DISH Network CORP
Form 10-Q
August 04, 2008

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 JUNE 30, 2008.**

OR

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

Commission File Number: 0-26176

DISH Network Corporation

(Exact name of registrant as specified in its charter)

Nevada	**88-0336997**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9601 South Meridian Boulevard Englewood, Colorado	**80112**
(Address of principal executive offices)	(Zip code)

(303) 723-1000

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

Large accelerated filer þ	**Accelerated filer** o	**Non-accelerated filer** o	**Smaller reporting company** o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of July 25, 2008, the registrant s outstanding common stock consisted of 211,574,446 shares of Class A common stock and 238,435,208 shares of Class B common stock.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

	Disclosure Regarding Forward-Looking Statements	i
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets -- June 30, 2008 and December 31, 2007 (Unaudited)	1
	Condensed Consolidated Statements of Operations For the Three and Six Months Ended June 30, 2008 and 2007 (Unaudited)	2
	Condensed Consolidated Statements of Cash Flows For the Six Months Ended June 30, 2008 and 2007 (Unaudited)	3
	Notes to Condensed Consolidated Financial Statements (Unaudited)	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	50
Item 4.	Controls and Procedures	52

PART II OTHER INFORMATION

Item 1.	Legal Proceedings	53
Item 1A.	Risk Factors	58
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	60
Item 3.	Defaults Upon Senior Securities	None
Item 4.	Submission of Matters to a Vote of Security Holders	61
Item 5.	Other Information	None
Item 6.	Exhibits	62
	Signatures	63

Section 302 Certification by Chairman and CEO
Section 302 Certification by Executive Vice President and CFO
Section 906 Certification by Chairman and CEO
Section 906 Certification by Executive Vice President and CFO

PART I FINANCIAL INFORMATION

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 throughout this report. Whenever you read a statement that is not simply a statement of historical fact (such as when we describe what we believe, intend, plan, estimate, expect or anticipate will occur and other similar statemen must remember that our expectations may not be achieved, even though we believe they are reasonable. We do not guarantee that any future transactions or events described herein will happen as described or that they will happen at all. You should read this report completely and with the understanding that actual future results may be materially different from what we expect. Whether actual events or results will conform with our expectations and predictions is subject to a number of risks and uncertainties. The risks and uncertainties include, but are not limited to, the following:

We face intense and increasing competition from satellite and cable television providers as well as new competitors, including telephone companies; many of our competitors offer video services bundled with 2-way high-speed Internet access and telephone services that consumers may find attractive and which are likely to further increase competition. We also expect to face increasing competition from content and other providers who distribute video services directly to consumers over the Internet.

As technology changes, and in order to remain competitive, we may have to upgrade or replace some or all subscriber equipment and make substantial investments in our infrastructure. For example, the increase in demand for high definition (HD) programming requires not only upgrades to customer premises equipment but also substantial increases in satellite capacity. We may not be able to pass on to our customers the entire cost of these upgrades and there can be no assurance that we will be able to effectively compete with the HD programming offerings of our competitors.

We rely on EchoStar Corporation (EchoStar), which we owned prior to its January 1, 2008 separation from us (the Spin-off), to design and develop set-top boxes and to provide transponder capacity, digital broadcast operations and other services for us. EchoStar is our sole supplier of digital set-top boxes and digital broadcast operations. Equipment, transponder leasing and digital broadcast operation costs may increase beyond our current expectations. We may be unable to renew agreements for these services on acceptable terms or at all. EchoStar s inability to develop and produce, or our inability to obtain, equipment with the latest technology, or our inability to obtain transponder capacity and digital broadcast operations and other services from third parties, could affect our subscriber acquisition and churn and cause related revenue to decline.

DISH Network® subscribers may continue to decrease and subscriber turnover may increase due to a variety of factors, including several, such as increasing competition and worsening economic conditions, which are outside of our control, and other factors, such as our own operational inefficiencies and customer satisfaction with our products and services, that will require us to make significant investments and expenditures to overcome, which may have a material adverse effect on our results of operations and financial condition.

AT&T recently notified us that it intends to terminate our current distribution agreement effective as of December 31, 2008. Our ability to maintain or grow our subscriber base will be adversely affected if we do not enter into a new agreement with AT&T and we are not able to develop comparable alternative distribution channels.

Subscriber acquisition and retention costs may increase; the competitive environment may require us to increase promotional and retention spending or accept lower subscriber acquisitions and higher subscriber churn. We may also have difficulty controlling other costs relating to our efforts to maintain or grow our subscriber base.

Satellite programming signals are subject to theft and other forms of fraud. Theft of service will continue and could increase in the future, causing us to lose subscribers and revenue and to incur higher costs.

We depend on others to produce the programming we distribute to our subscribers; programming costs may increase beyond our current expectations and we may be unable to obtain or renew programming agreements on acceptable terms or at all. Existing programming agreements could be subject to cancellation. We may be denied access to sports and other programming. Foreign programming is

increasingly offered on other platforms. Our inability to obtain or renew attractive programming could cause our subscriber base and related revenue to decline and could cause our subscriber turnover to increase.

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

Our industry is heavily regulated by the FCC. Those regulations could become more burdensome at any time, causing us to expend additional resources on compliance.

We have made a substantial investment in 700 MHz wireless licenses. We will be required to make significant additional investments to commercialize these licenses and satisfy FCC build-out requirements.

We may be required to raise and/or refinance indebtedness during unfavorable market conditions. Recent developments in the financial markets have made it more difficult for issuers of high yield indebtedness such as us to access capital markets at reasonable rates. We cannot predict with any certainty whether or not we will be impacted in the future by the current conditions, which may adversely affect our ability to refinance our indebtedness, including $1.5 billion of indebtedness that is subject to repayment or repurchase in the second half of 2008, or to secure additional financing to support our growth initiatives.

A portion of our investment portfolio is invested in auction rate securities and mortgage backed securities. The markets associated with these investments have experienced zero or greatly reduced liquidity in recent months. Should the credit ratings of these securities deteriorate or the lack of liquidity in the marketplace continue, we may be required to record impairment charges.

If we and EchoStar are unsuccessful in our appeal to the United States Supreme Court in the Tivo case, or in defending against Tivo s motion for contempt or any subsequent claims that EchoStar s alternative technology infringes Tivo s patent, we could be prohibited from distributing DVRs supplied to us by EchoStar, 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 using different technology and/or manufacturers other than EchoStar, the adverse affect on our business could be material. We could also have to pay substantial additional damages.

If our EchoStar X satellite experienced a significant failure, we could lose the ability to deliver local network channels in many markets. If any of our other owned or leased satellites experienced a significant failure, we could lose the ability to provide other critical programming to the continental United States.

Our satellite launches may be delayed or fail, or our owned or leased 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 or lease.

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

We depend heavily 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 may face actual or perceived conflicts of interest with EchoStar in a number of areas relating to our past and ongoing relationships, including: (i) cross officerships, directorships and stock ownership, (ii) intercompany transactions, (iii) intercompany agreements, including those that were entered into in connection with the Spin-off, and (iv) future business opportunities.

We rely on key personnel including Charles W. Ergen, our chairman and chief executive officer, and other executives, certain of whom will for some period also have responsibilities with EchoStar through their positions at EchoStar or our management services agreement with EchoStar.

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 subject to claims that we infringe on patent licenses. There can be no assurance that we will be able to obtain patent licenses or redesign our products to avoid patent infringement.

We depend on telecommunications providers, independent retailers and others to solicit orders for DISH Network services. Certain of these resellers account for a significant percentage of our total new subscriber acquisitions. A number of these resellers are not exclusive to us and also offer competitors products and services. Loss of one or more of these relationships could have an adverse effect on our subscriber base and certain of our other key operating metrics because we may not be able to develop comparable alternative distribution channels.

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, and could become substantial over time, involving a high degree of risk, and exposing us to significant financial losses if the underlying ventures are not successful.

Weakness in the global or U.S. economy may harm our business generally, and adverse political or economic developments, including increased mortgage defaults as a result of subprime lending practices and increasing oil prices, may impact some of our markets.

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, 2007, 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.

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

Table of Contents

Item 1. FINANCIAL STATEMENTS

DISH NETWORK CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share amounts)
(Unaudited)

	As of	
	June 30, 2008	**December 31, 2007**
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,357,296	$ 1,180,818
Marketable investment securities	541,733	1,607,378
Trade accounts receivable other, net of allowance for uncollectible accounts of $13,558 and $14,019, respectively	690,131	699,101
Trade accounts receivable EchoStar	51,134	
Inventories, net	335,737	306,915
Current deferred tax assets	135,694	342,813
700 MHz wireless spectrum deposit (Note 7)	711,871	
Other current assets	123,618	108,113
Other current assets EchoStar	966	
Total current assets	3,948,180	4,245,138
Restricted cash and marketable investment securities	170,805	172,520
Property and equipment, net of accumulated depreciation of $2,537,115 and $3,591,594, respectively	2,548,587	4,058,189
FCC authorizations	679,570	845,564
Intangible assets, net	5,717	218,875
Goodwill		256,917
Marketable investment securities	152,101	
Other noncurrent assets, net (Note 5)	175,633	289,326
Total assets	$ 7,680,593	$ 10,086,529
Liabilities and Stockholders Equity (Deficit)		
Current Liabilities:		
Trade accounts payable other	$ 128,277	$ 314,825
Trade accounts payable EchoStar	278,478	
Deferred revenue and other	860,298	857,846
Accrued programming	1,036,664	914,074
Other accrued expenses	599,553	587,942
Current portion of capital lease obligations, mortgages and other notes payable	10,832	50,454
3% Convertible Subordinated Notes due 2010	500,000	500,000
5 3/4% Senior Notes due 2008	1,000,000	1,000,000
Total current liabilities	4,414,102	4,225,141

Long-term obligations, net of current portion:		
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	1,500,000	1,500,000
7% Senior Notes due 2013	500,000	500,000
7 3/4% Senior Notes due 2015 (Note 8)	750,000	
Capital lease obligations, mortgages and other notes payable, net of current portion	208,252	550,250
Deferred tax liabilities	43,258	386,493
Long-term deferred revenue, distribution and carriage payments and other long-term liabilities	331,742	259,656
Total long-term obligations, net of current portion	5,358,252	5,221,399
Total liabilities	9,772,354	9,446,540
Commitments and Contingencies (Note 9)		
Stockholders Equity (Deficit):		
Class A common stock, $.01 par value, 1,600,000,000 shares authorized, 256,579,254 and 255,138,160 shares issued, 211,566,454 and 210,125,360 shares outstanding, respectively	2,566	2,551
Class B common stock, $.01 par value, 800,000,000 shares authorized, 238,435,208 shares issued and outstanding	2,384	2,384
Class C common stock, $.01 par value, 800,000,000 shares authorized, none issued and outstanding		
Additional paid-in capital	2,080,264	2,033,865
Accumulated other comprehensive income (loss)	(38,638)	46,698
Accumulated earnings (deficit)	(2,777,284)	(84,456)
Treasury stock, at cost	(1,361,053)	(1,361,053)
Total stockholders equity (deficit)	(2,091,761)	639,989
Total liabilities and stockholders equity (deficit)	$ 7,680,593	$ 10,086,529

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

1

Table of Contents

DISH NETWORK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share amounts)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Subscriber-related revenue	$ 2,875,580	$ 2,676,230	$ 5,686,006	$ 5,228,293
Equipment sales and other revenue	28,785	83,778	53,837	176,700
Equipment sales EchoStar	3,462		6,100	
Transitional services and other revenue EchoStar	7,163		13,441	
Total revenue	2,914,990	2,760,008	5,759,384	5,404,993
Costs and Expenses:				
Subscriber-related expenses (exclusive of depreciation shown below Note 10)	1,423,997	1,354,265	2,868,638	2,682,886
Satellite and transmission expenses (exclusive of depreciation shown below Note 10):				
EchoStar	77,697		155,950	
Other	7,575	40,759	15,239	75,678
Equipment, transitional services and other cost of sales	30,359	60,075	62,173	122,831
Subscriber acquisition costs:				
Cost of sales subscriber promotion subsidies EchoStar (exclusive of depreciation shown below Note 10)	32,284	35,555	63,071	63,529
Other subscriber promotion subsidies	297,773	294,232	577,970	616,964
Subscriber acquisition advertising	41,359	46,621	105,331	97,000
Total subscriber acquisition costs	371,416	376,408	746,372	777,493
General and administrative EchoStar	12,670		26,440	
General and administrative	122,321	142,915	238,082	300,202
Depreciation and amortization (Note 10)	248,247	343,932	520,614	664,051
Total costs and expenses	2,294,282	2,318,354	4,633,508	4,623,141
Operating income (loss)	620,708	441,654	1,125,876	781,852
Other Income (Expense):				
Interest income	13,372	28,411	27,473	61,843
Interest expense, net of amounts capitalized	(93,231)	(96,662)	(183,043)	(216,162)
Other	(11,500)	(16,139)	(18,528)	(17,975)

Total other income (expense)	(91,359)	(84,390)	(174,098)	(172,294)
Income (loss) before income taxes	529,349	357,264	951,778	609,558
Income tax (provision) benefit, net	(193,464)	(133,065)	(357,310)	(228,219)
Net income (loss)	$ 335,885	$ 224,199	$ 594,468	$ 381,339
Denominator for basic and diluted net income (loss) per share Class A and B common stock:				
Denominator for basic net income (loss) per share weighted-average common shares outstanding	449,724	447,217	449,263	446,750
Denominator for diluted net income (loss) per share weighted-average common shares outstanding	460,853	456,282	460,682	455,815
Net income (loss) per share Class A and B common stock:				
Basic net income (loss)	$ 0.75	$ 0.50	$ 1.32	$ 0.85
Diluted net income (loss)	$ 0.73	$ 0.50	$ 1.30	$ 0.85

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

Table of Contents

DISH NETWORK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Six Months Ended June 30,	
	2008	**2007**
Cash Flows From Operating Activities:		
Net income (loss)	$ 594,468	$ 381,339
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	520,614	664,051
Equity in losses (earnings) of affiliates	1,069	2,649
Realized and unrealized losses (gains) on investments	15,227	12,901
Non-cash, stock-based compensation recognized	7,801	11,258
Deferred tax expense (benefit)	15,207	183,887
Other, net	3,407	5,200
Change in noncurrent assets	5,372	4,684
Change in long-term deferred revenue, distribution and carriage payments and other long-term liabilities	72,086	(21,462)
Changes in current assets and current liabilities, net	106,638	(55,041)
Net cash flows from operating activities	1,341,889	1,189,466
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(428,057)	(1,753,924)
Sales and maturities of marketable investment securities	438,003	1,554,864
Purchases of property and equipment	(528,342)	(740,095)
Change in restricted cash and marketable investment securities	(105)	2,271
Deposit for 700 MHz wireless spectrum acquisition	(711,871)	
FCC authorizations		(57,463)
Purchase of strategic investments included in noncurrent assets and other		(51,906)
Other	(2,600)	198
Net cash flows from investing activities	(1,232,972)	(1,046,055)
Cash Flows From Financing Activities:		
Distribution of cash and cash equivalents to EchoStar in connection with the Spin-off (Note 1)	(690,866)	
Proceeds from issuance of 7 3/4% Senior Notes due 2015 (Note 8)	750,000	
Deferred debt issuance costs	(5,033)	
Redemption of 5 3/4% Convertible Subordinated Notes due 2008		(999,985)
Repayment of capital lease obligations, mortgages and other notes payable	(5,018)	(20,245)
Net proceeds from Class A common stock options exercised and Class A common stock issued under the Employee Stock Purchase Plan	18,478	26,570
Excess tax benefits recognized on stock option exercises		4,020

Net cash flows from financing activities	67,561	(989,640)
Net increase (decrease) in cash and cash equivalents	176,478	(846,229)
Cash and cash equivalents, beginning of period	1,180,818	1,923,105
Cash and cash equivalents, end of period	$ 1,357,296	$ 1,076,876
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 180,783	$ 206,299
Capitalized interest	$ 7,972	$ 6,967
Cash received for interest	$ 20,978	$ 49,932
Cash paid for income taxes	$ 251,282	$ 49,753
Employee benefits paid in Class A common stock	$ 19,374	$ 17,674
Satellite financed under capital lease obligations	$	$ 198,219
Vendor financing	$ 5,814	$
Net assets contributed in connection with the Spin-off, excluding cash and cash equivalents	$ 2,635,680	$

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

3

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Business Activities

Principal Business

DISH Network Corporation, formerly known as EchoStar Communications Corporation, is a holding company. Its subsidiaries (which together with DISH Network Corporation are referred to as DISH Network, the Company, we, u and/or our) operate the DISH Network® television service, which provides a direct broadcast satellite (DBS) subscription television service in the United States and had 13.790 million subscribers as of June 30, 2008.

We have deployed substantial resources to develop the DISH Network DBS System. The DISH Network DBS System consists of our licensed Federal Communications Commission (FCC) authorized DBS and Fixed Satellite Service (FSS) spectrum, our owned and leased satellites, receiver systems, digital broadcast operations, customer service facilities, in-home service and call center operations 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 (MVPD) industry.

Spin-off of EchoStar Corporation and Technology and Certain Infrastructure Assets

On January 1, 2008, we completed a tax-free distribution of our technology and set-top box business and certain infrastructure assets (the Spin-off) into a separate publicly-traded company, EchoStar Corporation (EchoStar). DISH Network and EchoStar now operate separately, and neither entity has any ownership interest in the other. However, a substantial majority of the voting power of the shares of both companies is owned beneficially by Charles W. Ergen, our Chief Executive Officer and Chairman of our Board of Directors. The two entities consist of the following:

DISH Network Corporation which retained its subscription television business, the DISH Network®, and

EchoStar Corporation which sells equipment, including set-top boxes and related components, to DISH Network and international customers, and provides digital broadcast operations and satellite services to DISH Network and other customers.

The spin-off of EchoStar did not result in the discontinuance of any of our ongoing operations as the cash flows related to, among other things, purchases of set-top boxes, transponder leasing and digital broadcasting services that we purchase from EchoStar continue to be included in our operations.

Our shareholders of record on December 27, 2007 received one share of EchoStar common stock for every five shares of each class of DISH Network common stock they held as of the record date.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

The table below summarizes the assets and liabilities that were distributed to EchoStar in connection with the Spin-off. The distribution was accounted for at historical cost given the nature of the distribution.

	January 1, 2008 (In thousands)
Assets	
Current Assets:	
Cash and cash equivalents	$ 690,866
Marketable investment securities	841,401
Trade accounts receivable, net	38,054
Inventories, net	31,000
Current deferred tax assets	8,459
Other current assets	32,351
Total current assets	1,642,131
Restricted cash and marketable investment securities	3,150
Property and equipment, net	1,516,604
FCC authorizations	165,994
Intangible assets, net	214,544
Goodwill	256,917
Other noncurrent assets, net	93,707
Total assets	$ 3,893,047
Liabilities	
Current Liabilities:	
Trade accounts payable	$ 5,825
Deferred revenue and other accrued expenses	38,460
Current portion of capital lease obligations, mortgages and other notes payable	40,533
Total current liabilities	84,818
Long-term obligations, net of current portion:	
Capital lease obligations, mortgages and other notes payable, net of current portion	341,886
Deferred tax liabilities	139,797
Total long-term obligations, net of current portion	481,683
Total liabilities	566,501
Net assets distributed	$ 3,326,546

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

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 prepared under GAAP. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified to conform to the current year presentation. Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2007 (2007 10-K/A).

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 investee. When we do not have the ability to significantly influence the operating decisions of an investee, 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. 46R, Consolidation of Variable Interest Entities An Interpretation of ARB No. 51 (FIN 46R). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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, uncertain tax positions, 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 and royalty 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 in the period they occur.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Comprehensive Income (Loss)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Net income (loss)	$ 335,885	$ 224,199	$ 594,468	$ 381,339
Foreign currency translation adjustments	87	2,012	(1,577)	2,616
Unrealized holding gains (losses) on available-for-sale securities	(10,318)	470	(59,209)	6,081
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)		2,055	(4,523)	(1,995)
Deferred income tax (expense) benefit	(1,999)	(673)	19,224	(1,465)
Comprehensive income (loss)	$ 323,655	$ 228,063	$ 548,383	$ 386,576

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

	Accumulated Other Comprehensive Income
	(In thousands)
Balance, December 31, 2007	$ 46,698
Distribution of accumulated other comprehensive income to EchoStar, net of tax (Note 1)	(39,251)
Foreign currency translation	(1,577)
Change in unrealized holding gains (losses) on available-for-sale securities, net	(63,732)
Deferred income tax (expense) benefit	19,224
Balance, June 30, 2008	$ (38,638)

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.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

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 was computed using the treasury stock method based on the average market value of our Class A common stock. 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.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Numerator:				
Numerator for basic net income (loss) per share Net income (loss)	$ 335,885	$ 224,199	$ 594,468	$ 381,339
Interest on subordinated notes convertible into common shares, net of related tax effect	2,461	2,460	4,922	4,920
Numerator for diluted net income (loss) per common share	$ 338,346	$ 226,659	$ 599,390	$ 386,259
Denominator:				
Denominator for basic net income (loss) per common share weighted-average common shares outstanding	449,724	447,217	449,263	446,750
Dilutive impact of options outstanding	2,348	1,800	2,638	1,800
Dilutive impact of subordinated notes convertible into common shares	8,781	7,265	8,781	7,265
Denominator for diluted net income (loss) per share weighted-average diluted common shares outstanding	460,853	456,282	460,682	455,815
Net income (loss) per share Class A and B common stock:				
Basic net income (loss)	$ 0.75	$ 0.50	$ 1.32	$ 0.85
Diluted net income (loss)	$ 0.73	$ 0.50	$ 1.30	$ 0.85
Shares of Class A common stock issuable upon conversion of:				
3% Convertible Subordinated Note due 2010 (Note 8) *	8,299	6,866	8,299	6,866
3% Convertible Subordinated Note due 2011 (Note 8)	482	399	482	399

* AT&T recently exercised its right to redeem the 3% Convertible Subordinated Note due 2010. The information in the table above reflects that this note was still convertible as of June 30, 2008.

As of June 30, 2008 and 2007, there were options to purchase 3.6 million and 1.4 million shares of Class A common stock outstanding, respectively, 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 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 June 30,	
	2008	**2007**
	(In thousands)	
Performance-based options	9,568	10,312
Restricted performance units	577	685
Total	10,145	10,997

In addition, the foregoing diluted EPS calculation does not include approximately 0.3 million shares of Class A common stock, the vesting of which is subject to our achievement of a certain long-term subscriber goal, which has not yet been achieved.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Fair Value Measurements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the SFAS 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS 157 establishes market or observable inputs as the preferred source of values, followed by unobservable inputs or assumptions based on hypothetical transactions in the absence of market inputs.

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

Level 2, defined as observable inputs including quoted prices for similar assets; and

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

Investments in debt and equity securities

We have invested in auction rate securities (ARS) and mortgage backed securities (MBS), which are classified as available-for-sale securities and reported at fair value. Recent events in the credit markets have reduced or eliminated current liquidity for certain of our ARS and MBS investments. The fair values of these securities are estimated utilizing a combination of comparable instruments and liquidity assumptions. These analyses consider, among other items, the collateral underlying the investments, credit ratings, and liquidity. These securities were also compared, when possible, to other observable market data with similar characteristics.

As a result of the temporary declines in fair value for our ARS investments, which we attribute primarily to the liquidity of the securities, we have recorded an unrealized loss of $16 million, net of tax, to Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. As of June 30, 2008, we reclassified a portion of these investments totaling $141 million to non-current assets to reflect a longer expected holding period for these assets that results from the current and possible continued illiquidity.

As a result of the temporary declines in fair value for our MBS investments, which we attribute primarily to the liquidity of the securities, we have recorded an unrealized loss of $7 million, net of tax, to Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. As of June 30, 2008, we reclassified a portion of these investments totaling $11 million to non-current assets to reflect a longer expected holding period for these assets that results from the current and possible continued illiquidity.

Any future change in fair value related to our ARS and MBS investments that we deem to be temporary would be recorded to Accumulated other comprehensive income (loss). If we determine that any declines below our reported cost basis are other than temporary, we would record a charge to earnings, as appropriate.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Our assets measured at fair value on a recurring basis were as follows (in thousands):

Assets	Fair Value As of June 30, 2008	Level 1	Level 2	Level 3
Marketable investment securities	$ 752,836	$ 516,016	$ 79,644	$ 157,176
Other investment securities	6,597			6,597
Total assets at fair value	$ 759,433	$ 516,016	$ 79,644	$ 163,773

Changes in Level 3 instruments are as follows (in thousands):

Other Investment Securities	Total	Level 3 Marketable Investment Securities	Other Investment Securities
Balance as of January 1, 2008	$ 211,999	$ 200,595	$ 11,404
Net realized/unrealized gains/(losses) included in earnings	(4,807)		(4,807)
Net realized/unrealized gains/(losses) included in other comprehensive income	(41,650)	(41,650)	
Purchases, issuances and settlements, net	(1,769)	(1,769)	
Balance as of June 30, 2008	$ 163,773	$ 157,176	$ 6,597

Accounting for Uncertainty in Income Taxes

In addition to filing federal income tax returns, we and our subsidiaries, file income tax returns in all states that impose an income tax and in a small number of foreign jurisdictions where we have insignificant operations. We are subject to U.S. federal, state and local income tax examinations by tax authorities for the years beginning in 1996 due to the carryover of previously incurred net operating losses. As of June 30, 2008, no taxing authority has proposed any significant adjustments to our tax positions. We have no significant current tax examinations in process.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of January 1, 2008	$ 20,160
Additions based on tax positions related to the current year	46,690
Additions for tax positions of prior years	106,098
Balance as of June 30, 2008	$ 172,948

Accrued interest on tax positions is recorded as a component of interest expense and penalties in Other income (expense) on our Condensed Consolidated Balance Sheet. During the three and six months ended June 30, 2008, we recorded $1 million and $7 million in interest and penalty expense to earnings, respectively. Accrued interest and penalties was $10 million at June 30, 2008.

We have $163 million in unrecognized tax benefits that, if recognized, could favorably affect our effective tax rate. Of this amount, $103 million may be reduced within the next twelve months, if our filing for a change in accounting method is successful, and thus would not affect our effective tax rate.

10

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

New Accounting Pronouncements

Revised Business Combinations

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R (revised 2007), Business Combinations (SFAS 141R). SFAS 141R replaces SFAS 141 and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed and any non-controlling interest in the acquiree. SFAS 141R also establishes disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective for fiscal years beginning after December 15, 2008. We do not expect the adoption of SFAS 141R to have a material impact on our financial position or results of operations.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This standard is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact the adoption of SFAS 160 will have on our financial position and results of operations.

3. Stock-Based Compensation

Stock Incentive Plans

In connection with the Spin-off, as provided in our existing stock incentive plans and consistent with the Spin-off exchange ratio, each DISH Network stock option was converted into two options as follows:

- an adjusted DISH Network stock option for the same number of shares that were exercisable under the original DISH Network stock option, with an exercise price equal to the exercise price of the original DISH Network stock option multiplied by 0.831219.

- a new EchoStar stock option for one-fifth of the number of shares that were exercisable under the original DISH Network stock option, with an exercise price equal to the exercise price of the original DISH Network stock option multiplied by 0.843907.

Similarly, each holder of DISH Network restricted stock units retained his or her DISH Network restricted stock units and received one EchoStar restricted stock unit for every five DISH Network restricted stock units that they held. Consequently, the fair value of the DISH Network stock award and the new EchoStar stock award immediately following the Spin-off was equivalent to the fair value of such stock award immediately prior to the Spin-off.

We maintain stock incentive plans to attract and retain officers, directors and key employees. Awards under these plans include both performance and non-performance based equity incentives. As of June 30, 2008, we had outstanding under these plans options to acquire 20.5 million shares of our Class A common stock and 1.7 million restricted stock awards. Stock options granted through June 30, 2008 were granted with exercise prices equal to or greater than the market value of our Class A common stock at the date of grant and with a maximum term of ten years. While historically we have issued options subject to vesting, typically at the rate of 20% per year, some

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

options have been granted with immediate vesting. As of June 30, 2008, we had 64.0 million shares of our Class A common stock available for future grant under our stock incentive plans.

As of June 30, 2008, the following stock incentive awards were outstanding:

	As of June 30, 2008			
	Dish Network Awards		EchoStar Awards	
Stock Incentive Awards Outstanding	**Stock Options**	**Restricted Stock Units**	**Stock Options**	**Restricted Stock Units**
Held by DISH Network employees	14,895,058	468,329	3,214,186	93,314
Held by EchoStar employees	5,578,570	1,188,332	N/A	N/A
Total	20,473,628	1,656,661	3,214,186	93,314

We are responsible for fulfilling all stock incentive awards related to DISH Network common stock and EchoStar is responsible for fulfilling all stock incentive awards related to EchoStar common stock, regardless of whether such stock incentive awards are held by our or EchoStar s employees. Notwithstanding the foregoing, based on the requirements of SFAS 123R, our stock-based compensation expense, resulting from awards outstanding at the Spin-off date, is based on the stock incentive awards held by our employees regardless of whether such awards were issued by DISH Network or EchoStar. Accordingly, stock-based compensation that we expense with respect to EchoStar stock incentive awards is included in Additional paid-in capital on our Condensed Consolidated Balance Sheet.

Stock Award Activity

Our stock option activity (including performance and non-performance based options) for the six months ended June 30, 2008 was as follows:

	For the Six Months Ended June 30,	
	Options	**Weighted-Average Exercise Price**
Total options outstanding, beginning of period	20,938,403	$ 22.61
Granted	1,141,000	28.77
Exercised	(774,843)	22.58
Forfeited and cancelled	(830,932)	27.18
Total options outstanding, end of period	20,473,628	22.78
Performance based options outstanding, end of period *	9,568,000	16.43
Exercisable at end of period	6,405,122	28.78

* These options, which are included in the caption Total options outstanding, end of period, were issued pursuant to two separate long-term, performance-based stock incentive plans, which are discussed below. Vesting of these options is contingent upon meeting certain long-term goals which management has determined are not probable as of June 30,

2008.

We realized $2 million and $9 million of tax benefits from stock options exercised during the six months ended June 30, 2008 and 2007, respectively. Based on the closing market price of our Class A common stock on June 30, 2008, the aggregate intrinsic value of our outstanding stock options was $168 million. Of that amount, options with an aggregate intrinsic value of $28 million were exercisable at the end of the period.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Our restricted stock award activity (including performance and non-performance based options) for the six months ended June 30, 2008 was as follows:

	For the Six Months Ended June 30,	
	Restricted Stock Awards	Weighted-Average Grant Date Fair Value
Total restricted stock awards outstanding, beginning of period	1,717,078	$ 29.24
Granted		
Exercised	(20,000)	30.16
Forfeited and cancelled	(40,417)	31.65
Total restricted stock awards outstanding, end of period	1,656,661	29.24
Restricted performance units outstanding, end of period *	576,661	25.97

* These restricted performance units, which are included in the caption Total restricted stock awards outstanding, end of period, were issued pursuant to a long-term, performance-based stock incentive plan, which is discussed below. Vesting of these restricted performance units is contingent upon meeting a long-term goal which management has determined is not probable as of June 30, 2008.

Long-Term Performance-Based Plans

In February 1999, we adopted a long-term, performance-based stock incentive plan (the 1999 LTIP) within the terms of our 1995 Stock Incentive Plan. The 1999 LTIP provided stock options to key employees which vest over five years at the rate of 20% per year. Exercise of the options is also contingent on the Company achieving a company-specific goal in relation to an industry-related metric prior to December 31, 2008.

In January 2005, we adopted a long-term, performance-based stock incentive plan (the 2005 LTIP) within the terms of our 1999 Stock Incentive Plan. The 2005 LTIP provides stock options and restricted performance units, either alone or in combination, which vest over seven years at the rate of 10% per year during the first four years, and at the rate of 20% per year thereafter. Exercise of the options is also subject to a performance condition that a company-specific subscriber goal is achieved prior to March 31, 2015.

Contingent compensation related to the 1999 LTIP and the 2005 LTIP will not be recorded in our financial statements unless and until management concludes achievement of the performance condition is probable. Given the competitive nature of our business, small variations in subscriber churn, gross subscriber addition rates and certain other factors can significantly impact subscriber growth. Consequently, while it was determined that achievement of either of the goals was not probable as of June 30, 2008, that assessment could change with respect to either goal at any time. In accordance with SFAS 123R, if all of the awards under each plan were vested and each goal had been met during the six months ended June 30, 2008, we would have recorded total non-cash, stock-based compensation expense for our employees as indicated in the table below. If the goals are met and there are unvested options at that time, the vested amounts would be expensed immediately in our Condensed Consolidated Statements of Operations, with the unvested portion recognized ratably over the remaining vesting period. During the six months ended June 30, 2008, if we had determined each goal was probable, we would have recorded non-cash, stock-based compensation expense for our employees as indicated in the table below.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

	Total		Vested Portion	
	1999 LTIP	2005 LTIP	1999 LTIP	2005 LTIP
	(In thousands)			
DISH Network awards held by DISH Network employees	$ 21,609	$ 50,265	$ 19,772	$ 10,877
EchoStar awards held by DISH Network employees	4,387	10,206	4,015	2,209
Total	$ 25,996	$ 60,471	$ 23,787	$ 13,086

Of the 20.5 million options outstanding under our stock incentive plans as of June 30, 2008, the following options were outstanding pursuant to the 1999 LTIP and the 2005 LTIP:

	As of June 30, 2008	
Long-Term Performance-Based Plans	**Stock Options**	**Weighted-Average Exercise Price**
1999 LTIP	5,098,000	$ 8.71
2005 LTIP	4,470,000	$ 25.22

Further, pursuant to the 2005 LTIP, there were also 576,661 outstanding restricted performance units as of June 30, 2008 with a weighted-average grant date fair value of $25.97. No awards were granted under the 1999 LTIP or 2005 LTIP during the six months ended June 30, 2008.

Stock-Based Compensation

Total non-cash, stock-based compensation expense, net of related tax effects, for all of our employees is shown in the following table for the three and six months ended June 30, 2008 and 2007 and was allocated to the same expense categories as the base compensation for such employees:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Subscriber-related	$ 118	$ 130	$ 287	$ 306
Satellite and transmission		93		220
General and administrative	2,533	3,354	4,588	6,509
Total non-cash, stock-based compensation	$ 2,651	$ 3,577	$ 4,875	$ 7,035

As of June 30, 2008, our total unrecognized compensation cost related to our non-performance based unvested stock options was $35 million and includes compensation expense that we will recognize for EchoStar stock options held by our employees as a result of the Spin-off. This cost is based on an estimated future forfeiture rate of approximately 4.5% per year and will be recognized over a weighted-average period of approximately three years. Share-based

compensation expense is recognized based on awards ultimately expected to vest and is reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Changes in the estimated forfeiture rate can have a significant effect on share-based compensation expense since the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

The fair value of each award for the three and six months ended June 30, 2008 and 2007 was estimated at the date of the grant using a Black-Scholes option pricing model with the following assumptions:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Risk-free interest rate	3.42%	4.99% - 5.19%	2.74% - 3.42%	4.46% - 5.19%
Volatility factor	21.86%	20.43% - 24.26%	19.98% - 21.86%	20.42% - 24.26%
Expected term of options in years	6.0	6.0 - 10.0	6.0 - 6.1	6.0 - 10.0
Weighted-average fair value of options granted	$ 8.72	$ 14.11 - $21.01	$ 7.64 - $8.72	$ 13.63 - $21.01

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, we do not believe that the existing models provide as reliable a single measure of the fair value of stock-based compensation awards as a market-based model would.

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

4. Inventories

Inventories consist of the following:

	June 30, 2008	As of December 31, 2007
	(In thousands)	
Finished goods DBS	$ 193,639	$ 170,463
Raw materials	83,930	70,103
Work-in-process used	72,996	67,542
Work-in-process new	4,534	13,546
Subtotal	355,099	321,654
Inventory allowance	(19,362)	(14,739)
Inventories, net	$ 335,737	$ 306,915

5. Investment Securities

Marketable Investment Securities

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

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

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 June 30, 2008 and December 31, 2007, the fair values of our marketable investment securities and strategic marketable investment securities were as follows:

Marketable investment securities	**June 30, 2008**	**As of December 31, 2007**
	(In thousands)	
Marketable investment securities	$ 468,189	$ 1,030,565
Marketable investment securities strategic	73,544	576,813
Current marketable investment securities	541,733	1,607,378
Long-term marketable investment securities	152,101	
Total marketable investment securities	$ 693,834	$ 1,607,378

The decline in our marketable investment securities from December 31, 2007 was primarily due to the distribution of marketable investment securities to EchoStar in connection with the Spin-off (see Note 1).

Our strategic marketable investment securities are highly speculative and 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.

As of June 30, 2008 and December 31, 2007, we had accumulated unrealized gains (losses) net of related tax effect of $48 million in losses and $30 million in gains, respectively, as a part of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit). During the six months ended June 30, 2008 and 2007, we did not record any charge to earnings for other than temporary declines in the fair value of our marketable investment securities. In addition, during the six months ended June 30, 2008 and 2007, we recognized realized net gains on marketable investment securities of $2 million and $10 million, respectively.

Marketable Investment Securities in a Loss Position. The following table reflects the length of time that the individual securities have been in an unrealized loss position, aggregated by investment category. The unrealized losses on our investment in corporate securities represent investments in the common stock of two companies in the communications industry. At June 30, 2008, the losses on our investments in bonds primarily represent investments in auction rate, mortgage and asset-backed securities. We are not aware of any specific factors which indicate the unrealized loss in these investments is due to anything other than temporary market fluctuations or liquidity concerns. In addition, we have the ability and intent to hold our investments in these bonds until maturity when the issuers are required to redeem them at their full face value.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

		As of June 30, 2008					
	Primary Reason for Unrealized Loss	Less than Six Months		Six to Nine Months		Nine Months or More	
Investment Category		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
		(In thousands)					
Government and corporate bonds	Temporary market fluctuations	$ 78,122	$ (124)	$ 313,157	$ (22,376)	$ 148,908	$ (26,221)
Corporate equity securities	Temporary market fluctuations	16,738	(535)	40,315	(32,722)		
Total		$ 94,860	$ (659)	$ 353,472	$ (55,098)	$ 148,908	$ (26,221)

		As of December 31, 2007					
		(In thousands)					
Government and corporate bonds	Temporary market fluctuations	$ 361,347	$ (7,168)	$ 163,230	$ (1,909)	$	$
Corporate equity securities	Temporary market fluctuations	186,352	(16,192)	2,124	(1,027)		
Total		$ 547,699	$ (23,360)	$ 165,354	$ (2,936)	$	$

Other Investment Securities

We also have several strategic investments in certain equity securities which are included in Other noncurrent assets, net on our Condensed Consolidated Balance Sheets. Our other investment securities consist of the following:

	As of	
Other Investment Securities	**June 30, 2008**	**December 31, 2007**
	(In thousands)	
Cost method	$ 68,391	$ 108,355
Equity method	36,148	68,127
Fair value method	6,597	11,404
Total	$ 111,136	$ 187,886

Generally, we account for our unconsolidated equity investments under either the equity method or cost method of accounting. Because these equity securities are generally 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.

We also have a strategic investment in non-public preferred stock, public common stock and convertible debt of a foreign public company. The debt, which is convertible into the issuer s publicly traded common shares, is accounted for under the fair value method with changes in fair value reported each period as unrealized gains or losses in Other income or expense in our Condensed Consolidated Statements of Operations. We estimate the fair value of the convertible debt using certain assumptions and judgments in applying a discounted cash flow analysis and the Black-Scholes option pricing model including the fair market value of the underlying common stock price as of that date. During 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 this investment under the equity method of accounting. As a result of our change to equity method accounting, we evaluate the common share component of this investment on a quarterly

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

basis to determine whether there has been a decline in the value that is other than temporary. Because the shares are publicly traded, this quarterly evaluation considers the fair market value of the common shares in addition to the other factors described above for equity and cost method investments. When impairments occur related to our foreign investments, any Cumulative translation adjustment associated with these investments will remain in Accumulated other comprehensive income (loss) within Total stockholders equity (deficit) on our Condensed Consolidated Balance Sheets until the investments are sold or otherwise liquidated; at which time, they will be released into our Condensed Consolidated Statement of Operations.

The changes in the fair value and impairments of our other investment securities consist of the following:

Other Investment Securities	For the Three Months Ended June 30, 2008	For the Three Months Ended June 30, 2007	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007
	(In thousands)			
Unrealized gains (losses), net	$ (175)	$ 1,143	$ (4,807)	$ (2,024)
Impairments	(12,903)	(19,570)	(12,903)	(19,570)
Total	$ (13,078)	$ (18,427)	$ (17,710)	$ (21,594)

Our ability to realize value from our strategic investments in companies that are not publicly traded depends on the success of those companies businesses and their ability to obtain sufficient capital to execute their business plans. Because private markets are not as liquid as public markets, there is also increased risk that we will not be able to sell these investments, or that when we desire to sell them we will not be able to obtain fair value for them. During the three months ended June 30, 2008, we recorded a $13 million charge to earnings for an other than temporary decline in the carrying value of one of our strategic investments. As of June 30, 2008, this investment was recorded at its fair value of approximately $22 million on our Condensed Consolidated Balance Sheets. Subsequent to June 30, 2008, we became aware of certain factors which may cause us to further impair the carrying value of this investment in future periods.

Restricted Cash and Marketable Investment Securities

As of June 30, 2008 and December 31, 2007, restricted cash and marketable investment securities included amounts required as collateral for our letters of credit. Additionally, restricted cash and marketable investment securities as of June 30, 2008 and December 31, 2007 included $104 million and $101 million in escrow related to our litigation with Tivo, respectively.

6. Satellites

We presently utilize eleven satellites in geostationary orbit approximately 22,300 miles above the equator. Of these eleven satellites, four are owned by us and we lease capacity on six satellites from EchoStar. We account for the satellites leased from EchoStar as operating leases with terms of up to two years. (See Note 12 for further discussion of our satellite leases with EchoStar.) Each of the owned satellites had an original estimated minimum useful life of at least 12 years. We also lease one satellite from a third party, which is accounted for as a capital lease pursuant to Statement of Financial Accounting Standards No. 13, Accounting for Leases (SFAS 13). The capital lease is depreciated over the fifteen year term of the satellite service agreement.

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

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

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

While we believe that overall our satellite fleet is generally in good condition, during 2008 and prior periods, certain satellites in our fleet have experienced anomalies, some of which have had a significant adverse impact on their commercial operation. There can be no assurance that future anomalies will not cause further losses which could impact commercial operation, or the remaining lives, of the satellites. See discussion of evaluation of impairment in *Long-Lived Satellite Assets* below. Recent developments with respect to our satellites are discussed below.

EchoStar I. EchoStar I, a 7000 class satellite, designed and manufactured by Lockheed Martin Corporation (Lockheed), is currently functioning properly in orbit. However, similar Lockheed Series 7000 class satellites have experienced total in-orbit failure, including our own EchoStar II, discussed below. While no telemetry or other data indicates EchoStar I would be expected to experience a similar failure, Lockheed has been unable to conclude these and other Series 7000 satellites will not experience similar failures.

EchoStar II. On July 14, 2008, our EchoStar II satellite experienced a failure that rendered the satellite a total loss. EchoStar II had been operating from the 148 degree orbital location primarily as a back-up satellite, but had provided local network channel service to Alaska and six other small markets. All programming and other services previously broadcast from EchoStar II were restored to Echostar I, the primary satellite at the 148 degree location, within several hours after the failure. EchoStar II, which was launched in September 1996, had a book value of approximately $6 million as of June 30, 2008.

EchoStar V. EchoStar V was originally designed with a minimum 12-year design life. Momentum wheel failures in prior years, together with relocation of the satellite between orbital locations, resulted in increased fuel consumption, as previously disclosed. These issues have not impacted commercial operation of the satellite. However, as a result of these anomalies and the relocation of the satellite, during 2005, we reduced the remaining estimated useful life of this satellite. Prior to 2008, EchoStar V also experienced anomalies resulting in the loss of ten solar array strings. During first quarter 2008, the satellite lost two additional solar array strings. The solar array anomalies have not impacted commercial operation of the satellite to date. Since EchoStar V will be fully depreciated in October 2008, the solar array failures (which will result in a reduction in the number of transponders to which power can be provided in later years), have not reduced the remaining useful life of the satellite.

EchoStar XI. On July 15, 2008, our EchoStar XI satellite was successfully launched into geosynchronous transfer orbit. Following in-orbit testing, EchoStar XI will be located at the 110 degree orbital location, where it is expected to provide additional high-powered capacity to support expansion of our programming services, including high definition programming.

EchoStar XV. On April 14, 2008, Space Systems/Loral, Inc. began the construction of EchoStar XV, a direct broadcast satellite expected to launch during 2010. This satellite will enable better bandwidth utilization, provide back-up protection for our existing offerings, and could allow us to offer other value-added services.

AMC-14. In connection with the Spin-off, we distributed our AMC-14 satellite lease agreement with SES Americom (SES) to EchoStar with the intent to lease the entire capacity of the satellite from EchoStar. On March 14, 2008, a Proton launch vehicle carrying the SES AMC-14 satellite experienced an anomaly which left the satellite in a lower orbit than planned. On April 11, 2008, SES announced that it has declared to insurers that the AMC-14 satellite is now considered a total loss, due to a lack of viable options to reposition the satellite to its proper geostationary orbit. We did not incur any financial liability as a result of the AMC-14 satellite being declared a total loss.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Long-Lived Satellite Assets

We account for impairments of 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 owned and capital leased satellites for recoverability as one 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.

7. Intangible Assets

As of June 30, 2008 and December 31, 2007, our identifiable intangibles subject to amortization consisted of the following:

	As of			
	June 30, 2008		December 31, 2007	
	Intangible Assets	Accumulated Amortization	Intangible Assets	Accumulated Amortization
	(In thousands)			
Contract-based	$	$	$ 192,845	$ (60,754)
Customer and reseller relationships			96,898	(70,433)
Technology-based	5,814	97	69,797	(9,478)
Total	$ 5,814	$ 97	$ 359,540	$ (140,665)

As of January 1, 2008, intangible assets with a net book value of $215 million were distributed to EchoStar in connection with the Spin-off (see Note 1). Amortization of our intangible assets was less than $1 million and $9 million for the three months ended June 30, 2008 and 2007, respectively. Amortization was $4 million and $18 million for the six months ended June 30, 2008 and 2007, respectively.

We participated in the auction of 700 MHz wireless spectrum designated by the FCC as Auction 73 (the Auction). On March 20, 2008, the FCC disclosed that a subsidiary of ours was the provisional winning bidder of 168 E Block licenses in the Auction totaling $712 million and representing coverage of 76% of the U.S. population. While the bidding in the Auction has ended, the FCC has not yet awarded any of the licenses to winning bidders nor is there any prescribed timeframe for the FCC to review the qualifications of the various winning bidders and award licenses. We will be required to make significant additional investments to commercialize these licenses and satisfy FCC build-out requirements.

8. Long-Term Debt

3% Convertible Subordinated Note due 2010

Our 3% Convertible Subordinated Note due 2010 (AT&T Note), which was sold to AT&T in a privately negotiated transaction, has an aggregate principal amount of $500 million and is convertible into 8,298,775 shares of our Class A common stock at the option of AT&T (an effective conversion price of $60.25 per share). The number of shares was adjusted from 6,866,245 shares of our Class A common stock during the first quarter 2008 in connection with the Spin-off and as required by the terms of the AT&T Note.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

We have received notice from AT&T that it has elected to require us to repurchase on September 2, 2008 the full principal amount of the AT&T Note together with accrued but unpaid interest thereon. We expect to repay these obligations through cash on hand or through debt refinancing.

3% Convertible Subordinated Note due 2011

Our 3% Convertible Subordinated Note due 2011, which was sold to CenturyTel Service Group, LLC (CTL) in a privately negotiated transaction, has an aggregate principal amount of $25 million and is convertible into 481,881 shares of our Class A common stock at the option of CTL (an effective conversion price of $51.88 per share). The number of shares was adjusted from 398,724 shares of our Class A common stock during the first quarter 2008 in connection with the Spin-off and as required by the terms of the Note.

$7^{3}/4$% Senior Notes due 2015

On May 27, 2008, we sold $750 million aggregate principal amount of our seven-year, $7^{3}/4$% Senior Notes due May 31, 2015. Interest accrues at an annual rate of $7^{3}/4$% and is payable semi-annually in cash, in arrears on May 31 and November 30 of each year, commencing on November 30, 2008. The net proceeds that we received from the sale of the notes are intended to be used for general corporate purposes.

The $7^{3}/4$% Senior Notes are redeemable, in whole or in part, at any time at a redemption price equal to 100% of the principal amount plus a make-whole premium, as defined in the related indenture, together with accrued and unpaid interest. Prior to May 31, 2011, we may also redeem up to 35% of each of the $7^{3}/4$% Senior Notes at specified premiums with the net cash proceeds from certain equity offerings or capital contributions.

The $7^{3}/4$% Senior Notes are:

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

The indenture related to the $7^{3}/4$% Senior Notes contains restrictive covenants that, among other things, impose limitations on the ability of EDBS and its restricted subsidiaries to:

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

In the event of a change of control, as defined in the related indenture, we would be required to make an offer to repurchase all or any part of a holder s $7^{3}/4$% Senior Notes at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon, to the date of repurchase.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Capital Lease Obligations

Future minimum lease payments under our capital lease obligations remaining after the Spin-off, together with the present value of the net minimum lease payments as of June 30, 2008, are as follows (in thousands):

For the Years Ended December 31,	
2008 (remaining six months)	$ 24,000
2009	48,000
2010	48,000
2011	48,000
2012	48,000
2013	48,000
Thereafter	400,000
Total minimum lease payments	664,000
Less: Amount representing lease of the orbital location and estimated executory costs (primarily insurance and maintenance) including profit thereon, included in total minimum lease payments	(359,721)
Net minimum lease payments	304,279
Less: Amount representing interest	(114,819)
Present value of net minimum lease payments	189,460
Less: Current portion	(8,137)
Long-term portion of capital lease obligations	$ 181,323

9. Commitments and Contingencies

Commitments

Future maturities of our contractual obligations as of June 30, 2008 are summarized as follows:

	Payments due by period							
	Total	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
	(In thousands)							
Long-term debt obligations	$ 6,275,000	$ 1,500,000	$ 2,500	$	$ 1,000,000	$	$ 500,000	$ 3,250,000
Satellite-related obligations	1,253,147	360,553	176,344	88,894	52,044	52,044	52,044	471,224
Capital lease obligations	189,460	3,993	8,445	9,097	9,800	10,556	11,371	136,198
Operating lease obligations	115,790	23,372	39,821	19,455	13,451	7,451	4,366	7,874
Purchase obligations	1,514,279	1,167,175	253,603	43,651	14,859	15,334	15,827	3,830
Mortgages and other notes payable	29,624	913	3,350	3,343	3,527	3,724	3,230	11,537

Total	$ 9,377,300	$ 3,056,006	$ 481,563	$ 164,440	$ 1,118,681	$ 89,109	$ 586,838	$ 3,880,663

In certain circumstances the dates on which we are obligated to make these payments could be delayed. These amounts will increase to the extent we procure insurance for our satellites or contract for the construction, launch or lease of additional satellites.

Guarantees

In connection with the Spin-off, we distributed certain satellite lease agreements to EchoStar. We remain the guarantor under those capital leases for payments totaling approximately $557 million over the next eight years. In addition, during the first quarter of 2008, EchoStar entered into a satellite transponder service agreement with a third party for $537 million in payments through 2024, which we subleased from EchoStar and have also guaranteed. As of June 30, 2008, we have not recorded a liability on the balance sheet for any of these guarantees.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Separation Agreement

In connection with the Spin-off, we have entered into a separation agreement with EchoStar, which provides for, among other things, the division of liability resulting from litigation. Under the terms of the separation agreement, EchoStar has assumed liability for any acts or omissions that relate to its business whether such acts or omissions occurred before or after the Spin-off. Certain exceptions are provided, including for intellectual property related claims generally, whereby EchoStar will only be liable for its acts or omissions that occurred following the Spin-off. Therefore, we have indemnified EchoStar for any potential liability or damages resulting from intellectual property claims relating to the period prior to the effective date of the Spin-off.

Contingencies

Acacia

During 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. The Court issued additional claim construction rulings on December 14, 2006, March 2, 2007, October 19, 2007, and February 13, 2008. On March 12, 2008, the Court issued an order outlining a schedule for filing dispositive invalidity motions based on its claim constructions. Acacia has agreed to stipulate that all claims in the suit are invalid according to several of the Court s claim constructions and argues that the case should proceed immediately to the Federal Circuit on appeal. The Court, however, is permitting us to file additional invalidity motions.

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.

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.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

During 2004, the judge issued an order finding the 066 patent invalid. Also in 2004, the Court ruled the 094 patent invalid in a parallel case filed by Broadcast Innovation against Charter and Comcast. In 2005, the United States Court of Appeals for the Federal Circuit overturned the 094 patent 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 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.

Channel Bundling Class Action

On September 21, 2007, a purported class of cable and satellite subscribers filed an antitrust action against us in the United States District Court for the Central District of California. The suit also names as defendants DirecTV, Comcast, Cablevision, Cox, Charter, Time Warner, Inc., Time Warner Cable, NBC Universal, Viacom, Fox Entertainment Group, and Walt Disney Company. The suit alleges, among other things, that the defendants engaged in a conspiracy to provide customers with access only to bundled channel offerings as opposed to giving customers the ability to purchase channels on an a la carte basis. We filed a motion to dismiss, which the Court denied in July 2008. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Datasec

During April 2008, Datasec Corporation (Datasec) sued us and DirecTV Corporation in the United States District Court for the Central District of California, alleging infringement of U.S. Patent No. 6,075,969 (the 969 patent). The 969 patent was issued in 2000 to inventor Bruce Lusignan, and is entitled Method for Receiving Signals from a Constellation of Satellites in Close Geosynchronous Orbit.

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

Distant Network Litigation

During October 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. We have turned off all of our distant network channels and are no longer in the distant network business. Termination of these channels resulted in, among other things, a small reduction in average monthly revenue per subscriber and free cash flow, and a temporary increase in subscriber churn. The plaintiffs in that litigation allege that we are in violation of the Court s injunction and have appealed a District Court decision finding that we are not in violation. On July 7, 2008, the Eleventh Circuit rejected the plaintiffs appeal and affirmed the decision of the District Court.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Enron Commercial Paper Investment

During October 2001, we received approximately $40 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 intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Finisar Corporation

Finisar Corporation (Finisar) obtained a $100 million verdict in the United States District Court for the Eastern District of Texas against DirecTV for patent infringement. Finisar alleged that DirecTV s electronic program guide and other elements of its system infringe United States Patent No. 5,404,505 (the 505 patent).

In July 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. The District Court has stayed our action until the Federal Circuit has resolved DirecTV s appeal. During April 2008, the Federal Circuit reversed the judgment against DirecTV and ordered a new trial. We are evaluating the Federal Circuit s decision to determine the impact on our action.

We intend to vigorously prosecute 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 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.

Global Communications

On April 19, 2007, Global Communications, Inc. (Global) filed a patent infringement action against us in the United States District Court for the Eastern District of Texas. The suit alleges infringement of United States Patent No. 6,947,702 (the 702 patent). This patent, which involves satellite reception, was issued in September 2005. On October 24, 2007, the United States Patent and Trademark Office granted our request for reexamination of the 702 patent and issued an Office Action finding that all of the claims of the 702 patent were invalid. Based on the PTO s decision, we have asked the District Court to stay the litigation until the reexamination proceeding is concluded. We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe the 702 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.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

Katz Communications

On June 21, 2007, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a patent infringement action against us in the United States District Court for the Northern District of California. The suit alleges infringement of 19 patents owned by Katz. The patents relate to interactive voice response, or IVR, technology. We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe any of the asserted patents, we may be subject to substantial damages, which may include treble damages and/or an injunction that could require us to materially modify certain user-friendly features that we currently offer to consumers. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Personalized Media Communications

In February 2008, Personalized Media Communications, Inc. filed suit against us, EchoStar and Motorola, Inc. in the United States District Court for the Eastern District of Texas alleging infringement of United States Patent Nos. 4,694,490 (the 490 patent), 5,109,414 (the 414 patent), 4,965,825 (the 825 patent), 5,233,654 (the 654 patent), 5,335,277 (the 277 patent), and 5,887,243 (the 243 patent), all of which were issued to John Harvey and James Cuddihy as named inventors. The 490 patent, the 414 patent, the 825 patent, the 654 patent and the 277 patent are defined as the Harvey Patents. The Harvey Patents are entitled Signal Processing Apparatus and Methods. The lawsuit alleges, among other things, that our DBS system receives program content at broadcast reception and satellite uplinking facilities and transmits such program content, via satellite, to remote satellite receivers. The lawsuit further alleges that we infringe the Harvey Patents by transmitting and using a DBS signal specifically encoded to enable the subject receivers to function in a manner that infringes the Harvey Patents, and by selling services via DBS transmission processes which infringe the Harvey Patents.

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

Retailer Class Actions

During 2000, lawsuits were filed by retailers in Colorado state and federal court attempting to certify nationwide classes on behalf of certain of our retailers. The plaintiffs are requesting the Courts declare certain provisions of, and changes to, alleged agreements between us and the retailers invalid and unenforceable, and to award damages for lost incentives and payments, charge backs, and other compensation. We have asserted a variety of counterclaims. The federal court action has been stayed during the pendency of the state court action. We filed a motion for summary judgment on all counts and against all plaintiffs. The plaintiffs filed a motion for additional time to conduct discovery to enable them to respond to our motion. The Court granted limited discovery which ended during 2004. The plaintiffs claimed we did not provide adequate disclosure during the discovery process. The Court agreed, and denied our motion for summary judgment as a result. The final impact of the Court s ruling cannot be fully assessed at this time. During April 2008, the Court granted plaintiff s class certification motion. Trial has been set for April 2009. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Table of Contents

DISH NETWORK 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 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 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. During December 2006, the District Court found that there were disputed issues of fact regarding Thomson s license defense, and ordered a trial solely addressed to that issue. That trial took place in March 2007. In July 2007, the District Court ruled in favor of Superguide. As a result, Superguide will be able to proceed with its infringement action against us, DirecTV and Thomson. In June 2008, we moved for summary judgment asking the Court to find, among other things, that the 578 patent is invalid.

We intend to vigorously defend this case. In the event that a Court ultimately determines that we infringe the 578 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 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.

Tivo Inc.

On January 31, 2008, the U.S. Court of Appeals for the Federal Circuit affirmed in part and reversed in part the April 2006 jury verdict concluding that certain of our digital video recorders, or DVRs, infringed a patent held by Tivo. In its decision, the Federal Circuit affirmed the jury s verdict of infringement on Tivo s software claims, upheld the award of damages from the district court, and ordered that the stay of the district court s injunction against us, which was issued pending appeal, will dissolve when the appeal becomes final. The Federal Circuit, however, found that we did not literally infringe Tivo s hardware claims, and remanded such claims back to the district court for further proceedings. We are appealing the Federal Circuit s ruling to the United States Supreme Court.

In addition, we have developed and deployed next-generation DVR software to our customers DVRs. This improved software is fully operational and has been automatically downloaded to current customers (our alternative technology). We have formal legal opinions from outside counsel that conclude that our alternative technology does not infringe, literally or under the doctrine of equivalents, either the hardware or software claims of Tivo s patent. Tivo has filed a motion for contempt alleging that we are in violation of the Court s injunction. We have vigorously opposed the motion arguing that the Court s injunction does not apply to DVRs that have received our alternative technology, that our alternative technology does not infringe Tivo s patent, and that we are in compliance with the Injunction. The Court has set September 4, 2008 as the hearing date for Tivo s motion for contempt.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

In accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5), we recorded a total reserve of $130 million on our Condensed Consolidated Balance Sheets to reflect the jury verdict, supplemental damages and pre-judgment interest awarded by the Texas court. This amount also includes the estimated cost of any software infringement prior to implementation of our alternative technology, plus interest subsequent to the jury verdict.

If we are unsuccessful in our appeal to the United States Supreme Court, or in defending against Tivo s motion for contempt or any subsequent claim that our alternative technology infringes Tivo s patent, 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. 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. We could also have to pay substantial additional damages.

Voom

On May 28, 2008, Voom HD Holdings (Voom) filed a complaint against us in New York Supreme Court. The suit alleges breach of contract arising from our termination of the affiliation agreement we had with Voom for the carriage of certain Voom HD channels on DISH Network. In January 2008, Voom sought a preliminary injunction to prevent us from terminating the agreement. The Court denied Voom s motion, finding, among other things, that Voom was not likely to prevail on the merits of its case. Voom is claiming over $1 billion in damages. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the suit or determine the extent of any potential liability or damages.

Other

In addition to the above actions, we are subject to various other legal proceedings and claims which arise in the ordinary course of business. 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.

10. Depreciation and Amortization Expense

Depreciation and amortization expense consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Equipment leased to customers	$ 209,761	$ 215,322	$ 422,039	$ 422,001
Satellites*	23,564	61,189	50,015	120,233
Furniture, fixtures, equipment and other*	13,620	55,881	41,857	98,719
Identifiable intangible assets subject to amortization*	97	9,102	4,428	18,239
Buildings and improvements*	1,205	2,438	2,275	4,859
Total depreciation and amortization	$ 248,247	$ 343,932	$ 520,614	$ 664,051

*The period-over-period decreases in depreciation and amortization expense are primarily a result of the distribution of depreciable assets to EchoStar in connection with the Spin-off (see Note 1).

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.

Table of Contents

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)

11. 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. Total assets by segment have not been specified because the information is not available to the chief operating decision-maker. 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. Based on the standards set forth in SFAS 131, following the January 1, 2008 Spin-off discussed in Note 1, we operate in only one reportable segment, the DISH Network segment, which provides a DBS subscription television service in the United States.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Revenue:				
DISH Network	$ 2,914,990	$ 2,701,601	$ 5,759,384	$ 5,285,388
ETC		34,010		69,585
All other		29,819		64,460
Eliminations		(5,422)		(14,440)
Total revenue	$ 2,914,990	$ 2,760,008	$ 5,759,384	$ 5,404,993

0

%

0

%

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED (Continued)

(in thousands, except per share data unless otherwise noted)

The weighted-average fair value (as of the date of grant) of the options was $19.17 and $9.57 per share for the three months ended September 30, 2011 and 2010, respectively, and $17.87 and $10.07 per share for the nine months ended September 30, 2011 and 2010, respectively. During the three months ended September 30, 2011 and 2010, the Company recorded total pre-tax stock-based compensation expense of $6.1 million ($3.9 million after tax or $0.10 per diluted share) and $3.2 million ($2.3 million after tax or $0.07 per diluted share), respectively, which includes the fair value for equity awards issued after January 1, 2006. During the nine months ended September 30, 2011 and 2010, the Company recorded total pre-tax stock-based compensation expense of $16.2 million ($10.8 million after tax or $0.28 per diluted share) and $8.8 million ($6.0 million after tax or $0.19 per diluted share), respectively, which includes fair value for equity awards issued after January 1, 2006. The total stock-based compensation cost related to non-vested equity awards not yet recognized as an expense as of September 30, 2011 was approximately $31.0 million. That cost is expected to be recognized over a weighted-average period of approximately 2.76 years.

The following table summarizes information about shares available for grant and stock options outstanding:

		Options Outstanding				
	Shares Available for Grant	Number of Shares		Option Exercise Price per Share Range		Weighted-Average Exercise Price
Balance at December 31, 2010	1,217	5,561	$	0.29 - 38.62	$	16.36
Options granted	(151)	151	$	26.83 - 30.41	$	29.13
Options exercised		(1,197)	$	0.29 - 28.59	$	11.83
Options forfeited	238	(413)	$	8.99 - 38.62	$	20.17
Net restricted stock granted and forfeited	(315)		$		$	
Expansion of pool	3,000		$		$	
Balance at September 30, 2011	3,989	4,102	$	0.29 - 38.62	$	17.77

A summary of the Company s non-vested restricted stock at September 30, 2011, and changes during the nine months ended September 30, 2011, is presented below:

Non-Vested Restricted Stock	Number of Awards
Non-vested at December 31, 2010	187
Granted	478
Vested	(112)
Forfeited	(10)
Non-vested at September 30, 2011	543

Treasury Stock

On May 2, 2011, the Company s board of directors authorized a stock repurchase program to purchase up to $20 million of the Company s outstanding common stock. The duration of the repurchase program is twelve months. Under the program, the Company may purchase shares of its common stock in the open market, through block trades or otherwise at prices deemed appropriate by the Company. The timing and amount of repurchase transactions under the program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital. As of September 30, 2011, the Company completed the stock repurchase program and a total of 669 thousand shares have been repurchased for an aggregate purchase price of $20.0 million. The Company classifies common stock repurchased as treasury stock on its balance sheet.

8. Legal Matters

On September 5, 2008, September 18, 2008, and September 23, 2008, three complaints were filed against the Company and certain of its officers and directors in the United States District Court for the District of New Jersey purportedly on behalf of a class of shareholders who purchased the Company s common stock between February 4, 2008 and June 9, 2008 (the Securities Law Actions). The complaints were consolidated and an amended complaint was filed by the plaintiffs on March 13, 2009. The plaintiffs in each complaint asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. They alleged that certain of the Company s public disclosures regarding its financial prospects during the proposed class period were false and/or misleading. The principal allegation set forth in each complaint was that the Company issued misleading statements concerning its business prospects relating to the activation of Apple Inc. s iPhone product. On April 7, 2010, the Court granted the Company s Motion to Dismiss all of

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED (Continued)

(in thousands, except per share data unless otherwise noted)

the claims against all of the defendants without prejudice. On August 9, 2010, the parties filed a notice of voluntary dismissal with prejudice, noting that the plaintiff was dismissing the case without receiving payment of any kind.

On October 23, 2008 and November 3, 2008, complaints were filed in the state court of New Jersey (the State Derivative Suit) and the United States District Court for the District of New Jersey (the Federal Derivative Suit) against certain of the Company s officers and directors, purportedly derivatively on behalf of the Company (collectively, the Derivative Suits). The Complaints in the Derivative Suits assert that the named officers and directors breached their fiduciary duties and other obligations in connection with the disclosures that also are the subject of the Securities Law Actions described above. The Company is also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on the Company s behalf. On October 20, 2010, the parties to the Federal Derivative Suit filed a notice of voluntary dismissal, dismissing the case in its entirety and with prejudice as to the named plaintiff. On November 17, 2010, the parties to the State Derivative Suit filed a notice of voluntary dismissal, dismissing the case in its entirety with prejudice as to the named plaintiff.

On January 4, 2011, the Company filed a complaint in the United States District Court for the District of Wisconsin (Civ Act. No. 11-CV-02) against Dashwire, Inc. (Dashwire), claiming that Dashwire has infringed, and continues to infringe, several of the Company s patents. The Company filed an Amended Complaint against Dashwire on April 22, 2011. As a result of these claims, Dashwire filed a complaint against the Company in the same court asserting that the Company is infringing two of the Dashwire patents which it recently acquired from Intellectual Venture Partners. On July 29, 2011, the Company and Dashwire entered into a patent license and settlement agreement whereby Dashwire will take a limited license to specific Synchronoss cloud management patents. Under the agreement, Synchronoss will receive a lump-sum payment and future royalties from Dashwire. In accordance with the terms of the patent license and settlement agreement the parties dismissed the above complaints.

Except for the above claims, the Company is not currently subject to any legal proceedings that could have a material adverse effect on its operations; however, it may from time to time become a party to various legal proceedings arising in the ordinary course of its business.

9. Subsequent Events

The Company has evaluated all subsequent events and transactions through the filing date.

Table of Contents

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

The following discussion and analysis should be read in conjunction with the information set forth in our consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q and in our annual report Form 10-K for the year ended December 31, 2010. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as believes, expects, anticipates, intends, plans, should, continues, or similar expressions, indicate a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Actual results may differ materially from the forward-looking statements we make. We caution investors not to place substantial reliance on the forward-looking statements included in this report. These statements speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments. All numbers are expressed in thousands unless otherwise stated.

Overview

We are a leading provider of on-demand transaction management, cloud enablement and mobile connectivity solutions that enable communications service providers (CSPs), cable operators/multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and connected mobile devices, among others), e-Tailers/retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices and services. This includes automating subscriber activation, order management, service provisioning and connectivity and content management from any channel (e.g., e-commerce, telesales, enterprise, indirect and other retail outlets, etc.) to any communication service (e.g., wireless(2G, 3G, 4G), high speed access, local access, IPTV, cable, satellite TV, etc.) across any connected device type and content transfer. Our ConvergenceNow®, ConvergenceNow® Plus+TM and InterconnectNowTM platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services, or devices and back-office infrastructure-related systems and processes. Our customers rely on our solutions and technology to automate the process of activation, connectivity and content management for their customers devices while delivering additional communication services. Our platforms are designed to be flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels allowing us to meet the rapidly changing and converging services and connected devices offered by our customers. We enable our customers to acquire, retain and service subscribers as well as enable new and profitable revenue streams quickly, reliably and cost-effectively by simplifying the processes associated with managing the customer experience for connecting, activating and synchronizing connected devices and services through the use of our platforms.

Our industry-leading customers include Tier 1 service providers such as AT&T Inc., Verizon and Vodafone, Tier 1 cable operators/MSOs like Cablevision, Charter Communications, Comcast, and Time Warner Cable and large OEMs/e-Tailers such as Apple, Dell, Nokia, and Panasonic. These customers utilize our platforms, technology and services to service both consumer and business customers, including over 300 of the Fortune 500 companies.

Revenues

We generate a substantial portion of our revenues on a per-transaction basis, most of which is derived from contracts that extend up to 60 months from execution. For the three months ended September 30, 2011 and 2010, we derived approximately 75% and 79%, respectively, of our revenues from transactions processed and subscription arrangements. The remainder of our revenues was generated by professional services and software licenses.

Historically, our revenues have been directly impacted by the number of transactions processed. In recent years, the fourth quarter has had the highest volume of transactions processed due to increased consumer activation and associated service activity during the holiday season. The future success of our business depends on the continued growth of consumer and business transactions and, as such, the volume of transactions that we process could fluctuate on a quarterly basis. See Current Trends Affecting Our Results of Operations for certain matters regarding future results of operations.

We currently derive a significant portion of our revenues from one customer, AT&T. For the three months ended September 30, 2011, AT&T accounted for approximately 50% of our revenues compared to 62% for the three months ended September 30, 2010. Our agreement with AT&T was amended in 2011 to provide that it auto-renews for twelve month periods from January 1 of each year unless either party provides written notice at least sixty (60) days prior to the end of each calendar year of its intent to terminate. Thus, the agreement currently runs through December of 2012. This agreement defines the work activities, transaction pricing, forecasting process, service level agreements and remedies associated with certain services performed by us for AT&T s ecommerce organizations. The agreement provides for AT&T to pay us (i) a monthly hosting fee, (ii) a fee based on the number of transactions processed through our technology platform, (iii) a fee based on manual processing services and (iv) for professional services rendered by us. A copy of this agreement has been previously filed with the Securities & Exchange Commission.

Our five largest customers, for the three months ending September 30, 2011 were AT&T, Level 3, Time Warner Cable, Verizon and Vodafone, which accounted for approximately 85% of our revenues, compared to 84% of our revenues from our five largest customers, AT&T, Frontier, Level 3, Time Warner Cable, and Verizon, for the three months ended September 30, 2010. See Risk Factors for certain matters bearing risks on our future results of operations.

Costs and Expenses

Our costs and expenses consist of cost of services, research and development, selling, general and administrative, depreciation and amortization, change in contingent consideration and interest and other expense.

Cost of services includes all direct materials, direct labor, cost of facilities and those indirect costs related to revenues such as indirect labor, materials and supplies. Our primary cost of services is related to our information technology and systems department, including network costs, data center maintenance, database management and data processing costs, as well as personnel costs associated with service implementation, customer deployment and customer care. Also included in cost of services are costs associated with our exception handling centers and the maintenance of those centers. Currently, we utilize a combination of employees and third-party providers to process transactions through these centers.

Research and development costs are expensed as incurred unless they meet GAAP criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Research and development expense consists primarily of costs related to personnel, including salaries and other personnel-related expenses, consulting fees and the cost of facilities, computer and support services used in service technology development. We also expense costs relating to developing modifications and minor enhancements of our existing technology and services.

Selling, general and administrative expense consists of personnel costs including salaries, sales commissions, sales operations and other personnel-related expense, travel and related expense, trade shows, costs of communications equipment and support services, facilities costs, consulting fees and costs of marketing programs, such as internet and print. General and administrative expense consists primarily of salaries and other personnel-related expense for our executive, administrative, legal, finance and human resources functions, facilities, professional services fees, certain audit, tax and bad debt expense.

Depreciation and amortization relates to our property and equipment and includes our network infrastructure and facilities. Amortization relates to the trademarks, customer lists and technology acquired from Wisor in 2008 and from FusionOne in 2010.

Net change in contingent consideration obligation consists of the changes to the fair value estimate of the acquisition related obligations to the former equity holders. The estimate is based on the weighted probability of achieving of certain financial targets and milestones.

Interest and other expense consist of interest on our lease financing obligations and other non-operating expenses.

Current Trends Affecting Our Results of Operations

Our on-demand business model enables delivery of our proprietary solutions over the Web as a service and has been driven by market trends such as various forms of order provisioning, local number portability, the implementation of new technologies, subscriber growth, competitive churn, network changes, growth of the emerging device market (e.g., smartphone devices, netbooks, tablets,

etc.) and consolidations in the industry. In particular, the emergence of order provisioning of e-commerce transactions for smartphone devices, wireless, VoIP, LNP, and other communication services surrounding the convergence of bundled services has increased the need for our services and we believe will continue to be a source of growth for us.

To support the growth driven by the favorable industry trends mentioned above, we continue to look for opportunities to improve our operating efficiencies, such as the utilization of offshore technical and non-technical resources for our exception handling center management. We believe that these opportunities will continue to provide future benefits and position us to support revenue growth. In addition, we anticipate further automation of the transactions generated by our more mature customers and additional transaction types. Our cost of services can fluctuate from period to period based upon the level of automation and the on-boarding of new transaction types.

We continue to advance our plans for the expansion of our platform footprint with international carriers to support connected devices and multiple networks through our focus on transaction management. Our initiatives with AT&T and other CSP s continue to grow along with our account presence with connected device OEM s. We are also exploring additional opportunities through merger and acquisition activities to support our customer, product and geographic diversification strategies.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements in accordance with GAAP requires us to utilize accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during a fiscal period. The Securities and Exchange Commission (SEC) considers an accounting policy to be critical if it is important to a company s financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. We have discussed the selection and development of the critical accounting policies with the audit committee of our board of directors, and the audit committee has reviewed our related disclosures in this Form 10-Q. Although we believe that our judgments and estimates are appropriate, correct and reasonable under the circumstances, actual results may differ from those estimates. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected. See Risk Factors for certain matters bearing risks on our future results of operations.

We believe that of our significant accounting policies, which are described in Note 2 in our Annual Report on Form 10-K for the year ended December 31, 2010, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations:

- Revenue Recognition and Deferred Revenue
- Income Taxes
- Goodwill and Impairment of Long-Lived Assets
- Stock-Based Compensation

- Allowance for Doubtful Accounts
- Business Combinations

There were no significant changes in our critical accounting policies and estimates discussed in our Form 10-K during the three and nine months ended September 30, 2011. Please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010 for a more complete discussion of our critical accounting policies and estimates.

Table of Contents

Results of Operations

Three months ended September 30, 2011 compared to the three months ended September 30, 2010

The following table presents an overview of our results of operations for the three months ended September 30, 2011 and 2010.

	Three Months Ended September 30, 2011		Three Months Ended September 30, 2010		Three Months Ended September 30, 2011 vs 2010	
	$	% of Revenue	$	% of Revenue	$ Change	% Change
			(in thousands)			
Net revenue	$ 59,238	100.0%	$ 44,456	100.0%	$ 14,782	33.3%
Cost of services*	27,781	46.9%	22,983	51.7%	4,798	20.9%
Research and development	10,879	18.4%	7,569	17.0%	3,310	43.7%
Selling, general and administrative	11,118	18.8%	10,465	23.5%	653	6.2%
Net change in contingent consideration obligation	480	0.8%	(1,968)	(4.4)%	2,448	-124.4%
Depreciation and amortization	3,949	6.7%	2,606	5.9%	1,343	51.5%
	54,207	91.5%	41,655	93.7%	12,552	30.1%
Income from operations	$ 5,031	8.5%	$ 2,801	6.3%	$ 2,230	79.6%

* Cost of services excludes depreciation and amortization which is shown separately.

Net Revenue. Net revenues increased $14.8 million to $59.2 million for the three months ended September 30, 2011, compared to the same period in 2010. This increase was due primarily to increased transaction volumes from and expansion into new programs with AT&T and other large non-AT&T customers such as Time Warner Cable, Verizon, and Vodafone. Transaction and subscription revenues recognized for the three months ended September 30, 2011 and 2010 represented 75% or $44.7 million and 79% or $35.0 million of net revenues, respectively. Net revenues related to AT&T increased $2.2 million to $29.5 million for the three months ended September 30, 2011 compared to the same period in 2010. AT&T represented 50% of our revenues for the three months ended September 30, 2011, compared to 62% for the three months ended September 30, 2010. Net revenues outside of AT&T generated $29.7 million of our revenues during the three months ended September 30, 2011 as compared to $17.1 million during the three months ended September 30, 2010. Net revenues outside of AT&T represented 50% and 38% of our revenues during the three months ended September 30, 2011 and 2010, respectively. Professional service revenues as a percentage of sales were 23% or $13.3 million for the three months ended September 30, 2011, compared to 16% or $6.9 million for the previous three months ended September 30, 2010. The increase in professional services revenue is primarily due to the expansion of services due to new projects with existing customers. License revenues decreased $1.3 million to $1.3 million or 2% of net revenues for the three months ended September 30, 2011 as compared to the same period in 2010.

Expense

Cost of Services. Cost of services increased $4.8 million to $27.8 million for the three months ended September 30, 2011, compared to the same period in 2010, due primarily to an increase of $2.5 million in our personnel and related costs and $359 thousand in our stock-based compensation. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. There was an increase of $1.3 million for outside consultants related to growth in existing and new programs with our customers. In addition, there was an increase of $672 thousand in telecommunication and facility costs related to the increased call volume and capacity associated with our new Arizona and existing data facilities. Cost of services as a percentage of revenues decreased to 46.9% for the three months ended September 30, 2011, as compared to 51.7% for the three months ended September 30, 2010.

Research and Development. Research and development expense increased $3.3 million to $10.9 million for the three months ended September 30, 2011, compared to the same period in 2010, due to headcount increases. Personnel and related costs increased $2.2 million and stock-based compensation increased $657 thousand. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. In addition there was an increase of $535 thousand in professional services augmenting our staff related to the development of new technologies and software solutions. Research and

development expense as a percentage of revenues increased to 18.4% for the three months ended September 30, 2011 as compared to 17.0% for the three months ended September 30, 2010.

Selling, General and Administrative. Selling, general and administrative expense increased $653 thousand to $11.1 million for the three months ended September 30, 2011, compared to the same period in 2010 primarily due to increased headcount. Personnel and related costs increased by $700 thousand and stock-based compensation expense increased $1.9 million. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. Also included in the increase in personnel and related costs and in stock-based compensation costs were costs of $434 thousand related to the vesting of the FusionOne employee Earn-out during the quarter ended September 30, 2011. Additionally, we had an increase of $168 thousand in professional fees associated with increased legal activity related to the FusionOne Earn-out settlement and patent related services, and an increase of $127 thousand related to our expanded marketing efforts offset by a decrease of $2.4 million in acquisition related costs related to the acquisition of FusionOne in the quarter ended September 30, 2010. Selling, general and administrative expense as a percentage of revenues decreased to 18.8% for the three months ended September 30, 2011, compared to 23.5% for the three months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization expense increased $1.3 million to $3.9 million for the three months ended September 30, 2011, compared to the same period in 2010, primarily related to the amortization of our newly acquired intangible assets of FusionOne and the continued expansion of our platforms. This increase was offset by the completion of the depreciation of certain assets which, for accounting purposes, have reached the end of their respective lives. Depreciation and amortization expense as a percentage of revenues increased to 6.7% for the three months ended September 30, 2011, as compared to 5.9% for the same period in 2010.

Net change in contingent consideration obligation. The fair value change in the contingent consideration liability related to the SKS Earn-out resulted in additional expense of $480 thousand for the three months ended September 30, 2011. The increase in the fair value of the contingent consideration obligation related to the SKS Earn-out is primarily due to changes to the forecasted operational efficiencies and the weighted probability of achieving product milestones as compared to a decrease in the fair value of the contingent consideration obligation related to the FusionOne Earn-out in the three months ended September 20, 2010 that resulted in a benefit to expense for that period.

Income from Operations. Income from operations increased $2.2 million to $5.0 million for the three months ended September 30, 2011, compared to the same period in 2010. This increase was due primarily to increased revenues that resulted from increased transaction volumes and expansion into new programs with our largest customers. Income from operations as a percentage of revenues increased to 8.5% for the three months ended September 30, 2011, as compared to 6.3% for the three months ended September 30, 2010.

Interest and other income. Interest and other income decreased $274 thousand to $432 thousand for the three months ended September 30, 2011, compared to the same period in 2010. Interest and other income decreased primarily due to the lack of insurance claims received in 2011. This decrease was offset by an increase in interest income due to increases in investments in interest bearing securities.

Interest and other expense. Interest expense and other expense increased $99 thousand to $441 thousand for the three months ended September 30, 2011, compared to the same period in 2010. Interest and other expense increased primarily due to an increase in currency fluctuations related to the settlement of our customer account sales.

Income Tax. During the three months ended September 30, 2011 and 2010, we recognized approximately $1.4 million and $1.0 million, respectively, in related tax expense. Our effective tax rate was approximately 28.8% and approximately 32.4% during the three months ended September 30, 2011 and 2010, respectively. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. Our effective tax rate is lower than our US federal statutory rate primarily due to increased profits in foreign jurisdictions, which have lower tax rates than the US, and the discrete impact of the disqualifying dispositions of incentive stock options.

Table of Contents

Nine months ended September 30, 2011 compared to the nine months ended September 30, 2010

The following table presents an overview of our results of operations for the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,				Nine Months Ended September 30, 2011 vs 2010	
	2011		2010			
	$	% of Revenue	$	% of Revenue	$ Change	% Change
			(in thousands)			
Net revenue	$ 166,933	100.0%	$ 116,738	100.0%	$ 50,195	43.0%
Cost of services*	78,270	46.9%	59,638	51.1%	18,632	31.2%
Research and development	31,037	18.6%	16,760	14.4%	14,277	85.2%
Selling, general and administrative	31,913	19.1%	23,310	20.0%	8,603	36.9%
Net change in contingent consideration obligation	3,311	2.0%	(1,968)	(1.7)%	5,279	-268.2%
Depreciation and amortization	11,029	6.6%	6,459	5.5%	4,570	70.8%
	155,560	93.2%	104,199	89.3%	51,361	49.3%
Income from operations	$ 11,373	6.8%	$ 12,539	10.7%	$ (1,166)	(9.3)%

* Cost of services excludes depreciation and amortization which is shown separately.

Net Revenue. Net revenues increased $50.2 million to $166.9 million for the nine months ended September 30, 2011, compared to the same period in 2010. This increase was due primarily to increased transaction volumes from and expansion into new programs with AT&T and other large non-AT&T customers such as Time Warner Cable, Verizon, and Vodafone. Transaction and subscription revenues recognized for the nine months ended September 30, 2011 and 2010 represented 78% or $129.6 million and 80% or $93.2 million of net revenues, respectively. Net revenues related to AT&T increased $9.1 million to $84.2 million for the nine months ended September 30, 2011 compared to the same period in 2010. AT&T represented 50% of our revenues for the nine months ended September 30, 2011, compared to 64% for the nine months ended September 30, 2010. Net revenues outside of AT&T generated $82.7 million of our revenues during the nine months ended September 30, 2011 as compared to $41.6 million during the nine months ended September 30, 2010. Net revenues outside of AT&T represented 50% and 36% of our revenues during the nine months ended September 30, 2011 and 2010, respectively. Professional service revenues as a percentage of sales were 21% or $35.7 million for the nine months ended September 30, 2011, compared to 18% or $20.5 million for the nine months ended September 30, 2010. The increase in professional services revenue is primarily due to the expansion of services due to new projects with new customers. License revenues decreased $1.4 million to $1.6 million or 1% of net revenues for the nine months ended September 30, 2011 as compared to the same period in 2010.

Expense

Cost of Services. Cost of services increased $18.6 million to $78.3 million for the nine months ended September 30, 2011, compared to the same period in 2010, due primarily to an increase of $8.5 million for outside consultants related to growth in existing and new programs with our customers. There was an increase of $6.9 million in our personnel and related costs and an increase of $839 thousand in stock-based compensation. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a

result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. In addition, there was an increase of $2.3 million in telecommunication and facility costs related to the increased call volume and capacity associated with our new Arizona and existing data facilities. Cost of services as a percentage of revenues decreased to 46.9% for the nine months ended September 30, 2011, as compared to 51.1% for the nine months ended September 30, 2010.

Research and Development. Research and development expense increased $14.3 million to $31.0 million for the nine months ended September 30, 2011, compared to the same period in 2010, due to headcount increases. Personnel and related costs increased $8.1 million and stock-based compensation increased $1.7 million. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair

Table of Contents

value of our stock awards which was due to the increase of our stock price. Also included in the increase in personnel and related costs and in stock-based compensation costs was $759 thousand related to the fair value adjustments and vesting of the FusionOne employee Earn-out in the nine months ended September 30, 2011. In addition there was an increase of $299 thousand in telecommunication and facility costs related to the increase in headcount and the utilization of our expanded resources, an increase of $4.0 million in professional services augmenting our staff related to the development of new technologies and software solutions, and $211 thousand in acquisition related costs. Research and development expense as a percentage of revenues increased to 18.6% for the nine months ended September 30, 2011 as compared to 14.4% for the nine months ended September 30, 2010.

Selling, General and Administrative. Selling, general and administrative expense increased $8.6 million to $31.9 million for the nine months ended September 30, 2011, compared to the same period in 2010 primarily due to increased headcount. Personnel and related costs increased by $5.1 million and stock-based compensation expense increased $4.9 million. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. Also included in the increase in personnel and related costs and in stock-based compensation costs were costs of $2.1 million related to the fair value adjustments and vesting of the FusionOne employee Earn-out during the nine months ended September 30, 2011. Additionally, we had an increase of $791 thousand in professional fees associated with increased legal activity related to the FusionOne Earn-out settlement and patent related services, an increase of $224 thousand for outside consultants related to our expanded marketing efforts, an increase of $262 thousand in telecommunication and facility costs related to the increase in headcount and the utilization of our expanded resources, and an increase of $375 thousand of operating expenses related to our continued global expansion. Offsetting the increases was a decrease of $2.5 million in acquisition related costs due to the FusionOne acquisition in the quarter ended September 30, 2010 and a decrease in bad debt expense of $475 thousand due to increased collections from non-Tier 1 customers. Selling, general and administrative expense as a percentage of revenues decreased to 19.1% for the nine months ended September 30, 2011, compared to 20.0% for the nine months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization expense increased $4.6 million to $11.0 million for the nine months ended September 30, 2011, compared to the same period in 2010, primarily related to the amortization of our newly acquired intangible assets of FusionOne and the continued expansion of our platforms. This increase was offset by the completion of the depreciation of certain assets which, for accounting purposes, have reached the end of their respective lives. Depreciation and amortization expense as a percentage of revenues increased to 6.6% for the nine months ended September 30, 2011, as compared to 5.5% for the same period in 2010.

Net change in contingent consideration obligation. The fair value change in the contingent consideration liability related to the equity holders Earn-out resulted in additional expense of $3.3 million for the nine months ended September 30, 2011. The increase in the fair value of the contingent consideration obligation related to the FusionOne Earn-out is primarily due to the changes in our stock price, FusionOne business achieving quarterly targets and updates to the weighted probability of achieving certain future quarterly targets before the settlement in the second quarter. The increase in the estimate of the fair value of the contingent consideration obligation related to the SKS Earn-out is primarily due to changes to the forecasted operational efficiencies and the weighted probability of achieving product milestones.

Income from Operations. Income from operations decreased $1.2 million to $11.4 million for the nine months ended September 30, 2011, compared to the same period in 2010. This decrease was due primarily to the change in contingent consideration obligation and increased investments in our research and development staff and related costs. Income from operations as a percentage of revenues decreased to 6.8% for the nine months ended September 30, 2011, as compared to 10.7% for the nine months ended September 30, 2010.

Interest and other income. Interest and other income decreased $26 thousand to $914 thousand for the nine months ended September 30, 2011, compared to the same period in 2010. Interest and other income decreased primarily due to the lack of insurance claims received in 2011. This decrease was offset by an increase in interest income due to increases in investments in interest bearing securities.

Interest and other expense. Interest expense and other expense increased $66 thousand to $975 thousand for the nine months ended September 30, 2011, compared to the same period in 2010. Interest and other expense increased primarily due to an increase in currency fluctuations related to the settlement of our customer account sales.

Income Tax. During the nine months ended September 30, 2011 and 2010, we recognized approximately $4.4 million and $4.7 million, respectively, in related tax expense. Our effective tax rate was approximately 38.8% and approximately 37.7% during the nine months ended September 30, 2011 and 2010, respectively. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. Our effective tax rate is higher than our US federal statutory rate primarily due to the unfavorable tax impact of the fair market value adjustment for the contingent consideration obligation related to the FusionOne Earn-out for the FusionOne equity holders offset by increased profits in foreign jurisdictions, which have lower tax rates than the US, and the discrete impact of the disqualifying dispositions of incentive stock options.

Liquidity and Capital Resources

Our principal source of liquidity has been cash provided by capital market activities and operations. Our cash, cash equivalents and marketable securities balance was $189.6 million at September 30, 2011 and December 31, 2010. During the nine months ended September 30, 2011, cash generated from operations and by the exercise of stock options was offset by payments of the FusionOne Earn-out, repurchase of stock, capital expenditures and acquisition-related activity. We anticipate that our principal uses of cash in the future will be to fund the expansion of our business through both organic growth as well as possible acquisition activities and the expansion of our customer base internationally. Uses of cash will also include facility expansion, capital expenditures and working capital.

Discussion of Cash Flows

Cash flows from operations. Net cash provided by operating activities for the nine months ended September 30, 2011 was $27.9 million, as compared to $9.7 million cash provided for the nine months ended September 30, 2010. Our primary uses of cash from operating activities are for personnel related expenditures and outside consultants. We also make cash payments related to taxes and leased facilities. The increase in net cash provided by operating activities for the nine months ended September 30, 2011 of $18.2 million as compared to the same period in 2010 is primarily due to changes in working capital which included a $2.9 million increase in deferred revenues, a $2.3 million increase to net accounts receivable, a $5.2 million increase in prepaid expenses and other current assets, a $4.6 million increase in contingent consideration obligations related to the FusionOne and SKS Earn-outs offset by a $6.6 million decrease in the tax benefit from the exercise of stock options and a $910 thousand decrease in net income.

Cash flows from investing. Net cash used in investing activities for the nine months ended September 30, 2011 was $52.0 million, as compared to $39.3 million for the nine months ended September 30, 2010. The primary uses of cash in 2011 were $35.8 million used in the purchase of marketable securities and $12.0 million used to purchase property and equipment primarily related to new facilities in Arizona and our continued investments in our global information technology and business system infrastructure. Additionally, $5.8 million of cash was used in the acquisition of Sapience Knowledge Systems, Inc. and $2.0 million was used in the acquisition of certain assets and workforce from Strumsoft, Inc.

Cash flows from financing. Net cash used in financing activities for the nine months ended September 30, 2011 was $7.5 million, as compared to cash provided by financing activities of $2.7 million for the nine months ended September 30, 2010. The increase in cash used was due to the $8.3 million in payments related to Earn-out for the FusionOne equity holders, $20.0 million used to repurchase our common stock and $721 thousand in payments on our capital obligation related to our data facility in the nine months ended September 30, 2011, offset by $14.2 million in proceeds from the exercise of stock options and a $7.3 million tax benefit from the exercise of stock options.

We believe that our existing cash and cash equivalents, and cash generated from our existing operations will be sufficient to fund our operations for the next twelve months.

Effect of Inflation

Although inflation generally affects us by increasing our cost of labor and equipment, we do not believe that inflation has had any material effect on our results of operations for the three and nine months ended September 30, 2011 and 2010.

Table of Contents

Impact of Recently Issue Accounting Standards

In May 2011, the FASB issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in common definition of fair value and common requirements for measurement of and disclosure requirements between U.S. GAAP and IFRS. Consequently, the amendments change some fair value measurement principles and disclosure requirements. The implementation of this amended accounting guidance is not expected to have a material impact on our consolidated financial statements or disclosures.

In June 2011, the FASB issued amendments to disclosure requirements for presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The implementation of this amended accounting guidance is not expected to have a material impact on our consolidated financial statements or disclosures. Therefore, we have elected not to early adopt.

In September 2011, the FASB issued amendments to simplify how entities test goodwill for impairment. These amendments, effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, (early adoption is permitted), permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The implementation of this amended accounting guidance is not expected to have a material impact on our consolidated financial statements or disclosures. Therefore, we have elected not to early adopt.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2011 and December 31, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. We believe our exposure associated with these market risks has not changed materially since December 31, 2010.

Foreign Currency Exchange Risk

We conduct business outside the U.S. in several currencies including the British Pound Sterling, Euro, and Indian Rupee. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates for the period for revenues and expenses.

We do not hold any derivative instruments and do not engage in any hedging activities. Although our reporting currency is the U.S. dollar, we may conduct business and incur costs in the local currencies of other countries in which we may operate, make sales and buy materials and services. As a result, we are subject to currency translation risk. Further, changes in exchange rates between foreign currencies and the U.S. dollar could affect our future net sales and cost of sales and could result in exchange losses.

We cannot accurately predict future exchange rates or the overall impact of future exchange rate fluctuations on our business, results of operations and financial condition. To the extent that our international activities recorded in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase and hedging activities may be considered if deemed appropriate.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2011, the end of the period covered by this quarterly report, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in internal controls over financial reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 5, 2008, September 18, 2008, and September 23, 2008, three complaints were filed against us and certain of our officers and directors in the United States District Court for the District of New Jersey purportedly on behalf of a class of shareholders who purchased our common stock between February 4, 2008 and June 9, 2008 (the Securities Law Actions). The complaints were consolidated and an amended complaint was filed by the plaintiffs on March 13, 2009. The plaintiffs in each complaint asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. They alleged that certain of our public disclosures regarding our financial prospects during the proposed class period were false and/or misleading. The principal allegation set forth in each complaint was that we issued misleading statements concerning its business prospects relating to the activation of Apple Inc. s iPhone product. On April 7, 2010, the Court granted our Motion to Dismiss all of the claims against all of the defendants without prejudice. On August 9, 2010, the parties filed a notice of voluntary dismissal with prejudice, noting that the plaintiff was dismissing the case without receiving payment of any kind.

On October 23, 2008 and November 3, 2008, complaints were filed in the state court of New Jersey (the State Derivative Suit) and the United States District Court for the District of New Jersey (the Federal Derivative Suit) against certain of our officers and directors, purportedly derivatively on our behalf (collectively, the Derivative Suits). The Complaints in the Derivative Suits assert that the named officers and directors breached their fiduciary duties and other obligations in connection with the disclosures that also are the subject of the Securities Law Actions

described above. We were also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on our behalf. On October 20, 2010, the parties to the Federal Derivative Suit filed a notice of voluntary dismissal, dismissing the case in its entirety and with prejudice as to the named plaintiff. On November 17, 2010, the parties to the State Derivative Suit filed a notice of voluntary dismissal, dismissing the case in its entirety with prejudice as to the named plaintiff.

On January 4, 2011, we filed a complaint in the United States District Court for the District of Wisconsin (Civ Act. No. 11-CV-02) against Dashwire, Inc. (Dashwire), claiming that Dashwire has infringed, and continues to infringe, several of our patents. We filed an Amended Complaint against Dashwire on April 22, 2011. As a result of these claims, Dashwire filed a complaint against us in the same court asserting that we are infringing two of the Dashwire patents which it recently acquired from Intellectual Venture Partners. On July 29, 2011, Synchronoss and Dashwire entered into a patent license and settlement agreement whereby Dashwire will take a limited license to specific Synchronoss cloud management patents. Under the agreement, we will receive a lump-sum payment and future royalties from Dashwire. In accordance with the terms of the patent license and settlement agreement the parties dismissed the above complaints.

Table of Contents

Except for the above claims, we are not currently subject to any legal proceedings that could have a material adverse effect on our operations; however, we may from time to time become a party to various legal proceedings arising in the ordinary course of our business.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. Reserved

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	**Description**

3.2*	Restated Certificate of Incorporation of the Company
3.4*	Amended and Restated Bylaws of the Company
4.2*	Form of Company s Common Stock certificate
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document

Table of Contents

101.PRE	XBRL Presentation Linkbase Document

---

* Incorporated herein by reference to the exhibit of the same number in the Company s Registration Statement on Form S-1 (Commission File No. 333-132080).

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.

Synchronoss Technologies, Inc.

/s/ Stephen G. Waldis
Stephen G. Waldis
Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal executive officer)

/s/ Lawrence R. Irving
Lawrence R. Irving
Executive Vice President, Chief Financial Officer
and Treasurer

November 4, 2011