ECHOSTAR COMMUNICATIONS CORP
Form 10-Q
November 07, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006.

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

EchoStar Communications Corporation

(Exact name of registrant as specified in its charter)

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

(303) 723-1000

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ **Accelerated filer** o **Non-accelerated filer** o

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

As of October 31, 2006, the Registrant s outstanding common stock consisted of 206,559,116 shares of Class A common stock and 238,435,208 Shares of Class B common stock.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Table of Contents

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 statemer must remember that our expectations may not be correct, 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 as well as new competitors, including telephone companies; our competitors are increasingly offering bundled television and high speed internet access services that consumers may find attractive and which are likely to further increase competition;

- as technology changes, and in order to remain competitive, we will have to upgrade or replace some, or all, subscriber equipment periodically. We will not be able to pass on to our customers the entire cost of these upgrades;

- DISH Network subscriber growth may decrease, subscriber turnover may increase and subscriber acquisition costs may increase;

- satellite programming signals are subject to theft and will continue to be in the future; theft of service could cause us to lose subscribers and revenue and could increase in the future, resulting in higher costs to us;

- we depend on others to produce programming; programming costs may increase beyond our current expectations; we may be unable to obtain or renew programming agreements on acceptable terms or at all; existing programming agreements could be subject to cancellation; foreign programming is increasingly offered on other platforms which could cause our subscriber additions and related revenue to decline and could cause our subscriber turnover to increase;

- we depend on the Telecommunications Act of 1996 as Amended (Communications Act) and Federal Communications Commission (FCC) program access rules to secure nondiscriminatory access to programming produced by others, neither of which assure that we have fair access to all programming that we need to remain competitive;

- the regulations governing our industry may change;

- if we are unable to protect access to distant network channels through judicial, legislative or other avenues, we will be required by December 1, 2006 to shut off those channels to all of our approximately 900,000 customers who currently subscribe to that programming, and we would be prohibited from offering distant network channels to new subscribers in the future. This would reduce our competitiveness in the market, and would result, among other things, in a small reduction in average monthly revenue per subscriber and free cash flow, and a temporary increase in subscriber churn;

absent reversal of the jury verdict in our Tivo patent infringement case, and if we are unable to successfully implement alternative technology, we will be required to pay substantial damages as well as materially modify or eliminate certain user-friendly digital video recorder features that we currently offer to consumers, and we could be forced to discontinue offering digital video recorders to our customers completely, any of which could have an adverse affect on our business;

if our EchoStar X satellite experienced a significant failure we could lose the ability to deliver local network channels in many markets;

our satellite launches may be delayed or fail, or our satellites may fail in orbit prior to the end of their scheduled lives causing extended interruptions of some of the channels we offer;

we currently do not have commercial insurance covering losses incurred from the failure of satellite launches and/or in-orbit satellites we own;

service interruptions arising from technical anomalies on satellites or on-ground components of our direct broadcast satellite (DBS) system, or caused by war, terrorist activities or natural disasters, may cause customer cancellations or otherwise harm our business;

Table of Contents

we are heavily dependent on complex information technologies; weaknesses in our information technology systems could have an adverse impact on our business; we may have difficulty attracting and retaining qualified personnel to maintain our information technology infrastructure;

we rely on key personnel including Charles W. Ergen, our chairman and chief executive officer, and other executives;

we may be unable to obtain needed retransmission consents, FCC authorizations or export licenses, and we may lose our current or future authorizations;

we are party to various lawsuits which, if adversely decided, could have a significant adverse impact on our business;

we may be unable to obtain patent licenses from holders of intellectual property or redesign our products to avoid patent infringement;

sales of digital equipment and related services to international direct-to-home service providers may decrease;

we depend on telecommunications providers, independent retailers and others to solicit orders for DISH network services. Certain of these providers account for a significant percentage of our total new subscriber acquisitions. If we are unable to continue our arrangements with these resellers, we cannot guarantee that we would be able to obtain other sales agents, thus adversely affecting our business;

we are highly leveraged and subject to numerous constraints on our ability to raise additional debt;

we may pursue acquisitions, business combinations, strategic partnerships, divestitures and other significant transactions that involve uncertainties; these transactions may require us to raise additional capital, which may not be available on acceptable terms;

weakness in the global or U.S. economy may harm our business generally, and adverse political or economic developments may occur in some of our markets;

terrorist attacks, the possibility of war or other hostilities, natural and man-made disasters, and changes in political and economic conditions as a result of these events may continue to affect the U.S. and the global economy and may increase other risks;

we periodically evaluate and test our internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act. Although our management concluded that our internal control over financial reporting was effective as of December 31, 2005, and while no change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, if in the future we are unable to report that our internal control over financial reporting is effective (or if our auditors do not agree with our assessment of the effectiveness of, or are unable to express an opinion on, our internal control over financial reporting), we could lose investor confidence in our financial reports, which could have a material adverse effect on our stock price and our business; and

we may face other risks described from time to time in periodic and current reports we file with the Securities and Exchange Commission (SEC).

All cautionary statements made herein should be read as being applicable to all forward-looking statements wherever they appear. In this connection, investors should consider the risks described herein and should not place undue reliance on any forward-looking statements.

We assume no responsibility for updating forward-looking information contained or incorporated by reference herein or in other reports we file with the SEC.

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

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)
(Unaudited)

	As of	
	September 30, 2006	**December 31, 2005**
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,755,287	$ 615,669
Marketable investment securities	1,032,946	565,691
Trade accounts receivable, net of allowance for uncollectible accounts of $12,759 and $11,523, respectively	582,877	478,414
Inventories, net (Note 4)	268,125	221,329
Current deferred tax assets	410,435	397,076
Other current assets	142,472	118,866
Total current assets	4,192,142	2,397,045
Restricted cash and marketable investment securities	197,411	67,120
Property and equipment, net of accumulated depreciation of $2,673,844 and $2,124,298, respectively	3,647,649	3,514,539
FCC authorizations	748,101	748,287
Long-term deferred tax assets		206,146
Intangible assets, net (Note 7)	199,135	226,650
Other noncurrent assets, net	367,140	250,423
Total assets	$ 9,351,578	$ 7,410,210
Liabilities and Stockholders Equity (Deficit)		
Current Liabilities:		
Trade accounts payable	$ 299,054	$ 239,788
Deferred revenue and other	837,013	757,484
Accrued programming	786,716	681,500
Other accrued expenses	535,237	434,829
Current portion of capital lease and other long-term obligations	37,878	36,470
Total current liabilities	2,495,898	2,150,071
Long-term obligations, net of current portion:		
5 3/4% Convertible Subordinated Notes due 2008	1,000,000	1,000,000
9 1/8% Senior Notes due 2009 (Note 8)		441,964
3% Convertible Subordinated Note due 2010	500,000	500,000
Floating Rate Senior Notes due 2008 (Note 14)	500,000	500,000
5 3/4% Senior Notes due 2008	1,000,000	1,000,000
6 3/8% Senior Notes due 2011	1,000,000	1,000,000

3% Convertible Subordinated Note due 2011	25,000	25,000
6 5/8% Senior Notes due 2014	1,000,000	1,000,000
7 1/8% Senior Notes due 2016 (Note 8)	1,500,000	
Capital lease obligations, mortgages and other notes payable, net of current portion	414,407	431,867
Long-term deferred revenue, distribution and carriage payments and other long-term liabilities	281,161	227,932
Total long-term obligations, net of current portion	7,220,568	6,126,763
Total liabilities	9,716,466	8,276,834
Commitments and Contingencies (Note 10)		
Stockholders Equity (Deficit):		
Class A common stock, $.01 par value, 1,600,000,000 shares authorized, 251,551,675 and 250,052,516 shares issued, 206,538,875 and 205,468,898 shares outstanding, respectively	2,516	2,501
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	1,905,296	1,860,774
Accumulated other comprehensive income (loss)	17,230	4,030
Accumulated earnings (deficit)	(931,261)	(1,386,937)
Treasury stock, at cost	(1,361,053)	(1,349,376)
Total stockholders equity (deficit)	(364,888)	(866,624)
Total liabilities and stockholders equity (deficit)	$ 9,351,578	$ 7,410,210

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

1

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenue:				
Subscriber-related revenue	$ 2,373,888	$ 2,010,441	$ 6,884,074	$ 5,898,769
Equipment sales	74,803	95,875	274,274	278,317
Other	22,675	21,905	61,413	70,621
Total revenue	2,471,366	2,128,221	7,219,761	6,247,707
Costs and Expenses:				
Subscriber-related expenses (exclusive of depreciation shown below Note 11)	1,220,026	997,473	3,500,515	3,011,382
Satellite and transmission expenses (exclusive of depreciation shown below Note 11)	36,542	34,239	108,907	98,092
Cost of sales equipment	58,809	68,763	212,062	205,657
Cost of sales other	2,093	4,811	5,388	20,623
Subscriber acquisition costs:				
Cost of sales subscriber promotion subsidies (exclusive of depreciation shown below Note 11)	34,634	23,641	113,772	95,080
Other subscriber promotion subsidies	342,864	330,690	895,055	855,540
Subscriber acquisition advertising	61,329	48,234	162,194	130,420
Total subscriber acquisition costs	438,827	402,565	1,171,021	1,081,040
General and administrative	135,366	116,250	408,631	342,314
Tivo litigation expense (Note 10)	1,442		89,677	
Depreciation and amortization (Note 11)	296,451	212,236	817,913	573,087
Total costs and expenses	2,189,556	1,836,337	6,314,114	5,332,195
Operating income (loss)	281,810	291,884	905,647	915,512
Other income (expense):				
Interest income	33,884	12,668	87,354	29,995
Interest expense, net of amounts capitalized	(112,795)	(94,022)	(354,362)	(278,396)
Gain on insurance settlement				134,000
Other	1,361	7,342	54,365	41,424
Total other income (expense)	(77,550)	(74,012)	(212,643)	(72,977)

Income (loss) before income taxes	204,260	217,872	693,004	842,535
Income tax benefit (provision), net	(64,644)	(9,008)	(237,328)	539,380
Net income (loss)	$ 139,616	$ 208,864	$ 455,676	$ 1,381,915
Denominator for basic net income (loss) per share weighted-average common shares outstanding	444,899	451,732	444,478	453,358
Denominator for diluted net income (loss) per share weighted-average common shares outstanding	446,396	483,792	452,782	485,536
Net income (loss) per share:				
Basic net income (loss)	$ 0.31	$ 0.46	$ 1.03	$ 3.05
Diluted net income (loss)	$ 0.31	$ 0.46	$ 1.02	$ 2.92

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Nine Months Ended September 30, 2006	2005
Cash Flows From Operating Activities:		
Net income (loss)	$ 455,676	$ 1,381,915
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	817,913	573,087
Equity in losses (earnings) of affiliates	4,450	(385)
Realized and unrealized losses (gains) on investments	(67,178)	(46,567)
Gain on insurance settlement		(134,000)
Non-cash, stock-based compensation recognized	13,153	
Deferred tax expense (benefit)	194,163	(569,214)
Amortization of debt discount and deferred financing costs	7,392	4,734
Other, net	(2,697)	3,919
Change in noncurrent assets	(10,263)	6,845
Change in long-term deferred revenue, distribution and carriage payments and other long-term liabilities	23,870	(29,197)
Changes in current assets and current liabilities, net	272,372	180,882
Net cash flows from operating activities	1,708,851	1,372,019
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(1,472,423)	(553,793)
Sales and maturities of marketable investment securities	934,254	462,490
Purchases of property and equipment	(988,595)	(951,994)
Proceeds from insurance settlement		240,000
Change in restricted cash and marketable investment securities	(35,498)	(16,677)
FCC auction deposits		(4,245)
Purchase of technology-based intangibles		(25,500)
Purchase of strategic investments included in noncurrent assets and other	(24,636)	(25,402)
Net cash flows from investing activities	(1,586,898)	(875,121)
Cash Flows From Financing Activities:		
Redemption and repurchase of 9 1/8% Senior Notes due 2009, respectively	(441,964)	(4,189)
Issuance of 7 1/8% Senior Notes due 2016	1,500,000	
Deferred debt issuance costs	(7,500)	
Class A common stock repurchases	(11,677)	(152,464)
Repayment of capital lease obligations, mortgages and other notes payable	(31,051)	(41,467)
Proceeds from Class A common stock options exercised and Class A common stock issued under Employee Stock Purchase Plan	9,857	9,184

Net cash flows from financing activities	1,017,665	(188,936)
Net increase (decrease) in cash and cash equivalents	1,139,618	307,962
Cash and cash equivalents, beginning of period	615,669	704,560
Cash and cash equivalents, end of period	$ 1,755,287	$ 1,012,522
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 266,088	$ 222,244
Capitalized interest	$ 6,067	$ 5,264
Cash received for interest	$ 46,222	$ 23,981
Cash paid for income taxes	$ 29,788	$ 8,280
Employee benefits paid in Class A common stock	$ 22,098	$ 13,055
Satellites financed under capital lease obligations	$	$ 191,950
Satellite and other vendor financing	$ 15,000	$ 1,940

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Business Activities

Principal Business

EchoStar Communications Corporation (ECC) is a holding company. Its subsidiaries (which together with ECC are referred to as EchoStar, the Company, we, us and/or our) operate two interrelated business units:

*The DISH Networ*k which provides a direct broadcast satellite (DBS) subscription television service in the United States; and

EchoStar Technologies Corporation (ETC) which designs and develops DBS set-top boxes, antennae and other digital equipment for the DISH Network. We refer to this equipment collectively as EchoStar receiver systems. ETC also designs, develops and distributes similar equipment for international satellite service providers.

We have deployed substantial resources to develop the EchoStar DBS System. The EchoStar DBS System consists of our FCC allocated DBS spectrum, our owned and leased satellites, EchoStar receiver systems, digital broadcast operations centers, customer service facilities, and certain other assets utilized in our operations. Our principal business strategy is to continue developing our subscription television service in the United States to provide consumers with a fully competitive alternative to others in the multi-channel video programming distribution, or MVPD, industry.

2. 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. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. All prior period amounts were reclassified to conform to the current period presentation. The results of operations for the three and nine months ended September 30, 2006 were increased by prior period adjustments totaling approximately $8.9 million and $19.3 million, respectively, primarily related to income tax benefits.

Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005 (2005 10-K).

Principles of Consolidation

We consolidate all majority owned subsidiaries and investments in entities in which we have controlling influence. Non-majority owned investments are accounted for using the equity method when we have the ability to significantly influence the operating decisions of the issuer. When we do not have the ability to significantly influence the operating decisions of an issuer, the cost method is used. For entities that are considered variable interest entities, we apply the provisions of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46-R, Consolidation of Variable Interest Entities An Interpretation of ARB No. 51 (FIN 46-R). All significant intercompany accounts and transactions have been eliminated in consolidation.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

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 revenues and expenses for each reporting period. Estimates are used in accounting for, among other things, allowances for uncollectible accounts, inventory allowances, self-insurance obligations, deferred taxes and related valuation allowances, loss contingencies, fair values of financial instruments, fair value of options granted under our stock-based compensation plans, fair value of assets and liabilities acquired in business combinations, capital leases, asset impairments, useful lives of property, equipment and intangible assets, retailer commissions, programming expenses, subscriber lives including those related to our co-branding and other distribution relationships, royalty obligations and smart card replacement obligations. 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 beginning in the period they occur.

Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Net income (loss)	$ 139,616	$ 208,864	$ 455,676	$ 1,381,915
Foreign currency translation adjustments	924	(101)	4,358	(694)
Unrealized holding gains (losses) on available-for-sale securities	(7,709)	(1,222)	14,822	(43,161)
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	(273)	(5,235)	(408)	(5,251)
Deferred income tax (expense) benefit attributable to unrealized holding gains (losses) on available-for-sale securities	2,646	2,260	(5,572)	(1,179)
Comprehensive income (loss)	$ 135,204	$ 204,566	$ 468,876	$ 1,331,630

Accumulated other comprehensive income (loss) presented on the accompanying Condensed Consolidated Balance Sheets consists of the accumulated net unrealized gains (losses) on available-for-sale securities and foreign currency translation adjustments, net of deferred taxes.

Basic and Diluted Income (Loss) Per Share

Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS 128) requires entities to present both basic earnings per share (EPS) and diluted EPS. Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options were exercised and convertible securities were converted to common stock.

The potential dilution from our subordinated notes convertible into common stock was computed using the if converted method. The potential dilution from stock options exercisable into common stock and non-performance based rights to receive Class A common stock (Restricted Share Units) was computed using the treasury stock method based on the average market value of our Class A common stock for each period presented. The following table reflects the basic and diluted weighted-average shares outstanding used to calculate basic and diluted earnings per share. Earnings per share amounts for all periods are presented below in accordance with the requirements of SFAS 128.

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Numerator:				
Numerator for basic net income (loss) per share Net income (loss)	$ 139,616	$ 208,864	$ 455,676	$ 1,381,915
Interest on subordinated notes convertible into common shares, net of related tax effect	117	11,537	7,354	34,611
Numerator for diluted net income (loss) per common share	$ 139,733	$ 220,401	$ 463,030	$ 1,416,526
Denominator:				
Denominator for basic net income (loss) per common share weighted-average common shares outstanding	444,899	451,732	444,478	453,358
Dilutive impact of options and restricted share units outstanding	1,098	1,695	1,039	1,813
Dilutive impact of subordinated notes convertible into common shares	399	30,365	7,265	30,365
Denominator for diluted net income (loss) per share weighted-average diluted common shares outstanding	446,396	483,792	452,782	485,536
Net income (loss) per share:				
Basic net income (loss)	$ 0.31	$ 0.46	$ 1.03	$ 3.05
Diluted net income (loss)	$ 0.31	$ 0.46	$ 1.02	$ 2.92
Shares of Class A common stock issuable upon conversion of:				
5 3/4% Convertible Subordinated Notes due 2008	23,100	23,100	23,100	23,100
3% Convertible Subordinated Note due 2010	6,866	6,866	6,866	6,866
3% Convertible Subordinated Note due 2011	399	399	399	399

During the three months ended September 30, 2006 and 2005, there were options to purchase approximately 10.4 million and 8.0 million shares outstanding, respectively, that are not included in the above denominator as their effect is antidilutive. Further, during the nine months ended September 30, 2006 and 2005, there were options to purchase approximately 10.6 million and 8.0 million shares outstanding, respectively, that are not included in the above denominator as their effect is antidilutive.

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

	As of September 30,	
	2006	**2005**
	(In thousands)	
Performance based options	11,210	11,407
Restricted Performance Units	711	548

6

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes (SFAS 109). FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact the adoption of FIN 48 will have on our financial position and results of operations.

3. Stock-Based Compensation

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (R) (As Amended), Share-Based Payment (SFAS 123(R)) which (i) revises Statement of Financial Accounting Standard No. 123, Accounting and Disclosure of Stock-Based Compensation, (SFAS 123) to eliminate both the disclosure only provisions of that statement and the alternative to follow the intrinsic value method of accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations, and (ii) requires the cost resulting from all share-based payment transactions with employees be recognized in the results of operations over the period during which an employee provides the requisite service in exchange for the award and establishes fair value as the measurement basis of the cost of such transactions. Effective January 1, 2006, we adopted SFAS 123(R) under the modified prospective method.

Total non-cash, stock-based compensation expense, net of related tax effect, for the three and nine months ended September 30, 2006 was $3.4 million and $8.2 million, respectively, and was allocated to the same expense categories as the base compensation for key employees who participate in our stock option plans, as follows:

	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2006
	(In thousands)	
Subscriber-related	$ 162	$ 417
Satellite and transmission	94	243
General and administrative	3,098	7,529
Total non-cash, stock based compensation	$ 3,354	$ 8,189

Prior to January 1, 2006, we applied the intrinsic value method of accounting under APB 25 and applied the disclosure only provisions of SFAS 123. Pro forma information regarding net income and earnings per share was required by SFAS 123 and has been determined as if we had accounted for our stock-based compensation plans using the fair value method prescribed by that statement. For purposes of pro forma disclosures, the estimated fair value of the options was amortized to expense over the options vesting period on a straight-line basis. We accounted for forfeitures as they occurred. Compensation previously recognized was reversed upon forfeiture of unvested options. The following table illustrates the effect on net income (loss) per share if we had accounted for our stock-based compensation plans using the fair value method:

7

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2005
	(In thousands)	
Net income (loss), as reported	$ 208,864	$ 1,381,915
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(3,260)	(10,585)
Pro forma net income (loss)	$ 205,604	$ 1,371,330
Basic income (loss) per share, as reported	$ 0.46	$ 3.05
Diluted income (loss) per share, as reported	$ 0.46	$ 2.92
Pro forma basic income (loss) per share	$ 0.46	$ 3.02
Pro forma diluted income (loss) per share	$ 0.45	$ 2.90

The fair value of each option grant was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Risk-free interest rate	4.49%	4.18%	4.70%	3.95%
Volatility factor	25.02%	25.66%	25.03%	26.32%
Expected term of options in years	6.1	6.4	6.2	6.4
Weighted-average fair value of options granted	$11.60	$10.57	$11.25	$10.64

During December 2004, we paid a one-time dividend of $1 per outstanding share of our Class A and Class B common stock. We do not currently plan to pay additional dividends on our common stock, and therefore the dividend yield percentage is set at zero for all periods. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Consequently, our estimate of fair value may differ from other valuation models. Further, the Black-Scholes model requires the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate. Therefore, the existing models do not necessarily provide a reliable single measure of the fair value of stock-based compensation awards.

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

Stock Incentive Plans

We have adopted stock incentive plans to attract and retain officers, directors and key employees. As of September 30, 2006, we had 65.6 million shares of our Class A common stock authorized for awards under our Stock Incentive Plans. In general, stock options granted through September 30, 2006 have included exercise prices not less than the market value of our Class A common stock at the date of grant and a maximum term of ten years. While historically our Board of Directors has issued options that vest at the rate of 20% per year, some option grants have been immediately vested.

Effective January 26, 2005, we adopted a long-term, performance-based stock incentive plan (the 2005 LTIP) within the terms of our 1999 Stock Incentive Plan to provide incentive to our executive officers and certain other key employees upon achievement of specified long-term business objectives. Employees participating in the 2005 LTIP elect to receive a one-time award of: (i) an option to acquire a specified number of shares priced at market value on the date of the awards; (ii) rights to acquire for no additional consideration a specified smaller number of

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

shares of our Class A common stock; or (iii) a corresponding combination of a lesser number of option shares and such rights to acquire our Class A common stock. The options and rights are subject to certain performance criteria and vest over a seven year period at the rate of 10% per year during the first four years, and at the rate of 20% per year thereafter.

Options to purchase 5.9 million shares pursuant to a long-term incentive plan under our 1995 Stock Incentive Plan (the 1999 LTIP), and 5.3 million shares pursuant to the 2005 LTIP were outstanding as of September 30, 2006. These options were granted with exercise prices at least equal to the market value of the underlying shares on the dates they were issued. The weighted-average exercise price of these options is $8.72 under our 1999 LTIP and $29.76 under our 2005 LTIP. The weighted-average fair value of the options granted during the three and nine months ended September 30, 2006 pursuant to the 2005 LTIP plan was $15.54 and $15.36, respectively. Further, pursuant to the 2005 LTIP, there were also 711,132 outstanding Restricted Performance Units as of September 30, 2006 with a weighted-average grant date fair value of $30.05. Vesting of these options and Restricted Performance Units is contingent upon meeting certain long-term goals which have not yet been achieved. Consequently, no compensation was recorded during the three and nine months ended September 30, 2006 related to these long-term options and Restricted Performance Units. We will record the related compensation when achievement of the performance goals is probable, if ever. In accordance with SFAS 123(R), such compensation, if recorded, would result in total non-cash, stock-based compensation expense of approximately $138.3 million, of which $116.9 million relates to performance based options and $21.4 million relates to Restricted Performance Units. This would be recognized ratably over the remaining vesting period or expensed immediately, if fully vested, in our Condensed Consolidated Statements of Operations.

A summary of our stock option activity for the nine months ended September 30, 2006 was as follows:

	For the Nine Months Ended September 30, 2006	
	Options	Weighted-Average Exercise Price
Options outstanding, beginning of period	25,086,883	$24.43
Granted	1,915,000	31.71
Exercised	(606,593)	13.10
Forfeited and Cancelled	(2,627,400)	26.83
Options outstanding, end of period	23,767,890	25.04
Exercisable at end of period	7,372,140	30.66

Based on the average market value for the nine months ended September 30, 2006, the aggregate intrinsic value for the options outstanding was $182.4 million, of which $40.5 million was exercisable at the end of the period.

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Exercise prices for options outstanding and exercisable as of September 30, 2006 were as follows:

	Options Outstanding			Options Exercisable	
	Number Outstanding as of September 30, 2006 *	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of September 30, 2006	Weighted-Average Exercise Price
$ 2.12500-$ 6.00000	6,029,788	2.22	$ 5.89	1,005,788	$ 5.34
$10.20315-$19.17975	1,114,542	2.82	13.80	510,542	13.22
$22.26000-$28.88000	2,478,600	7.41	27.45	1,903,000	27.45
$29.25000-$39.50000	12,909,960	8.30	30.86	2,849,810	32.63
$48.75000-$79.00000	1,235,000	3.52	62.91	1,103,000	62.29
$ 2.12500-$79.00000	23,767,890	6.16	25.04	7,372,140	30.66

* These amounts include approximately 5.9 million shares and 5.3 million shares outstanding pursuant to the 1999 LTIP and 2005 LTIP, respectively.

As of September 30, 2006, our total unrecognized compensation cost related to our non-performance based unvested stock options was $62.5 million. This cost is based on an assumed future forfeiture rate of approximately 8.0% per year and will be recognized over a weighted-average period of approximately three years.

During the nine months ended September 30, 2006, the grant date value of Restricted Share Units (performance and non-performance based) outstanding was as follows:

	For the Nine Months Ended September 30, 2006	
	Restricted Share Units *	Weighted-Average Grant Date Fair Value
Restricted Share Units outstanding, beginning of period	644,637	$ 29.46
Granted	262,663	31.95

Exercised	(20,000)	30.16
Forfeited	(46,168)	29.49
Restricted Share Units outstanding, end of period	841,132	30.22
Exercisable at end of period		

* These amounts include 711,132 Restricted Performance Units outstanding pursuant to the 2005 LTIP.

10

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

4. Inventories

Inventories consist of the following:

	As of September 30, 2006	As of December 31, 2005
	(In thousands)	
Finished goods DBS	$ 136,377	$ 140,955
Raw materials	57,999	55,115
Work-in-process service repair and refurbishment	75,179	23,705
Work-in-process	12,635	10,936
Consignment	1,930	803
Inventory allowance	(15,995)	(10,185)
Inventories, net	$ 268,125	$ 221,329

5. Marketable and Non-Marketable Investment Securities

We currently classify all marketable investment securities as available-for-sale. Our approximately $2.986 billion of restricted and unrestricted cash, cash equivalents and marketable investment securities includes debt and equity securities which we own for strategic and financial purposes. We adjust the carrying value of our available-for-sale securities to fair value and report the related temporary unrealized gains and losses as a separate component of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit), net of related deferred income tax. Declines in the fair value of a marketable investment security which are estimated to be other than temporary are recognized in the Condensed Consolidated Statements of Operations, thus establishing a new cost basis for such investment. We evaluate our marketable investment securities portfolio on a quarterly basis to determine whether declines in the fair value of these securities are other than temporary. This quarterly evaluation consists of reviewing, among other things, the fair value of our marketable investment securities compared to the carrying amount, the historical volatility of the price of each security and any market and company specific factors related to each security. Generally, absent specific factors to the contrary, declines in the fair value of investments below cost basis for a continuous period of less than six months are considered to be temporary. Declines in the fair value of investments for a continuous period of six to nine months are evaluated on a case by case basis to determine whether any company or market-specific factors exist which would indicate that such declines are other than temporary. Declines in the fair value of investments below cost basis for a continuous period greater than nine months are considered other than temporary and are recorded as charges to earnings, absent specific factors to the contrary.

As of September 30, 2006 and December 31, 2005, we had unrealized gains net of related tax effect of approximately $12.2 million and $3.3 million, respectively, as a part of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit). During the nine months ended September 30, 2006 and 2005, we did not record any charge to earnings for other than temporary declines in the fair value of our marketable investment securities. During the nine months ended September 30, 2006 and 2005, we recognized realized and unrealized net gains on marketable and non-marketable investment securities of approximately $67.2 million and $53.2 million, respectively. Gains and losses are generally accounted for on the specific identification method.

The fair value of our strategic marketable investment securities aggregated approximately $285.2 million and $148.5 million as of September 30, 2006 and December 31, 2005, respectively. During the nine months ended September 30, 2006, our strategic investments have experienced and continue to experience volatility. If the fair value of our strategic marketable investment securities portfolio does not remain above cost basis or if we become aware of any market or company specific factors that indicate that the carrying value of certain of our securities is impaired, we may be required to record charges to earnings in future periods equal to the amount of the decline in fair value.

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

The following table reflects the length of time that the individual securities have been in an unrealized loss position, aggregated by investment category, where those declines are considered temporary in accordance with our policy.

	As of September 30, 2006							
	Less than Six Months		Six to Nine Months		Nine Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)							
Corporate bonds	$ 37,893	$ (53)	$	$	$	$	$ 37,893	$ (53)
Government bonds	35,227	(9)	26,177	(42)			61,404	(51)
Corporate equity securities	71,367	(4,954)					71,367	(4,954)
Total	$ 144,487	$ (5,016)	$ 26,177	$ (42)	$	$	$ 170,664	$ (5,058)

	As of December 31, 2005							
	Less than Six Months		Six to Nine Months		Nine Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)							
Government bonds	$	$	$	$	$ 119,290	$ (662)	$ 119,290	$ (662)
Corporate equity securities	32,444	(379)					32,444	(379)
Total	$ 32,444	$ (379)	$	$	$ 119,290	$ (662)	$ 151,734	$ (1,041)

Corporate Bonds

We believe the unrealized losses on our corporate bonds were caused primarily by interest rate increases. At September 30, 2006, maturities on these corporate bonds ranged from one to eleven months. We have the ability and intent to hold these investments until maturity when the obligors are required to redeem them at their full face value, and we believe the obligors have the financial resources to redeem those bonds. Accordingly, we do not consider these investments to be other-than-temporarily impaired as of September 30, 2006.

Government Bonds

We believe the unrealized losses on our investments in government bonds were caused primarily by interest rate increases. At September 30, 2006 and December 31, 2005, maturities on these government bonds ranged from two to twelve months. We have the ability and intent to hold these investments until maturity when the Government is required to redeem them at their full face value. Accordingly, we do not consider these investments to be other-than-temporarily impaired as of September 30, 2006.

Corporate Equity Securities

The unrealized loss on our investments in corporate equity securities represents an investment in the marketable common stock of three companies in the communications industry. We are not aware of any specific factors which indicate the unrealized loss is due to anything other than temporary market fluctuations.

Other Non-Marketable Securities

We also have several strategic investments in certain non-marketable equity securities which are included in Other noncurrent assets, net on our Condensed Consolidated Balance Sheets. Generally, we account for our unconsolidated equity investments under either the equity method or cost method of accounting. Because these equity securities are not publicly traded, it is not practical to regularly estimate the fair value of the investments; however, these investments are subject to an evaluation for other than temporary impairment on a quarterly basis. This quarterly evaluation consists of reviewing, among other things, company business plans and current financial statements, if available, for factors that may indicate an impairment of our investment. Such factors may include, but are not limited to, cash flow

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

concerns, material litigation, violations of debt covenants and changes in business strategy. The fair value of these equity investments is not estimated unless there are identified changes in circumstances that may indicate an impairment exists and these changes are likely to have a significant adverse effect on the fair value of the investment.

As of September 30, 2006 and December 31, 2005, we had $214.6 million and $94.2 million aggregate carrying amount of non-marketable and unconsolidated strategic equity investments, respectively, of which $101.8 million and $52.7 million is accounted for under the cost method, respectively. During the nine months ended September 30, 2006 and 2005, we did not record any impairment charges with respect to these investments.

We also have a strategic investment in non-public preferred stock, public common stock and convertible debt of a foreign public company which is included in Other noncurrent assets, net on our Condensed Consolidated Balance Sheets. The debt is convertible into the issuer s publicly traded common shares. During the second quarter of 2006, we converted a portion of the convertible debt to public common shares and determined that we have the ability to significantly influence the operating decisions of the issuer. Consequently, we account for the common share component of our investment under the equity method of accounting. We recorded $73.7 million of goodwill to account for the amount by which the carrying value of our investment in the issuer s common stock exceeded the value of our portion of the underlying balance sheet equity of the investee. This goodwill is included as part of the total equity investment in Other non-current assets, net as of September 30, 2006.

Our ability to realize value from our strategic investments in companies that are not publicly traded is dependent on the success of their business 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 full value for them.

Restricted Cash and Marketable Investment Securities

As of September 30, 2006 and December 31, 2005, restricted cash and marketable investment securities included amounts set aside as collateral for investments in marketable securities and our letters of credit. Additionally, restricted cash and marketable investment securities as of September 30, 2006 included approximately $96.6 million escrowed related to our litigation with Tivo.

6. Satellites and FCC Auction Participation

Satellites

We presently have 11 owned satellites in orbit. Each of these satellites had an original minimum useful life of at least 12 years. In addition, we currently lease three in-orbit satellites. Two of the leased satellites are accounted for as capital leases pursuant to Statement of Financial Accounting Standard No. 13 and are depreciated over the ten-year terms of the satellite service agreements. Our satellite fleet is a major component of our EchoStar DBS System. While we believe that overall our satellite fleet is generally in good condition, during 2006 and prior periods, certain satellites in our fleet have experienced anomalies, some of which have had a significant adverse impact on their commercial operation. We currently do not carry insurance for any of our owned in-orbit satellites. We believe we generally have in-orbit satellite capacity sufficient to recover, in a relatively short time frame, transmission of most of our critical programming but could not recover certain local markets, international and other niche programming in the event one of our in-orbit satellites fails. Further, programming continuity cannot be assured in the event of multiple satellite losses, and in the event our EchoStar X satellite experienced a significant failure we could lose the ability to deliver local network channels in many markets.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Recent developments with respect to certain of our satellites are discussed below.

EchoStar I

EchoStar I, which was launched during December 1995, currently operates at the 148 degree orbital location. During the second quarter of 2006, the satellite experienced anomalies resulting in the possible loss of two solar array strings. An investigation of the anomalies is continuing. The anomalies have not impacted commercial operation of the satellite to date. Even if permanent loss of the two solar array strings is confirmed, the original minimum 12-year design life of the satellite is not expected to be impacted since the satellite is equipped with a total of 104 solar array strings, only approximately 98 of which are required to assure full power availability for the design life of the satellite. However, there can be no assurance future anomalies will not cause further losses which could impact the remaining life or commercial operation of the satellite.

EchoStar III

EchoStar III, which was launched during October 1997, currently operates at the 61.5 degree orbital location. The satellite was originally designed to operate a maximum of 32 transponders at approximately 120 watts per channel, switchable to 16 transponders operating at over 230 watts per channel, and was equipped with a total of 44 transponders to provide redundancy. Prior to 2006, traveling wave tube amplifier (TWTA) anomalies have caused 22 transponders to fail. During April and October 2006, further TWTA anomalies caused the failure of four additional transponders. As a result, a maximum of 18 transponders are currently available for use on EchoStar III, but due to redundancy switching limitations and specific channel authorizations, we can only operate 15 of the 19 FCC authorized frequencies we have the right to utilize at the 61.5 degree location. While we do not expect a large number of additional TWTAs to fail in any year, and the failures have not reduced the original minimum 12-year design life of the satellite, it is likely that additional TWTA failures will occur from time to time in the future, and those failures will further impact commercial operation of the satellite.

EchoStar V

EchoStar V, which was launched during September 1999, currently operates at the 129 degree orbital location. The satellite was originally designed with a minimum 12-year design life. As previously disclosed, momentum wheel failures in prior years, together with relocation of the satellite between orbital locations, resulted in increased fuel consumption. These issues have not impacted commercial operation of the satellite, but have reduced the remaining spacecraft life to approximately two years as of September 30, 2006. Prior to 2006, EchoStar V also experienced anomalies resulting in the loss of six solar array strings. During July 2006, the satellite lost an additional solar array string. The solar array anomalies have not impacted commercial operation of the satellite to date. Since the satellite only has an approximate two year life, the solar array failures (which would normally have resulted in a reduction in the number of transponders to which power can be provided in later years), are not expected to reduce the current remaining life of the satellite. However, there can be no assurance that future anomalies will not cause further losses which could impact commercial operation, or the remaining life, of the satellite. See discussion of evaluation of impairment in *Long-Lived Satellite Assets* below.

EchoStar VI

EchoStar VI, which was launched during July 2000, is currently stationed at the 110 degree orbital location as an in-orbit spare. The satellite was originally equipped with 108 solar array strings, approximately 102 of which are required to assure full power availability for the original minimum 12-year design life of the satellite. Prior to 2006, EchoStar VI experienced anomalies resulting in the loss of 15 solar array strings. During 2006, two additional solar array strings failed, reducing the number of functional solar array strings to 91. While the design life of the satellite has not been affected, commercial operability has been reduced. The satellite was designed to operate 32 transponders at approximately 125 watts per channel, switchable to 16 transponders operating at approximately 225 watts per channel. The power reduction resulting from the solar array failures limits us to operation of a maximum

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

of 26 transponders in standard power mode, or 13 transponders in high power mode currently. The number of transponders to which power can be provided will continue to decline in the future at the rate of approximately one transponder every three years. See discussion of evaluation of impairment in *Long-Lived Satellite Assets* below.

EchoStar VII

EchoStar VII, which was launched during February 2002, currently operates at the 119 degree orbital location. During March 2006, the satellite experienced an anomaly which resulted in the loss of a receiver. Service was quickly restored through a spare receiver. These receivers process signals sent from our uplink center, for transmission back to earth by the satellite. The design life of the satellite has not been affected and the anomaly is not expected to result in the loss of other receivers on the satellite. However, there can be no assurance future anomalies will not cause further receiver losses which could impact the useful life or commercial operation of the satellite. In the event the spare receiver placed in operation following the March 2006 anomaly also fails, there would be no impact to the satellite s ability to provide service to the continental United States (CONUS) when operating in CONUS mode. However, we would lose one-fifth of the spot beam capacity when operating in spot beam mode.

EchoStar X

EchoStar X was launched during February 2006 and commenced commercial operation during the second quarter of 2006. The satellite currently operates at the 110 degree orbital location. Its 49 spot beams use up to 42 active 140 watt TWTAs to provide standard and high definition local channels, and other programming, to markets across the United States.

EchoStar XII

EchoStar XII, which we purchased in orbit from a third party during 2005, currently operates at the 61.5 degree orbital location. The satellite was originally launched during July 2003. EchoStar XII was designed to operate 13 transponders at 270 watts per channel, in CONUS mode, or 22 spot beams using a combination of 135 and 65 watt TWTAs. We currently operate the satellite in CONUS mode. EchoStar XII has a total of 24 solar array circuits, approximately 22 of which are required to assure full power for the original minimum 12 year design life of the satellite. Prior to our purchase, two solar array circuits failed, one of which was subsequently restored to partial use. Between February and April 2006, two additional solar array circuits failed. The cause of the failures is being investigated. While the design life of the satellite has not been affected, in future years the power loss will cause a reduction in the number of transponders which can be operated. The exact extent of this impact has not yet been determined. There can be no assurance future anomalies will not cause further losses, which could further impact commercial operation of the satellite or its useful life. See discussion of evaluation of impairment in *Long-Lived Satellite Assets* below.

Long-Lived Satellite Assets

We account for long-lived satellite assets in accordance with the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). SFAS 144 requires a long-lived asset or asset group to be tested for recoverability whenever events or changes in circumstance indicate that its carrying amount may not be recoverable. Based on the guidance under SFAS 144, we evaluate our satellite fleet for recoverability as an asset group. 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 (none of which caused a loss of service to subscribers for an extended period) are not considered to be significant events that would require evaluation for impairment recognition pursuant to the guidance under SFAS 144. 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.

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

FCC Auction Participation

During May 2006, EchoStar and DirecTV agreed to jointly participate in the FCC Advanced Wireless Services (AWS) spectrum auction which commenced August 9, 2006 through Wireless DBS LLC (Wireless DBS), a jointly formed and funded entity. In July 2006, EchoStar and DirecTV each paid a deposit of $486.3 million enabling Wireless DBS to bid on a significant portion of the licenses available through the auction. Wireless DBS was not the winning bidder on any of the auctioned spectrum and the EchoStar deposit was returned in August 2006.

7. Goodwill and Intangible Assets

As of September 30, 2006 and December 31, 2005, our identifiable intangibles subject to amortization consisted of the following:

	As of			
	September 30, 2006		December 31, 2005	
	Intangible Assets	Accumulated Amortization	Intangible Assets	Accumulated Amortization
	(In thousands)			
Contract-based	$ 189,426	$ (41,878)	$ 189,426	$ (29,739)
Customer relationships	73,298	(45,561)	73,298	(31,818)
Technology-based	25,500	(5,010)	25,500	(3,377)
Total	$ 288,224	$ (92,449)	$ 288,224	$ (64,934)

Amortization of these intangible assets, recorded on a straight line basis over an average finite useful life primarily ranging from approximately three to fourteen years, was $9.2 million for each of the three months ended September 30, 2006 and 2005, respectively. In addition, amortization was $27.5 million and $29.9 million for the nine months ended September 30, 2006 and 2005, respectively. For all of 2006, the aggregate amortization expense related to these identifiable assets is estimated to be $36.7 million. The aggregate amortization expense is estimated to be approximately $36.1 million for 2007, $22.5 million for 2008, $17.7 million for 2009, $17.7 million for 2010, $17.7 million for 2011 and $74.9 million thereafter.

The excess of our investments in consolidated subsidiaries over net tangible and intangible asset value at acquisition is recorded as goodwill and is not subject to amortization. We had approximately $3.4 million of goodwill as of September 30, 2006 and December 31, 2005, which arose from a 2002 acquisition.

8. Long-Term Debt

$1.5 Billion Senior Notes Offering

On February 2, 2006, we sold $1.5 billion aggregate principal amount of our ten-year, 7 1/8% Senior Notes due February 1, 2016. Interest on the notes will be paid February 1 and August 1 of each year. The proceeds from the sale of the notes were used to redeem our outstanding 9 1/8% Senior Notes due 2009 and are also intended to be used for other general corporate purposes.

9 1/8% Senior Notes Redemption

Effective February 17, 2006, we redeemed the balance of our outstanding 9 1/8% Senior Notes due 2009. In accordance with the terms of the indenture governing the notes, the remaining principal amount of the notes of approximately $442.0 million was redeemed at 104.563%, for a total of approximately $462.1 million. The premium paid of approximately $20.1 million, along with unamortized debt issuance costs of approximately $2.8 million, were recorded as charges to earnings in February 2006.

See also Note 14 Subsequent Events .

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

9. Stockholders Equity (Deficit)

Common Stock Repurchases

During the third quarter of 2004, our Board of Directors authorized the repurchase of an aggregate of up to $1.0 billion of our Class A common stock. During the nine months ended September 30, 2006, we purchased approximately 0.4 million shares of our Class A common stock under this plan for approximately $11.7 million. During the second quarter of 2006, the Board of Directors extended the plan to expire on the earlier of December 31, 2006 or when an aggregate amount of $1.0 billion of stock has been purchased under the plan.

10. Commitments and Contingencies

Contingencies

Distant Network Litigation

On October 20, 2006, a District Court in Florida entered a permanent nationwide injunction prohibiting us from offering distant network channels to consumers effective December 1, 2006. Distant networks are ABC, NBC, CBS and Fox network channels which originate outside the community where the consumer who wants to view them, lives. Approximately 900,000 of our customers currently subscribe to distant network channels, generating approximately $3.0 million of gross distant network channel revenue per month. We are pursuing judicial, legislative and other avenues to attempt to protect access to these channels by our customers but there can be no assurance we will be successful.

We currently offer local network channels by satellite in approximately 170 markets, serving over 95% of all U.S. households. Consequently, a majority of our distant network subscribers live in markets where we offer local network channels by satellite, but a significant percentage live in the approximately 40 markets where local network channels are not available by satellite. Our customers in those 40 markets are at greatest risk of canceling their subscription for our other services, particularly the substantial percentage of those customers who are eligible to obtain local or distant network channels from our competitors. Further, in approximately a dozen markets where we offer local channels, one or more networks do not have a local affiliate. In those markets distant networks are the only option available for consumers who want access to the network signals missing from the market. Those customers are also at increased risk of canceling their subscription for our other services.

We are beginning to install free off air antennas for the small percentage of those subscribers who can receive local channels off air and are willing to have an antenna installed, and continue to pursue other options to minimize potential disruption to these customers. We are also preparing to provide local channels to our distant network customers who live in the 170 markets where we offer local channels by satellite. Some of those subscribers will need additional equipment to receive local channels. We are beginning to install that equipment without cost to those customers but will not be able to complete all of those installations by December 1, 2006. Some of those customers currently subscribe to both distant and local channels so revenue from those subscribers will decline. Further, we cannot predict the number of customers who currently subscribe to only distant network channels, but will choose not to switch to local channels.

Absent modification, the injunction would negate a settlement agreement we recently reached with the ABC, NBC, CBS and Fox Affiliate Associations, which would have required us to pay $100.0 million in order to retain a limited right to offer distant networks in their markets. It also negates settlement agreements we reached with the ABC, NBC and CBS Networks, and with various independent stations and station groups, over the eight year course of the litigation.

Termination of distant network channels will result, among other things, in a small reduction in average monthly revenue per subscriber and free cash flow, and a temporary increase in subscriber churn. We cannot predict with any degree of certainty how many of our distant network subscribers would cancel their primary DISH Network programming as a result of termination of their distant channels. We would also be at a competitive disadvantage in the future, since the injunction prohibits us from offering distant network channels that may continue to be offered by our competitors to new customers in markets where they do not offer local channels.

17

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Superguide

During 2000, Superguide Corp. (Superguide) filed suit against us, DirecTV, Thomson and others in the United States District Court for the Western District of North Carolina, Asheville Division, alleging infringement of United States Patent Nos. 5,038,211 (the 211 patent), 5,293,357 (the 357 patent) and 4,751,578 (the 578 patent) which relate to certain electronic program guide functions, including the use of electronic program guides to control VCRs. Superguide sought injunctive and declaratory relief and damages in an unspecified amount.

On summary judgment, the District Court ruled that none of the asserted patents were infringed by us. These rulings were appealed to the United States Court of Appeals for the Federal Circuit. During February 2004, the Federal Circuit affirmed in part and reversed in part the District Court s findings and remanded the case back to the District Court for further proceedings. In July 2005, SuperGuide indicated that it would no longer pursue infringement allegations with respect to the 211 and 357 patents and those patents have now been dismissed from the suit. The District Court subsequently entered judgment of non-infringement in favor of all defendants as to the 211 and 357 patents and ordered briefing on Thomson s license defense as to the 578 patent. At the same time, we requested leave to add a license defense as to the 578 patent in view of a new (at the time) license we obtained from a third-party licensed by Superguide. Activity in the case has been suspended pending resolution of the license defense and a trial date has not been set. We are awaiting a decision by the District Court regarding Thomson s license defense and regarding whether it will hear our license defense. We examined the 578 patent and believe that it is not infringed by any of our products or services. We will continue to vigorously defend this case. In the event that a Court ultimately determines that we infringe any of the patents, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain user-friendly electronic programming guide and related features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Broadcast Innovation, L.L.C.

In 2001, Broadcast Innovation, L.L.C. (Broadcast Innovation) filed a lawsuit against us, DirecTV, Thomson Consumer Electronics and others in Federal District Court in Denver, Colorado. The suit alleges infringement of United States Patent Nos. 6,076,094 (the 094 patent) and 4,992,066 (the 066 patent). The 094 patent relates to certain methods and devices for transmitting and receiving data along with specific formatting information for the data. The 066 patent relates to certain methods and devices for providing the scrambling circuitry for a pay television system on removable cards. We examined these patents and believe that they are not infringed by any of our products or services. Subsequently, DirecTV and Thomson settled with Broadcast Innovation leaving us as the only defendant. During 2004, the judge issued an order finding the 066 patent invalid. In August of 2004, the Court ruled the 094 invalid in a parallel case filed by Broadcast Innovation against Charter and Comcast. In August of 2005, the United States Court of Appeals for the Federal Circuit (CAFC) overturned this finding of invalidity and remanded the case back to the District Court. During June 2006, Charter filed a reexamination request with the United States Patent and Trademark Office. The Court has stayed the case pending reexamination. Our case remains stayed pending resolution of the Charter case.

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

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Tivo, Inc.

During April 2006, a Texas jury concluded that certain of our digital video recorders, or DVRs, infringed a patent held by Tivo. The Texas court subsequently issued an injunction prohibiting us from offering DVR functionality. A Court of Appeals has stayed that injunction during the pendency of our appeal.

In accordance with Statement of Financial Accounting Standards No. 5: Accounting for Contingencies (SFAS 5), we recorded a total reserve of $89.7 million in Tivo litigation expense on our Condensed Consolidated Statement of Operations to reflect the jury verdict, supplemental damages and pre-judgment interest awarded through July 31, 2006. Based on our current analysis of the case, including the appellate record and other factors, we believe it is more likely than not that we will prevail on appeal. Consequently, we are not recording additional amounts for supplemental damages or interest subsequent to the July 31, 2006 judgment date.

If the verdict is upheld on appeal, we would be required to pay additional amounts from August 1, 2006 until such time, if ever, as we successfully implement alternative technology. Those amounts would be approximately $5.7 million, $5.9 million and $6.0 million for August, September and October 2006, respectively, and would increase each month as the number of our DVR customers increases and as interest compounds. If the verdict is upheld on appeal and we are not able to successfully implement alternative technology (including the successful defense of any challenge that such technology infringes Tivo s patent), we could also be prohibited from distributing DVRs, or be required to modify or eliminate certain user-friendly DVR features that we currently offer to consumers. In that event we would be at a significant disadvantage to our competitors who could offer this functionality and, while we would attempt to provide that functionality through other manufacturers, the adverse affect on our business could be material.

Acacia

In June 2004, Acacia Media Technologies (Acacia) filed a lawsuit against us in the United States District Court for the Northern District of California. The suit also named DirecTV, Comcast, Charter, Cox and a number of smaller cable companies as defendants. Acacia is an intellectual property holding company which seeks to license the patent portfolio that it has acquired. The suit alleges infringement of United States Patent Nos. 5,132,992 (the 992 patent), 5,253,275 (the 275 patent), 5,550,863 (the 863 patent), 6,002,720 (the 720 patent) and 6,144,702 (the 702 patent). The 992, 863, 720 and 702 patents have been asserted against us.

The patents relate to various systems and methods related to the transmission of digital data. The 992 and 702 patents have also been asserted against several internet content providers in the United States District Court for the Central District of California. During 2004 and 2005, the Court issued Markman rulings which found that the 992 and 702 patents were not as broad as Acacia had contended, and that certain terms in the 702 patent were indefinite. During April 2006, EchoStar and other defendants asked the Court to rule that the claims of the 702 patent are invalid and not infringed. That motion is pending. In June and September 2006, the Court held Markman hearings on the 992, 863, 720 and 275 patents, but has not yet issued a ruling.

Acacia s various patent infringement cases have been consolidated for pre-trial purposes in the United States District Court for the Northern District of California. We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe any of the patents, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain user-friendly features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Forgent

In July 2005, Forgent Networks, Inc. (Forgent) filed a lawsuit against us in the United States District Court for the Eastern District of Texas. The suit also named DirecTV, Charter, Comcast, Time Warner Cable, Cable One and Cox as defendants. The suit alleges infringement of United States Patent No. 6,285,746 (the 746 patent).

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

The 746 patent discloses a video teleconferencing system which utilizes digital telephone lines. We have examined this patent and do not believe that it is infringed by any of our products or services. We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe this patent, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain user-friendly features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages. Trial is currently scheduled for May 2007 in Marshall, Texas. On October 2, 2006, the Patent and Trademark Office granted our petition for reexamination of the 746 patent. On October 27, 2006, the Patent and Trademark Office issued its initial office action rejecting all of the claims of the 746 patent in light of several prior art references. Forgent will have an opportunity to challenge the initial office action. We have moved to have the case stayed pending resolution of the reexamination. The Court has not yet ruled on the motion.

Finisar Corporation

Finisar Corporation (Finisar) recently obtained a $100.0 million verdict in the United States District Court for the Eastern District of Texas against DirecTV for patent infringement. Finisar alleged that DirecTV s electronic program guide and other elements of its system infringe United States Patent No. 5,404,505 (the 505 patent).

On July 10, 2006, we, together with NagraStar LLC, filed a Complaint for Declaratory Judgment in the United States District Court for the District of Delaware against Finisar that asks the Court to declare that they and we do not infringe, and have not infringed, any valid claim of the 505 patent. Trial is not currently scheduled. We intend to vigorously defend our rights in this action. In the event that a Court ultimately determines that we infringe this patent, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to modify our system architecture. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Trans Video

In August 2006, Trans Video Electronic, Ltd. (Trans Video) filed a patent infringement action against us in the United States District Court for the Northern District of California. The suit alleges infringement of United States Patent Nos. 5,903,621 (the 621 patent) and 5,991,801 (the 801 patent). The patents relate to various methods related to the transmission of digital data. We have not been served with the complaint yet. We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe any of the patents, we may be subject to substantial damages, which may include treble damages and/or an injunction. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Retailer Class Actions

During 2000, lawsuits were filed by retailers in Colorado state and federal court attempting to certify nationwide classes on behalf of certain of our satellite hardware retailers. The plaintiffs are requesting the Courts declare certain provisions of, and changes to, alleged agreements between us and the retailers invalid and unenforceable, and to award damages for lost incentives and payments, charge backs, and other compensation. We are vigorously defending against the suits and have asserted a variety of counterclaims. The federal court action was stayed during the pendency of the state court action. We filed a motion for summary judgment on all counts and against all plaintiffs. The plaintiffs filed a motion for additional time to conduct discovery to enable them to respond to our motion. The Court granted limited discovery which ended during 2004. The plaintiffs claimed we did not provide adequate disclosure during the discovery process, and a specially appointed master agreed with the plaintiffs, recently recommending to the judge that our motion for summary judgment be denied, or that plaintiffs be permitted to conduct additional discovery. Plaintiffs also asked the Court to go beyond the scope of the special master s recommendation, and further sanction us for the alleged discovery problems by entering judgment against us on the issue of liability, leaving only the issue of damages for trial. The judge has not yet ruled on the special master s recommendation. A trial date has not been set. We cannot

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Enron Commercial Paper Investment Complaint

During October 2001, we received approximately $40.0 million from the sale of Enron commercial paper to a third party broker. That commercial paper was ultimately purchased by Enron. During November 2003, an action was commenced in the United States Bankruptcy Court for the Southern District of New York, against approximately 100 defendants, including us, who invested in Enron s commercial paper. The complaint alleges that Enron s October 2001 purchase of its commercial paper was a fraudulent conveyance and voidable preference under bankruptcy laws. We dispute these allegations. We typically invest in commercial paper and notes which are rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations. At the time of our investment in Enron commercial paper, it was considered to be high quality and low risk. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Bank One

During 2004, Bank One, N.A. (Bank One) filed suit against us and one of our subsidiaries, EchoStar Acceptance Corporation (EAC), in Ohio state court alleging breach of a duty to indemnify. The case was subsequently moved to federal court. Bank One alleges EAC is contractually required to indemnify Bank One for a settlement it paid to consumers who entered private label credit card agreements with Bank One to purchase satellite equipment in the late 1990s. The case is currently in discovery. A trial date has not been set. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Church Communications Network, Inc.

During 2004, Church Communications Network, Inc. (CCN) filed suit against us in the United States District Court for the Northern District of Alabama. CCN claimed approximately $20.0 million in actual damages, plus punitive damages for, among other things, alleged breaches of two contracts, and negligent, intentional and reckless misrepresentation. During March 2006, the Court granted summary judgment in our favor limiting CCN to one contract claim, and limiting damages to no more than $500,000, plus interest. During April 2006, we reached a settlement which did not have a material impact on our results of operations.

Vivendi

In January 2005, Vivendi Universal, S.A. (Vivendi) filed a breach of contract suit against us. During April 2005, the Court granted Vivendi s motion for a preliminary injunction requiring that we carry a music-video channel during the pendency of the litigation. On May 23, 2006, the parties settled the litigation and Vivendi s complaint was dismissed with prejudice. As part of the settlement, we agreed to continue to carry the music-video channel. The settlement amount did not have a material impact on our results of operations.

Riyad Alshuaibi

During 2002, Riyad Alshuaibi filed suit against Michael Kelly, one of our executive officers, Kelly Broadcasting Systems, Inc. (KBS), and EchoStar in the District Court of New Jersey. Plaintiff alleged breach of contract, breach of fiduciary duty, fraud, negligence, and unjust enrichment resulting in damages in excess of $50.0 million. Plaintiff claimed that when KBS was acquired by us, Michael Kelly and KBS breached an alleged agreement with the plaintiff. We denied the allegations of plaintiff s complaint. On October 26, 2006, we reached a settlement which did not have a material impact on our results of operations.

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Other

In addition to the above actions, we are subject to various other legal proceedings and claims which arise in the ordinary course of business. In our opinion, the amount of ultimate liability with respect to any of these actions is unlikely to materially affect our financial position, results of operations or liquidity.

11. Depreciation and Amortization Expense

Depreciation and amortization expense consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Equipment leased to customers	$ 185,959	$ 119,794	$ 503,507	$ 303,211
Satellites	59,421	50,982	174,573	144,941
Furniture, fixtures, equipment and other	40,034	30,577	107,572	90,975
Identifiable intangible assets subject to amortization	9,172	9,171	27,515	29,864
Buildings and improvements	1,865	1,712	4,746	4,096
Total depreciation and amortization	$ 296,451	$ 212,236	$ 817,913	$ 573,087

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

12. Segment Reporting

Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information (SFAS 131) establishes standards for reporting information about operating segments in annual financial statements of public business enterprises and requires that those enterprises report selected information about operating segments in interim financial reports issued to stockholders. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker(s) of an enterprise. Under this definition we currently operate as two business units. The All Other category consists of revenue and net income (loss) from other operating segments for which the disclosure requirements of SFAS 131 do not apply.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Revenue				
DISH Network	$ 2,413,813	$ 2,057,881	$ 6,984,868	$ 6,045,969
ETC	33,903	40,730	164,928	130,918
All other	29,718	32,649	86,025	79,530
Eliminations	(6,068)	(3,039)	(16,060)	(8,710)
Total revenue	$ 2,471,366	$ 2,128,221	$ 7,219,761	$ 6,247,707
Net income (loss)				
DISH Network	$ 128,137	$ 198,105	$ 424,917	$ 1,360,538

ETC	(6,869)	(4,538)	2,481	(9,617)
All other	18,348	15,297	28,278	30,994
Total net income (loss)	$ 139,616	$ 208,864	$ 455,676	$ 1,381,915

22

Table of Contents

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

13. Related Party

We own 50% of NagraStar L.L.C. (NagraStar), a joint venture that is our exclusive provider of encryption and related security systems intended to assure that only paying customers have access to our programming. During the three months ended September 30, 2006 and 2005, we purchased approximately $6.6 million and $18.4 million, respectively, of security access devices from NagraStar and during the nine months ended September 30, 2006 and 2005, we purchased approximately $41.0 million and $104.7 million, respectively. As of September 30, 2006 and December 31, 2005, amounts payable to NagraStar totaled $6.3 million and $3.9 million, respectively. Additionally as of September 30, 2006, we were committed to purchase approximately $24.2 million of security access devices from NagraStar.

14. Subsequent Events

On October 1, 2006, we redeemed the balance of our outstanding Floating Rate Senior Notes due 2008. In accordance with the terms of the indenture governing the notes, the principal amount of the notes of $500.0 million was redeemed at 101.0%, for a total of $505.0 million. The premium paid of $5.0 million, along with unamortized debt issuance costs of approximately $1.0 million, were recorded as charges to earnings in October 2006.

On October 18, 2006, we sold $500.0 million aggregate principal amount of our seven-year, 7% Senior Notes due October 1, 2013 in a private placement in accordance with Securities and Exchange Commission Rule 144A and Regulation S under the Securities Act of 1933. Interest on the notes will be paid April 1 and October 1 of each year, commencing April 1, 2007. The proceeds from the sale of the notes replaced the cash on hand that was used to redeem our outstanding Floating Rate Senior Notes due 2008 on October 1, 2006.

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

EXPLANATION OF KEY METRICS AND OTHER ITEMS

Subscriber-related revenue. Subscriber-related revenue consists principally of revenue from basic, movie, local, international and pay-per-view subscription television services, advertising sales, digital video recorder (DVR) fees, equipment rental fees and additional outlet fees from subscribers with multiple set-top boxes, fees earned from our DishHOME Protection Plan and other subscriber revenue. Subscriber-related revenue also includes revenue from equipment sales, installation and other services related to our original agreement with AT&T. Revenue from equipment sales to AT&T is deferred and recognized over the estimated average co-branded subscriber life. Revenue from installation and certain other services performed at the request of AT&T is recognized upon completion of the services.

Development and implementation fees received from AT&T are being recognized in Subscriber-related revenue over the next several years. In order to estimate the amount recognized monthly, we first divide the number of subscribers activated during the month under the AT&T agreement by total estimated subscriber activations during the life of the contract. We then multiply this percentage by the total development and implementation fees received from AT&T. The resulting estimated amount is recognized monthly as revenue over the estimated average subscriber life.

During the fourth quarter 2005, we modified and extended our distribution and sales agency agreement with AT&T. We believe our overall economic return will be similar under both arrangements. However, the impact of subscriber acquisition on many of our line item business metrics was substantially different under the original AT&T agreement, compared to most other sales channels (including the revised AT&T agreement).

Among other things, our Subscriber-related revenue will be impacted in a number of respects. Commencing in the fourth quarter 2005, new subscribers acquired under our revised AT&T agreement do not generate equipment sales, installation or other services revenue from AT&T. However, our programming services revenue is greater for subscribers acquired under the revised AT&T agreement.

Deferred equipment sales revenue relating to subscribers acquired through our original AT&T agreement will continue to have a positive impact on Subscriber-related revenue over the estimated average life of those subscribers. Further, development and implementation fees received from AT&T will continue to be recognized over the estimated average subscriber life of all subscribers acquired under both the original and revised agreements with AT&T.

Equipment sales. Equipment sales include sales of non-DISH Network digital receivers and related components to an international DBS service provider and to other international customers. Equipment sales also includes unsubsidized sales of DBS accessories to retailers and other distributors of our equipment domestically and to DISH Network subscribers. Equipment sales does not include revenue from sales of equipment to AT&T.

Effective the second quarter of 2006, we reclassified certain warranty and service related revenue from Equipment sales to Subscriber-related revenue. All prior period amounts were reclassified to conform to the current period presentation.

Other sales. Other sales consist principally of satellite transmission revenue and C-band subscription television service revenue.

Subscriber-related expenses. Subscriber-related expenses principally include programming expenses, costs incurred in connection with our in-home service and call center operations, overhead costs associated with our installation business, copyright royalties, billing costs, residual commissions paid to distributors, direct marketers, retailers and telecommunications partners, refurbishment and repair costs related to EchoStar receiver systems, subscriber retention and other variable subscriber expenses. Subscriber-related expenses also include the cost of sales from equipment sales, and expenses related to installation and other services from our original agreement with AT&T. Cost of sales from equipment sales to AT&T are deferred and recognized over the estimated average co-branded subscriber life. Expenses from installation and certain other services performed at the request of AT&T are recognized as the services are performed.

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

Continued

Under the revised AT&T agreement, we are including costs from equipment and installations in Subscriber acquisition costs or in capital expenditures, rather than in Subscriber-related expenses. To the extent all other factors remain constant, this will tend to improve operating margins compared to previous periods. We will continue to include in Subscriber-related expenses the costs deferred from equipment sales made to AT&T. These costs are being amortized over the life of the subscribers acquired under the original AT&T agreement.

Since equipment and installation costs previously reflected in Subscriber-related expenses are being included in Subscriber acquisition costs or in capital expenditures under the revised AT&T agreement, to the extent all other factors remain constant, this change will also cause increases in Subscriber acquisition costs and SAC. This will tend to negatively impact free cash flow in the short term if substantial additional subscribers are added through AT&T in the future, but we believe that free cash flow will improve over time since better operating margins are expected from those customers under the terms of the revised AT&T agreement. We also expect that the historical negative impact on subscriber turnover from subscribers acquired pursuant to our agreement with AT&T will decline.

Satellite and transmission expenses. Satellite and transmission expenses include costs associated with the operation of our digital broadcast centers, the transmission of local channels, satellite telemetry, tracking and control services, satellite and transponder leases, and other related services.

Cost of sales equipment. Cost of sales equipment principally includes costs associated with non-DISH Network digital receivers and related components sold to an international DBS service provider and to other international customers. Cost of sales equipment also includes unsubsidized sales of DBS accessories to retailers and other distributors of our equipment domestically and to DISH Network subscribers. Cost of sales equipment does not include the costs from sales of equipment to AT&T.

Effective the second quarter of 2006, we reclassified certain warranty and service related expenses from Cost of sales equipment to Subscriber-related expenses and Depreciation and amortization. All prior period amounts were reclassified to conform to the current period presentation.

Cost of sales other. Cost of sales other principally includes programming and other expenses associated with the C-band subscription television service business of SNG and costs related to satellite transmission services.

Subscriber acquisition costs. In addition to leasing receivers, we generally subsidize installation and all or a portion of the cost of EchoStar receiver systems in order to attract new DISH Network subscribers. Our Subscriber acquisition costs include the cost of EchoStar receiver systems sold to retailers and other distributors of our equipment, the cost of receiver systems sold directly by us to subscribers, net costs related to our promotional incentives, and costs related to installation and acquisition advertising. We exclude the value of equipment capitalized under our lease program for new subscribers from Subscriber acquisition costs.

As discussed above, equipment and installation costs previously reflected in Subscriber-related expenses are being included in Subscriber acquisition costs or in capital expenditures under the revised AT&T agreement. To the extent all other factors remain constant, this change will also cause increases in Subscriber acquisition costs and SAC. This will tend to negatively impact free cash flow in the short term if substantial additional subscribers are added through AT&T in the future, but we believe that free cash flow will improve over time since better operating margins are expected from those customers under the terms of the revised AT&T agreement. The historical negative impact on subscriber turnover from subscribers acquired pursuant to our agreement with AT&T declined under the revised AT&T agreement.

SAC. We are not aware of any uniform standards for calculating the average subscriber acquisition costs per new subscriber activation, or SAC, and we believe presentations of SAC may not be calculated consistently by different companies in the same or similar businesses. We include all new DISH Network subscribers in our calculation, including DISH Network subscribers added with little or no subscriber acquisition costs.

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

Continued

Prior to January 1, 2006, we calculated SAC for the period by dividing the amount of our expense line item Subscriber acquisition costs for the period, by our gross new DISH Network subscribers added during that period. Separately, we then disclosed our Equivalent SAC for the period by adding the value of equipment capitalized under our lease program for new subscribers, and other offsetting amounts, to our Subscriber acquisition cost expense line item prior to dividing by our gross new subscriber number. Management believes subscriber acquisition cost measures are commonly used by those evaluating companies in the multi-channel video programming distribution, or MVPD, industry. Because our Equivalent SAC includes all of the costs of acquiring subscribers (i.e., subsidized and capitalized equipment), our management focuses on Equivalent SAC as the more comprehensive measure of how much we are spending to acquire new subscribers. As such, effective January 1, 2006, we began disclosing only Equivalent SAC, which we now refer to as SAC. SAC is now calculated as Subscriber acquisition costs, plus the value of equipment capitalized under our lease program for new subscribers, divided by gross subscriber additions. During the first quarter of 2006, we included in our calculation of SAC the benefit of payments we received in connection with equipment not returned to us from disconnecting lease subscribers and returned equipment that is made available for sale rather than being redeployed through our lease program, as described in that Form 10-Q. Effective the second quarter of 2006, our revised SAC calculation no longer includes these benefits. Instead, these benefits are separately disclosed. All prior period SAC calculations have been revised to conform to the current period calculation.

General and administrative expenses. General and administrative expenses primarily include employee-related costs associated with administrative services such as legal, information systems, accounting and finance. It also includes outside professional fees (i.e. legal and accounting services) and building maintenance expense and other items associated with administration.

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

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

Earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA is defined as Net income (loss) plus Interest expense net of Interest income, Taxes and Depreciation and amortization.

DISH Network subscribers. We include customers obtained through direct sales, and through our retail networks, including our co-branding relationship with AT&T and other distribution relationships, in our DISH Network subscriber count. We believe our overall economic return for co-branded and traditional subscribers will be comparable. We also provide DISH Network service to hotels, motels and other commercial accounts. For certain of these commercial accounts, we divide our total revenue for these commercial accounts by an amount approximately equal to the retail price of our most widely distributed programming package, AT60 (but taking into account, periodically, price changes and other factors), and include the resulting number, which is substantially smaller than the actual number of commercial units served, in our DISH Network subscriber count.

During April 2004, we acquired a C-band subscription television service business, the assets of which primarily consist of acquired customer relationships. Although we are converting some of these customer relationships from C-band subscription television services to our DISH Network DBS subscription television service, acquired C-band subscribers are not included in our DISH Network subscriber count unless they have also subscribed to our DISH Network DBS television service.

Monthly average revenue per subscriber (ARPU). We are not aware of any uniform standards for calculating ARPU and believe presentations of ARPU may not be calculated consistently by other companies in the same or similar businesses. We calculate average monthly revenue per subscriber, or ARPU, by dividing average monthly

Table of Contents

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

Subscriber-related revenues for the period (total Subscriber-related revenue during the period divided by the number of months in the period) by our average DISH Network subscribers for the period. Average DISH Network subscribers are calculated for the period by adding the average DISH Network subscribers for each month and dividing by the number of months in the period. Average DISH Network subscribers for each month are calculated by adding the beginning and ending DISH Network subscribers for the month and dividing by two.

The changes to our agreement with AT&T will also impact ARPU. The magnitude of that impact, and whether ARPU increases or decreases during particular future periods, will depend on the timing and number of subscribers acquired pursuant to the modified agreement with AT&T.

Subscriber churn rate/subscriber turnover. We are not aware of any uniform standards for calculating subscriber churn rate and believe presentations of subscriber churn rates may not be calculated consistently by different companies in the same or similar businesses. We calculate percentage monthly subscriber churn by dividing the number of DISH Network subscribers who terminate service during each month by total DISH Network subscribers as of the beginning of that month. We calculate average subscriber churn rate for any period by dividing the number of DISH Network subscribers who terminated service during that period by the average number of DISH Network subscribers subject to churn during the period, and further dividing by the number of months in the period. Average DISH Network subscribers subject to churn during the period are calculated by adding the DISH Network subscribers as of the beginning of each month in the period and dividing by the total number of months in the period.

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

Table of Contents

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

Continued

RESULTS OF OPERATIONS

Three Months Ended September 30, 2006 Compared to the Three Months Ended September 30, 2005.

	For the Three Months Ended September 30,		Variance	
	2006	**2005**	**Amount**	**%**
Statements of Operations Data	(In thousands)			
Revenue:				
Subscriber-related revenue	$ 2,373,888	$ 2,010,441	$ 363,447	18.1%
Equipment sales	74,803	95,875	(21,072)	(22.0%)
Other	22,675	21,905	770	3.5%
Total revenue	2,471,366	2,128,221	343,145	16.1%
Costs and Expenses:				
Subscriber-related expenses	1,220,026	997,473	222,553	22.3%
% of Subscriber-related revenue	**51.4%**	**49.6%**		
Satellite and transmission expenses	36,542	34,239	2,303	6.7%
% of Subscriber-related revenue	**1.5%**	**1.7%**		
Cost of sales equipment	58,809	68,763	(9,954)	(14.5%)
% of Equipment sales	**78.6%**	**71.7%**		
Cost of sales other	2,093	4,811	(2,718)	(56.5%)
Subscriber acquisition costs	438,827	402,565	36,262	9.0%
General and administrative	135,366	116,250	19,116	16.4%
% of Total revenue	**5.5%**	**5.5%**		
Tivo litigation expense	1,442		1,442	N/M
Depreciation and amortization	296,451	212,236	84,215	39.7%
Total costs and expenses	2,189,556	1,836,337	353,219	19.2%
Operating income (loss)	281,810	291,884	(10,074)	(3.5%)
Other income (expense):				
Interest income	33,884	12,668	21,216	N/M
Interest expense, net of amounts capitalized	(112,795)	(94,022)	(18,773)	(20.0%)
Other	1,361	7,342	(5,981)	(81.5%)
Total other income (expense)	(77,550)	(74,012)	(3,538)	(4.8%)
Income (loss) before income taxes	204,260	217,872	(13,612)	(6.2%)
Income tax benefit (provision), net	(64,644)	(9,008)	(55,636)	N/M

Net income (loss)	$ 139,616	$ 208,864	$ (69,248)	(33.2%)
Other Data:				
DISH Network subscribers, as of period end (in millions)	12.755	11.710	1.045	8.9%
DISH Network subscriber additions, gross (in millions)	0.958	0.900	0.058	6.4%
DISH Network subscriber additions, net (in millions)	0.295	0.255	0.040	15.7%
Subscriber churn rate	1.76%	1.86%	(0.10%)	(5.4%)
Average revenue per subscriber (ARPU)	$ 62.86	$ 57.87	$ 4.99	8.6%
Average subscriber acquisition costs per subscriber (SAC)	$ 688	$ 697	$ (9)	(1.3%)
EBITDA	$ 579,622	$ 511,462	$ 68,160	13.3%

Table of Contents

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

Continued

DISH Network subscribers. As of September 30, 2006, we had approximately 12.755 million DISH Network subscribers compared to approximately 11.710 million subscribers at September 30, 2005, an increase of 8.9%. DISH Network added approximately 958,000 gross new subscribers for the three months ended September 30, 2006, compared to approximately 900,000 gross new subscribers during the same period in 2005, an increase of 58,000 gross new subscribers. The increase in gross new subscribers resulted in large part from increased advertising and the effectiveness of our promotions and products during the quarter. A substantial majority of our gross new subscribers are acquired through our equipment lease program.

DISH Network added approximately 295,000 net new subscribers for the three months ended September 30, 2006, compared to approximately 255,000 net new subscribers during the same period in 2005, an increase of 15.7%. This increase resulted from a decrease in subscriber churn rate and the increase in gross new subscribers discussed above, offset in part by a larger subscriber base. As the size of our subscriber base increases, even if our subscriber churn rate remains constant or declines, increasing numbers of gross new DISH Network subscribers are required to sustain net subscriber growth.

Our net new subscriber additions are negatively impacted when existing and new competitors offer more attractive alternatives, including, among other things video services bundled with broadband and other telecommunications services, better priced or more attractive programming packages or more compelling consumer electronic products and services, including advanced DVRs, video on demand (VOD) services, and high definition (HD) television services or additional local channels. We also expect to face increasing competition from content and other providers who distribute video services directly to consumers over the internet.

Subscriber-related revenue. DISH Network Subscriber-related revenue totaled $2.374 billion for the three months ended September 30, 2006, an increase of $363.4 million or 18.1% compared to the same period in 2005. This increase was attributable to DISH Network subscriber growth and an increase in ARPU discussed below.

ARPU. Monthly average revenue per subscriber was $62.86 during the three months ended September 30, 2006 versus $57.87 during the same period in 2005. The $4.99 or 8.6% increase in ARPU was primarily attributable to price increases in February 2006 on some of our most popular packages, smaller monthly programming discounts than we offered in our 2005 promotions, higher equipment rental fees resulting from increased penetration of our equipment leasing programs, fees for DVRs, revenue from increased availability of standard and high definition local channels by satellite and fees earned from our DishHOME Protection Plan. This increase was partially offset by a decrease in revenues from installation and other services related to our original agreement with AT&T compared to the same period in 2005.

On October 20, 2006, a District Court in Florida entered a permanent nationwide injunction prohibiting us from offering distant network channels to consumers effective December 1, 2006. Approximately 900,000 of our customers currently subscribe to distant network channels, generating approximately $3.0 million of gross distant network channel revenue per month. We are pursuing judicial, legislative and other avenues to attempt to protect access to these channels by our customers but there can be no assurance we will be successful. If we are forced to stop offering ABC, NBC, CBS and FOX distant channels, we will attempt to assist subscribers in arranging alternatives, including migration to local channels by satellite where available, and free off air antenna offers in other markets. We cannot predict with any degree of certainty how many of our distant network subscribers would cancel their primary DISH Network programming as a result of termination of their distant channels. Termination of distant network channels will result, among other things, in a small reduction in average monthly revenue per subscriber and free cash flow, and a temporary increase in subscriber churn. We would also be at a competitive disadvantage in the future, since the injunction prohibits us from offering distant network channels that may continue to be offered by our competitors to new customers in markets where they do not offer local channels.

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

Continued

Equipment sales. For the three months ended September 30, 2006, Equipment sales totaled $74.8 million, a decrease of $21.1 million or 22.0% compared to the same period during 2005. This decrease principally resulted from a decline in sales of non-DISH Network digital receivers and related components to international customers.

Subscriber-related expenses. Subscriber-related expenses totaled $1.220 billion during the three months ended September 30, 2006, an increase of $222.6 million or 22.3% compared to what was incurred in the same period in 2005. The increase in Subscriber-related expenses was primarily attributable to the increase in the number of DISH Network subscribers together with increased costs described below. Subscriber-related expenses represented 51.4% and 49.6% of Subscriber-related revenue during the three months ended September 30, 2006 and 2005, respectively. The increase in this expense to revenue ratio primarily resulted from lower programming margins, together with higher refurbishment and repair costs for returned EchoStar receiver systems associated with increased penetration of our equipment lease programs. The increase in this ratio also resulted from higher costs associated with the expansion of our in-home service and call center operations to support DISH Network subscriber growth and to improve service levels. These increases were partially offset by a decrease in costs associated with installation and other services related to our original agreement with AT&T.

In the normal course of business, we enter into various contracts with programmers to provide content. Our programming contracts generally require us to make payments based on the number of subscribers to which the respective content is provided. Consequently, our programming expenses will continue to increase to the extent we are successful in growing our subscriber base. In addition, because programmers continue to raise the price of content, our Subscriber-related expenses as a percentage of Subscriber-related revenue could materially increase absent corresponding price increases in our DISH Network programming packages.

Satellite and transmission expenses. Satellite and transmission expenses totaled $36.5 million during the three months ended September 30, 2006, a $2.3 million or 6.7% increase compared to the same period in 2005. This increase primarily resulted from an increase in certain operational costs associated with our capital leases of AMC-15 and AMC-16. Satellite and transmission expenses totaled 1.5% and 1.7% of Subscriber-related revenue during the three months ended September 30, 2006 and 2005, respectively. These expenses will increase further in the future as we increase the size of our satellite fleet, if we obtain in-orbit satellite insurance, as we grow our digital broadcast centers and as additional standard and high definition local markets and other programming services are launched.

Cost of sales equipment. Cost of sales equipment totaled $58.8 million during the three months ended September 30, 2006, a decrease of $10.0 million or 14.5% compared to the same period in 2005. This decrease resulted from a decline in sales of non-DISH Network digital receivers and related components to international customers. Cost of sales equipment represented 78.6% and 71.7% of Equipment sales, during the three months ended September 30, 2006 and 2005, respectively. The increase in the expense to revenue ratio was principally related to lower margins on domestic sales of DBS accessories and higher charges for slow moving and obsolete inventory in 2006, partially offset by improved margins on sales of non-DISH Network digital receivers and related components to international customers.

Subscriber acquisition costs. Subscriber acquisition costs totaled $438.8 million for the three months ended September 30, 2006, an increase of $36.3 million or 9.0% compared to the same period in 2005. The increase in Subscriber acquisition costs was primarily attributable to an increase in gross new subscribers and a decline in the number of co-branded subscribers acquired under our original AT&T agreement, for which we do not incur subscriber acquisition costs. This increase was also attributable to higher installation and acquisition advertising costs, partially offset by a higher number of DISH Network subscribers participating in our equipment lease program for new subscribers. The introduction of new equipment resulted in a decrease in our cost per installation during 2006 compared to 2005, however as a result of increased volume our overall installation expense increased.

Table of Contents

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

SAC. SAC was $688 during the three months ended September 30, 2006 compared to $697 during the same period in 2005, a decrease of $9, or 1.3%. This decrease was primarily attributable to lower average equipment and installation costs. The decrease was partially offset by a decline in the number of co-branded subscribers acquired under our original AT&T agreement and higher acquisition marketing costs. As previously discussed, the calculation of SAC for prior periods has been revised to conform to the current year presentation.

Our principal method for reducing the cost of subscriber equipment is to lease our receiver systems to new subscribers rather than selling systems to them at little or no cost. Upon termination of service, lease subscribers are required to return the leased equipment to us or be charged for the equipment. Leased equipment that is returned to us which we redeploy to new lease customers, results in reduced capital expenditures, and thus reduced SAC.

The percentage of our new subscribers choosing to lease rather than purchase equipment continued to increase for the three months ended September 30, 2006 compared to the same period in 2005. During the three months ended September 30, 2006 and 2005, the amount of equipment capitalized under our lease program for new subscribers totaled $220.0 million and $225.0 million, respectively. This decrease in capital expenditures under our lease program for new subscribers resulted primarily from lower hardware costs per receiver, fewer receivers per installation as the number of dual tuner receivers we install continues to increase, increased redeployment of equipment returned by disconnecting lease program subscribers, and a reduction in accessory costs related to the introduction of less costly installation technology and our migration away from relatively expensive and complex SuperDISH installations. Any increases in capital expenditures resulting from our equipment lease program for new subscribers have been, and we expect will continue to be, partially mitigated by, among other things, the redeployment of equipment returned by disconnecting lease program subscribers. However, to remain competitive we will have to upgrade or replace subscriber equipment periodically as technology changes, and the associated costs may be substantial. To the extent technological changes render existing equipment obsolete, we would be unable to redeploy all returned equipment and would realize less benefit from the SAC reduction associated with redeployment of that returned lease equipment.

As previously discussed, our SAC calculation does not include the benefit of payments we received in connection with equipment not returned to us from disconnecting lease subscribers and returned equipment that is made available for sale rather than being redeployed through our lease program. During the three months ended September 30, 2006 and 2005, these amounts totaled $28.9 million and $24.6 million, respectively.

Several years ago, we began deploying satellite receivers capable of exploiting 8PSK modulation technology. Since that technology is now standard in all of our new satellite receivers, our cost to migrate programming channels to that technology in the future will be substantially lower than if it were necessary to replace all existing consumer equipment. As we continue to implement 8PSK technology, bandwidth efficiency will improve, significantly increasing the number of programming channels we can transmit over our existing satellites as an alternative or supplement to the acquisition of additional spectrum or the construction of additional satellites. New channels we add to our service using only that technology may allow us to further reduce conversion costs and create additional revenue opportunities. We have also implemented MPEG-4 technology in all satellite receivers for new customers who subscribe to our HD programming packages. This technology should result in further bandwidth efficiencies over time. We have not yet determined the extent to which we will convert the EchoStar DBS System to these new technologies, or the period of time over which the conversions will occur. Since EchoStar X commenced commercial operation during the second quarter of 2006 and provided that other planned satellites are successfully deployed, this increased satellite capacity and our 8PSK transition will afford us greater flexibility in delaying and reducing the costs otherwise required to convert our subscriber base to MPEG-4.

While we may be able to generate increased revenue from such conversions, the deployment of equipment including new technologies will increase the cost of our consumer equipment, at least in the short term. SAC will increase to the extent we subsidize those costs for new and existing subscribers. These increases may be mitigated to the extent we successfully redeploy existing set-top boxes and implement other SAC reduction strategies.

Table of Contents

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

Continued

Our Subscriber acquisition costs, both in aggregate and on a per new subscriber activation basis, may further materially increase in the future to the extent that we introduce more aggressive promotions if we determine that they are necessary to respond to competition, or for other reasons. See further discussion under *Liquidity and Capital Resources Subscriber Retention and Acquisition Costs.*

General and administrative expenses. General and administrative expenses totaled $135.4 million during the three months ended September 30, 2006, an increase of $19.1 million or 16.4% compared to the same period in 2005. This increase was primarily attributable to increased personnel and related costs to support the growth of the DISH Network, including non-cash, stock-based compensation expense recorded related to the adoption of SFAS 123(R). General and administrative expenses represented 5.5% of Total revenue for each of the three months ended September 30, 2006 and 2005.

Tivo litigation expense. We previously recorded $88.2 million of Tivo litigation expense . During the three months ended September 30, 2006 we recorded an additional $1.4 million, increasing our prior estimate to reflect the full amount of the July 31, 2006 Texas court judgment, which was not issued until August 17, 2006. Based on our current analysis of the case, including the appellate record and other factors, we believe it is more likely than not that we will prevail on appeal. Consequently, we are not recording additional amounts for supplemental damages or interest subsequent to the July 31, 2006 judgment date.

Depreciation and amortization. Depreciation and amortization expense totaled $296.5 million during the three months ended September 30, 2006, an increase of $84.2 million or 39.7% compared to the same period in 2005. The increase in Depreciation and amortization expense was primarily attributable to increased penetration of our equipment lease programs which resulted in the capitalization of more equipment and, to a much smaller degree, additional depreciation related to satellites and other depreciable assets placed in service to support the DISH Network.

Interest income. Interest income totaled $33.9 million during the three months ended September 30, 2006, an increase of $21.2 million compared to the same period in 2005. This increase principally resulted from higher cash and marketable investment securities balances in 2006 as compared to 2005, and from higher total returns earned on our cash and marketable investment securities during 2006.

Interest expense, net of amounts capitalized. Interest expense totaled $112.8 million during the three months ended September 30, 2006, an increase of $18.8 million or 20.0% compared to the same period in 2005. This increase primarily resulted from a net increase in interest expense of $16.6 million related to the issuance of the $1.5 billion 7 1/8% Senior Notes due 2016 and the redemption of our previously outstanding 9 1/8% Senior Notes due 2009 during 2006.

Earnings before interest, taxes, depreciation and amortization. EBITDA was $579.6 million during the three months ended September 30, 2006, an increase of $68.2 million or 13.3% compared to the same period in 2005. The increase in EBITDA was primarily attributable to changes in operating revenues and expenses discussed above.

Table of Contents

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

The following table reconciles EBITDA to Net income (loss) :

	For the Three Months Ended September 30, 2006	2005
	(In thousands)	
EBITDA	$ 579,622	$ 511,462
Less:		
Interest expense, net	78,911	81,354
Income tax provision (benefit), net	64,644	9,008
Depreciation and amortization	296,451	212,236
Net income (loss)	$ 139,616	$ 208,864

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

Income tax benefit (provision), net. Our income tax provision was $64.6 million during the three months ended September 30, 2006 compared to $9.0 million during 2005. The income tax provision for the three months ended September 30, 2005 included an approximate $72.6 million credit resulting from the reversal of our recorded valuation allowance. The three months ended September 30, 2006 includes a credit of $7.1 million related to the recognition of state net operating loss carryforwards (NOLs) for prior periods. In addition, the three months ended September 30, 2006, includes a credit of $8.3 million related to amended state filings. Our effective tax rate going forward is expected to be approximately 37.7% of income before income taxes.

	For the Three Months Ended September 30, 2006	2005
	(In thousands)	
Adjusted income tax benefit (provision), net	$ (80,051)	$ (81,648)
Less:		
Valuation allowance reversal		(72,640)
Prior period adjustments to state NOLs	(7,102)	
Amended state filings	(8,305)	
Income tax benefit (provision), net	$ (64,644)	$ (9,008)

Net income (loss). Net income was $139.6 million during the three months ended September 30, 2006, a decrease of $69.2 million compared to $208.9 million for the same period in 2005. The decrease was attributable to the quarter over quarter changes discussed above.

Table of Contents

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

Nine Months Ended September 30, 2006 Compared to the Nine Months Ended September 30, 2005.

	For the Nine Months Ended September 30,		Variance	
	2006	**2005**	**Amount**	**%**
Statements of Operations Data	(In thousands)			
Revenue:				
Subscriber-related revenue	$ 6,884,074	$ 5,898,769	$ 985,305	16.7%
Equipment sales	274,274	278,317	(4,043)	(1.5%)
Other	61,413	70,621	(9,208)	(13.0%)
Total revenue	7,219,761	6,247,707	972,054	15.6%
Costs and Expenses:				
Subscriber-related expenses	3,500,515	3,011,382	489,133	16.2%
% of Subscriber-related revenue	**50.8%**	**51.1%**		
Satellite and transmission expenses	108,907	98,092	10,815	11.0%
% of Subscriber-related revenue	**1.6%**	**1.7%**		
Cost of sales equipment	212,062	205,657	6,405	3.1%
% of Equipment sales	**77.3%**	**73.9%**		
Cost of sales other	5,388	20,623	(15,235)	(73.9%)
Subscriber acquisition costs	1,171,021	1,081,040	89,981	8.3%
General and administrative	408,631	342,314	66,317	19.4%
% of Total revenue	**5.7%**	**5.5%**		
Tivo litigation expense	89,677		89,677	N/M
Depreciation and amortization	817,913	573,087	244,826	42.7%
Total costs and expenses	6,314,114	5,332,195	981,919	18.4%
Operating income (loss)	905,647	915,512	(9,865)	(1.1%)
Other income (expense):				
Interest income	87,354	29,995	57,359	N/M
Interest expense, net of amounts capitalized	(354,362)	(278,396)	(75,966)	(27.3%)
Gain on insurance settlement		134,000	(134,000)	(100.0%)
Other	54,365	41,424	12,941	31.2%
Total other income (expense)	(212,643)	(72,977)	(139,666)	N/M
Income (loss) before income taxes	693,004	842,535	(149,531)	(17.7%)
Income tax benefit (provision), net	(237,328)	539,380	(776,708)	N/M

Net income (loss)	$ 455,676	$ 1,381,915	$ (926,239)	(67.0%)
Other Data:				
DISH Network subscribers, as of period end (in millions)	12.755	11.710	1.045	8.9%
DISH Network subscriber additions, gross (in millions)	2.576	2.499	0.077	3.1%
DISH Network subscriber additions, net (in millions)	0.715	0.805	(0.090)	(11.2%)
Subscriber churn rate	1.68%	1.67%	0.01%	0.6%
Average revenue per subscriber (ARPU)	$ 61.87	$ 57.83	$ 4.04	7.0%
Average subscriber acquisition costs per subscriber (SAC)	$ 689	$ 680	$ 9	1.3%
EBITDA	$ 1,777,925	$ 1,664,023	$ 113,902	6.8%

34

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

Continued

Subscriber-related revenue. DISH Network Subscriber-related revenue totaled $6.884 billion for the nine months ended September 30, 2006, an increase of $985.3 million or 16.7% compared to the same period in 2005. This increase was directly attributable to continued DISH Network subscriber growth and the increase in ARPU discussed below.

ARPU. Monthly average revenue per DISH Network subscriber was $61.87 during the nine months ended September 30, 2006 and $57.83 during the same period in 2005. The $4.04 or 7.0% increase in ARPU is primarily attributable to price increases in February 2006 and 2005 on some of our most popular packages, higher equipment rental fees resulting from increased penetration of our equipment leasing programs, fees for DVRs, revenue from increased availability of standard and high definition local channels by satellite and fees earned from our DishHOME Protection Plan. This increase was partially offset by a decrease in revenues from installation and other services related to our original agreement with AT&T and a greater impact from our discounted programming promotions during 2006 compared to the same period in 2005.

Equipment sales. For the nine months ended September 30, 2006, Equipment sales totaled $274.3 million, a decrease of $4.0 million or 1.5% compared to the same period during 2005. This decrease principally resulted from a decline in domestic sales of DBS accessories, partially offset by an increase in sales of non-DISH Network digital receivers and related components to international customers.

Subscriber-related expenses. Subscriber-related expenses totaled $3.501 billion during the nine months ended September 30, 2006, an increase of $489.1 million or 16.2% compared to the same period in 2005. The increase in Subscriber-related expenses was primarily attributable to the increase in the number of DISH Network subscribers together with increased costs described below. Subscriber-related expenses represented 50.8% and 51.1% of Subscriber-related revenue during the nine months ended September 30, 2006 and 2005, respectively. The decrease in this expense to revenue ratio primarily resulted from the decline in costs associated with installation and other services related to our original agreement with AT&T, partially offset by a decrease in programming margins together with an increase in refurbishment and repair costs for returned EchoStar receiver systems.

Satellite and transmission expenses. Satellite and transmission expenses totaled $108.9 million during the nine months ended September 30, 2006, a $10.8 million or 11.0% increase compared to the same period in 2005. This increase primarily resulted from higher operational costs associated with our capital leases of AMC-15 and AMC-16, and from commencement of service and operational costs associated with the increasing number of markets in which we offer standard and high definition local network channels by satellite. Satellite and transmission expenses totaled 1.6% and 1.7% of Subscriber-related revenue during the nine months ended September 30, 2006 and 2005, respectively.

Cost of sales equipment. Cost of sales equipment totaled $212.1 million during the nine months ended September 30, 2006, an increase of $6.4 million or 3.1% compared to the same period in 2005. This increase primarily resulted from an increase in sales of non-DISH Network digital receivers and related components to international customers and higher 2006 charges for slow moving and obsolete inventory in 2006, partially offset by a decline in costs associated with domestic sales of DBS accessories. Cost of sales equipment represented 77.3% and 73.9% of Equipment sales, during the nine months ended September 30, 2006 and 2005, respectively. The increase in the expense to revenue ratio principally related to higher charges for slow moving and obsolete inventory in 2006 and a decrease in margins on domestic sales of DBS accessories, partially offset by improved margins on sales of non-DISH Network digital receivers and related components to international customers.

Subscriber acquisition costs. Subscriber acquisition costs totaled $1.171 billion for the nine months ended September 30, 2006, an increase of $90.0 million or 8.3% compared to the same period in 2005. The increase in Subscriber acquisition costs was primarily attributable to an increase in gross new subscribers and, to a lesser extent, a decline in the number of co-branded subscribers acquired under our original AT&T agreement, for which we did not incur subscriber acquisition costs. This increase was also attributable to higher installation and acquisition advertising costs, partially offset by a higher number of DISH Network subscribers participating in our equipment lease

35

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

program for new subscribers. The introduction of new equipment resulted in a decrease in our cost per installation during 2006 compared to 2005, however as a result of increased volume our overall installation expense increased.

SAC. SAC was $689 during the nine months ended September 30, 2006 compared to $680 during the same period in 2005, an increase of $9, or 1.3%. This increase was primarily attributable to a decline in the number of co-branded subscribers acquired under our original AT&T agreement and higher acquisition advertising costs. This increase was partially offset by lower average equipment and installation costs.

The percentage of our new subscribers choosing to lease rather than purchase equipment continued to increase for the nine months ended September 30, 2006 compared to the same period in 2005. During the nine months ended September 30, 2006 and 2005, the amount of equipment capitalized under our lease program for new subscribers totaled $604.5 million and $617.8 million, respectively. This decrease in capital expenditures under our lease program for new subscribers resulted primarily from lower hardware costs per receiver, fewer receivers per installation as the number of dual tuner receivers we install continues to increase, increased redeployment of equipment returned by disconnecting lease program subscribers, and a reduction in accessory costs related to the introduction of less costly installation technology and our migration away from relatively expensive and complex SuperDISH installations.

As previously discussed, our SAC calculation does not include the benefit of payments we received in connection with equipment not returned to us from disconnecting lease subscribers and returned equipment that is made available for sale rather than being redeployed through our lease program. During the nine months ended September 30, 2006 and 2005, these amounts totaled $84.5 million and $64.6 million, respectively.

General and administrative expenses. General and administrative expenses totaled $408.6 million during the nine months ended September 30, 2006, an increase of $66.3 million or 19.4% compared to the same period in 2005. This increase was primarily attributable to increased personnel and related costs to support the growth of the DISH Network, including non-cash, stock-based compensation expense recorded related to the adoption of SFAS 123(R).

General and administrative expenses represented 5.7% and 5.5% of Total revenue during the nine months ended September 30, 2006 and 2005, respectively. The increase in the ratio of those expenses to Total revenue was primarily attributable to increased infrastructure expenses to support the growth of the DISH Network.

Tivo litigation expense. We recorded $89.7 million of Tivo litigation expense during the nine months ended September 30, 2006 as a result of the jury verdict in the Tivo lawsuit. Based on our current analysis of the case, including the appellate record and other factors, we believe it is more likely than not that we will prevail on appeal. Consequently, we are not recording additional amounts for supplemental damages or interest subsequent to the July 31, 2006 judgment date.

Depreciation and amortization. Depreciation and amortization expense totaled $817.9 million during the nine months ended September 30, 2006, an increase of $244.8 million or 42.7% compared to the same period in 2005. The increase in Depreciation and amortization expense was primarily attributable to depreciation of equipment leased to subscribers resulting from increased penetration of our equipment lease programs, additional depreciation related to satellites placed in service and other depreciable assets placed in service to support the DISH Network.

Interest income. Interest income totaled $87.4 million during the nine months ended September 30, 2006, an increase of $57.4 million compared to the same period in 2005. This increase principally resulted from higher cash and marketable investment securities balances in 2006 as compared to lower balances in 2005, and from higher total returns earned on our cash and marketable investment securities during 2006.

Interest expense, net of amounts capitalized. Interest expense totaled $354.4 million during the nine months ended September 30, 2006, an increase of $76.0 million or 27.3% compared to the same period in 2005. This increase primarily resulted from a net increase in interest expense of $45.7 million related to the issuance of the $1.5 billion 7 1/8% Senior Notes due 2016 and the redemption of our $442.0 million previously outstanding 9 1/8% Senior Notes due

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

2009 during 2006. In addition, during 2006, we incurred a prepayment premium and wrote-off debt issuance costs totaling $22.9 million related to the redemption of the 9 1/8% Senior Notes.

Other. Other income totaled $54.4 million during the nine months ended September 30, 2006, an increase of $12.9 million compared to $41.4 million during the same period in 2005. The increase primarily resulted from a $19.4 million gain on the exchange of a non-marketable investment for publicly traded stock during the nine months ended September 30, 2006.

Earnings before interest, taxes, depreciation and amortization. EBITDA was $1.778 billion during the nine months ended September 30, 2006, an increase of $113.9 million or 6.8% compared to the same period in 2005. EBITDA for the nine months ended September 30, 2005 was favorably impacted by the $134.0 million Gain on insurance settlement and the nine months ended September 30, 2006 was negatively impacted by the $89.7 million Tivo litigation expense. Absent these items, our EBITDA for the nine months ended September 30, 2006 would have been $337.6 million or 22.1% higher than EBITDA for the comparable period in 2005. The increase in EBITDA (excluding these items) was primarily attributable to changes in operating revenues and expenses discussed above.

The following table reconciles EBITDA to Net income (loss) :

	For the Nine Months Ended September 30,	
	2006	2005
	(In thousands)	
EBITDA	$ 1,777,925	$ 1,664,023
Less:		
Interest expense, net	267,008	248,401
Income tax provision (benefit), net	237,328	(539,380)
Depreciation and amortization	817,913	573,087
Net income (loss)	$ 455,676	$ 1,381,915

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

Income tax benefit (provision), net. Our income tax provision was $237.3 million during the nine months ended September 30, 2006 compared to a benefit of $539.4 million during 2005. The income tax benefit for the nine months ended September 30, 2005 included an approximate $851.9 million credit to our provision for income taxes resulting from the reversal of our recorded valuation allowance. The nine months ended September 30, 2006 includes a credit of $13.5 million related to the recognition of state net operating loss carryforwards (NOLs) for prior periods. In addition, the nine months ended September 30, 2006, includes a credit of $8.3 million related to amended state filings.

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

	For the Nine Months Ended September 30,	
	2006	**2005**
	(In thousands)	
Adjusted income tax benefit (provision), net	$ (259,094)	$ (312,522)
Less:		
Valuation allowance reversal		(851,902)
Prior period adjustments to state NOLs	(13,461)	
Amended state filings	(8,305)	
Income tax benefit (provision), net	$ (237,328)	$ 539,380

Net income (loss). Net income was $455.7 million during the nine months ended September 30, 2006, a decrease of $926.2 million compared to $1.382 billion for the same period in 2005. Net income for the nine months ended September 30, 2005 was favorably impacted by the $851.9 million reversal of our recorded valuation allowance for deferred tax assets and the $134.0 million Gain on insurance settlement. The decrease was also attributable to the Tivo litigation charge in 2006.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents and Marketable Investment Securities

Our restricted and unrestricted cash, cash equivalents and marketable investment securities as of September 30, 2006 totaled $2.986 billion, including $197.4 million of restricted cash and marketable investment securities, compared to $1.248 billion, including $67.1 million of restricted cash and marketable investment securities as of December 31, 2005. The $1.738 billion increase primarily resulted from our issuance on February 2, 2006 of $1.5 billion of 7 1/8% Senior Notes due 2016, together with cash flow generated from operations, partially offset by the redemption of our outstanding 9 1/8% Senior Notes due 2009 for approximately $442.0 million. The increase in restricted cash and marketable investment securities resulted primarily from $96.6 million escrowed related to our litigation with Tivo. We consider all liquid investments purchased within 90 days of their maturity to be cash equivalents. See Item 3. Quantitative and Qualitative Disclosures about Market Risk for further discussion regarding our marketable investment securities.

During October 2006, we redeemed our Floating Rate Senior Notes due 2008 and sold $500.0 million aggregate principal amount of 7% Senior Notes due October 2013 (See *Liquidity and Capital Resources - Obligations and Future Capital Requirements*).

The following discussion highlights our free cash flow and cash flow activities during the nine months ended September 30, 2006 compared to the same period in 2005.

Free Cash Flow

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

Table of Contents

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

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

	For the Nine Months Ended September 30, 2006	2005
	(In thousands)	
Free cash flow	$ 720,256	$ 420,025
Add back:		
Purchases of property and equipment	988,595	951,994
Net cash flows from operating activities	$ 1,708,851	$ 1,372,019

The $300.2 million increase in free cash flow from 2005 to 2006 resulted from an increase in Net cash flows from operating activities of $336.8 million, partially offset by an increase in Purchases of property and equipment of $36.6 million. The increase in Net cash flows from operating activities during the nine months ended September 30, 2006 was attributable to an increase of $209.4 million in net income after non-cash adjustments, and a $127.4 million increase in cash generated from changes in operating assets and liabilities. This increase principally resulted from increases in deferred revenue and other long-term liabilities, including the Tivo litigation charge, and accrued expenses, partially offset by an increase in accounts receivable and inventory. The 2006 increase in Purchases of property and equipment was primarily attributable to increased spending during 2006 for satellite construction and for equipment under our lease programs, partially offset by lower spending for general expansion to support the growth of the DISH Network in 2006 compared to 2005.

During the nine months ended September 30, 2006 and 2005, free cash flow was significantly impacted by changes in operating assets and liabilities. Operating asset and liability balances can fluctuate significantly from period to period and there can be no assurance that free cash flow will not be negatively impacted by material changes in operating assets and liabilities in future periods, since these changes depend upon, among other things, management s timing of payments and control of inventory levels, and cash receipts. In addition to fluctuations resulting from changes in operating assets and liabilities, free cash flow can vary significantly from period to period depending upon, among other things, subscriber growth, subscriber revenue, subscriber churn, subscriber acquisition costs including amounts capitalized under our equipment lease programs, operating efficiencies, increases or decreases in purchases of property and equipment and other factors.

On October 20, 2006, a District Court in Florida entered a permanent nationwide injunction prohibiting us from offering distant network channels to consumers effective December 1, 2006. Approximately 900,000 of our customers currently subscribe to distant network channels, generating approximately $3.0 million of gross distant network channel revenue per month. We are pursuing judicial, legislative and other avenues to attempt to protect access to these channels by our customers but there can be no assurance we will be successful. If we are forced to stop offering ABC, NBC, CBS and FOX distant channels, we will attempt to assist subscribers in arranging alternatives, including migration to local channels by satellite where available, and free off air antenna offers in other markets. We cannot predict with any degree of certainty how many of our distant network subscribers would cancel their primary DISH Network programming as a result of termination of their distant channels. Termination of distant network channels will result, among other things, in a small reduction in average monthly revenue per subscriber and free cash flow, and a temporary increase in subscriber churn. We would also be at a competitive disadvantage in the future, since the injunction prohibits us from offering distant network channels that may continue to be offered by our competitors to new customers in markets where they do not offer local channels.

Table of Contents

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

Our future capital expenditures could increase or decrease depending on the strength of the economy, strategic opportunities or other factors.

Subscriber Turnover

Our percentage monthly subscriber churn for the nine months ended September 30, 2006 was 1.68%, compared to our percentage subscriber churn for the same period in 2005 of 1.67%. Our future subscriber churn may be negatively impacted by a number of additional factors, including but not limited to, an increase in competition from new technology entrants and increasingly complex products. Competitor bundling of high speed internet access with video and other communications products may contribute more significantly to churn over time as broadband delivery of video becomes integrated with traditional cable delivery. There can be no assurance that these and other factors will not contribute to relatively higher churn than we have experienced historically. Additionally, certain of our promotions allow consumers with relatively lower credit scores to become subscribers, and these subscribers typically churn at a higher rate. However, these subscribers are also acquired at a lower cost resulting in a smaller economic loss upon disconnect.

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

Increases in theft of our signal, or our competitors signals, also could cause subscriber churn to increase in future periods. We use microchips embedded in credit card-sized access cards, called smart cards, or in security chips in our EchoStar receiver systems to control access to authorized programming content. Our signal encryption has been compromised by theft of service and could be further compromised in the future. We continue to respond to compromises of our encryption system with security measures intended to make signal theft of our programming more difficult. In order to combat theft of our service and maintain the functionality of active set-top boxes, during the fourth quarter of 2005, we completed the replacement of our smart cards. While the smart card replacement did not fully secure our system, we continue to implement software patches and other security measures to help protect our service. However, there can be no assurance that our security measures will be effective in reducing theft of our programming signals. If we are required to replace existing smart cards, the cost of card replacements could have a material adverse effect on our results of operations.

On October 20, 2006, a District Court in Florida entered a permanent nationwide injunction prohibiting us from offering distant network channels to consumers effective December 1, 2006. Approximately 900,000 of our customers currently subscribe to distant network channels, generating approximately $3.0 million of gross distant network channel revenue per month. We are pursuing judicial, legislative and other avenues to attempt to protect access to these channels by our customers but there can be no assurance we will be successful. If we are forced to stop offering ABC, NBC, CBS and FOX distant channels, we will attempt to assist subscribers in arranging alternatives, including migration to local channels by satellite where available, and free off air antenna offers in other markets. We cannot predict with any degree of certainty how many of our distant network subscribers would cancel their primary DISH Network programming as a result of termination of their distant channels. Termination of distant network channels will result, among other things, in a small reduction in average monthly revenue per subscriber and free cash flow, and a temporary increase in subscriber churn.

Table of Contents

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

Subscriber Acquisition and Retention Costs

Our subscriber acquisition and retention costs can vary significantly from period to period, which can in turn cause significant variability to our net income (loss) and free cash flow between periods. Our Subscriber acquisition costs, SAC and Subscriber-related expenses may materially increase to the extent that we introduce more aggressive promotions in the future if we determine they are necessary to respond to competition, or for other reasons.

During the nine months ended September 30, 2006, the percentage of our new subscribers choosing to lease rather than purchase equipment continued to increase compared to the same period in 2005. The increase in capital expenditures resulting from our equipment lease program for new subscribers has been, and we expect it will continue to be, partially mitigated by, among other things, the redeployment of equipment returned by disconnecting lease program subscribers. However, to remain competitive we will have to upgrade or replace subscriber equipment periodically as technology changes, and the associated costs may be substantial. To the extent technological changes render existing equipment obsolete, we would be unable to redeploy all returned equipment and would realize less benefit from the SAC reduction associated with redeployment of that returned lease equipment.

Several years ago, we began deploying satellite receivers capable of exploiting 8PSK modulation technology. Since that technology is now standard in all of our new satellite receivers, our cost to migrate programming channels to that technology in the future will be substantially lower than if it were necessary to replace all existing consumer equipment. As we continue to implement 8PSK technology, bandwidth efficiency will improve, significantly increasing the number of programming channels we can transmit over our existing satellites as an alternative or supplement to the acquisition of additional spectrum or the construction of additional satellites. New channels we add to our service using only that technology may allow us to further reduce conversion costs and create additional revenue opportunities. We have also implemented MPEG-4 technology in all satellite receivers for new customers who subscribe to our HD programming packages. This technology should result in further bandwidth efficiencies over time. We have not yet determined the extent to which we will convert the EchoStar DBS System to these new technologies, or the period of time over which the conversions will occur. Since EchoStar X commenced commercial operation during the second quarter of 2006 and provided that other planned satellites are successfully deployed, this increased satellite capacity and our 8PSK transition will afford us greater flexibility in delaying and reducing the costs otherwise required to convert our subscriber base to MPEG-4.

While we may be able to generate increased revenue from such conversions, the deployment of equipment including new technologies will increase the cost of our consumer equipment, at least in the short term. SAC will increase to the extent we subsidize those costs for new and existing subscribers. These increases may be mitigated to the extent we successfully redeploy existing set-top boxes and implement other SAC reduction strategies.

In an effort to reduce subscriber turnover, we offer existing subscribers a variety of options for upgraded and add on equipment. We generally lease receivers and subsidize installation of EchoStar receiver systems under these subscriber retention programs. As discussed above, we will have to upgrade or replace subscriber equipment periodically as technology changes. As a consequence, our retention costs for subscribers that currently own equipment, which are included in Subscriber-related expenses, and our capital expenditures related to our equipment lease program for existing subscribers, will increase, at least in the short term, to the extent we subsidize the costs of those upgrades and replacements. Our capital expenditures related to subscriber retention programs could also increase in the future to the extent we increase penetration of our equipment lease program for existing subscribers, if we introduce other more aggressive promotions, if we offer existing subscribers more aggressive promotions for HD receivers or EchoStar receivers with other enhanced technologies, or for other reasons.

Cash necessary to fund retention programs and total subscriber acquisition costs are expected to be satisfied from existing cash and marketable investment securities balances and cash generated from operations to the extent available. We may, however, decide to raise additional capital in the future to meet these requirements. If we

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

decided to raise capital today, a variety of debt and equity funding sources would likely be available to us. However, there can be no assurance that additional financing will be available on acceptable terms, or at all, if needed in the future.

Obligations and Future Capital Requirements

The future maturities of our operating leases, and satellite and purchase obligations did not change materially during the nine months ended September 30, 2006.

We expect that our future working capital, capital expenditure and debt service requirements will be satisfied primarily from existing cash and marketable investment securities balances and cash generated from operations. Our ability to generate positive future operating and net cash flows is dependent upon, among other things, our ability to retain existing DISH Network subscribers. There can be no assurance we will be successful in executing our business plan. The amount of capital required to fund our future working capital and capital expenditure needs will vary, depending, among other things, on the rate at which we acquire new subscribers and the cost of subscriber acquisition and retention, including capitalized costs associated with our new and existing subscriber equipment lease programs. The amount of capital required will also depend on the levels of investment necessary to support possible strategic initiatives including our plans to expand the number of local markets where we offer HD channels. Our capital expenditures will vary depending on the number of satellites leased or under construction at any point in time. Our working capital and capital expenditure requirements could increase materially in the event of increased competition for subscription television customers, significant satellite failures, or in the event of general economic downturn, among other factors. These factors could require that we raise additional capital in the future.

From time to time we evaluate opportunities for strategic investments or acquisitions that would complement our current services and products, enhance our technical capabilities or otherwise offer growth opportunities. We may make investments in or partner with others to expand our business into mobile and portable video, data and voice services. Future material investments or acquisitions may require that we obtain additional capital. We might also need to raise capital to repurchase additional Class A common stock pursuant to our previously disclosed repurchase plan. There can be no assurance that we could raise all required capital or that required capital would be available on acceptable terms.

On October 1, 2006, we redeemed the balance of our outstanding Floating Rate Senior Notes due 2008. In accordance with the terms of the indenture governing the notes, the principal amount of the notes of $500.0 million was redeemed at 101.0%, for a total of $505.0 million.

On October 18, 2006, we sold $500.0 million aggregate principal amount of our seven-year, 7% Senior Notes due October 1, 2013 in a private placement in accordance with Securities and Exchange Commission Rule 144A and Regulation S under the Securities Act of 1933. Interest on the notes will be paid April 1 and October 1 of each year, commencing April 1, 2007. The proceeds from the sale of the notes replaced the cash on hand that was used to redeem our outstanding Floating Rate Senior Notes due 2008 on October 1, 2006.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market Risks Associated With Financial Instruments

As of September 30, 2006, our restricted and unrestricted cash, cash equivalents and marketable investment securities had a fair value of approximately $2.986 billion. Of that amount, a total of approximately $2.701 billion was invested in: (a) cash; (b) debt instruments of the U.S. Government and its agencies; (c) commercial paper and notes with an overall average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; and (d) instruments with similar risk characteristics to the commercial paper described above. The primary purpose of these investing activities has been to preserve principal until the cash is required to, among other things, fund operations, make strategic investments and expand the business. Consequently, the size of this portfolio fluctuates significantly as cash is received and used in our business.

Our restricted and unrestricted cash, cash equivalents and marketable investment securities had an average annual return for the nine months ended September 30, 2006 of approximately 5.2%. A hypothetical 10.0% decrease in interest rates would result in a decrease of approximately $11.7 million in annual interest income. The value of certain of the investments in this portfolio can be impacted by, among other things, the risk of adverse changes in securities and economic markets generally, as well as the risks related to the performance of the companies whose commercial paper and other instruments we hold. However, the high quality of these investments (as assessed by independent rating agencies), reduces these risks. The value of these investments can also be impacted by interest rate fluctuations. At September 30, 2006, all of the $2.701 billion was invested in fixed or variable rate instruments or money market type accounts. While an increase in interest rates would ordinarily adversely impact the fair value of fixed and variable rate investments, we normally hold these investments to maturity. Consequently, neither interest rate fluctuations nor other market risks typically result in significant realized gains or losses to this portfolio. A decrease in interest rates has the effect of reducing our future annual interest income from this portfolio, since funds would be re-invested at lower rates as the instruments mature. Over time, any net percentage decrease in interest rates could be reflected in a corresponding net percentage decrease in our interest income.

Included in our marketable investment securities portfolio balance is debt and equity of public companies we hold for strategic and financial purposes. As of September 30, 2006, we held strategic and financial debt and equity investments of public companies with a fair value of approximately $285.2 million. We may make additional strategic and financial investments in debt and other equity securities in the future. The fair value of our strategic and financial debt and equity investments can be significantly impacted by the risk of adverse changes in securities markets generally, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair value due to the volatility of the securities markets and of the underlying businesses. A hypothetical 10.0% adverse change in the price of our public strategic debt and equity investments would result in approximately a $28.5 million decrease in the fair value of that portfolio. The fair value of our strategic debt investments are currently not materially impacted by interest rate fluctuations due to the nature of these investments.

We currently classify all marketable investment securities as available-for-sale. We adjust the carrying value of our available-for-sale securities to fair value and report the related temporary unrealized gains and losses as a separate component of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit), net of related deferred income tax. Declines in the fair value of a marketable investment security which are estimated to be other than temporary are recognized in the Condensed Consolidated Statements of Operations, thus establishing a new cost basis for such investment. We evaluate our marketable investment securities portfolio on a quarterly basis to determine whether declines in the fair value of these securities are other than temporary. This quarterly evaluation consists of reviewing, among other things, the fair value of our marketable investment securities compared to the carrying amount, the historical volatility of the price of each security and any market and company specific factors related to each security. Generally, absent specific factors to the contrary, declines in the fair value of investments below cost basis for a continuous period of less than six months are considered to be temporary. Declines in the fair value of investments for a continuous period of six to nine months are evaluated on a case by case basis to determine whether any company or market-specific factors exist which would indicate that such declines are other than temporary. Declines in the fair value of investments below cost basis for a continuous period greater than nine months are considered other than temporary and are recorded as charges to earnings, absent specific factors to the contrary.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK Continued

As of September 30, 2006, we had unrealized gains net of related tax effect of approximately $12.2 million as a part of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit). During the nine months ended September 30, 2006, we did not record any charge to earnings for other than temporary declines in the fair value of our marketable investment securities. During the nine months ended September 30, 2006, we recognized realized and unrealized net gains on marketable and non-marketable investment securities of approximately $67.2 million. Gains and losses are generally accounted for on the specific identification method. During the nine months ended September 30, 2006, our strategic investments have experienced and continue to experience volatility. If the fair value of our strategic marketable investment securities portfolio does not remain above cost basis or if we become aware of any market or company specific factors that indicate that the carrying value of certain of our securities is impaired, we may be required to record charges to earnings in future periods equal to the amount of the decline in fair value.

We also have several strategic investments in certain non-marketable equity securities which are included in Other noncurrent assets, net on our Condensed Consolidated Balance Sheets. Generally, we account for our unconsolidated equity investments under either the equity method or cost method of accounting. Because these equity securities are not publicly traded, it is not practical to regularly estimate the fair value of the investments; however, these investments are subject to an evaluation for other than temporary impairment on a quarterly basis. This quarterly evaluation consists of reviewing, among other things, company business plans and current financial statements, if available, for factors that may indicate an impairment of our investment. Such factors may include, but are not limited to, cash flow concerns, material litigation, violations of debt covenants and changes in business strategy. The fair value of these equity investments is not estimated unless there are identified changes in circumstances that may indicate an impairment exists and these changes are likely to have a significant adverse effect on the fair value of the investment. As of September 30, 2006, we had $214.6 million aggregate carrying amount of non-marketable and unconsolidated strategic equity investments, of which $101.8 million is accounted for under the cost method. During the nine months ended September 30, 2006, we did not record any impairment charges with respect to these investments.

We also have a strategic investment in non-public preferred stock, public common stock and convertible debt of a foreign public company which is included in Other noncurrent assets, net on our Condensed Consolidated Balance Sheets. The debt is convertible into the issuer s publicly traded common shares. During the second quarter of 2006, we converted a portion of the convertible debt to public common shares and determined that we have the ability to significantly influence the operating decisions of the issuer. Consequently, we account for the common share component of our investment under the equity method of accounting. We recorded $73.7 million of goodwill to account for the amount by which the carrying value of our investment in the issuer s common stock exceeded the value of our portion of the underlying balance sheet equity of the investee. This goodwill is included as part of the total equity investment in Other non-current assets, net as of September 30, 2006.

Our ability to realize value from our strategic investments in companies that are not publicly traded is dependent on the success of their business 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 full value for them.

As of September 30, 2006, we estimated the fair value of our variable and fixed-rate debt, mortgages and other notes payable to be approximately $6.414 billion using quoted market prices where available. In completing our analysis for our private debt, 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 credit spreads, volatility, and the impact of these factors on the value of the notes. The fair value of our fixed-rate debt and mortgages is affected by fluctuations in interest rates. A hypothetical 10.0% decrease in assumed interest rates would increase the fair value of our debt by approximately $187.4 million. To the extent interest rates increase, our costs of financing would increase at such time as we are required to refinance our debt. As of September 30, 2006, a hypothetical 10.0% increase in assumed interest rates would increase our annual interest expense by approximately $41.4 million.

In general, we have not used derivative financial instruments for hedging or speculative purposes.

Table of Contents

Item 4. CONTROLS AND PROCEDURES

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

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Distant Network Litigation

On October 20, 2006, a District Court in Florida entered a permanent nationwide injunction prohibiting us from offering distant network channels to consumers effective December 1, 2006. Distant networks are ABC, NBC, CBS and Fox network channels which originate outside the community where the consumer who wants to view them, lives. Approximately 900,000 of our customers currently subscribe to distant network channels, generating approximately $3.0 million of gross distant network channel revenue per month. We are pursuing judicial, legislative and other avenues to attempt to protect access to these channels by our customers but there can be no assurance we will be successful.

We currently offer local network channels by satellite in approximately 170 markets, serving over 95% of all U.S. households. Consequently, a majority of our distant network subscribers live in markets where we offer local network channels by satellite, but a significant percentage live in the approximately 40 markets where local network channels are not available by satellite. Our customers in those 40 markets are at greatest risk of canceling their subscription for our other services, particularly the substantial percentage of those customers who are eligible to obtain local or distant network channels from our competitors. Further, in approximately a dozen markets where we offer local channels, one or more networks do not have a local affiliate. In those markets distant networks are the only option available for consumers who want access to the network signals missing from the market. Those customers are also at increased risk of canceling their subscription for our other services.

We are beginning to install free off air antennas for the small percentage of those subscribers who can receive local channels off air and are willing to have an antenna installed, and continue to pursue other options to minimize potential disruption to these customers. We are also preparing to provide local channels to our distant network customers who live in the 170 markets where we offer local channels by satellite. Some of those subscribers will need additional equipment to receive local channels. We are beginning to install that equipment without cost to those customers but will not be able to complete all of those installations by December 1, 2006. Some of those customers currently subscribe to both distant and local channels so revenue from those subscribers will decline. Further, we cannot predict the number of customers who currently subscribe to only distant network channels, but will choose not to switch to local channels.

Absent modification, the injunction would negate a settlement agreement we recently reached with the ABC, NBC, CBS and Fox Affiliate Associations, which would have required us to pay $100.0 million in order to retain a limited right to offer distant networks in their markets. It also negates settlement agreements we reached with the ABC, NBC and CBS Networks, and with various independent stations and station groups, over the eight year course of the litigation.

Termination of distant network channels will result, among other things, in a small reduction in average monthly revenue per subscriber and free cash flow, and a temporary increase in subscriber churn. We cannot predict with any degree of certainty how many of our distant network subscribers would cancel their primary DISH Network programming as a result of termination of their distant channels. We would also be at a competitive disadvantage in the future, since the injunction prohibits us from offering distant network channels that may continue to be offered by our competitors to new customers in markets where they do not offer local channels.

Superguide

During 2000, Superguide Corp. (Superguide) filed suit against us, DirecTV, Thomson and others in the United States District Court for the Western District of North Carolina, Asheville Division, alleging infringement of United States Patent Nos. 5,038,211 (the 211 patent), 5,293,357 (the 357 patent) and 4,751,578 (the 578 patent) which relate to certain electronic program guide functions, including the use of electronic program guides to control VCRs. Superguide sought injunctive and declaratory relief and damages in an unspecified amount.

On summary judgment, the District Court ruled that none of the asserted patents were infringed by us. These rulings were appealed to the United States Court of Appeals for the Federal Circuit. During February 2004, the Federal Circuit affirmed in part and reversed in part the District Court s findings and remanded the case back to the District Court for further proceedings. In July 2005, SuperGuide indicated that it would no longer pursue infringement allegations with respect to the 211 and 357 patents and those patents have now been dismissed from the suit. The District Court subsequently entered judgment of non-infringement in favor of all defendants as to the 211 and 357 patents and ordered briefing on Thomson s license defense as to the 578 patent. At the same time, we requested

PART II OTHER INFORMATION

leave to add a license defense as to the 578 patent in view of a new (at the time) license we obtained from a third-party licensed by Superguide. Activity in the case has been suspended pending resolution of the license defense and a trial date has not been set. We are awaiting a decision by the District Court regarding Thomson s license defense and regarding whether it will hear our license defense. We examined the 578 patent and believe that it is not infringed by any of our products or services. We will continue to vigorously defend this case. In the event that a Court ultimately determines that we infringe any of the patents, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain user-friendly electronic programming guide and related features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Broadcast Innovation, L.L.C.

In 2001, Broadcast Innovation, L.L.C. (Broadcast Innovation) filed a lawsuit against us, DirecTV, Thomson Consumer Electronics and others in Federal District Court in Denver, Colorado. The suit alleges infringement of United States Patent Nos. 6,076,094 (the 094 patent) and 4,992,066 (the 066 patent). The 094 patent relates to certain methods and devices for transmitting and receiving data along with specific formatting information for the data. The 066 patent relates to certain methods and devices for providing the scrambling circuitry for a pay television system on removable cards. We examined these patents and believe that they are not infringed by any of our products or services. Subsequently, DirecTV and Thomson settled with Broadcast Innovation leaving us as the only defendant. During 2004, the judge issued an order finding the 066 patent invalid. In August of 2004, the Court ruled the 094 invalid in a parallel case filed by Broadcast Innovation against Charter and Comcast. In August of 2005, the United States Court of Appeals for the Federal Circuit (CAFC) overturned this finding of invalidity and remanded the case back to the District Court. During June 2006, Charter filed a reexamination request with the United States Patent and Trademark Office. The Court has stayed the case pending reexamination. Our case remains stayed pending resolution of the Charter case.

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

Tivo, Inc.

During April 2006, a Texas jury concluded that certain of our digital video recorders, or DVRs, infringed a patent held by Tivo. The Texas court subsequently issued an injunction prohibiting us from offering DVR functionality. A Court of Appeals has stayed that injunction during the pendency of our appeal.

We have accrued $89.7 million for damages and interest awarded by the Texas court through July 31, 2006. Based on our current analysis of the case, including the appellate record and other factors, we believe it is more likely than not that we will prevail on appeal. Consequently, we are not recording additional amounts for supplemental damages or interest subsequent to the July 31, 2006 judgment date.

If the verdict is upheld on appeal, we would be required to pay additional amounts from August 1, 2006 until such time, if ever, as we successfully implement alternative technology. Those amounts would be approximately $5.7 million, $5.9 million and $6.0 million for August, September and October 2006, respectively, and would increase each month as the number of our DVR customers increases and as interest compounds. If the verdict is upheld on appeal and we are not able to successfully implement alternative technology (including the successful defense of any challenge that such technology infringes Tivo s patent), we could also be prohibited from distributing DVRs, or be required to modify or eliminate certain user-friendly DVR features that we currently offer to consumers. In that event we would be at a significant disadvantage to our competitors who could offer this functionality and, while we would attempt to provide that functionality through other manufacturers, the adverse affect on our business could be material.

Table of Contents

PART II OTHER INFORMATION

Acacia

In June 2004, Acacia Media Technologies (Acacia) filed a lawsuit against us in the United States District Court for the Northern District of California. The suit also named DirecTV, Comcast, Charter, Cox and a number of smaller cable companies as defendants. Acacia is an intellectual property holding company which seeks to license the patent portfolio that it has acquired. The suit alleges infringement of United States Patent Nos. 5,132,992 (the 992 patent), 5,253,275 (the 275 patent), 5,550,863 (the 863 patent), 6,002,720 (the 720 patent) and 6,144,702 (the 702 patent). The 992, 863, 720 and 702 patents have been asserted against us.

The patents relate to various systems and methods related to the transmission of digital data. The 992 and 702 patents have also been asserted against several internet content providers in the United States District Court for the Central District of California. During 2004 and 2005, the Court issued Markman rulings which found that the 992 and 702 patents were not as broad as Acacia had contended, and that certain terms in the 702 patent were indefinite. During April 2006, EchoStar and other defendants asked the Court to rule that the claims of the 702 patent are invalid and not infringed. That motion is pending. In June and September 2006, the Court held Markman hearings on the 992, 863, 720 and 275 patents, but has not yet issued a ruling.

Acacia s various patent infringement cases have been consolidated for pre-trial purposes in the United States District Court for the Northern District of California. We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe any of the patents, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain user-friendly features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Forgent

In July 2005, Forgent Networks, Inc. (Forgent) filed a lawsuit against us in the United States District Court for the Eastern District of Texas. The suit also named DirecTV, Charter, Comcast, Time Warner Cable, Cable One and Cox as defendants. The suit alleges infringement of United States Patent No. 6,285,746 (the 746 patent).

The 746 patent discloses a video teleconferencing system which utilizes digital telephone lines. We have examined this patent and do not believe that it is infringed by any of our products or services. We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe this patent, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain user-friendly features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages. Trial is currently scheduled for May 2007 in Marshall, Texas. On October 2, 2006, the Patent and Trademark Office granted our petition for reexamination of the 746 patent. On October 27, 2006, the Patent and Trademark Office issued its initial office action rejecting all of the claims of the 746 patent in light of several prior art references. Forgent will have an opportunity to challenge the initial office action. We have moved to have the case stayed pending resolution of the reexamination. The Court has not yet ruled on the motion.

Finisar Corporation

Finisar Corporation (Finisar) recently obtained a $100.0 million verdict in the United States District Court for the Eastern District of Texas against DirecTV for patent infringement. Finisar alleged that DirecTV s electronic program guide and other elements of its system infringe United States Patent No. 5,404,505 (the 505 patent).

On July 10, 2006, we, together with NagraStar LLC, filed a Complaint for Declaratory Judgment in the United States District Court for the District of Delaware against Finisar that asks the Court to declare that they and we do not infringe, and have not infringed, any valid claim of the 505 patent. Trial is not currently scheduled. We intend to vigorously defend our rights in this action. In the event that a Court ultimately determines that we infringe this patent, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to modify our system architecture. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Table of Contents

PART II OTHER INFORMATION

Trans Video

In August 2006, Trans Video Electronic, Ltd. (Trans Video) filed a patent infringement action against us in the United States District Court for the Northern District of California. The suit alleges infringement of United States Patent Nos. 5,903,621 (the 621 patent) and 5,991,801 (the 801 patent). The patents relate to various methods related to the transmission of digital data. We have not been served with the complaint yet. We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe any of the patents, we may be subject to substantial damages, which may include treble damages and/or an injunction. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Retailer Class Actions

During 2000, lawsuits were filed by retailers in Colorado state and federal court attempting to certify nationwide classes on behalf of certain of our satellite hardware retailers. The plaintiffs are requesting the Courts declare certain provisions of, and changes to, alleged agreements between us and the retailers invalid and unenforceable, and to award damages for lost incentives and payments, charge backs, and other compensation. We are vigorously defending against the suits and have asserted a variety of counterclaims. The federal court action was stayed during the pendency of the state court action. We filed a motion for summary judgment on all counts and against all plaintiffs. The plaintiffs filed a motion for additional time to conduct discovery to enable them to respond to our motion. The Court granted limited discovery which ended during 2004. The plaintiffs claimed we did not provide adequate disclosure during the discovery process, and a specially appointed master agreed with the plaintiffs, recently recommending to the judge that our motion for summary judgment be denied, or that plaintiffs be permitted to conduct additional discovery. Plaintiffs also asked the Court to go beyond the scope of the special master s recommendation, and further sanction us for the alleged discovery problems by entering judgment against us on the issue of liability, leaving only the issue of damages for trial. The judge has not yet ruled on the special master s recommendation. A trial date has not been set. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Enron Commercial Paper Investment Complaint

During October 2001, we received approximately $40.0 million from the sale of Enron commercial paper to a third party broker. That commercial paper was ultimately purchased by Enron. During November 2003, an action was commenced in the United States Bankruptcy Court for the Southern District of New York, against approximately 100 defendants, including us, who invested in Enron s commercial paper. The complaint alleges that Enron s October 2001 purchase of its commercial paper was a fraudulent conveyance and voidable preference under bankruptcy laws. We dispute these allegations. We typically invest in commercial paper and notes which are rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations. At the time of our investment in Enron commercial paper, it was considered to be high quality and low risk. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Bank One

During 2004, Bank One, N.A. (Bank One) filed suit against us and one of our subsidiaries, EchoStar Acceptance Corporation (EAC), in Ohio state court alleging breach of a duty to indemnify. The case was subsequently moved to federal court. Bank One alleges EAC is contractually required to indemnify Bank One for a settlement it paid to consumers who entered private label credit card agreements with Bank One to purchase satellite equipment in the late 1990s. The case is currently in discovery. A trial date has not been set. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Table of Contents

PART II OTHER INFORMATION

Church Communications Network, Inc.

During 2004, Church Communications Network, Inc. (CCN) filed suit against us in the United States District Court for the Northern District of Alabama. CCN claimed approximately $20.0 million in actual damages, plus punitive damages for, among other things, alleged breaches of two contracts, and negligent, intentional and reckless misrepresentation. During March 2006, the Court granted summary judgment in our favor limiting CCN to one contract claim, and limiting damages to no more than $500,000, plus interest. During April 2006, we reached a settlement which did not have a material impact on our results of operations.

Vivendi

In January 2005, Vivendi Universal, S.A. (Vivendi) filed a breach of contract suit against us. During April 2005, the Court granted Vivendi s motion for a preliminary injunction requiring that we carry a music-video channel during the pendency of the litigation. On May 23, 2006, the parties settled the litigation and Vivendi s complaint was dismissed with prejudice. As part of the settlement, we agreed to continue to carry the music-video channel. The settlement amount did not have a material impact on our results of operations.

Riyad Alshuaibi

During 2002, Riyad Alshuaibi filed suit against Michael Kelly, one of our executive officers, Kelly Broadcasting Systems, Inc. (KBS), and EchoStar in the District Court of New Jersey. Plaintiff alleged breach of contract, breach of fiduciary duty, fraud, negligence, and unjust enrichment resulting in damages in excess of $50.0 million. Plaintiff claimed that when KBS was acquired by us, Michael Kelly and KBS breached an alleged agreement with the plaintiff. We denied the allegations of plaintiff s complaint. On October 26, 2006, we reached a settlement which did not have a material impact on our results of operations.

Other

In addition to the above actions, we are subject to various other legal proceedings and claims which arise in the ordinary course of business. In our opinion, the amount of ultimate liability with respect to any of these actions is unlikely to materially affect our financial position, results of operations or liquidity.

Item 1A. RISK FACTORS

Item 1A, Risk Factors, of our Annual Report on Form 10-K for 2005 includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Annual Report on Form 10-K for 2005.

TV networks oppose our strategy of delivering distant network signals, and we could be prohibited from selling distant network channels.

On October 20, 2006, a District Court in Florida entered a permanent nationwide injunction prohibiting us from offering distant network channels to consumers effective December 1, 2006. Distant networks are ABC, NBC, CBS and Fox network channels which originate outside the community where the consumer who wants to view them, lives. Approximately 900,000 of our customers currently subscribe to distant network channels, generating approximately $3.0 million of gross distant network channel revenue per month. We are pursuing judicial, legislative and other avenues to attempt to protect access to these channels by our customers but there can be no assurance we will be successful.

We currently offer local network channels by satellite in approximately 170 markets, serving over 95% of all U.S. households. Consequently, a majority of our distant network subscribers live in markets where we offer local network channels by satellite, but a significant percentage live in the approximately 40 markets where local network channels are not available by satellite. Our customers in those 40 markets are at greatest risk of canceling their subscription for our other services, particularly the substantial percentage of those customers who are eligible to obtain local or distant network channels from our competitors. Further, in approximately a dozen markets where we offer local channels, one or more networks do not have a local affiliate. In those markets distant networks are the only option available for consumers who want access to the network signals missing from the market. Those customers are also at increased risk of canceling their subscription for our other services.

We are beginning to install free off air antennas for the small percentage of those subscribers who can receive local channels off air and are willing to have an antenna installed, and continue to pursue other options to minimize potential disruption to these customers. We are also preparing to provide local channels to our distant network customers who live in the 170 markets where we offer local channels by

PART II OTHER INFORMATION

satellite. Some of those subscribers will need additional equipment to receive local channels. We are beginning to install that equipment without cost to those customers but will not be able to complete all of those installations by December 1, 2006. Some of those customers currently subscribe to both distant and local channels so revenue from those subscribers will decline. Further, we cannot predict the number of customers who currently subscribe to only distant network channels, but will choose not to switch to local channels.

Absent modification, the injunction would negate a settlement agreement we recently reached with the ABC, NBC, CBS and Fox Affiliate Associations, which would have required us to pay $100.0 million in order to retain a limited right to offer distant networks in their markets. It also negates settlement agreements we reached with the ABC, NBC and CBS Networks, and with various independent stations and station groups, over the eight year course of the litigation.

Termination of distant network channels will result, among other things, in a small reduction in average monthly revenue per subscriber and free cash flow, and a temporary increase in subscriber churn. We cannot predict with any degree of certainty how many of our distant network subscribers would cancel their primary DISH Network programming as a result of termination of their distant channels. We would also be at a competitive disadvantage in the future, since the injunction prohibits us from offering distant network channels that may continue to be offered by our competitors to new customers in markets where they do not offer local channels.

During April 2006, a Texas jury concluded that certain of our digital video recorders, or DVRs, infringed a patent held by Tivo. If the verdict is upheld on appeal and we are not able to successfully implement alternative technology, we could be prohibited from distributing DVRs, or be required to modify or eliminate certain user-friendly DVR features that we currently offer to consumers.

We have accrued $89.7 million for damages and interest awarded by the Texas court through July 31, 2006. Based on our current analysis of the case, including the appellate record and other factors, we believe it is more likely than not that we will prevail on appeal. Consequently, we are not recording additional amounts for supplemental damages or interest subsequent to the July 31, 2006 judgment date.

If the verdict is upheld on appeal, we would be required to pay additional amounts from August 1, 2006 until such time, if ever, as we successfully implement alternative technology. Those amounts would be approximately $5.7 million, $5.9 million and $6.0 million for August, September and October 2006, respectively, and would increase each month as the number of our DVR customers increases and as interest compounds. If the verdict is upheld on appeal and we are not able to successfully implement alternative technology (including the successful defense of any challenge that such technology infringes Tivo s patent), we could also be prohibited from distributing DVRs, or be required to modify or eliminate certain user-friendly DVR features that we currently offer to consumers. In that event we would be at a significant disadvantage to our competitors who could offer this functionality and, while we would attempt to provide that functionality through other manufacturers, the adverse affect on our business could be material.

If our EchoStar X satellite experienced a significant failure we could lose the ability to deliver local network channels in many markets.

We currently do not have adequate backup satellite capacity to recover all of the local network channels broadcast from our EchoStar X satellite following a complete failure of that satellite. Therefore, our ability to deliver local channels in many markets, as well as our ability to comply with SHVERA requirements without incurring significant additional costs, is dependent on, among other things, the continued successful commercial operation of EchoStar X.

We depend on other telecommunications providers, independent retailers and others to solicit orders for DISH network services.

While we sell receiver systems and programming directly, other telecommunications providers, independent distributors, direct marketers, retailers and consumer electronics stores are responsible for most of our sales. We also sell EchoStar receiver systems through nationwide retailers and certain regional consumer electronic chains. If we are unable to continue our arrangements with these resellers, we cannot guarantee that we would be able to obtain other sales agents, thus adversely affecting our business.

Table of Contents

PART II OTHER INFORMATION

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

Issuer Purchases of Equity Securities

The following table provides information regarding purchases of our Class A common stock made by us for the period from January 1, 2006 through October 31, 2006.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (b)
	(In thousands, except share data)			
January 1 - January 31, 2006	342,445	$ 27.22	342,445	$ 628,167
February 1 - February 28, 2006	86,737	$ 27.17	86,737	$ 625,811
March 1 - March 31, 2006		$		$ 625,811
April 1 - April 30, 2006		$		$ 625,811
May 1 - May 31, 2006		$		$ 625,811
June 1 - June 30, 2006		$		$ 625,811
July 1 - July 31, 2006		$		$ 625,811
August 1 - August 31, 2006		$		$ 625,811
September 1 - September 30, 2006		$		$ 625,811
October 1 - October 31, 2006		$		$ 625,811
Total	429,182	$ 27.21	429,182	$ 625,811

(a) During the period from January 1, 2006 through October 31, 2006 all purchases were made pursuant to the program discussed below in open market transactions.

(b) Our Board of Directors authorized the purchase of up to $1.0 billion of our Class A Common Stock on August 9, 2004. Prior to 2006, we purchased a total of 13.2 million shares for a total of $362.5 million. During the fourth quarter of 2006, our Board of Directors approved extending this repurchase program to expire on the earlier of December 31, 2007 or when an aggregate amount of $1.0 billion of stock has been purchased. Purchases under our repurchase program may be made through open market purchases, privately negotiated transactions, or Rule 10b5-1 trading plans, subject to market conditions and other factors. We may elect not to purchase the maximum amount of shares allowable under this program and we may also enter into additional share repurchase programs authorized by our Board of Directors.

Table of Contents

PART II OTHER INFORMATION

Item 6. EXHIBITS

(a) Exhibits.

31.1 Section 302 Certification by Chairman and Chief Executive Officer.

31.2 Section 302 Certification by Executive Vice President and Chief Financial Officer.

32.1 Section 906 Certification by Chairman and Chief Executive Officer.

32.2 Section 906 Certification by Executive Vice President and Chief Financial Officer.

Table of Contents

SIGNATURES

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

ECHOSTAR COMMUNICATIONS
CORPORATION

By: /s/ *Charles W. Ergen*
Charles W. Ergen
Chairman and Chief Executive Officer
(Duly Authorized Officer)

By: /s/ *Bernard L. Han*
Bernard L. Han
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 7, 2006

Table of Contents

Exhibit Index

(a) Exhibits.

31.1 Section 302 Certification by Chairman and Chief Executive Officer.

31.2 Section 302 Certification by Executive Vice President and Chief Financial Officer.

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32.2 Section 906 Certification by Executive Vice President and Chief Financial Officer.