(In thousands)		
Equipment leased to customers	\$ 182,987	\$ 205,398	
Satellites	32,091	22,183	
Buildings, furniture, fixtures, equipment and other	14,619	12,081	
Total depreciation and amortization	\$ 229,697	\$ 239,662	

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.



*Satellites*

We currently utilize 13 satellites in geostationary orbit approximately 22,300 miles above the equator, six of which we own. We currently utilize capacity on five satellites from EchoStar, which are accounted for as operating leases. See Note 10 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 high definition ( 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

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**DISH NETWORK CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued**

(Unaudited)

necessary to remain competitive and thus may have a material adverse effect on our business, financial condition and results of operations.

Prior to 2011, certain satellites in our fleet experienced anomalies, some of which have had a significant adverse impact on their remaining useful life and/or commercial operation. There can be no assurance that future anomalies will not further impact the remaining useful life and/or 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 use, and we will bear the risk associated with any in-orbit satellite failures. Recent developments with respect to certain of our satellites are discussed below.

*Leased Satellites*

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

*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.

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(Unaudited)

**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 March 31, 2011 and December 31, 2010:

	<b>March 31, 2011</b>		<b>As of</b>	<b>December 31, 2010</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>		<b>Carrying Value</b>	<b>Fair Value</b>
	<b>(In thousands)</b>				
6 3/8% Senior Notes due 2011 (1)	\$ 1,000,000	\$ 1,017,500	\$	1,000,000	\$ 1,032,500
7 % Senior Notes due 2013	500,000	543,125		500,000	532,815
6 5/8% Senior Notes due 2014	1,000,000	1,057,560		1,000,000	1,032,500
7 3/4% Senior Notes due 2015	750,000	819,375		750,000	798,750
7 1/8% Senior Notes due 2016	1,500,000	1,597,500		1,500,000	1,548,600
7 7/8% Senior Notes due 2019	1,400,000	1,519,000		1,400,000	1,463,000
Mortgages and other notes payable	77,638	77,638		77,965	77,965
Subtotal	6,227,638	\$ 6,631,698		6,227,965	\$ 6,486,130
Capital lease obligations (2)	278,707			286,971	
Total long-term debt and capital lease obligations (including current portion)	\$ 6,506,345		\$	6,514,936	

(1) Our 6 3/8% Senior Notes with an aggregate principal balance of \$1.0 billion mature on October 1, 2011.

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

**8. Stock-Based Compensation***Stock Incentive Plans*

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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 March 31, 2011, we had outstanding under these plans stock options to acquire 22.1 million shares of our Class A common stock and 1.2 million restricted stock units. Stock options granted prior to and on March 31, 2011 were granted with exercise prices equal to or greater than the market value of our Class A common stock at the date of grant and with a maximum term of approximately ten years. While historically we have issued stock awards subject to vesting, typically at the rate of 20% per year, some stock awards have been granted with immediate vesting and other stock awards vest only upon the achievement of certain company-wide objectives. As of March 31, 2011, we had 75.3 million shares of our Class A common stock available for future grant under our stock incentive plans.

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.

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(Unaudited)

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 March 31, 2011, the following stock awards were outstanding:

	As of March 31, 2011			
	DISH Network Awards		EchoStar Awards	
Stock Awards Outstanding	Stock Options	Restricted Stock Units	Stock Options	Restricted Stock Units
Held by DISH Network employees	18,806,172	933,746	946,546	58,484
Held by EchoStar employees	3,333,276	233,624	N/A	N/A
Total	22,139,448	1,167,370	946,546	58,484

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 was as follows:

		<b>For the Three Months Ended March 31, 2011</b>	<b>Weighted- Average Exercise Price</b>
	<b>Options</b>		
Total options outstanding, beginning of period	21,918,500	\$	18.62
Granted	890,000	\$	24.36
Exercised	(220,252)	\$	14.36
Forfeited and cancelled	(448,800)	\$	17.10
Total options outstanding, end of period	22,139,448	\$	18.84
Performance based options outstanding, end of period (1)	10,859,250	\$	16.05
Exercisable at end of period	7,758,883	\$	22.93

(1) 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 months ended March 31, 2011 and 2010 as follows:

	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	
	<b>(In thousands)</b>		
Tax benefit from stock awards exercised	\$ 795	\$ 87	

Based on the closing market price of our Class A common stock on March 31, 2011, the aggregate intrinsic value of our stock options was as follows:

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As of March 31, 2011

	Options Outstanding	Options Exercisable
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(In thousands)

Aggregate intrinsic value	\$ 133,348	\$ 20,110
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(Unaudited)

Our restricted stock unit activity was as follows:

		<b>For the Three Months Ended March 31, 2011</b>	
	<b>Restricted Stock Units</b>		<b>Weighted- Average Grant Date Fair Value</b>
Total restricted stock units outstanding, beginning of period	1,564,332	\$	23.00
Granted		\$	
Vested		\$	
Forfeited and cancelled	(396,962)	\$	26.36
Total restricted stock units outstanding, end of period	1,167,370	\$	21.86
Restricted Performance Units outstanding, end of period (1)	1,101,245	\$	21.29

(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 March 31, 2011, 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 three months ended March 31, 2011, we would have recorded total non-cash, stock-based compensation expense for our

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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.

	<b>2005 LTIP</b>		<b>Vested</b>	
	<b>Total</b>		<b>Portion</b>	
		<b>(In thousands)</b>		
DISH Network awards held by DISH Network employees	\$	37,739	\$	23,442
EchoStar awards held by DISH Network employees		7,388		4,580
<b>Total</b>	<b>\$</b>	<b>45,127</b>	<b>\$</b>	<b>28,022</b>

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**DISH NETWORK CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS   Continued**

(Unaudited)

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

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

During the first quarter of 2011, we determined that 100% of the 2008 LTIP performance goals are probable of achievement. Although 100% of those goals are probable of achievement, only 25% of the vesting conditions have been met as of March 31, 2011. As a result, we recorded non-cash, stock-based compensation expense for the three months ended March 31, 2011 and 2010, as indicated in the table below titled Non-Cash, Stock-Based Compensation Expense Recognized.

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

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

Although no awards vest until the performance goals are attained, we determined that certain goals were probable of achievement and, as a result, recorded non-cash, stock-based compensation expense for the three months ended March 31, 2011 and 2010, as indicated in the table below titled Non-Cash, Stock-Based Compensation Expense Recognized.

Given the competitive nature of our business, small variations in subscriber churn, gross new subscriber 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 March 31, 2011, that assessment could change at any time.

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

Estimated Remaining Non-Cash, Stock-Based Compensation Expense	2008 LTIP	Other Employee Performance Awards
	(In thousands)	
Remaining expense estimated to be recognized during 2011	\$ 5,467	\$ 1,013
Estimated contingent expense subsequent to 2011	9,320	24,456
Total estimated remaining expense over the term of the plan	\$ 14,787	\$ 25,469

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**DISH NETWORK CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS    Continued**

(Unaudited)

Non-Cash, Stock-Based Compensation Expense Recognized	For the Three Months Ended March 31,	
	2011	2010
	(In thousands)	
2008 LTIP	\$	12,804