LSI LOGIC CORP
Form DEF 14A
March 26, 2001

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SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

LSI LOGIC

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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LSI LOGIC CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
MAY 2, 2001

To the Stockholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of LSI Logic Corporation (the "Company"), a Delaware corporation, will be held on May 2, 2001 at 1:00 p.m., local time, at the Sheraton Palace Hotel located at 2 New Montgomery Street, San Francisco, California 94105, for the following purposes:

1. To elect seven directors to serve for the ensuing year and until their successors are elected.

2. To approve an amendment to the Amended and Restated Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance thereunder by 10,000,000.

3. To approve an amendment to the Company's 1991 Equity Incentive Plan to increase the number of shares of common stock reserved for issuance thereunder by 5,000,000.

4. To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for its 2001 fiscal year.

5. To transact such other business as may properly come before the meeting and any adjournments thereof.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on March 16, 2001 are entitled to notice of and to vote at the meeting.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to mark, date, sign and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the meeting may vote in person even if he or she returned a proxy.

Sincerely,

David G. Pursel
Secretary

Milpitas, California
March 26, 2001

YOUR VOTE IS IMPORTANT

IN ORDER TO ASSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE REQUESTED TO MARK, SIGN AND DATE THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURN

IT IN THE ENCLOSED ENVELOPE (TO WHICH NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES).

LSI LOGIC CORPORATION

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

GENERAL

The enclosed Proxy is solicited on behalf of LSI Logic Corporation (referred to as "LSI Logic" or the "Company") for use at the Annual Meeting of Stockholders to be held on May 2, 2001 at 1:00 p.m., local time, or at any adjournment(s) thereof, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting of Stockholders. The annual meeting will be held at the Sheraton Palace Hotel, located at 2 New Montgomery Street, San Francisco, CA 94105. The address of the Company's principal executive offices is 1551 McCarthy Boulevard, Milpitas, California 95035, and the Company's telephone number is (408) 433-8000.

These proxy solicitation materials were mailed on or about March 26, 2001 to all stockholders entitled to vote at the meeting.

RECORD DATE; SHARES OUTSTANDING

Stockholders of record at the close of business on the record date of March 16, 2001 (the "Record Date") are entitled to notice of and to vote at the meeting. As of the Record Date, 322,582,165 shares of the Company's common stock, $0.01 par value, were issued and outstanding. On the Record Date, the closing price of the Company's common stock on the New York Stock Exchange was $16.23 per share.

REVOCABILITY OF PROXIES

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering a written notice of revocation or a duly executed proxy bearing a later date to the Company or by attending the meeting and voting in person.

VOTING AND SOLICITATION

On all matters other than the election of directors, each share has one vote. See "ELECTION OF DIRECTORS -- REQUIRED VOTE." The cost of soliciting proxies will be borne by the Company. The Company has retained the services of Georgeson & Company, Inc. to aid in the solicitation of proxies from brokers, bank nominees and other institutional owners. The Company estimates that it will pay Georgeson & Company, Inc. a fee not to exceed $10,000 for its services and will reimburse it for certain out of pocket expenses estimated to be $10,000. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies may be solicited by some of the Company's directors, officers and regular employees, without additional compensation, personally or by telephone.

QUORUM; ABSTENTIONS; BROKER NON-VOTES

The required quorum for the transaction of business at the annual meeting is a majority of the votes eligible to be cast by holders of shares of common stock issued and outstanding on the Record Date. Shares that are voted "FOR," "AGAINST," or "WITHHELD FROM" a matter are treated as being present at the meeting for purposes of establishing a quorum and are also treated as votes cast at the annual meeting with respect to that matter (the "Votes Cast").

The Company intends to count abstentions for purposes of determining both the presence or absence of a quorum and the total number of Votes Cast with respect to any matter (other than the election of directors).

Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not be considered to be Votes Cast with respect to the particular proposal on which the broker has expressly not voted. Accordingly, broker non-votes will not affect the outcome of the voting on a proposal that requires a majority of the Votes Cast (such as the approval of a plan amendment). However, with respect to a proposal that requires a majority of the outstanding shares (such as an amendment to the certificate of incorporation), a broker non-vote has the same effect as a vote against the proposal.

DEADLINE FOR RECEIPT OF STOCKHOLDER PROPOSALS

Proposals of stockholders of the Company that are intended to be presented by such stockholders at the Company's 2002 annual meeting and that stockholders desire to have included in the Company's proxy materials relating to such meeting must be received by the Company no later than November 26, 2001, which is 120 calendar days prior to the anniversary of this year's mail date, and must be in compliance with applicable laws and regulations in order to be considered for possible inclusion in the proxy statement and form of proxy for that meeting.

If a stockholder wishes to present a proposal at the Company's annual meeting in the year 2002 and the proposal is not intended to be included in the Company's proxy statement relating to that meeting, the stockholder must give advance notice to the Company prior to the deadline for such meeting determined in accordance with the Bylaws (the "Bylaw Deadline"), as described below in the section entitled "Other Matters." If a stockholder gives notice of such a proposal after the Bylaw Deadline, the stockholder will not be permitted to present the proposal to the stockholders for a vote at the meeting.

SEC rules also establish a different deadline for submission of stockholder proposals that are not intended to be included in the Company's proxy statement with respect to discretionary voting (the "Discretionary Vote Deadline"). The Discretionary Vote Deadline for the year 2002 annual meeting is February 9, 2002 (45 calendar days prior to the anniversary of the mailing date of this proxy statement). If a stockholder gives notice of such a proposal after the Discretionary Vote Deadline, the Company's proxy holders will be allowed to use their discretionary voting authority to vote against the stockholder proposal when and if the proposal is raised at the Company's year 2002 annual meeting. Because the Bylaw Deadline is not capable of being determined until the Company publicly announces the date for its next annual meeting, it is possible that the Bylaw Deadline may occur after the Discretionary Vote Deadline. In such a case, a proposal received after the Discretionary Vote Deadline but before the Bylaw Deadline would be eligible to be presented at next year's annual meeting and the Company believes that its proxy holders would be allowed to use the discretionary authority granted by the proxy card to vote against the proposal at the meeting without including any disclosure of the proposal in the proxy statement relating to such meeting.

The Company has not been notified by any stockholder of his or her intent to present a stockholder proposal from the floor at this year's annual meeting. The enclosed proxy card grants the proxy holders discretionary authority to vote on any matter properly brought before the annual meeting, including any stockholder proposals received between the date of this proxy statement and the Bylaw Deadline for this year's Annual Meeting, which is April 2, 2001 (the seventh day after this proxy statement is mailed).

SECURITY OWNERSHIP

SECURITY OWNERSHIP

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of the Record Date, by all persons known to the Company to be beneficial owners of more than five percent of the Company's Common Stock, by all directors and executive officers named in the Summary Compensation Table on page 16 of this proxy statement and by all current directors and executive officers as a group.

NAME	NUMBER OF SHARES BENEFICIALLY OWNED	APPROXIMATE PERCENTAGE OWNED
T. Rowe Price Associates, Inc(1)	21,002,790	6.51%
Capital Research and Management Company(2)	17,150,000	5.32%
FMR Corp(3)	16,407,985	5.09%
Wilfred J. Corrigan(4)	12,628,936	3.91%
T.Z. Chu(5)	175,650	*
Malcolm R. Currie(6)	230,250	*
James H. Keyes(7)	168,750	*
R. Douglas Norby(8)	72,456	*
Matthew J. O'Rourke(9)	40,000	*
Larry Sonsini(10)	0	*
Joseph M. Zelayeta(11)	704,000	*
John P. Daane(12)	32,390	*
John D'Errico(13)	177,145	*
W. Richard Marz(14)	595,829	*
Thomas Georgens(15)	158,875	*
All current directors and executive officers as a group 17 persons(16)	15,651,518	4.85%

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* Less than 1%

(1) As reported in Schedule 13G filed February 9, 2001 with the Commission, by T. Rowe Price Associates, Inc., ("T. Rowe Price"). T. Rowe Price, an investment advisor, has sole voting power with respect to 2,820,118 shares (of which 3,201 shares are subject to warrants and conversion privileges) and sole dispositive power with respect to 21,002,790 shares (of which 507,219 shares are subject to warrants and conversion privileges). The address for T. Rowe Price is 100 E. Pratt Street, Baltimore, Maryland 21202.

(2) As reported in Schedule 13G filed February 12, 2001 with the Commission, by Capital Research and Management Company ("Capital"). As of December 31, 2000, Capital, as investment advisor to various investment companies, had sole dispositive power over all of these shares and no voting power over any shares. The address for Capital is 333 South Hope Street, Los Angeles,

California 90071.

(3) As reported in Amendment No. 2 to Schedule 13G filed January 10, 2001 with the Commission, by the Fidelity and Management Research Corporation ("FMR"). As of December 31, 2000, FMR, a parent holding company, had sole voting power with respect to 1,220,635 shares and sole dispositive power over 16,407,985 shares. The address for FMR is 82 Devonshire Street, Boston, Massachusetts 02109.

(4) Includes options to purchase 2,800,000 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(5) Includes options to purchase 73,750 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(6) Includes options to purchase 73,750 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(7) Includes options to purchase 73,750 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(8) Includes options to purchase 50,000 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(9) Includes options to purchase 40,000 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(10) Includes options to purchase 0 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(11) Includes options to purchase 673,000 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(12) Includes options to purchase 0 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(13) Includes options to purchase 160,000 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(14) Includes options to purchase 578,750 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(15) Includes options to purchase 125,000 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

(16) Includes options to purchase 5,283,000 shares, which are presently exercisable or will become exercisable within 60 days of the Record Date.

PROPOSAL ONE

ELECTION OF DIRECTORS

NOMINEES

A board of seven directors is to be elected at the meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's seven nominees named below. All nominees are currently directors of the Company. If any nominee of the Company is unable or declines to serve as a director at the time of the annual meeting, the proxies will be voted for a nominee designated by the current Board of Directors to fill the vacancy. If additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in accordance with cumulative voting so as to elect as many of the nominees listed below as possible. In such event, the proxy holders will determine the specific nominees for whom to vote. The term of office of each person elected as a director will continue until the next annual meeting or until his successor has been elected and qualified.

The names of the nominees for election to the Board of Directors, and certain information about them, are set forth below.

NAME OF NOMINEE	AGE	PRINCIPAL OCCUPATION	DIR SI
Wilfred J. Corrigan............	63	Chairman of the Board of Directors and Chief Executive Officer of the Company	1
T.Z. Chu.......................	66	Retired President of Hoefer Pharmacia Biotech, Inc.	1
Malcolm R. Currie..............	74	Chief Executive Officer, Currie Technologies, Inc.	1
James H. Keyes.................	60	Chairman and Chief Executive Officer, Johnson Controls, Inc.	1
R. Douglas Norby...............	65	Vice President and Chief Financial Officer, Novalux, Inc.	1
Matthew J. O'Rourke............	62	Consultant; Retired Partner, Price Waterhouse LLP	1
Larry W. Sonsini...............	60	Chairman and Chief Executive Officer, Wilson Sonsini Goodrich & Rosati	2

There are no family relationships between or among any directors or executive officers of the Company.

Mr. Corrigan, a founder of the Company, has served as Chief Executive Officer and a director of the Company since our organization was founded in January 1981. Mr. Corrigan also serves on the boards of directors of several privately held corporations.

Mr. Chu served as President of Hoefer Pharmacia Biotech, Inc., a biotechnology company, from March 1995 until his retirement in February 1997. From August 1993 until March 1995, Mr. Chu served as President and Chief Executive Officer of Hoefer Scientific Instruments, a manufacturer of scientific instruments.

Dr. Currie has served as Chief Executive Officer of Currie Technologies, Inc., a manufacturer of electric propulsion systems for bicycles and other light vehicles, since February 1997. Dr. Currie served as Chairman and Chief Executive Officer of Hughes Aircraft Company (now called Hughes Electronics), an electronics manufacturer, from March 1988 until his retirement in July 1992. He presently serves on the Board of Directors for Investment Company of America, ENOVA Systems, Inc., Regal One Corp., Inamed CNP, and Greystone Technologies, and as member (former Chairman) of the Board of Trustees of the University of Southern California.

Mr. Keyes has served as Chairman and Chief Executive Officer of Johnson Controls, Inc., an automotive systems and facility management and control company, since January 1993. Mr. Keyes also serves on the Boards of Directors of Pitney Bowes Inc. and the Chicago Federal Reserve Board.

Mr. Norby has served as Chief Financial Officer of Novalux, Inc. since December 2000. Prior to his tenure with Novalux, Mr. Norby served as Executive Vice President and Chief Financial Officer of the Company from November 1996 to November 2000. Prior to that time, Mr. Norby served as Senior Vice President and Chief Financial Officer of Mentor Graphics Corporation, an electronic design automation company, from July 1993 to October 1996. Mr. Norby is also on the Board of Directors of Alexion Pharmaceuticals, Inc.

Mr. O'Rourke was a partner with the accounting firm Price Waterhouse LLP from 1972 until his retirement in June 1996. Prior to his retirement, he served as Managing Partner at Price Waterhouse's New York National Office from 1994 to 1996 and as Managing Partner for Northern California from 1988 to 1994. Since his retirement, Mr. O'Rourke has been engaged as an independent business consultant. Mr. O'Rourke is also a member of the Board of Directors of Read-Rite Corporation and Infonet Services Corporation.

Mr. Sonsini has been a partner of the law firm of Wilson Sonsini Goodrich & Rosati, P.C., since 1969 and has served as its Chairman and Chief Executive Officer for more than the past five years. Mr. Sonsini serves on the Board of Directors of the following public companies: Brocade Communications Systems, Inc., Commerce One, Inc., Echelon Corporation, Lattice Semiconductor Corporation, Novell, Inc., Tibco Software, Inc. and PIXAR, Inc.

BOARD MEETINGS AND COMMITTEES

The Board of Directors of the Company held a total of ten meetings during the fiscal year ended December 31, 2000. The Board of Directors has an Audit Committee and a Compensation Committee, both of which consist solely of non-employee directors. The Board of Directors does not have a nominating committee or a committee performing the functions of a nominating committee.

The Audit Committee, which consists of Dr. Currie (who serves as its chairman), Mr. Chu, Mr. Keyes and Mr. O'Rourke, held five meetings during the last fiscal year. The Audit Committee recommends engagement of the Company's independent accountants, and is primarily responsible for approving the services performed by the Company's independent accountants and for reviewing and evaluating the Company's accounting principles and its system of internal accounting controls.

The Compensation Committee, which consists of Mr. Keyes (who serves as its chairman), Mr. Chu, Dr. Currie and Mr. O'Rourke, held two meetings during the last fiscal year. The Compensation Committee reviews and approves the Company's executive compensation policy and makes recommendations concerning the Company's employee benefit plans.

During the fiscal year ended December 31, 2000, all incumbent directors attended at least 75% of the aggregate number of meetings of the Board of Directors and meetings of the committees of the Board on which they served.

COMPENSATION OF DIRECTORS

Members of the Board of Directors who are not employees of the Company receive an annual fee of $25,000 paid on a prorated basis and $1,500 for each meeting they attend, plus reimbursement of expenses for attendance at Board and committee meetings. The Company's 1995 Director Stock Option Plan, as adopted by the Board of Directors and approved by the stockholders, provides for the grant of non-statutory stock options to non-employee directors of the Company. Each non-employee director is granted an initial option to purchase 30,000 shares of common stock on the date on which he or she first becomes a director. In addition, on April 1 of each year, each non-employee director is automatically granted a subsequent option to purchase 25,000 shares of common stock of the Company, if on the date of grant he or she has served on the Board of Directors for at least six months. The vesting schedule for initial options granted under the 1995 Director Stock Option Plan is set at 25% on each of the first four anniversaries of the grant. Subsequent option grants become exercisable in full six months after the date of grant. Options may be exercised only while the optionee is a director of the Company, within 12 months after death or within three months after the optionee ceases to serve as a director of the Company, but in no event after the ten-year term of the option has expired. As of the Record Date, a total of 1,000,000 shares have been reserved for issuance under the 1995 Director Stock Option Plan, of which 340,000 shares are subject to outstanding options, 15,000 shares have been issued upon exercise of options, and 645,000 shares remain available for grant. During fiscal 2000, an option to purchase 25,000 shares was granted to each of Directors Chu, Currie, Keyes and O'Rourke having an exercise price of $65.06 per share; and an option to purchase 30,000 shares was granted to Director Sonsini, having an exercise price of $60.63 per share.

REQUIRED VOTE

Directors shall be elected by a plurality vote. The seven nominees for director receiving the highest number of affirmative votes of the shares entitled to be voted for them shall be elected as directors. Votes against, votes withheld and broker non-votes have no legal effect on the election of directors due to the fact that such elections are by a plurality.

Every stockholder voting in the election of directors may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected (seven) multiplied by the number of votes to which the stockholder's shares are entitled, or may distribute the stockholder's votes on the same principle among as many candidates as the stockholder thinks fit, provided that votes cannot be cast for more than seven candidates. However, no stockholder shall be entitled to cumulate votes for a candidate unless the

candidate's name has been properly placed in nomination in accordance with the Company's bylaws prior to the meeting, and the stockholder, or any other stockholder, has given notice at the meeting prior to the voting of the stockholder's intention to cumulate votes. The proxy holders will exercise discretionary authority to cumulate votes in the event that additional persons are nominated for election as directors.

MANAGEMENT RECOMMENDS A VOTE FOR EACH OF THE NOMINEES LISTED ABOVE.

PROPOSAL TWO

AMENDMENT TO THE EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER

GENERAL

The Amended and Restated Employee Stock Purchase Plan ("ESPP") was adopted by the Board of Directors and approved by the stockholders in April 1983. A total of 225,000 shares of common stock were initially reserved for issuance thereunder. From time to time since April 1983, the Board of Directors and stockholders have approved amendments to the ESPP to increase the number of shares reserved for issuance thereunder, and to change certain other provisions. In addition, the Company announced a three-for-two stock split in 1986 and two-for-one common stock splits in 1995 and 2000. As of the Record Date, of the

40,314,110 shares reserved for issuance under the ESPP (without giving effect to this amendment), 37,840,192 shares had been issued. The Company estimates that it will have utilized a substantial portion of the 2,473,918 remaining available shares by the end of the exercise period ending May 14, 2001, leaving an inadequate number of shares available for issuance thereafter.

The Board of Directors believes that it is in the best interests of the Company and its stockholders to provide employees with an opportunity to purchase common stock through payroll deductions at a discount. The ESPP is an additional incentive to contribute to the success of the Company. Employees have rated the ESPP as their most valuable benefit. As of the Record Date, approximately 75% of the eligible employees are participating in the ESPP.

PROPOSED AMENDMENT TO THE ESPP

On February 15, 2001, the Board of Directors approved an amendment to the ESPP to increase the number of shares reserved under the ESPP by 10,000,000 to a total of 50,314,110 shares.

The total number of shares of common stock reserved for issuance under the ESPP is 40,314,110, of which 2,473,918 are available for future issuance. These are not enough shares to meet anticipated demand because participation in the ESPP has increased due to the Company's growth in the past year. Therefore, stockholder approval is sought to increase the number of shares of common stock reserved for issuance under the ESPP by 10,000,000. If the proposed amendment is approved, the total number of shares of common stock reserved for issuance under the ESPP will be 50,314,110. This amount includes the 2,403,643 shares automatically added to the ESPP on January 1, 2001 ("Annual Replenishment"), which was previously approved by the stockholders. The Annual Replenishment consists of 1.15% of the Company's common stock issued and outstanding at fiscal year end less the number of shares available for future option grants under the ESPP at fiscal year end. The number of shares of common stock reserved for issuance under the ESPP, as amended by this proposal, together with the Annual Replenishment, is anticipated to be sufficient to meet the Company's requirements for the next 12 months.

REQUIRED VOTE

The affirmative vote of a majority of the Votes Cast at the annual meeting will be required to approve PROPOSAL TWO.

SUMMARY OF THE ESPP

The essential features of the ESPP are outlined below.

Purpose

The purpose of the ESPP is to provide employees of the Company and of its majority-owned subsidiaries designated by the Board of Directors who participate in the ESPP with an opportunity to purchase common stock of the Company at a discount through payroll deductions.

Administration

The ESPP is currently being administered by the Board of Directors, although that body may appoint a committee to perform that function. All questions of interpretation or application of the ESPP are determined in the sole discretion of the Board of Directors or its committee, and its decisions are final and binding upon all participants. Members of the Board of Directors who are eligible employees are permitted to participate in the ESPP but may not vote on any matter affecting the administration of the ESPP or the grant of any option pursuant to the ESPP. No member of the Board of Directors who is eligible to participate in the ESPP may be a member of any committee appointed to administer the ESPP. No charges for administrative or other costs may be made against the payroll deductions of a participant in the ESPP. Members of the Board of Directors receive no additional compensation for their services in connection with the administration of the ESPP.

Eligibility

Any person who is employed by the Company (or by any of its majority-owned subsidiaries designated by the Board) for at least 20 hours per week and more than five months in a calendar year is eligible to participate in the ESPP. As of the Record Date, approximately 7,315 employees were eligible to participate in the ESPP and approximately 5,482 of those were participating.

Offering Dates

The ESPP is currently implemented by consecutive overlapping 12-month offering periods. The offering periods begin May 15 and November 15 of each year. Each offering period is composed of two six-month purchase periods. The Board of Directors has the power to alter the duration of the offering periods without stockholder approval if such change is announced prior to the scheduled beginning of the first offering period to be affected.

Eligible employees become participants in the ESPP by delivering a subscription agreement to the Company authorizing payroll deductions. An employee who becomes eligible to participate in the ESPP after the commencement of an offering period may not participate in the ESPP until the commencement of the next offering period.

Purchase Price

The purchase price per share at which shares are purchased under the ESPP is the lower of (a) 85% of the fair market value of a share of Company common stock on the enrollment date for a 12-month offering period or (b) 85% of the fair market value of a share of common stock on the applicable purchase date within that offering period. If shares are to be added to the ESPP at a time when the fair market value of a share of common stock is higher than it was on the enrollment date, then the Board of Directors may at its discretion set the purchase price for the added shares at the lesser of 85% of the fair market value of a share of common stock on the date such shares are authorized or 85% of the fair market value of shares on the applicable purchase date within the offering period. The fair market value of the common stock on a given date is determined by the Board of Directors based upon the closing sales price as reported by The Wall Street Journal on such date.

Payment of Purchase Price; Payroll Deductions

ESPP shares are purchased with funds that are accumulated through payroll deductions during the offering period. The deductions may not exceed 15% of a participant's eligible compensation, which is defined in the ESPP to include the regular straight time salary as of each payday during the offering period, payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and commissions, but exclusive of other compensation. A participant may decrease the rate of payroll deductions at any time in whole percentage point increments (but not below 1%), and such decreases are immediately effective. Increases in the rate of payroll deductions may be made only at the start of a purchase period.

All payroll deductions are credited to the participant's account under the ESPP; no interest accrues on the payroll deductions. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose and such payroll deductions need not be segregated.

Purchase of Stock; Exercise of Option

At the beginning of each offering period, each participating employee is in effect granted an option to purchase shares of common stock. The maximum number of shares placed under option to a participant in an offering period is determined by dividing the participant's accumulated payroll deductions during the purchase period by 85% of the fair market value of the common stock at the beginning of the offering period or on the applicable purchase date, whichever is lower. However, the number of shares placed under option may not exceed 1,500 shares in each purchase period within offering periods commencing in the year 2001. Under no circumstances may an employee make aggregate purchases of stock of the Company and its majority-owned subsidiaries under the ESPP and any other employee stock purchase plans qualified as such under Section 423(b) of the Internal Revenue Code in excess of $25,000 (determined using the fair market value of the shares at the time the option is granted) during any calendar year.

Withdrawal

A participant may terminate his or her participation in the ESPP at any time by signing and delivering to the Company a notice of withdrawal from the ESPP, but no later than 30 days prior to the purchase date. All of the participant's accumulated payroll deductions will be paid to the participant promptly after receipt of his or her notice of withdrawal and his or her participation in the current offering period will be automatically terminated. No resumption of payroll deductions will occur on behalf of such participant unless such participant re-enrolls in the ESPP by delivering a new subscription agreement to the Company during the applicable open enrollment period preceding the commencement of a subsequent offering period. A participant's withdrawal from the ESPP during an offering period does not have any effect upon such participant's eligibility to participate in subsequent offering periods under the ESPP.

Termination of Employment

Termination of a participant's employment for any reason, including retirement or death, cancels his or her participation in the ESPP immediately. In such event, the payroll deductions credited to the participant's account will be returned to such participant or, in the case of death, to the person or persons designated in the subscription agreement. In the case of death of the participant, the beneficiary may elect to have funds remain in the participant's account until the next purchase date and the shares purchased with the funds will be forwarded to the beneficiary. A participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an employee during the period in which the participant is subject to such payment in lieu of notice.

Capital Changes

If any change is made in the capitalization of the Company, such as stock splits or stock dividends, which results in an increase or decrease in the number of shares of common stock outstanding without receipt of consideration by the Company, appropriate adjustments will be made by the Company in the number of shares subject to purchase and in the purchase price per share, subject to any required action by the stockholders of the Company. In the event of the proposed dissolution or liquidation of the Company, the offering period then in progress will terminate immediately, unless otherwise provided by the Board. In the event of the proposed sale of all or substantially all of the assets of the Company or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option shall be substituted by the successor corporation, unless the Board determines, in its discretion, to accelerate the exercisability of all outstanding options under the ESPP. The Board may also make provisions for adjusting the number of shares subject to the ESPP and the purchase price per share if the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of the Company's outstanding common stock.

Amendment and Termination of the ESPP

The Board of Directors may at any time amend or terminate the ESPP. An offering period may be terminated by the Board of Directors on any purchase date if it determines that the termination of the offering period or the ESPP is in the best interests of the Company and its stockholders. No amendment may be made to the ESPP without prior approval of the stockholders of the Company where such approval is necessary to comply with Section 423 of the Internal Revenue Code (i.e., if such amendment would increase the number of shares reserved under the ESPP or modify the eligibility requirements).

Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board of Directors shall be entitled to change the offering periods, limit the frequency and/or number of changes in the amount withheld during an offering period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of common stock for each participant properly correspond with amounts withheld from the participant's compensation and establish such other limitations or procedures consistent with the ESPP as the Board of Directors determines in its sole discretion to be advisable.

In the event the Board of Directors determines that the ongoing operation of the ESPP may result in unfavorable financial accounting consequences, the Board of Directors may, in its discretion, modify or amend the ESPP to reduce or eliminate such accounting consequences, including, but not limited to, altering the purchase price for any offering period, including an offering period underway at the time of the change, shortening any offering period so that offering period ends on a new purchase date, including an offering period underway at the time, and allocating shares.

Certain United States Federal Income Tax Information

The ESPP, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Internal Revenue Code. Under these provisions, no income will be taxable to a participant at the time of grant of the option or purchase of shares. Upon disposition of the shares, the participant will generally be subject to tax and the amount of the tax will depend upon the holding period. If the shares have been held by the participant for more than two years after the offering date and more than one year after the purchase date, the lesser of: (a) the excess of the fair market value of the shares at the time of such disposition over the purchase price, or (b) the excess of the fair market value of the shares at the time the option was granted over the purchase price (which purchase price will be computed as of the grant date) will be treated as ordinary income, and any further gain will be treated as long-term capital gain. If the shares are disposed of before the expiration of these holding periods, the excess of the fair market value of the shares on the purchase date over the purchase price will be treated as ordinary income, and any further gain or any loss on such disposition will be long-term or short-term capital gain or loss, depending on the holding period. Different rules may apply with respect to participants subject to Section 16(b) of the Securities Exchange Act of 1934, as amended. The Company is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant, except to the extent of ordinary income reported by participants upon disposition of shares prior to the expiration of the two holding periods described above.

The foregoing is only a summary of the effect of federal income taxation upon the participant and the Company with respect to the purchase of shares under the ESPP, is not intended to be complete, and does not discuss the income tax laws of any municipality, state or foreign country.

PARTICIPATION IN THE ESPP

Participation in the ESPP is voluntary and dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the ESPP are not determinable. Non-employee directors are not eligible to participate in the ESPP. The following table sets forth certain information regarding shares purchased under the ESPP during the last fiscal year and the payroll deductions accumulated at the end of the last fiscal year in accounts under the ESPP for each of the Named Executive Officers, for all current executive officers as a group and for all other employees who participated in the ESPP as a group:

AMENDED PLAN BENEFITS
EMPLOYEE STOCK PURCHASE PLAN

NAME OF INDIVIDUAL OR IDENTITY OF GROUP AND POSITION	NUMBER OF SHARES PURCHASED(#)	DOLLAR VALUE($)(1)	P
Wilfred J. Corrigan........................... Chairman and Chief Executive Officer	0	N/A	
Joseph M. Zelayeta........................... Executive Vice President, Worldwide Operations	0	N/A	
John P. Daane................................. Former Executive Vice President, Communications Products Group	4,210	177,931	
R. Douglas Norby.............................. Former Executive Vice President and Chief Financial Officer	4,210	174,114	
John D'Errico................................. Executive Vice President, Storage Components	4,211	165,724	
W. Richard Marz............................... Executive Vice President, Geographic Markets	4,677	194,685	
Thomas Georgens............................... Executive Vice President, SAN Systems	5,204	229,229	
All current executive officers as a group......	33,209	1,379,247	
All other employees as a group................	4,814,311	207,351,483	

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(1) Market value of shares on date of purchase, minus the purchase price under the ESPP.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDED AND RESTATED EMPLOYEE STOCK PURCHASE PLAN. THE EFFECT OF AN ABSTENTION IS THE SAME AS THAT OF A VOTE AGAINST THE AMENDED AND RESTATED EMPLOYEE STOCK PURCHASE PLAN.

PROPOSAL THREE

AMENDMENT TO THE 1991 EQUITY INCENTIVE PLAN TO INCREASE
THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER

GENERAL

The 1991 Equity Incentive Plan (the "EIP") was adopted by the Board of Directors and approved by the stockholders in May 1991, and a total of 2,000,000 shares of common stock were initially reserved for issuance thereunder. Given that, from time to time since May 1991, the Board of Directors and stockholders have approved amendments to the EIP to increase the number of shares reserved for issuance thereunder, and the two-for-one common stock splits authorized in 1995 and 2000, the aggregate number of shares authorized under the EIP is 72,500,000.

As of the Record Date, 20,707,711 shares had been issued pursuant to the exercise of options granted under the EIP and options to purchase 34,906,891 shares were outstanding, leaving 16,885,398 shares available for future grants under the EIP.

PROPOSED AMENDMENT TO INCREASE SHARES RESERVED

Stockholder approval is hereby sought for an amendment approved by the Board of Directors on February 15, 2001, increasing the number of shares of common stock reserved for issuance under the EIP by 5,000,000 shares. If the proposed amendment is approved, the total number of shares of common stock reserved for issuance under the EIP will be 77,500,000.

REQUIRED VOTE

The affirmative vote of a majority of the Votes Cast at the annual meeting will be required to approve PROPOSAL THREE.

SUMMARY OF THE 1991 EQUITY INCENTIVE PLAN

The essential features of the EIP are outlined below.

Purpose

The purpose of the EIP is to encourage equity ownership in the Company by eligible employees and consultants whose long-term employment is essential to the continued success of the Company, and to enable the Company to hire and retain the best available talent for the successful conduct of its business.

The Board of Directors believes that the continued growth of the Company will depend upon its ability to attract, hire and retain qualified employees. A challenge of the Company is to ensure that these valued employees are appropriately rewarded and encouraged to stay with the Company, help it grow, and increase shareholder value. Employers with whom the Company competes for such highly qualified individuals frequently offer grants of substantial numbers of stock options as part of a comprehensive compensation package. Accordingly, management believes that it must be in a position to offer a competitive stock option incentive program, such as the EIP, to attract the caliber of employees that the Company believes is necessary to achieve its objectives. The proposed amendment to the EIP is intended to ensure that there will be a reasonable number of shares available to meet these needs for the coming year.

Stock Options

The EIP initially permitted the granting both of stock options that either are intended to qualify as Incentive Stock Options, or ISOs, and of stock options that are not intended to so qualify, known as Nonstatutory Stock Options or NSOs. However, with respect to shares previously approved by the shareholders, no ISOs may be granted under the EIP after March 8, 2001. If the stockholders approve the

proposed amendment to the EIP, the Company will be permitted to grant ISOs with respect to the newly added shares.

The exercise price for each option may not be less than 100% of the fair market value of a share of common stock on the date such option is granted (or not less than 110% of such fair market value in the case of grants of ISOs to 10% stockholders). The exercise price of granted options may not be reduced without stockholder approval. No employee may be granted, in any fiscal year, options to purchase more than 1,500,000 shares.

The Board of Directors fixes the term of each option at the time of the grant, generally at ten years from the date of grant. (In the case of ISOs, the term may not exceed five years in the case of grants to a 10% stockholder and ten years for others.) The Board of Directors also determines the vesting schedule for each option grant, which is generally 25% on each of the first four anniversaries of the date of grant.

The exercise price of options granted under the EIP, including applicable tax withholding, if any, must be paid in full at the time of exercise. The method of payment is determined by the Board of Directors or its designated committee administering the EIP and may consist of cash, check, promissory note, other shares of common stock, delivery of a properly executed exercise notice with irrevocable instructions to the optionee's broker to deliver to the Company the amount of sale proceeds required to pay the exercise price, any combination of the foregoing methods of payment or such other consideration and method of payment permitted under the Delaware General Corporation Law.

If an optionee's employment terminates for any reason, including retirement, his or her exercisable options may be exercised within the time period set forth in the option agreement, which is generally 90 days from the date of termination. If the Board of Directors or its designated committee determines that an employee was discharged for misconduct (as defined in the EIP), the employee has no further rights under the options granted to him or her or under the plan. If an optionee's employment is terminated by reason of the optionee's death or permanent total disability, the option will be exercisable for 12 months following the date of death or disability, subject to the stated term of the option. Options granted to consultants have such terms and conditions with respect to the effect of termination of the consulting relationship (including upon the death of the consultant) as the Board of Directors or its designated committee may determine in each case.

Eligibility

Any employee (including any officer) or consultant of the Company or of its majority-owned subsidiaries whom the Board of Directors deems to have the potential to contribute to the future success of the Company is eligible to receive NSO option grants under the EIP. Only employees of the Company or of its subsidiaries are eligible to receive ISO grants. As of December 31, 2000, the Company had 7,221 employees and approximately 130 consultants.

Adjustments for Recapitalizations and Reorganizations

In the event of a stock dividend, stock split, combination or similar event, the number of shares of common stock available for issuance under the EIP shall be increased or decreased proportionately, and the number of shares of common stock deliverable upon exercise, and, where applicable, the exercise price of each option, shall be proportionately adjusted. In the event of a merger, reorganization, liquidation or similar event, the Board of Directors may either provide for the assumption or substitution of outstanding options or provide that the options must be exercised within 30 days. In either case, the Board of Directors may provide for accelerated vesting of such options.

Administration

The EIP is administered by the Board of Directors or by a committee appointed by the Board of Directors in compliance with Rule 16b-3 promulgated under the Securities Exchange Act of 1934. If permitted by Rule 16b-3, the EIP may be administered by different bodies with respect to employees who are directors,

non-director officers, employees who are neither directors nor officers, and consultants. A member of the Board of Directors who is an eligible employee is permitted to participate in the EIP but may not be a member of a committee appointed to administer it. Members of the Board of Directors receive no additional compensation for their services in connection with the administration of the EIP.

Amendment and Termination

The Board of Directors may amend, alter, suspend or discontinue the EIP at any time, but such amendment, alteration, suspension or discontinuation may not impair the rights of any participant in the EIP without the participant's consent. In addition, no ISO may be granted under the 1991 EIP after March 8, 2001 with respect to shares previously approved by stockholders.

In addition, to the extent necessary and desirable to comply with Section 422A of the Internal Revenue Code of 1986, as amended (or any other applicable law or regulation), the Company shall obtain stockholder approval of any 1991 EIP amendment, in such a manner and to such a degree as required to comply with such laws or regulations.

Certain United States Federal Income Tax Information

The following is only a brief summary of the effect of federal income taxation upon the participant and the Company under the EIP based upon the Internal Revenue Code. This summary is not intended to be complete and does not discuss the income tax laws of any municipality, state or country outside of the United States. It is advisable that a participant contact his or her own tax adviser concerning the application of tax laws.

If an option granted under the EIP is an ISO, the optionee will recognize no taxable income upon grant or exercise of the ISO unless the alternative minimum tax rules apply. Upon the resale or exchange of the shares at least two years after grant of the ISO and one year after exercise by the optionee, any gain (or loss) will be taxed to the optionee as ordinary income (or loss) or capital gain (or loss), depending on how long the optionee has held the stock.

All options that do not qualify as ISOs are taxed as NSOs. An optionee will not recognize any taxable income at the time he or she is granted an NSO. However, upon the exercise of an NSO, the optionee will generally recognize ordinary income for federal income tax purposes measured by the excess, if any, of the then fair market value of the shares over the exercise price. The ordinary income recognized upon exercise of an NSO by an optionee who is also an employee of the Company will be treated as wages for tax purposes and will be subject to tax withholding out of the current compensation, if any, paid to the optionee. Upon resale of such shares by the optionee, any difference between the sale price and fair market value on the date of exercise will be treated as capital gain (or loss).

The Company will be entitled to a tax deduction in the same amount as the ordinary income, if any, recognized by the optionee (i) upon exercise of an NSO and (ii) upon the sale of shares acquired by exercise of an ISO in a disqualifying disposition. The Company will not be allowed a deduction for federal income tax purposes as a result of the exercise of an ISO, regardless of the applicability of the alternative minimum tax.

PARTICIPATION IN THE 1991 EQUITY INCENTIVE PLAN

The grant of options under the 1991 Equity Incentive Plan to employees, including the Named Executive Officers, is subject to the discretion of the plan's administrator. As of the date of this proxy statement, there has been no determination by the administrator with respect to future awards under the 1991 Equity Incentive Plan. Accordingly, future awards are not determinable. Non-employee directors are not eligible to participate in the 1991 Equity Incentive Plan. The following table sets forth information with respect to the grant of options to the Named Executive Officers, to all current executive officers as a group and to all other employees as a group during the last fiscal year:

AMENDED PLAN BENEFITS
1991 EQUITY INCENTIVE PLAN

NAME OF INDIVIDUAL OR IDENTITY OF GROUP AND POSITION	SHARES UNDERLYING OPTIONS GRANTED(#)	WEIGHTED AVER EXERCISE PRICE SHARE ($/SH.
Wilfred J. Corrigan Chairman and Chief Executive Officer	0	N/A
Joseph M. Zelayeta Executive Vice President, Worldwide Operations	200,000	52.13
John P. Daane Former Executive Vice President, Communications Products Group	600,000	46.13
R. Douglas Norby Former Executive Vice President and	150,000	52.13

Chief Financial Officer		
John D'Errico...	250,000	47.33
Executive Vice President, Storage Components		
W. Richard Marz...	75,000	52.13
Executive Vice President, Geographic Markets		
Thomas Georgens...	250,000	47.33
Executive Vice President, SAN Systems		
All current executive officers as a group..................	2,225,000	40.17
All other employees as a group............................	4,270,000	40.75

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE AMENDMENT OF THE 1991 EQUITY INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER.

PROPOSAL FOUR

RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

The Board has selected PricewaterhouseCoopers LLP, independent accountants, to audit the consolidated financial statements of the Company for its 2001 fiscal year and recommends that the stockholders vote for ratification of such appointment. If there is a negative vote on such ratification, the Board will reconsider its selection. PricewaterhouseCoopers LLP (or its predecessor) has audited the Company's consolidated financial statements since the fiscal year ended December 31, 1981. Representatives of PricewaterhouseCoopers LLP are expected to be present at the annual meeting with the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT ACCOUNTANTS FOR THE 2001 FISCAL YEAR.

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EXECUTIVE COMPENSATION

SUMMARY OF COMPENSATION

The following table shows, as to (i) the Chief Executive Officer, (ii) each of the four other most highly compensated executive officers who were serving as such at fiscal year end and whose salary plus bonus exceeded $100,000 in 2000 and (iii) two former executive officers (the "Named Executive Officers"), information concerning all reportable compensation awarded to, earned by or paid to each for services to us in all capacities during the fiscal year ended December 31, 2000, as well as such compensation for each such individual for our previous two fiscal years (if such person was an executive officer during any part of such previous fiscal year).

SUMMARY COMPENSATION TABLE

LONG-TERM
COMPENSATION

AWARDS

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY($)	BONUS($)	SECURITIES UNDERLYING OPTIONS (#)(1)	ALL O COMPEN ($)
Wilfred J. Corrigan......................	2000	848,478	1,400,000	-0-	5,
Chairman and Chief Executive	1999	787,897	1,400,000	1,000,000	7,
Officer	1998	744,238	375,000	1,000,000	9,
Joseph M. Zelayeta.......................	2000	409,618	500,000	200,000	1,
Executive Vice President,	1999	381,086	500,000	300,000	2,
Worldwide Operations	1998	360,968	130,000	70,000	3,
John P. Daane(3).........................	2000	447,217	500,000	600,000	
Former Executive Vice President,	1999	365,584	500,000	400,000	
Communications Products Group	1998	329,238	150,000	400,000	
R. Douglas Norby(4)......................	2000	400,966	400,000	150,000	9,
Former Executive Vice President	1999	354,625	400,000	200,000	7,
and Chief Financial Officer	1998	334,623	110,000	150,000	9,
John D'Errico(5).........................	2000	335,786	400,000	250,000	3,
Executive Vice President,	1999	313,167	400,000	250,000	4,
Storage Components	1998	267,507	90,000	120,000	5,
W. Richard Marz..........................	2000	386,156	300,000	75,000	3,
Executive Vice President	1999	365,974	85,000	150,000	4,
Geographic Markets	1998	350,968	100,000	70,000	5,
Thomas Georgens(6).......................	2000	319,048	250,000	250,000	
Executive Vice President	1999	239,242	237,829	250,000	1,
SANS Systems	1998	191,755	160,537	100,000	

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(1) The Company has not granted any stock appreciation rights.

(2) "All Other Compensation" for 2000 consists solely of group life insurance.

(3) Mr. Daane resigned from the Company in November 2000.

(4) Mr. Norby resigned from the Company in December 2000.

(5) Mr. D'Errico was named an executive officer of the Company in August 1998.

(6) Mr. Georgens was named an executive officer of the Company in August 1998.

CHANGE-IN-CONTROL AGREEMENTS

The Company is a party to agreements with Mr. Wilfred J. Corrigan and each of the other Named Executive Officers to ensure the continued services of management to the Company in the event of a change in control. In November 1998, the Company entered into a change of control agreement with Wilfred J. Corrigan, the Company's Chairman of the Board and Chief Executive Officer. Under the agreement, benefits

are payable only upon a change in control of the Company, which is deemed to have occurred in the event of (1) the consummation by the Company of a merger or consolidation of the Company with any other corporation, other than merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent more than 50% of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; (2) the approval by the shareholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or (3) any person becoming the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities. Upon a change of control, Mr. Corrigan will receive a lump sum payment equal to three years' base salary plus 300% of his target bonus for the year in which the change of control occurs. In addition, the vesting and exercisability of all unvested options that were granted at least six months prior to the change of control shall be accelerated automatically and shall be fully vested and exercisable as of the date of the change of control. The Company shall also provide Mr. Corrigan with health-care benefits for a period not to exceed two years following the termination of employment. This agreement shall terminate five years following the effective date unless a change of control occurs, in which case the agreement shall terminate upon the date that all obligations of the parties have been satisfied.

Under the agreements, if the executive officer's employment is terminated involuntarily at any time within 12 months after a change of control, the executive officer will receive a lump sum payment equal to the sum of two years' base salary plus 200% of the executive officer's target bonus for the year in which the change of control occurs, and continued health-care benefits during the two years following the termination. In addition, the vesting and exercisability of all options that were granted at least six months prior to the change of control shall be automatically accelerated and fully vested and exercisable at the date of the involuntary termination. These agreements shall terminate five years following their effective dates, unless a change of control occurs, in which case, the agreements shall terminate upon the date that all obligations of the parties have been satisfied.

STOCK OPTION GRANTS AND EXERCISES

The following tables set forth information with respect to the stock options granted to the Named Executive Officers under our stock option plans, the options exercised by such Named Executive Officers during the fiscal year ended December 31, 2000 and the options held by the Named Executive Officers at December 31, 2000.

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The Option Grants Table sets forth hypothetical gains or "option spreads" for the options at the end of their respective ten-year terms, as calculated in accordance with the rules of the Securities and Exchange Commission. Each gain is based on an arbitrarily assumed annualized rate of compound appreciation of the market price of 5% or 10% from the date the option was granted to the end of the option term and does not represent our projection of future stock price performance. Actual gains, if any, on option exercises are dependent on the future performance of our common stock and overall market conditions.

OPTION(1) GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS			
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED IN FISCAL YEAR(#)(2)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(3)	EXERCISE OR BASE PRICE ($/SHARE)	EXPIRATION DATE

Wilfred J. Corrigan..........	-0-	N/A	N/A	N/A
Joseph M. Zelayeta...........	200,000	1.05	52.13	2/17/2010
John P. Daane................	300,000	1.58	52.13	2/17/2010
	300,000	1.58	40.13	8/18/2010
R. Douglas Norby.............	150,000	0.79	52.13	2/17/2010
John D'Errico................	150,000	0.79	52.13	2/17/2010
	100,000	0.53	40.13	8/18/2010
W. Richard Marz..............	75,000	0.40	52.13	2/17/2010
Thomas Georgens..............	150,000	0.79	52.13	2/17/2010
	100,000	0.53	40.13	8/18/2010

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(1) The Company has not granted any stock appreciation rights.

(2) All options shown in the table were granted under the 1991 Equity Incentive Plan. The material terms of the options are: (a) The exercise price of the options is the fair market value of the common stock as of the date of grant; (b) The options vest cumulatively in equal 25% increments on each of the first four anniversaries of the date of grant; (c) To the extent unexercised, the options lapse after ten years; (d) The options are non-transferable and are only exercisable during the period of employment of the optionee (or within 90 days following termination of employment), subject to limited exceptions in the cases of certain terminations, death or permanent disability of the optionee. These options are subject to acceleration of exercisability in certain events. See "Change-in-Control Agreements" above.

(3) Based on options granted to all employees in 2000 to purchase an aggregate of 19,045,597 shares.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END VALUES(1)

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END(#)		I
NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)	EXERCISABLE	UNEXERCISABLE	EXERCIS
Wilfred J. Corrigan.......	1,450,000	48,881,210	2,800,000	1,400,000	11,582
Joseph M. Zelayeta........	-0-	-0-	623,000	495,000	4,064
John P. Daane.............	270,000	11,265,875	424,000	-0-	1,958
R. Douglas Norby..........	535,000	14,860,038	50,000	-0-	
John D'Errico.............	97,500	4,046,031	122,500	505,000	364
W. Richard Marz...........	100,000	4,581,906	560,000	232,500	509
Thomas Georgens...........	87,634	3,024,607	75,000	487,500	190

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(1) Value of unexercised options is based on the difference between the fair market value of Company's common stock of $17.09 per share as of December 31, 2000 (the last day of the last completed fiscal year) and the exercise price of the unexercised in-the-money options.

OTHER TRANSACTIONS

In 2000, the Company loaned $1,000,000 to Thomas Georgens, Executive Vice President, SAN Systems, to assist in the purchase of his home on relocation to California. The term of the loan was for five years and it bore interest at an annual rate of 6.5 percent. The note was secured by a deed of trust. The largest principal amount outstanding during 2000 was $1,000,000, and the principal amount outstanding at fiscal year end was $500,000. Mr. Georgens paid off the loan in full in January 2001.

BOARD COMPENSATION COMMITTEE REPORT ON CEO AND OTHER EXECUTIVE OFFICER COMPENSATION FOR LSI LOGIC CORPORATION

OVERVIEW AND PHILOSOPHY

The Compensation Committee (the "Compensation Committee") of the Board of Directors establishes the overall executive compensation strategies of the Company and approves compensation elements for the chief executive officer and other executive officers. The Compensation Committee periodically reviews its approach to executive compensation.

The Compensation Committee is comprised of outside, non-employee members of the Board of Directors (four), none of whom has any interlocking relationships as defined by the Securities and Exchange Commission. The Compensation Committee has available to it such external compensation advice and data as the Committee deems appropriate to obtain.

The compensation philosophy of the Compensation Committee is to provide a comprehensive compensation package for each executive officer that is well suited to support accomplishment of the Company's business strategies, objectives and initiatives. For incentive-based compensation, the Committee considers the desirability of structuring such compensation arrangements so as to qualify for deductibility by the Company under Section 162(m) of the Internal Revenue Code, as amended. As the Compensation Committee applies this compensation philosophy in determining appropriate executive compensation levels and other compensation factors, the Compensation Committee reaches its decisions with a view towards the Company's overall financial performance.

EXECUTIVE OFFICER COMPENSATION

The Compensation Committee's approach is based upon a belief that a substantial portion of aggregate annual compensation for executive officers should be contingent upon the Company's performance and an individual's contribution to the Company's success. In addition, the Committee strives to align the interests of the Company's executive officers with the long-term interests of shareholders through stock option grants that can result in ownership of the Company's Common Stock. The Compensation Committee endeavors to structure each executive officer's overall compensation package to be consistent with this approach and to enable the Company to attract, retain and reward individuals who contribute to the success of the Company.

The Company's compensation program for executive officers is based on the following guidelines:

- Establishment of base salary levels and participation in generally available employee benefit programs based on competitive compensation package practices.

- Utilization of a performance-based, cash incentive plan.

- Inclusion of equity opportunities that create long term incentives based upon increases in shareholder return.

The Company had a cash incentive plan during 2000 that provided for bonus awards to be made to the executive officers (other than the CEO) and other members of senior management subject to an aggregate budget for all awards under the plan. The plan established a minimum level of operating income to be achieved by the Company for the year 2000 before any payments would be made under the plan. The plan also allowed upward adjustments in awards to be made if the minimum operating income target was exceeded. In

addition, the plan provides for the CEO to determine individual bonus award amounts pursuant to his judgment of each participant's personal contributions to the Company's performance for the year, subject to the approval of the Committee of awards to executive officers. The Company's operating income for 2000 exceeded the threshold performance established under the plan. Accordingly, awards were made to individual executive officers consistent with the plan's provisions regarding the Company's performance and the personal contributions of each executive officer. The total of all payments under the plan were within the budget approved previously by the Compensation Committee.

During 2000, the Compensation Committee approved a budget for increases in the base salary levels of executive officers, which reflected the compensation guidelines described previously in this report. Increases in base salary amounts for individual executive officers were then made pursuant to the chief executive officer's judgment and discretion in satisfying the Company's compensation philosophy set forth above. The aggregate of such adjustments were within the budget that had been approved by the Compensation Committee. The general level of compensation of the Company's executive officers is in the median of ranges of compensation information sources against which the Company makes competitive comparisons.

The Company maintains a set of guidelines for use in making recommendations to the Compensation Committee on individual grants to executive officers of options to purchase Common Stock of the Company. Stock option grants were made to executive officers during 2000 by reference to the guidelines. These guidelines are developed by reference to external published surveys and other information that are believed to fairly reflect the competitive environment in which the Company operates and which are consistent with the compensation principles set forth above.

CHIEF EXECUTIVE OFFICER COMPENSATION

Mr. Corrigan has been CEO of the Company since its founding in 1981. His annual base salary prior to the beginning of fiscal 2000 was $800,000. During 2000, the Committee considered information regarding competitive compensation practices and levels for chief executive officers, the above described approach to compensation for executive officers and the Committee's assessment of Mr. Corrigan's contribution to the Company's performance. Based upon such factors, the Compensation Committee increased Mr. Corrigan's annual base salary to $860,000, effective March 6, 2000. The base salary established by the Compensation Committee for Mr. Corrigan falls in the median of the range of such information used for competitive comparisons.

The Compensation Committee awarded Mr. Corrigan a cash bonus in the amount of $1,400,000, in respect to the Company's performance during 2000 and Mr. Corrigan's contributions as chief executive officer. The Compensation Committee based its evaluation of Mr. Corrigan's performance for purposes of determining the amount of this award pursuant to the operating income objectives that were established in accordance with terms of the performance-based bonus compensation plan for the Company's Chief Executive Officer.

The Compensation Committee believes Mr. Corrigan has managed the Company well, and has achieved distinguished results, which is reflected by the Company's key financial metrics such as revenue, gross margin and operating income and net income as well as through successful execution of strategic initiatives.

MEMBERS OF THE COMPENSATION COMMITTEE

James H. Keyes, Chairman
T.Z. Chu
Malcolm R. Currie
Matthew J. O'Rourke

February 15, 2001

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of the Board of Directors of LSI Logic Corporation ("Audit Committee") assists the Board in executing its responsibilities. The Audit Committee is responsible for, among other things, monitoring the integrity and adequacy of the Company's financial information, control systems, and reporting practices, and for recommending to the Board for adoption by the shareholders the Audit Committee's selection of independent auditors for the Company.

The Audit Committee is composed of four non-employee members, each of whom is independent as defined by the New York Stock Exchange listing rules. The Company's independent accountants, PricewaterhouseCoopers LLP, are responsible for expressing an opinion on the conformity of the Company's audited financial statements to generally accepted accounting principles. A copy of the Audit Committee Charter, which was first adopted by the Board of Directors on November 11, 1999, is attached to this Proxy Statement.

The Audit Committee has reviewed and discussed the audited financial statements with the Company's management. The Audit Committee has discussed with PricewaterhouseCoopers certain matters required under Statement on Auditing Standard No. 61 and has received written disclosures and the letter required by Independent Standards Board Standard No. 1 from the outside auditors and has discussed with them their independence.

Audit Fees: The aggregate fees billed by PricewaterhouseCoopers for professional services rendered for the audit of the Company's fiscal year 2000 statements, and for the reviews of the financial statements included in the each of Company's Forms 10-Q are $1.1 million, and audit related fees were an additional $0.3 million.

Financial Information Systems Design and Implementation Fees: PricewaterhouseCoopers did not bill for any professional services for financial information systems design or implementation as described in Paragraph (c)(4)(ii) of Rule 2-01 of Regulation S-X (17 CFR 210.2-01 (c)(4)(ii)) for fiscal year 2000.

All Other Fees: Aggregate fees billed for all other services rendered by PricewaterhouseCoopers, other than the services covered in the two previous paragraphs, for fiscal year 2000 are $1.2 million.

The Audit Committee has considered whether the services provided by

PricewaterhouseCoopers are compatible with maintaining the independence of PricewaterhouseCoopers and has concluded that the independence of PricewaterhouseCoopers is maintained and is not compromised by the services provided.

Based on the review and discussion referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, for filing with the Securities and Exchange Commission.

MEMBERS OF THE AUDIT COMMITTEE

Malcolm R. Currie, Chairman
T.Z. Chu
James H. Keyes
Matthew J. O'Rourke

March 5, 2001

PERFORMANCE GRAPH

The stock price performance shown on the graph following is not necessarily indicative of future price performance.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
AMONG LSI LOGIC CORPORATION*, S&P 500 INDEX
AND THE PHILADELPHIA SEMICONDUCTOR INDEX

[PERFORMANCE GRAPH]

	LSI LOGIC CORPORATION	S&P 500 INDEX
1995	100	100
1996	82	123
1997	60	164
1998	49	211
1999	206	255
2000	104	232

* During 1997, the Company changed its fiscal year to a straight calendar year from a 52/53 week fiscal year that ended on the Sunday closest to December 31. Prior to the change, the Company's last trading day of its fiscal year may have varied. For consistent presentation and comparison to the industry indices shown herein, the Company has calculated its stock performance graph assuming a December 31 year-end.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors, officers and beneficial owners of more than 10% of the Company's Common Stock to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Based solely on its review of the copies of such reports received by it, or written representations from reporting persons, the Company believes that during the fiscal year ended December 31, 2000, its officers, directors and holders of more than 10% of the Company's Common Stock complied with all Section 16(a) filing requirements, except for the following. A Form 4 for Mr. Corrigan was filed late, an amended Form 4 was filed late for Mr. Norby, and one transaction for Mr. Georgens that should have been reported on a Form 4 was filed on Form 5, constituting a late filing.

OTHER MATTERS

The Company knows of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of Proxy to vote the shares they represent as the Board of Directors may recommend. Under the Company's bylaws, in order to be deemed properly presented, notice must be delivered to the Secretary of the Company at the principal executive offices of the Company no less than 60 days nor more than 90 days prior to the Annual Meeting; provided, however, if less than 65 days notice of the date of the Annual Meeting has been given to stockholders, notice by the stockholder to be timely must be delivered to the Company not later than the close of business on the seventh day following the day on which such notice of the Annual Meeting was mailed. The stockholder's notice must set forth, as to each proposed matter: (a) a reasonably detailed description of the business and reason for conducting such business at the meeting; (b) the name and address as they appear on the Company's books of the stockholder proposing such business, or the name of the beneficial holder or other party on whose behalf the proposal is made; (c) the class and number of shares of the Company owned by the stockholder or beneficial holder or other party on whose behalf the proposal is made; and (d) any material interest of the stockholder or beneficial holder or other party on whose behalf the proposal is made in such business.

THE BOARD OF DIRECTORS

March 26, 2001

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EXHIBIT 1

CHARTER OF THE AUDIT COMMITTEE OF THE LSI LOGIC CORPORATION BOARD OF DIRECTORS

ESTABLISHMENT:

The LSI Logic Corporation Board of Directors (the "Board") has established an Audit Committee ("Committee") of the Board. The Committee is established to assist the Board in fulfilling its responsibilities regarding the integrity and adequacy of the Company's financial information, control systems and reporting practices.

The Committee's charter, which has been approved by the Board, is to be reviewed by the Committee annually. The Committee will meet at such times and places as it determines appropriate at least three times per year. Activities and actions of the Committee shall be reported to the Board.

MEMBERSHIP:

The Committee will be comprised of at least three members of the Board who satisfy the qualifications for membership. In addition to the qualifications for individual members, the Committee's membership will reflect knowledge and experience in corporate accounting and financial controls and reporting.

QUALIFICATIONS:

Members of the Committee will be directors who are not otherwise employed by the Company ("Outside Directors") nor have been so employed at any time during the prior three years from the time when they are appointed to the Committee.

Members of the Committee will have and maintain independence from management of the Company in accordance with the standards of independence required by the listing rules of the New York Stock Exchange ("NYSE"). As needed, the Board will review and, if appropriate, certify the independence of any member of the Committee or candidate therefor.

Members of the Committee will have, or within a reasonable time will acquire, the capability to read and understand the fundamental financial statements of the Company, including its balance sheet, income statement and cash flow statement.

RELATIONSHIP WITH OUTSIDE AUDITORS:

The outside auditor for the Company is to be ultimately accountable to the Board of Directors and to the Committee. The Committee and the Board of Directors have the ultimate authority and responsibility for the selection, evaluation and, as appropriate in the judgment of the Committee and the Board of Directors, the replacement of the outside auditor. The Committee's and Board of Directors' choice of outside auditor shall be submitted to the Stockholders for ratification at the annual meeting of stockholders.

The Committee will ensure that the outside auditor submits to the Committee on a periodic basis a formal written statement delineating all relationships between the outside auditor and the Company. Any relationship thereby disclosed that may reasonably be expected to impact the objectivity and independence of the outside auditor will be examined by the Committee and discussed with the outside auditor. The Committee will report its findings and recommendations, as appropriate, to the Board of Directors for the purpose of assisting the Board of Directors in taking action, as may be appropriate, to ensure the independence of the outside auditor.

ROLE AND RESPONSIBILITIES:

The Committee will perform its duties while at all times maintaining a free and open means of communication with the directors, the outside auditors, the internal auditor and the financial management of the Company. The responsibilities of the Committee shall include:

a. Review and recommend to the Board the outside auditors to be selected to audit the financial statements of the Company, including its subsidiaries and related operating units;

b. Receive periodic (but no less frequently than annually) reports from the outside auditors regarding the outside auditors' independence, discuss such reports with the outside auditors and if so determined by the Committee recommend that the Board of Directors take appropriate action to satisfy itself of the independence of the outside auditors.

c. In consultation with the outside auditors and the financial management of the Company, review the scope of the proposed audit for the current year and the audit plan to be employed;

d. Review the conclusions of the annual audit and any comments or recommendations of the outside auditors resulting therefrom;

e. Review with the outside auditors and the Company's financial management at the completion of the annual audit: (i) the financial statements, including footnotes, (ii) the outside auditors' report thereon, (iii) any significant changes to the outside auditors' audit plan and, as may be appropriate to the Company's operations, (a) changes in the Company's significant accounting policies, (b) methods used to account for significant unusual transactions, (c) the effect of significant accounting policies in controversial or emerging areas, (d) management's formulation of sensitive accounting estimates and the basis for the auditor's acceptance thereof, (e) significant adjustments that may arise from the audit and disagreements with management over the application of accounting principles, and (f) any other matters related to the audit as are to be addressed to the Committee pursuant to generally accepted auditing standards.

f. Require of the outside auditors that an SAS 71 review of the Company's interim financial information be performed prior to the Company's filing of its quarterly reports with the Securities and Exchange Commissions and, if possible prior to the filing of such quarterly reports or as soon thereafter as practicable, receive from the outside auditors information pertaining to such SAS 71 interim review as the outside auditors choose to bring to the attention of the Committee.

g. Review with the outside auditors, the Company's internal auditor and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Company, and thereby solicit and consider recommendations for improvements and/or changes as appropriate;

h. Review the role and responsibilities assigned to the internal auditor of the Company, including the independence and reporting obligations of the internal auditor, the internal audit plans for the coming year, the resources provided to accomplish internal audit plans and the coordination of such plans with the work of the outside auditors;

i. Review the progress of internal audits and the actions taken by the Company's management in having addressed the conclusions of internal audits, with appropriate attention being given to deviations from an original audit plan;

j. Periodically meet with the outside auditors outside of the presence of the management of the Company and at such meetings address, as appropriate, such matters including the outside auditors evaluation of the Company's financial, accounting and auditing personnel and the cooperation that the outside auditors receive from Company personnel during the performance of their duties for the Company;

k. Review the Company's filings with the Securities and Exchange Commission and other published documents containing the Company's financial statements; and

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l. Review legal and regulatory matters that may have a material impact on the financial statements, related company compliance policies and programs and reports received from regulators.

In addition, the Committee is authorized to make inquiry into any matter brought to its attention within the scope of its role and responsibilities and to perform such other functions as assigned by law, the Company's charter or bylaws or the Board. The Committee shall have the power to retain such external advisors to the Committee as the Committee may deem appropriate.

EXHIBIT 2

LSI LOGIC CORPORATION
EMPLOYEE STOCK PURCHASE PLAN
AMENDED AND RESTATED

The following constitutes the provisions of the Employee Stock Purchase Plan (the "Plan") of LSI Logic Corporation amended and restated effective March 31, 1999.

1. PURPOSE. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company that the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. DEFINITIONS.

(a) "Board" means the Board of Directors of the Company, or to the extent authorized by the Board, a Committee of the Board.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" means the common stock of the Company.

(d) "Company" means LSI Logic Corporation and any Designated Subsidiary of the Company.

(e) "Compensation" means, for Offering Periods commencing prior to November 15, 2000, all regular straight time earnings, exclusive of payments for overtime, shift premium, incentive compensation, incentive payments, bonuses, commissions and other compensation. For Offering Periods commencing on or after November 15, 2000, "Compensation" shall mean all regular and recurring straight time earnings, payments for overtime, shift premium, incentive compensation, incentive payments, bonuses, commissions, but exclusive of other compensation.

(f) "Designated Subsidiary" means any Subsidiary which has been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(g) "Employee" means any individual who is an Employee of the Company for tax purposes whose customary employment with the Company is at least 20 hours per week and more than five months in a calendar year. For purposes of the Plan, the employment relationship will be treated as continuing intact while the individual is on sick leave or other leave of absence approved in writing by the Company. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave. It shall not include any independent contractors providing services to the Company or its Subsidiaries, regardless of the length of such service.

(h) "Enrollment Date" means the first Trading Day of each Offering Period.

(i) "Exercise Date" means the last Trading Day of each Purchase Period.

(j) "Fair Market Value" means, as of any date, the value of the Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or a national market system, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(2) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable; or

(3) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(k) "Offering Periods" means a period of approximately 12 months during which an option granted pursuant to the Plan may be exercised as further described in Section 4, except that the Offering Period that began October 1, 1998 will end on September 29, 2000 and an Offering Period shall commence on October 1, 2000 and end on November 14, 2000. The duration and timing of Offering Periods may be changed pursuant to Sections 4 and 20 of this Plan.

(l) "Plan" means this Amended and Restated Employee Stock Purchase Plan.

(m) "Purchase Period" means the approximately six-month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period will commence on the Enrollment Date and end with the next Exercise Date. Notwithstanding the foregoing, with respect to the Offering Period commencing upon October 1, 2000 and ending on November 14, 2000 , "Purchase Period" shall be the same (approximately) six week period.

(n) "Purchase Price" means 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; provided, however, that with respect to the Offering Periods commencing on or after January 1, 1999, unless otherwise directed by the Board, if the Fair Market Value of a share of Common Stock on the date on which additional shares of Common Stock (the "New Shares") are authorized for issuance hereunder by the Company's stockholders (the "Authorization Date") is higher than the Fair Market Value of a share of Common Stock on the Enrollment Date of any outstanding Offering Period that commenced prior to the Authorization Date, the Purchase Price for only New Shares to be issued on any remaining Exercise Date of any Offering Period in effect on the Authorization Date shall be 85% of the Fair Market Value of a share of Common Stock on the Authorization Date or on the Exercise Date, whichever is lower. The Purchase Price may be adjusted by the Board pursuant to Section 20.

(o) "Reserves" means the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock that have been authorized for issuance under the Plan but not yet placed under option.

(p) "Subsidiary" means any corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(q) "Trading Day" means a day on which national stock exchanges and the Nasdaq System are open for trading.

3. ELIGIBILITY.

(a) Any Employee who is employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan, subject to the requirements of Section 5(a) and the limitations imposed by Section 423(b) of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock ownership would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock and/or hold outstanding options to purchase shares possessing five percent or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries accrue (i.e., become exercisable) at a rate which exceeds $25,000 worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. OFFERING PERIODS. The Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day on or after May 15 and November 15 each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof, except as set forth in this Section 4. The first Offering Period of the Plan as amended and restated shall commence with the first Trading Day on or after May 15, 1999 and end on the last Trading Day on or before May 14, 2000. The Offering Period which began on October 1, 1998 will end on September 29, 2000 and an Offering Period shall commence on October 1, 2000 and end on November 14, 2000. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval, if such change is announced prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. PARTICIPATION.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form provided by the Company and filing it with the Company payroll office prior to the applicable Enrollment Date, unless a later time for filing the subscription agreement is set for all eligible Employees with respect to such Offering Period.

(b) Payroll deductions for a participant shall commence with the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10.

6. PAYROLL DEDUCTIONS.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each payday during all subsequent Offering Periods commencing prior to November 15, 2000 in an amount not exceeding 10%, and during all Offering Periods commencing on or after November 15, 2000 in an amount not exceeding 15%, or such other rate as may be determined from time to time by the Board, expressed as a whole percent, of the Compensation which he or she receives on such payday during said Offering Period and the aggregate of such deduction during the Offering Period shall not exceed 10% or 15%, as applicable in accordance with the foregoing, of the aggregate Compensation during such Offering Period.

(b) All payroll deductions authorized by a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10, or may decrease the rate of his or her payroll deductions (but not below 1%) effective immediately or may increase (but not above 10% and for Offering Periods commencing on or after November 15, 2000, not above 15%) the rate of his payroll deductions effective as of the first date of the next Purchase Period within such Offering Period by completing and filing with the Company a new subscription agreement authorizing a change in payroll deduction. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. The change in rate shall be effective as soon as administratively feasible following the Company's receipt of the new authorization. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) of the Plan, a participant's payroll deductions may be automatically decreased to zero percent at any time during a Purchase Period. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state or other tax withholding obligations, if any, which arise on the exercise of the option or the disposition of the Common Stock. At any time the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. GRANT OF OPTION. On each Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of full shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Employee's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase more than 1,500 shares in each Purchase Period within Offering Periods commencing in the year 2001, provided further that such purchase shall be subject to the

limitations set forth in Sections 3(b) and 13. The Board may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the Company's Common Stock an Employee may purchase during each Purchase Period of such Offering Period. Exercise of the option shall occur as provided in Section 8, unless the participant has withdrawn pursuant to Section 10. The option shall expire on the last day of the Offering Period.

8. EXERCISE OF OPTION.

(a) Unless a participant withdraws from the Offering Period as provided in Section 10, his or her option for the purchase of shares will be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option will be purchased at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares will be purchased. Any payroll deductions accumulated in a participant's account that are not sufficient to purchase a full share will be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 or unless the Offering Period has been over-subscribed, in which event such amount shall be refunded to the participant. During his or her lifetime, a participant's option to purchase shares hereunder is exercisable only by the participant.

(b) If the Board determines that, on a given Exercise Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares available for sale under the Plan on such Exercise Date, the Board may in its sole discretion provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and (x) continue all Offering Periods then in effect, or (y) terminate any or all Offering Periods then in effect pursuant to Section 20. The Company may make pro rata allocation of the shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such Enrollment Date.

9. DELIVERY. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange for the shares purchased upon exercise of his or her option to be electronically credited to the participant's brokerage account at the securities brokerage firms designated by the Company for its direct deposit program from time to time.

10. WITHDRAWAL; TERMINATION OF EMPLOYMENT.

(a) A participant may withdraw all, but not less than all, the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company on a form provided for such purpose. All of the participant's payroll deductions credited to his or her account will be paid to the participant as soon as practicable after receipt of the notice of withdrawal, his or her option for the current Offering Period will be automatically canceled, and no further payroll deductions for the purchase of shares will be made during such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in a succeeding Offering Period which begins after the end of the Offering Period from which the participant withdraws or in any similar plan which may hereafter be adopted by the Company.

11. TERMINATION OF EMPLOYMENT. Upon a participant's ceasing to be an Employee for any reason, including retirement or death, he or she will be deemed to have elected to withdraw from the Plan and the payroll deductions accumulated in his or her account during the Offering Period but not yet used to exercise the option will be returned to him or her as soon as practicable after such termination or, in the case of death, to the person or persons entitled thereto under Section 15, and his or her option will be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice. In the case of death of the participant, the payroll deductions credited to the participant's account will be paid to the person or persons entitled thereto under paragraph 15, and such participant's option will be automatically terminated, except that the beneficiary may elect to have funds remain in the participant's account until the next Exercise Date in which case the shares purchased with the funds in the participant's account at the time of death in accordance with paragraph 8 will be forwarded to the beneficiary.

12. INTEREST. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. STOCK.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19, the maximum number of shares of the Company's Common Stock which shall be reserved for sale under the Plan shall be 50,314,110 shares, subject to stockholder approval at the 2001 Annual Meeting of Stockholders plus an annual increase to be added as of the first day of each fiscal year by an amount equal to (x) 1.15% of the shares of the Company's Common Stock issued and outstanding on the last day of the immediately preceding fiscal year less (y) the number of shares available for future option grants under the Plan on the last day of the immediately preceding fiscal year, or a lesser amount determined by the Board, but not to exceed 3,000,000 shares (subject to any adjustment pursuant to Section 19) in any fiscal year.

(b) The participant will have no interest or voting rights in shares covered by his or her option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

14. ADMINISTRATION. The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Board or its committee shall, to the full extent permitted by law, be final and binding upon all parties.

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15. DESIGNATION OF BENEFICIARY.

(a) A participant may file a written designation of a beneficiary who is to receive shares and/or cash, if any, from the participant's account under the Plan in the event of such participant's death at a time when cash or shares are held for his or her account. If the participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant in the absence of a valid designation of a beneficiary who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant; or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may reasonably designate.

16. TRANSFERABILITY. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10.

17. USE OF FUNDS. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. REPORTS. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees at least annually, and will set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the Reserves, the maximum number of shares each participant may purchase each Purchase Period (under Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan that has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to option.

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(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress will be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless otherwise provided by the Board. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Company shall notify each participant in writing at least ten business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by the successor corporation or a parent or Subsidiary of the successor corporation. If the successor corporation refuses to assume or substitute for the option, any Purchase Periods then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date") and any Offering Periods then in progress shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Company shall notify each participant in writing prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

20. AMENDMENT OR TERMINATION.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19, no such termination will affect options previously granted, provided that an Offering Period may be terminated by the Board on any Exercise Date if the Board determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 19 and this Section 20, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain stockholder approval in such a manner and to such a degree as required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or lly 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 comple 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 three months ended March 31, 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).

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

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.

Comprehensive Income (Loss)

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

	For the Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Net income (loss)	$ 258,583	$ 157,140
Foreign currency translation adjustments	(1,664)	604
Unrealized holding gains (losses) on available-for-sale securities	(48,891)	5,611
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	(4,523)	(4,050)
Deferred income tax (expense) benefit attributable to unrealized holding gains (losses) on available-for-sale securities	21,223	(792)
Comprehensive income (loss)	$ 224,728	$ 158,513

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

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		(1,664)
Change in unrealized holding gains (losses) on available-for-sale securities		(53,414)
Deferred income tax (expense) benefit attributable to unrealized holding gains (losses) on available-for-sale securities		21,223
Balance, March 31, 2008	$	(26,408)

Basic and Diluted Income (Loss) Per Share

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

The potential dilution from our subordinated notes convertible into common stock was computed using the if converted method. The potential dilution from stock options exercisable into common stock 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.

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

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Numerator:		
Numerator for basic net income (loss) per share Net income (loss).	$ 258,583	$ 157,140
Interest on subordinated notes convertible into common shares, net of related tax effect	2,461	2,447
Numerator for diluted net income (loss) per common share	$ 261,044	$ 159,587
Denominator:		
Denominator for basic net income (loss) per common share weighted-average common shares outstanding	448,803	446,278
Dilutive impact of options outstanding	2,634	1,665
Dilutive impact of subordinated notes convertible into common shares	8,781	7,265
Denominator for diluted net income (loss) per share weighted-average diluted common shares outstanding	460,218	455,208
Net income (loss) per share Class A and B common stock:		
Basic net income (loss)	$ 0.58	$ 0.35
Diluted net income (loss)	$ 0.57	$ 0.35
Shares of Class A common stock issuable upon conversion of:		
3% Convertible Subordinated Note due 2010 (Note 8)	8,299	6,866
3% Convertible Subordinated Note due 2011 (Note 8)	482	399

As of March 31, 2008 and 2007, there were options to purchase 3.4 million and 2.8 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:

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Performance-based options	9,721	10,471
Restricted performance units	590	754
Total	10,311	11,225

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.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
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Level 1, defined as observable inputs being quoted prices in active markets for identical assets;

Level 2, defined as observable inputs 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. Due to recent events in credit markets, however, the auctions for the ARS investments have failed. Additionally, the recent events in the credit markets have reduced or eliminated current liquidity for certain of our 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 rather than the credit risk associated with the underlying collateral, we have recorded an unrealized loss of $15 million, net of tax, to Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. As of March 31, 2008, we reclassified $143 million of these investments to non-current assets to reflect a longer expected holding period for these assets that results from the current and possible continued illiquidity. The ARS investments held by us at March 31, 2008 are primarily collateralized by high credit quality assets.

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 $11 million, net of tax, to Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. As of March 31, 2008, we reclassified $12 million of these investments 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.

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

Assets	Fair Value As of March 31, 2008	Level 1	Level 2	Level 3
Marketable investment securities	$ 790,939	$ 538,930	$ 92,019	$ 159,990
Other investment securities	6,772			6,772
Total assets at fair value	$ 797,711	$ 538,930	$ 92,019	$ 166,762

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
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Changes in Level 3 instruments are as follows (in thousands):

Assets	Balance at January 1, 2008	Net realized/unrealized gains/(losses) included in earnings	Net realized/unrealized gains/(losses) included in Other comprehensive income	Purchases, issuances and settlements	Balance at March 31, 2008
Marketable investment securities	$ 200,595	$	$ (39,530)	$ (1,075)	$ 159,990
Other investment securities.	11,404	(4,632)			6,772
Total assets at fair value	$ 211,999	$ (4,632)	$ (39,530)	$ (1,075)	$ 166,762

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 March 31, 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	46,178
Additions for tax positions of prior years	105,883
Balance as of March 31, 2008	$ 172,221

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 months ended March 31, 2008, we recorded $5 million in interest and penalty expense to earnings. Accrued interest and penalties was $8 million at March 31, 2008.

We have $167 million in unrecognized tax benefits that, if recognized, could affect the effective tax rate. It is reasonably possible that $103 million of our unrecognized tax benefits will be reduced within the next twelve months as a result of filing a change in tax accounting method, and we expect that the reduction will not affect our effective tax rate.

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.

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

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 that provide 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 March 31, 2008, we had outstanding under these plans options to acquire 21.3 million shares of our Class A common stock and 1.7 million restricted stock awards. In general, stock options granted through March 31, 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 options have been granted with immediate vesting. As of March 31, 2008, we had 64.1 million shares of our Class A common stock available for future grant under our stock incentive plans.

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

As of March 31, 2008, the following DISH Network stock incentive awards were outstanding:

	As of March 31, 2008	
Stock Awards Outstanding	**DISH Network Stock Options**	**DISH Network Restricted Stock Units**
Held by DISH Network employees	15,565,051	512,079
Held by EchoStar employees	5,776,239	1,178,332
Total	21,341,290	1,690,411

In addition, as of March 31, 2008 the following outstanding EchoStar stock incentive awards were held by our employees:

	As of March 31, 2008	
Stock Awards Outstanding	**EchoStar Stock Options**	**EchoStar Restricted Stock Units**
Held by DISH Network employees	3,475,665	101,047

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 three months ended March 31, 2008 was as follows:

	For the Three Months Ended March 31, 2008	
	Options	**Weighted-Average Exercise Price**
Total options outstanding, beginning of period	20,938,403	$ 22.61

Granted	1,059,000	28.73
Exercised	(43,692)	9.17
Forfeited and cancelled	(612,421)	29.57
Total options outstanding, end of period	21,341,290	22.75
Performance based options outstanding, end of period *	9,720,750	16.46
Exercisable at end of period	6,451,117	28.68

* 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 March 31, 2008.

DISH NETWORK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
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We realized less than $1 million and $1 million of tax benefits from stock options exercised during the three months ended March 31, 2008 and 2007, respectively. Based on the closing market price of our Class A common stock on March 31, 2008, the aggregate intrinsic value of our outstanding stock options was $165 million. Of that amount, options with an aggregate intrinsic value of $26 million were exercisable at the end of the period.

Our restricted stock award activity (including performance and non-performance based options) for the three months ended March 31, 2008 was as follows:

	For the Three Months Ended March 31, 2008	
	Restricted Stock Awards	Weighted-Average Grant Date Fair Value
Total restricted stock awards outstanding, beginning of period	1,717,078	$ 29.24
Granted		
Exercised		
Forfeited and cancelled	(26,667)	35.36
Total restricted stock awards outstanding, end of period	1,690,411	29.15
Restricted performance units outstanding, end of period *	590,411	25.94

* 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

March 31, 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 we did not believe that achievement of either of the goals was probable as of March 31, 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 three months ended March 31, 2008, we would have recorded total non-cash, stock-based compensation expense for our employees as follows:

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

	For the Three Months Ended March 31, 2008	
Total Contingent Compensation	**1999 LTIP**	**2005 LTIP**
DISH Network awards held by DISH Network employees	$ 22,910	$ 51,764
EchoStar awards held by DISH Network employees	4,652	10,511
Total	$ 27,562	$ 62,275

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 three months ended March 31, 2008, if we had determined each goal was probable, we would have recorded total non-cash, stock-based compensation expense for our employees as follows:

Contingent Compensation -	For the Three Months Ended March 31, 2008	
Vested Portion at March 31, 2008	**1999 LTIP**	**2005 LTIP**
DISH Network awards held by DISH Network employees	$ 20,155	$ 10,738
EchoStar awards held by DISH Network employees	4,093	2,180
Total	$ 24,248	$ 12,918

Of the 21.3 million options outstanding under our stock incentive plans as of March 31, 2008, the following options were outstanding pursuant to the 1999 LTIP and the 2005 LTIP:

	As of March 31, 2008	
Long-Term Performance-Based Plans	**Stock Options**	**Weighted-Average Exercise Price**
1999 LTIP	5,194,000	$ 8.83
2005 LTIP	4,526,750	$ 25.22

Further, pursuant to the 2005 LTIP, there were also 590,411 outstanding restricted performance units as of March 31, 2008 with a weighted-average grant date fair value of $25.94. No awards were granted under the 1999 LTIP or 2005 LTIP during the three months ended March 31, 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 months ended March 31, 2008 and 2007 and was allocated to the same expense categories as the base compensation for such employees:

	For the Three Months Ended March 31,	
	2008	**2007**

	(In thousands)	
Subscriber-related	$ 169	$ 175
Satellite and transmission		126
General and administrative	2,055	3,137
Total non-cash, stock-based compensation	$ 2,224	$ 3,438

As of March 31, 2008, our total unrecognized compensation cost related to our non-performance based unvested stock options was $32 million and includes compensation expense that we will recognize for EchoStar stock options

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held by our employees as a result of the Spin-off. This cost is based on an estimated future forfeiture rate of approximately 6.5% 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.

The fair value of each award for the three months ended March 31, 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 March 31,	
	2008	2007
Risk-free interest rate	2.74%	4.46% - 4.65%
Volatility factor	19.98%	20.42%
Expected term of options in years	6.1	6.0 - 10.0
Weighted-average fair value of options granted	$ 7.64	$11.39 - $15.85

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:

	As of	
	March 31, 2008	December 31, 2007
	(In thousands)	
Finished goods DBS	$ 166,773	$ 170,463
Raw materials	88,066	70,103
Work-in-process used	80,700	67,542
Work-in-process new	2,375	13,546
Subtotal	337,914	321,654
Inventory allowance	(18,292)	(14,739)
Inventories, net	$ 319,622	$ 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

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

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

	As of	
	March 31, 2008	**December 31, 2007**
Marketable investment securities	(In thousands)	
Marketable investment securities	$ 518,224	$ 1,030,565
Marketable investment securities strategic	60,744	576,813
Current marketable investment securities	578,968	1,607,378
Long-term marketable investment securities	155,182	
Total marketable investment securities	$ 734,150	$ 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 March 31, 2008 and December 31, 2007, we had accumulated unrealized gains (losses) net of related tax effect of $42 million in losses and a $30 million gain, respectively, as a part of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit). During the three months ended March 31, 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 three months ended March 31, 2008 and 2007, we recognized realized and unrealized net gains on marketable investment securities of $2 million and $3 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 a company in the communications industry. At March 31, 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.

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			As of March 31, 2008					
			Less than Six Months		Six to Nine Months		Nine Months or More	
Investment Category	**Primary Reason for Unrealized Loss**	**Maturity in Years**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
			(In thousands)					
Corporate bonds	Temporary market fluctuations	1-15	$628,540	$(49,112)	$69,838	$(5,457)	$	$
Corporate equity securities	Temporary market fluctuations	N/A	60,744	(13,130)				
Total			$689,284	$(62,242)	$69,838	$(5,457)	$	$

			As of December 31, 2007					
			(In thousands)					
Government and corporate bonds	Temporary market fluctuations	1-2	$ 361,347	$ (7,168)	$163,230	$(1,909)	$	$
Corporate equity securities	Temporary market fluctuations	N/A	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	**March 31, 2008**	**December 31, 2007**
	(In thousands)	
Cost method	$ 68,391	$ 108,355
Equity method	47,717	68,127
Fair value method	6,772	11,404
Total	$ 122,880	$ 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 basis to determine whether there has been a decline in the value that is other than temporary. Because the shares are

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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:

	For the Three Months Ended March 31,	
Other Investment Securities	**2008**	**2007**
	(In thousands)	
Unrealized gains (losses), net	$ (4,632)	$ (3,167)
Impairments		
Total	$ (4,632)	$ (3,167)

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.

Restricted Cash and Marketable Investment Securities

As of March 31, 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 March 31, 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 twelve satellites in geostationary orbit approximately 22,300 miles above the equator. Of these twelve satellites, five are owned by us and we lease six from EchoStar as a result of the Spin-off. We account for the satellites leased from EchoStar as operating leases with terms of up to two years. (See Note 13 for further discussion of our satellite leases with EchoStar.) Each of the owned satellites had an original 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.

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

EchoStar V. EchoStar V was originally designed with a minimum 12-year design life. Momentum wheel failures

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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. However, there can be no assurance that future anomalies will not cause further losses which could impact commercial operation, or the remaining life, of the satellite. See discussion of evaluation of impairment in *Long-Lived Satellite Assets* below.

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 do not expect to incur any financial liability as a result of the AMC-14 satellite being declared a total loss.

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.

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7. Intangible Assets

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

	As of			
	March 31, 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			69,797	(9,478)
Total	$	$	$ 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). The intangible assets remaining, which were fully amortized and are no longer in service, were written-off as of March 31, 2008. Amortization of these intangible assets was $4 million and $9 million for the three months ended March 31, 2008 and 2007, respectively.

One of our wholly-owned subsidiaries 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 the subsidiary 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. As part of the Auction, we made a deposit of $115 million during the three months ended March 31, 2008, which is included in Other current assets in our Condensed Consolidated Balance Sheets, and the remaining balance of $597 million was paid in April 2008. 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.

8. Long-Term Debt

3% Convertible Subordinated Note due 2010

Our 3% Convertible Subordinated Note due 2010, 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 Note. Commencing July 21, 2008, we may redeem, and AT&T may require us to repurchase, all or a portion of the note at its principal amount, without premium.

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, 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.

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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 March 31, 2008, are as follows:

For the Years Ended December 31,	
2008 (remaining nine months)	$ 36,000
2009	48,000
2010	48,000
2011	48,000
2012	48,000
2013	48,000
Thereafter	400,000
Total minimum lease payments	676,000
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	(366,222)
Net minimum lease payments	309,778
Less: Amount representing interest	(118,377)
Present value of net minimum lease payments	191,401
Less: Current portion	(7,987)
Long-term portion of capital lease obligations	$ 183,414

9. Commitments and Contingencies

Commitments

Future maturities of our contractual obligations as of March 31, 2008 are summarized as follows:

	Payments due by period							
	Total	2008	2009	2010	2011	2012	2013	Thereafter
	(In thousands)							
Long-term debt obligations	$ 5,525,000	$ 1,500,000	$	$	$ 1,025,000	$	$ 500,000	$ 2,500,000
Satellite-related obligations*	1,753,695	949,951	124,344	52,044	52,044	52,044	52,044	471,224
Capital lease obligations	191,401	5,934	8,445	9,097	9,800	10,556	11,371	136,198
Operating lease obligations	93,542	30,943	34,127	14,320	8,214	3,101	1,485	1,352
Purchase obligations	1,267,231	942,151	251,123	40,247	11,000	11,000	11,000	710
Mortgages and other notes payable	24,907	2,010	2,194	2,058	2,206	2,366	2,537	11,536

Total	$ 8,855,776	$ 3,430,989	$ 420,233	$ 117,766	$ 1,108,264	$ 79,067	$ 578,437	$ 3,121,020

*Includes the $597 million balance payment made in April 2008 for the 700 MHz wireless spectrum (See Note 7).
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 satellite lease agreements to EchoStar. We remain the guarantor under those capital leases for payments totaling approximately $578 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 $543 million in payments through 2024, which we subleased from EchoStar and have also guaranteed. As of March 31, 2008 we have not recorded a liability on the balance sheet for any of these guarantees.

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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 various of the Court s claim constructions and argues that the case should proceed immediately to the Federal Circuit. The Court has set a hearing for May 6, 2008, at which time it will determine whether the parties will proceed with additional invalidity motions or enter final judgment based on Acacia s agreement that all asserted claims are invalid.

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.

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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 granted with leave for plaintiffs to amend their complaint. 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. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the appeal or determine the extent of any potential liability or damages.

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

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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.

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.

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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 are vigorously defending against the suits and 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 August 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.

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

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

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.

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 (the Design-Around). We have formal legal opinions from outside counsel that conclude that our Design-Around does not infringe, literally or under the doctrine of equivalents, either the hardware or software claims of Tivo s patent.

In accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5), we recorded a total reserve of $129 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 the Design-Around, plus interest subsequent to the jury verdict.

If the Federal Circuit s decision is upheld and Tivo decides to challenge the Design-Around, we will mount a vigorous defense. If we are unsuccessful in subsequent appeals or in defending against claims that the Design-Around 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.

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.

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

10. Depreciation and Amortization Expense

Depreciation and amortization expense consists of the following:

	For the Three Months Ended March 31, 2008	2007
	(In thousands)	
Equipment leased to customers	$ 212,279	$ 206,679
Satellites*	26,451	59,044
Furniture, fixtures, equipment and other*	28,237	42,838
Identifiable intangible assets subject to amortization*	4,331	9,137
Buildings and improvements*	1,070	2,421
Total depreciation and amortization	$ 272,368	$ 320,119

*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.

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 March 31, 2008	2007
	(In thousands)	
Revenue:		
DISH Network	$ 2,844,394	$ 2,583,788
ETC		35,574
All other		34,640
Eliminations		(9,017)
Total revenue	$ 2,844,394	$ 2,644,985
Net income (loss):		
DISH Network	$ 258,583	$ 157,404

ETC		(5,665)
All other		5,401
Total net income (loss)	$ 258,583	$ 157,140

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

Geographic Information

	United States	International (In thousands)	Total
Long-lived assets, including FCC authorizations			
March 31, 2008	$ 3,214,543	$	$ 3,214,543
December 31, 2007	$ 5,182,587	$ 196,958	$ 5,379,545
Revenue			
March 31, 2008	$ 2,844,394	$	$ 2,844,394
March 31, 2007	$ 2,625,924	$ 19,061	$ 2,644,985

Revenues are attributed to geographic regions based upon the location where the sale originated. United States revenue includes transactions with both United Sates and international customers. Following the January 1, 2008 Spin-off discussed in Note 1, we operate in only one geographic region.

12. Related Party Transactions with EchoStar

Following the Spin-off, EchoStar has operated independently from us and we have no continued ownership interest in EchoStar, however, we are both under the common control of our Chief Executive Officer and Chairman of our Board of Directors, Charles W. Ergen.

EchoStar is our primary supplier of set-top boxes, transponder leasing and digital broadcast operations. Generally all agreements entered into in connection with the Spin-off are based on pricing at cost plus an additional amount equal to an agreed percentage of EchoStar s cost (unless noted differently below), which will vary depending on the nature of the products and services provided. Prior to the Spin-off, these products were provided and services were performed internally at cost. The terms of our agreements with EchoStar provide for an arbitration mechanism in the event we are unable to reach agreement with EchoStar as to the additional amounts payable for products and services, under which the arbitrator will determine the additional amounts payable by reference to the fair market value of the products and services supplied.

We and EchoStar also entered into certain transitional services agreements pursuant to which we will obtain certain services and rights from EchoStar. EchoStar will obtain certain services and rights from us, and we and EchoStar have indemnified each other against certain liabilities arising from our respective businesses. The following is a summary of the terms of the principle agreements that we have entered into with EchoStar that have an impact on our results of operations.

Equipment sales EchoStar

Remanufactured Receiver Agreement. We entered into a remanufactured receiver agreement with EchoStar under which EchoStar has the right to purchase remanufactured receivers, services and accessories from us for a two-year period. EchoStar may terminate the remanufactured receiver agreement for any reason upon sixty days written notice to us. We may also terminate this agreement if certain entities acquire us.

Transitional services and other revenue EchoStar

Transition Services Agreement. We entered into a transition services agreement with EchoStar pursuant to which we, or one of our subsidiaries, provide certain transitional services to EchoStar. Under the transition services agreement, EchoStar has the right, but not the obligation, to receive the following services from us: finance, information technology, benefits administration, travel and event coordination, human resources, human resources development (training), program management, internal audit and corporate quality, legal, accounting and tax, and other support services.

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

The transition services agreement has a term of no longer than two years. We may terminate the transition services agreement with respect to a particular service for any reason upon thirty days prior written notice.

Real Estate Lease Agreements. We entered into lease agreements with EchoStar so that we can continue to operate certain properties that were distributed to EchoStar in the Spin-off. The rent on a per square foot basis for each of the leases is comparable to per square foot rental rates of similar commercial property in the same geographic area, and EchoStar is responsible for its portion of the taxes, insurance, utilities and maintenance of the premises. The term of each of the leases is set forth below:

Inverness Lease Agreement. The lease for 90 Inverness Circle East in Englewood, Colorado, is for a period of two years.

Meridian Lease Agreement. The lease for 9601 S. Meridian Blvd. in Englewood, Colorado, is for a period of two years with annual renewal options for up to three additional years.

Santa Fe Lease Agreement. The lease for 5701 S. Santa Fe Dr. in Littleton, Colorado, is for a period of two years with annual renewal options for up to three additional years.

Management Services Agreement. In connection with the Spin-off, we entered into a management services agreement with EchoStar pursuant to which we make certain of our officers available to provide services (which are primarily legal and accounting services) to EchoStar. Specifically, Bernard L. Han, R. Stanton Dodge and Paul W. Orban remain employed by us, but also serve as EchoStar s Executive Vice President and Chief Financial Officer, Executive Vice President and General Counsel, and Senior Vice President and Controller, respectively. In addition, Carl E. Vogel is employed as our Vice Chairman but also provides services to EchoStar as an advisor. EchoStar will make payments to us based upon an allocable portion of the personnel costs and expenses incurred by us with respect to such officers (taking into account wages and fringe benefits). These allocations will be based upon the estimated percentages of time to be spent by our executive officers performing services for EchoStar under the management services agreement. EchoStar will also reimburse us for direct out-of-pocket costs incurred by us for management services provided to EchoStar. We and EchoStar evaluate all charges for reasonableness at least annually and make any adjustments to these charges as we and EchoStar mutually agree upon.

The management services agreement will continue in effect until the first anniversary of the Spin-off, and will be renewed automatically for successive one-year periods thereafter, unless terminated earlier (1) by EchoStar at any time upon at least 30 days prior written notice, (2) by us at the end of any renewal term, upon at least 180 days prior notice; and (3) by us upon written notice to EchoStar, following certain changes in control.

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

Satellite and transmission expenses EchoStar

Broadcast Agreement. We entered into a broadcast agreement with EchoStar, whereby EchoStar provides broadcast services including teleport services such as transmission and downlinking, channel origination services, and channel management services, thereby enabling us to deliver satellite television programming to subscribers. The broadcast agreement has a term of two years; however, we have the right, but not the obligation, to extend the agreement annually for successive one-year periods for up to two additional years. We may terminate channel origination services and channel management services for any reason and without any liability upon sixty days written notice to EchoStar. If we terminate teleport services for a reason other than EchoStar s breach, we shall pay EchoStar a sum equal to the aggregate amount of the remainder of the expected cost of providing the teleport services.

Satellite Capacity Agreements. We have entered into satellite capacity agreements with EchoStar on a transitional basis. Pursuant to these agreements, we lease satellite capacity on satellites owned by EchoStar and/or slots licensed by EchoStar. Certain DISH Network subscribers currently point their satellite antenna at these slots and this agreement is designed to facilitate the separation of us and EchoStar by allowing a period of time for these DISH Network subscribers to be moved to satellites owned by us and/or to slots that will be licensed to us following the Spin-off. The fees for the services to be provided under the satellite capacity agreements are based on spot market prices for similar satellite capacity and will depend upon, among other things, the orbital location of the satellite and the frequency on which the satellite provides services. Generally, each satellite capacity agreement will terminate upon the earlier of: (a) the end of life or replacement of the satellite; (b) the date the satellite fails; (c) the date that the transponder on which service is being provided under the agreement fails; or (d) two years from the effective date of such agreement.

Cost of sales subscriber promotion subsidies EchoStar

Receiver Agreement. EchoStar is currently our sole supplier of set-top box receivers. During the three months ended March 31, 2008, we purchased set-top box and other equipment from EchoStar totaling $372 million. Of this amount, $31 million is included in Cost of sales subscriber promotion subsidies EchoStar on our Condensed Consolidated Statements of Operations. The remaining amount is included in Inventories, net and Property and equipment, net on our Condensed Consolidated Balance Sheet.

Under our receiver agreement with EchoStar, we have the right but not the obligation to purchase receivers and accessories from EchoStar for a two year period. Additionally, EchoStar will provide us with standard manufacturer warranties for the goods sold under the receiver agreement. We may terminate the receiver agreement for any reason upon sixty days written notice to EchoStar. We may also terminate the receiver agreement if certain entities were to acquire us. We also have the right, but not the obligation, to extend the receiver agreement annually for up to two years. The receiver agreement also includes an indemnification provision, whereby the parties will indemnify each other for certain intellectual property matters.

General and administrative Echostar

Product Support Agreement. We need EchoStar to provide product support (including engineering and technical support services and IPTV functionality) for all receivers and related accessories that EchoStar has sold and will sell to us. As a result, we entered into a product support agreement, under which we have the right, but not the obligation, to receive product support services in respect of such receivers and related accessories. The term of the product support agreement is the economic life of such receivers and related accessories, unless terminated earlier. We may terminate the product support agreement for any reason upon sixty days prior written notice.

Services Agreement. We entered into a services agreement with EchoStar under which we have the right, but not the obligation, to receive logistics, procurement and quality assurance services from EchoStar. This agreement has a term of two years. We may terminate the services agreement with respect to a particular service for any reason upon sixty days prior written notice.

Tax Sharing Agreement

We entered into a tax sharing agreement with EchoStar which governs our and EchoStar s respective rights, responsibilities and obligations after the Spin-off with respect to taxes for the periods ending on or before the Spin-off. Generally, all pre-Spin-off taxes, including any taxes that are incurred as a result of restructuring activities undertaken to implement the Spin-off, will be borne by us, and we will indemnify EchoStar for such taxes. However, we will not be liable for and will not indemnify EchoStar for any taxes that are incurred as a result of the Spin-off or certain related transactions failing to qualify as tax-free distributions pursuant to any provision of Section 355 or Section 361 of the Code because of (i) a direct or indirect acquisition of any of EchoStar s stock, stock options or assets, (ii) any action that EchoStar takes or fails to take or (iii) any action that EchoStar takes that is inconsistent with the information and representations furnished to the IRS in connection with the request for the private letter ruling, or to counsel in connection with any opinion being delivered by counsel with respect to the Spin-off or certain related transactions. In such case, EchoStar will be solely liable for, and will indemnify us for, any resulting taxes, as well as any losses, claims and expenses. The tax sharing agreement terminates after the later of the full period of all applicable statutes of limitations including extensions or once all rights and obligations are fully effectuated or performed.

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

Other EchoStar Transactions

Nimiq 5 Agreement. On March 11, 2008, EchoStar entered into a transponder service agreement (the Transponder Agreement) with Bell ExpressVu Inc., in its capacity as General Partner of Bell ExpressVu Limited Partnership (Bell ExpressVu), which provides, among other things, for the provision by Bell ExpressVu to EchoStar of service on sixteen (16) BSS transponders on the Nimiq 5 satellite at the 72.7° W.L. orbital location. The Nimiq 5 satellite is expected to be launched in the second half of 2009. Bell ExpressVu currently has the right to receive service on the entire communications capacity of the Nimiq 5 satellite pursuant to an agreement with Telesat Canada. On March 11, 2008, EchoStar also entered into a transponder service agreement with DISH Network L.L.C. (DISH L.L.C.), our wholly-owned subsidiary, pursuant to which DISH L.L.C. will receive service from EchoStar on all of the BSS transponders covered by the Transponder Agreement (the DISH Agreement). DISH Network guaranteed certain obligations of EchoStar under the Transponder Agreement.

Under the terms of the Transponder Agreement, EchoStar will make certain up-front payments to Bell ExpressVu through the service commencement date on the Nimiq 5 satellite and thereafter will make certain monthly payments to Bell ExpressVu for the remainder of the service term. Unless earlier terminated under the terms and conditions of the Transponder Agreement, the service term will expire fifteen years following the actual service commencement date of the Nimiq 5 satellite. Upon expiration of this initial term, EchoStar has the option to continue to receive service on the Nimiq 5 satellite on a month-to-month basis. Upon a launch failure, in-orbit failure or end-of-life of the Nimiq 5 satellite, and in certain other circumstances, EchoStar has certain rights to receive service from Bell ExpressVu on a replacement satellite.

Under the terms of the DISH Agreement, DISH L.L.C. will make certain monthly payments to EchoStar commencing when the Nimiq 5 satellite is placed into service (the In-Service Date) and continuing through the service term. Unless earlier terminated under the terms and conditions of the DISH Agreement, the service term will expire ten years following the In-Service Date. Upon expiration of the initial term, DISH L.L.C. has the option to renew the DISH Agreement on a year-to-year basis through the end-of-life of the Nimiq 5 satellite. Upon a launch failure, in-orbit failure or end-of-life of the Nimiq 5 satellite, and in certain other circumstances, DISH L.L.C. has certain rights to receive service from EchoStar on a replacement satellite.

13. Subsequent Events

EchoStar XV

On April 14, 2008, Space Systems/Loral, Inc. began the construction of EchoStar XV, our 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 DISH Network to offer other value-added services.

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

Overview

We have historically positioned the DISH Network as the leading low-cost provider of multi-channel pay TV principally by offering lower cost programming packages. At the same time we have sought to offer high quality programming, equipment and customer service.

We invest significant amounts in subscriber acquisition and retention programs based on our expectation that long-term subscribers will be profitable. To attract subscribers, we subsidize the cost of equipment and installation and may also from time to time offer promotional pricing on programming and other services to increase our subscriber base. We also seek to differentiate DISH Network through the quality of the equipment we provide to our subscribers, including our highly rated digital video recorder (DVR) and high definition (HD) equipment which we promote to drive subscriber growth and retention. Subscriber growth is also impacted, positively and negatively, by customer service and customer experience in order, installation and troubleshooting interactions.

Since the beginning of 2007, our subscriber base has continued to grow, but at an increasingly slower pace than in previous periods. We believe that this declining subscriber growth has been driven in part by competitive factors including the expansion of fiber-based pay TV providers, the effectiveness of certain competitors promotional offers, the number of markets in which competitors offer local HD channels, and their aggressive marketing of these differences. Satellite launch delays have slowed the growth of our local HD markets which in turn has delayed our own aggressive local HD marketing efforts. Subscriber growth has also been affected by worsening economic conditions, including the slowdown in new housing starts. Operational inefficiencies at DISH Network as well as signal piracy and other forms of fraud have also adversely impacted subscriber growth. Most of the factors described above have affected both the growth of new subscribers and the churn of existing customers.

Slower subscriber growth rates continued in the first quarter of 2008, during which we added 35,000 net new DISH Network subscribers. This rate of growth was substantially lower than we have historically experienced on a quarterly basis for the reasons mentioned above.

We believe opportunities exist to continue growing our subscriber base, but whether we will be able to achieve continuing net subscriber growth is subject to a number of risks and uncertainties, including those described elsewhere in this quarterly report.

The Spin-off. Effective January 1, 2008, we completed the separation of the assets and businesses we owned and operated historically into two companies (the Spin-off):

- DISH Network, through which we retain our pay-TV business, and

- EchoStar Corporation (EchoStar), formerly known as EchoStar Holding Corporation, which holds the digital set top box business, certain satellites, uplink and satellite transmission assets, real estate and other assets and related liabilities formerly held by DISH Network.

DISH Network and EchoStar now operate as separate public companies, and neither entity has any ownership interest in the other. However, we are both under the common control of our Chief Executive Officer and Chairman, Charles W. Ergen. In connection with the Spin-off, DISH Network entered into certain agreements with EchoStar to define responsibility for obligations relating to, among other things, set-top box sales, transition services, taxes, employees and intellectual property which will have an impact in the future on several of our key operating metrics. We have entered into certain agreements with EchoStar subsequent to the Spin-off and we may enter into additional agreements with EchoStar in the future.

We believe that the Spin-off will enable us to focus more directly on the business strategies relevant to the subscription television business, but we recognize that, particularly during 2008, we may experience disruptions and loss of synergies in our business due to the separation of the two businesses, which could in turn increase our costs.

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

EXPLANATION OF KEY METRICS AND OTHER ITEMS

Subscriber-related revenue. Subscriber-related revenue consists principally of revenue from basic, movie, local, pay-per-view, and international subscription television services, equipment rental fees and other hardware related fees, including fees for DVRs and additional outlet fees from subscribers with multiple receivers, advertising services, fees earned from our DishHOME Protection Plan, equipment upgrade fees, HD programming and other subscriber revenue. Certain of the amounts included in Subscriber-related revenue are not recurring on a monthly basis. Effective the third quarter of 2007, we reclassified certain revenue from programmers from Equipment sales and other revenue to Subscriber-related revenue. All prior period amounts were reclassified to conform to the current period presentation.

Equipment sales and other revenue. Equipment sales and other revenue principally includes the unsubsidized sales of DBS accessories to retailers and other third-party distributors of our equipment and to DISH Network subscribers. During 2007, this category also included sales of non-DISH Network digital receivers and related components to international customers and satellite and transmission revenue, which related to assets that were distributed to EchoStar in connection with the Spin-off.

Effective in the third quarter of 2007, we reclassified certain revenue from programmers from Equipment sales and other revenue to Subscriber-related revenue. All prior period amounts were reclassified to conform to the current period presentation.

Equipment sales, transitional services and other revenue EchoStar. Equipment sales, transitional services and other revenue EchoStar includes revenue related to equipment sales, and transitional services and other agreements with EchoStar associated with the Spin-off.

Subscriber-related expenses. Subscriber-related expenses principally include programming expenses, costs incurred in connection with our in-home service and call center operations, copyright royalties, billing costs, residual commissions paid to our distributors, refurbishment and repair costs related to receiver systems, subscriber retention and other variable subscriber expenses.

Satellite and transmission expenses EchoStar. Satellite and transmission expenses EchoStar includes the cost of digital broadcast operations provided to us by EchoStar, which were previously performed internally, including satellite uplinking/downlinking, signal processing, conditional access management, telemetry, tracking and control and other professional services. In addition, this category includes the cost of leasing satellite and transponder capacity on satellites that were distributed to EchoStar in connection with the Spin-off.

Satellite and transmission expenses other. Satellite and transmission expenses other includes third-party transponder leases and other related services. Prior to the Spin-off, Satellite and transmission expenses other included costs associated with the operation of our digital broadcast centers, including satellite uplinking/downlinking, signal processing, conditional access management, telemetry, tracking and control, satellite and transponder leases, and other related services, which were previously performed internally.

Equipment, transitional services and other cost of sales. Equipment, transitional services and other cost of sales principally includes the cost of unsubsidized sales of DBS accessories to retailers and other distributors of our equipment domestically and to DISH Network subscribers. In addition, this category includes costs related to equipment sales, transitional services and other agreements with EchoStar associated with the Spin-off.

During 2007, Equipment, transitional services and other cost of sales also included costs associated with non-DISH Network digital receivers and related components sold to an international DBS service provider and to other international customers. As previously discussed, our set-top box business was distributed to EchoStar in connection with the Spin-off.

Subscriber acquisition costs. In addition to leasing receivers, we generally subsidize installation and all or a portion of the cost of our receiver systems in order to attract new DISH Network subscribers. Our Subscriber acquisition

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

costs include the cost of our receiver systems sold to retailers and other distributors of our equipment, the cost of receiver systems sold directly by us to subscribers, net costs related to our promotional incentives, and costs related to installation and acquisition advertising. We exclude the value of equipment capitalized under our lease program for new subscribers from Subscriber acquisition costs.

SAC. Management believes subscriber acquisition cost measures are commonly used by those evaluating companies in the multi-channel video programming distribution industry. We are not aware of any uniform standards for calculating the average subscriber acquisition costs per new subscriber activation, or SAC, and we believe presentations of SAC may not be calculated consistently by different companies in the same or similar businesses. Our SAC is calculated as Subscriber acquisition costs, plus the value of equipment capitalized under our lease program for new subscribers, divided by gross subscriber additions. We include all the costs of acquiring subscribers (e.g., subsidized and capitalized equipment) as our management believes it is a more comprehensive measure of how much we are spending to acquire subscribers. We also include all new DISH Network subscribers in our calculation, including DISH Network subscribers added with little or no subscriber acquisition costs.

General and administrative expenses. General and administrative expenses consists primarily of employee-related costs associated with administrative services such as legal, information systems, accounting and finance, including non-cash, stock-based compensation expense. It also includes outside professional fees (e.g., legal, information systems and accounting services) and other items associated with facilities and administration. Following the Spin-off, the general and administrative expenses associated with the business and assets distributed to EchoStar in connection with the Spin-off will no longer be reflected in our General and administrative expenses.

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

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

Earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA is defined as Net income (loss) plus Interest expense net of Interest income, Taxes and Depreciation and amortization. This non-GAAP m is reconciled to net income (loss) in our discussion of Results of Operations below.

DISH Network subscribers. We include customers obtained through direct sales, and through third-party retail networks and other distribution relationships, in our DISH Network subscriber count. We also provide DISH Network service to hotels, motels and other commercial accounts. For certain of these commercial accounts, we divide our total revenue for these commercial accounts by an amount approximately equal to the retail price of our most widely distributed programming package, America s Top 100 (but taking into account, periodically, price changes and other factors), and include the resulting number, which is substantially smaller than the actual number of commercial units served, in our DISH Network subscriber count.

Average monthly revenue per subscriber (ARPU). We are not aware of any uniform standards for calculating ARPU and believe presentations of ARPU may not be calculated consistently by other companies in the same or similar businesses. We calculate average monthly revenue per subscriber, or ARPU, by dividing average monthly Subscriber-related revenues for the period (total Subscriber-related revenue during the period divided by the number of months in the period) by our average DISH Network subscribers for the period. Average DISH Network subscribers are calculated for the period by adding the average DISH Network subscribers for each month and dividing by the number of months in the period. Average DISH Network subscribers for each month are calculated by adding the beginning and ending DISH Network subscribers for the month and dividing by two.

Subscriber churn rate/subscriber turnover. We are not aware of any uniform standards for calculating subscriber churn rate and believe presentations of subscriber churn rates may not be calculated consistently by different companies in the same or similar businesses. We calculate percentage monthly subscriber churn by dividing the number of DISH Network subscribers who terminate service during each month by total DISH Network subscribers

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

as of the beginning of that month. We calculate average subscriber churn rate for any period by dividing the number of DISH Network subscribers who terminated service during that period by the average number of DISH Network subscribers subject to churn during the period, and further dividing by the number of months in the period. Average DISH Network subscribers subject to churn during the period are calculated by adding the DISH Network subscribers as of the beginning of each month in the period and dividing by the total number of months in the period.

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

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

RESULTS OF OPERATIONS

Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007.

	For the Three Months Ended March 31,		Variance	
	2008	2007	Amount	%
Statements of Operations Data	(In thousands)			
Revenue:				
Subscriber-related revenue	$ 2,810,426	$ 2,552,063	$ 258,363	10.1
Equipment sales and other revenue.	25,052	92,922	(67,870)	(73.0)
Equipment sales, transitional services and other revenue EchoStar	8,916		8,916	NM
Total revenue	2,844,394	2,644,985	199,409	7.5
Costs and Expenses:				
Subscriber-related expenses	1,444,641	1,328,621	116,020	8.7
% of Subscriber-related revenue	**51.4%**	**52.1%**		
Satellite and transmission expenses EchoStar	78,253		78,253	NM
% of Subscriber-related revenue	**2.8%**	**0.0%**		
Satellite and transmission expenses Other	7,664	34,919	(27,255)	(78.1)
% of Subscriber-related revenue	**0.3%**	**1.4%**		
Equipment, transitional services and other cost of sales	31,814	62,756	(30,942)	(49.3)
Subscriber acquisition costs	374,956	401,085	(26,129)	(6.5)
General and administrative	129,530	157,287	(27,757)	(17.6)
% of Total revenue	**4.6%**	**5.9%**		
Depreciation and amortization	272,368	320,119	(47,751)	(14.9)
Total costs and expenses	2,339,226	2,304,787	34,439	1.5
Operating income (loss)	505,168	340,198	164,970	48.5
Other Income (Expense):				
Interest income	14,101	33,432	(19,331)	(57.8)
Interest expense, net of amounts capitalized	(89,812)	(119,500)	29,688	24.8
Other	(7,028)	(1,836)	(5,192)	NM
Total other income (expense)	(82,739)	(87,904)	5,165	5.9
Income (loss) before income taxes	422,429	252,294	170,135	67.4
Income tax (provision) benefit, net	(163,846)	(95,154)	(68,692)	(72.2)

Effective tax rate	**38.8%**	**37.7%**		
Net income (loss)	$ 258,583	$ 157,140	$ 101,443	64.6
Other Data:				
DISH Network subscribers, as of period end (in millions)	13.815	13.415	0.400	3.0
DISH Network subscriber additions, gross (in millions)	0.730	0.890	(0.160)	(18.0)
DISH Network subscriber additions, net (in millions)	0.035	0.310	(0.275)	(88.7)
Average monthly subscriber churn rate	1.68%	1.46%	0.22%	15.1
Average monthly revenue per subscriber (ARPU)	$ 67.93	$ 64.17	$ 3.76	5.9
Average subscriber acquisition cost per subscriber (SAC)	$ 709	$ 663	$ 46	6.9
EBITDA	$ 770,508	$ 658,481	$ 112,027	17.0

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

DISH Network subscribers. As of March 31, 2008, we had approximately 13.815 million DISH Network subscribers compared to approximately 13.415 million subscribers at March 31, 2007, an increase of 3.0%. DISH Network added approximately 730,000 gross new subscribers for the three months ended March 31, 2008, compared to approximately 890,000 gross new subscribers during the same period in 2007. We believe our gross new subscriber additions have been and are likely to continue to be negatively impacted by competitive factors, including the expansion of fiber-based pay TV providers, the effectiveness of certain competitors promotional offers and market perceptions of the availability of attractive programming, particularly the relative quantity of HD programming offered. Subscriber growth has also been affected by worsening economic conditions, including the slowdown in new housing starts as well as by operational inefficiencies at DISH Network, signal piracy and other forms of fraud.

DISH Network added approximately 35,000 net new subscribers for the three months ended March 31, 2008, compared to approximately 310,000 net new subscribers during the same period in 2007, a decrease of 88.7%. This decrease primarily resulted from the decrease in gross new subscribers discussed above, an increase in our subscriber churn rate, and churn on a larger subscriber base. Our percentage monthly subscriber churn for the three months ended March 31, 2008 was 1.68%, compared to 1.46% for the same period in 2007. We believe our subscriber churn rate has been and is likely to continue to be negatively impacted by a number of factors, including, but not limited to, the factors described above impacting subscriber additions, an increase in non-pay disconnects primarily resulting from adverse economic conditions and continuing effects of customer commitment expirations.

We cannot assure you that we will be able to lower our subscriber churn rate, or that our subscriber churn rate will not increase. We believe we can reduce churn if we are successful in improving customer service and other areas of our operations in which have recently experienced operational inefficiencies. We also believe that the launch of new HD local channels may help to reduce subscriber churn in certain markets. However, given the increasingly competitive nature of our industry, it may not be possible to reduce churn without significantly increasing our spending on customer retention, which would have a negative effect on our earnings and free cash flow.

Our gross new subscribers, our net new subscriber additions, and our entire subscriber base are negatively impacted when existing and new competitors offer attractive promotions or attractive product and service alternatives, including, among other things, video services bundled with broadband and other telecommunications services, better priced or more attractive programming packages, including broader HD programming, and a larger number of HD and standard definition local channels, and more compelling consumer electronic products and services, including DVRs, video on demand services and receivers with multiple tuners. We also expect to face increasing competition from content and other providers who distribute video services directly to consumers over the Internet.

As the size of our subscriber base increases, even if our subscriber churn rate remains constant or declines, we will be required to attract increasing numbers of new DISH Network subscribers simply to sustain our historical net subscriber growth rates.

AT&T and other telecommunications providers offer DISH Network programming bundled with broadband, telephony and other services. Over the past several fiscal quarters a significant percentage of our gross subscriber additions have been generated through our distribution relationship with AT&T. Our current distribution relationship with AT&T expires during the fourth quarter of 2008 and AT&T may decline to renew this relationship or otherwise discontinue or curtail the marketing and distribution of our services. Our net new subscriber additions and certain of our other key operating metrics could be adversely affected if AT&T or other telecommunication providers de-emphasize or discontinue selling our services and we are not able to develop comparable alternative distribution channels. Because of the size and scope of AT&T s distribution networks, it would be difficult for us to replace AT&T as a distribution partner or to develop appropriate alternatives to replace AT&T as a distribution channel.

Subscriber-related revenue. DISH Network Subscriber-related revenue totaled $2.810 billion for the three months ended March 31, 2008, an increase of $258 million or 10.1% compared to the same period in 2007. This increase was directly attributable to continued DISH Network subscriber growth and the increase in ARPU discussed below.

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

ARPU. Monthly average revenue per subscriber was $67.93 during the three months ended March 31, 2008 versus $64.17 during the same period in 2007. The $3.76 or 5.9% increase in ARPU is primarily attributable to price increases in February 2008 and 2007 on some of our most popular programming packages, higher equipment rental fees resulting from increased penetration of our equipment leasing programs, other hardware related fees, including fees for DVRs, advertising services and increased penetration of HD programming including the availability of HD local channels. This increase was partially offset by a decrease in revenues from installation and other services related to our original agreement with AT&T.

Equipment sales and other revenue. Equipment sales and other revenue totaled $25 million during the three months ended March 31, 2008, a decrease of $68 million or 73.0% compared to the same period during 2007. The decrease in Equipment sales and other revenue primarily resulted from the distribution of our set-top box business and certain other revenue-generating assets to EchoStar in connection with the Spin-off. During the three months ended March 31, 2007, our set-top box sales to international customers and revenue generated from assets distributed to EchoStar accounted for $59 million of our Equipment sales and other revenue.

Equipment sales, transitional services and other revenue EchoStar. Equipment sales, transitional services and other revenue EchoStar totaled $9 million during the three months ended March 31, 2008. As previously discussed, Equipment sales, transitional services and other revenue EchoStar resulted from our transitional services and other agreements with EchoStar associated with the Spin-off.

Subscriber-related expenses. Subscriber-related expenses totaled $1.445 billion during the three months ended March 31, 2008, an increase of $116 million or 8.7% compared to the same period 2007. The increase in Subscriber-related expenses was primarily attributable to higher programming costs driven in part by the increase in the number of DISH Network subscribers, and higher in-home service, refurbishment and repair costs for our receiver systems associated with increased penetration of our equipment lease programs. Subscriber-related expenses represented 51.4% and 52.1% of Subscriber-related revenue during the three months ended March 31, 2008 and 2007, respectively. The decrease in this expense to revenue ratio primarily resulted from an increase in ARPU described above, a decrease, as a percentage of revenue, in programming costs and costs associated with our original agreement with AT&T, partially offset by an increase in our in-home service, refurbishment and repair costs to support DISH Network subscriber growth.

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

Satellite and transmission expenses EchoStar. Satellite and transmission expenses EchoStar totaled $78 million during the three months ended March 31, 2008. As previously discussed, Satellite and transmission expenses EchoStar resulted from costs associated with the services provided to us by EchoStar during the first quarter of 2008, including the satellite and transponder capacity leases on satellites distributed to EchoStar in connection with the Spin-off, and other digital broadcast operations previously provided internally at cost.

Satellite and transmission expenses other. Satellite and transmission expenses other totaled $8 million during the three months ended March 31, 2008, a $27 million decrease compared to the same period in 2007. As previously discussed, prior to the Spin-off, Satellite and transmission expenses other included costs associated with the operation of our digital broadcast centers, including satellite uplinking/downlinking, signal processing, conditional access management, telemetry, tracking and control, satellite and transponder leases, and other related services. Effective January 1, 2008, these digital broadcast operation services are provided to us by EchoStar and are included in Satellite and transmission expenses EchoStar.

Satellite and transmission expenses are likely to increase further in the future to the extent we increase the size of our owned and leased satellite fleet, obtain in-orbit satellite insurance, increase our leased uplinking capacity and launch additional HD local markets and other programming services.

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

Equipment, transitional services and other cost of sales. Equipment, transitional services and other cost of sales totaled $32 million during the three months ended March 31, 2008, a decrease of $31 million or 49.3% compared to the same period in 2007. The decrease primarily resulted from the elimination of the cost of sales related to the distribution of our set-top box business and certain other revenue-generating assets to EchoStar in connection with the Spin-off, partially offset by additional costs related to the transitional services and other agreements with EchoStar. During the three months ended March 31, 2007, the costs associated with our sales of set-top box to international customers and revenue generated from assets distributed to EchoStar accounted for $32 million of our Equipment, transitional services and other cost of sales.

Subscriber acquisition costs. Subscriber acquisition costs totaled $375 million for the three months ended March 31, 2008, a decrease of $26 million or 6.5% compared to the same period in 2007. This decrease was primarily attributable to the decline in gross new subscribers, partially offset by an increase in SAC discussed below.

SAC. SAC was $709 during the three months ended March 31, 2008 compared to $663 during the same period in 2007, an increase of $46, or 6.9%. This increase was primarily attributable to an increase in acquisition advertising costs, more DISH Network subscribers activating higher priced advanced products, such as HD receivers, and standard definition and HD DVRs. Additionally, our equipment costs were higher during the three months ended March 31, 2008 as a result of the Spin-off of our set-top box business to EchoStar. Set-top boxes were historically designed in-house and procured at our cost. We now acquire this equipment from EchoStar at its cost plus an agreed-upon margin. The full impact of this margin was not yet realized in the three months ended March 31, 2008 since, during the period, we were still consuming inventory delivered prior to the Spin-off that had no mark-up. These increases were partially offset by the increase in the redeployment benefits of our equipment lease program for new subscribers.

During the three months ended March 31, 2008 and 2007, the amount of equipment capitalized under our lease program for new subscribers totaled approximately $143 million and $189 million, respectively. This decrease in capital expenditures under our lease program for new subscribers resulted primarily from lower subscriber growth and an increase in redeployment of equipment returned by disconnecting lease program subscribers, partially offset by higher equipment costs resulting from higher priced advanced products and the mark-up on set-top boxes as a result of the Spin-off, discussed above.

Capital expenditures resulting from our equipment lease program for new subscribers have been, and we expect will continue to be, partially mitigated by, among other things, the redeployment of equipment returned by disconnecting lease program subscribers. However, to remain competitive we will have to upgrade or replace subscriber equipment periodically as technology changes, and the costs associated with these upgrades may be substantial. To the extent technological changes render a portion of our existing equipment obsolete, we would be unable to redeploy all returned equipment and consequently would realize less benefit from the SAC reduction associated with redeployment of that returned lease equipment.

Our SAC calculation does not reflect any benefit from payments we received in connection with equipment not returned to us from disconnecting lease subscribers and returned equipment that is made available for sale rather than being redeployed through our lease program. During the three months ended March 31, 2008 and 2007, these amounts totaled $31 million and $15 million, respectively.

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

General and administrative expenses. General and administrative expenses totaled $130 million during the three months ended March 31, 2008, a decrease of $28 million or 17.7% compared to the same period in 2007. This decrease was primarily attributable to the reduction in headcount resulting from the distribution of our set-top box business and other assets to EchoStar in connection with the Spin-off. General and administrative expenses represented 4.6% and 5.9% of Total revenue during the three months ended March 31, 2008 and 2007, respectively. The decrease in the ratio of the expenses to Total revenue was primarily attributable to the decrease in expenses as a result of the Spin-off, discussed previously.

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

Depreciation and amortization. Depreciation and amortization expense totaled $272 million during the three months ended March 31, 2008, a $48 million or 14.9% decrease compared to the same period in 2007. The decrease in Depreciation and amortization expense was primarily a result of several satellite, uplink and satellite transmission assets, real estate and other assets distributed to EchoStar in connection with the Spin-off. This decrease was partially offset by additional depreciation expense in 2008 on equipment leased to subscribers resulting from increased penetration of our equipment lease programs and as a result of the launch of the Anik F3 satellite, which commenced commercial operation in April 2007.

Interest income. Interest income totaled $14 million during the three months ended March 31, 2008, a decrease of $19 million compared to the same period in 2007. This decrease principally resulted from lower cash and marketable investment securities balances as a result of the cash and cash equivalents distributed to EchoStar in connection with the Spin-off and lower total percentage returns earned on our cash and marketable investment securities during the first quarter of 2008.

Interest expense, net of amounts capitalized. Interest expense totaled $90 million during the three months ended March 31, 2008, a decrease of $30 million or 24.8% compared to the same period in 2007. This decrease primarily resulted from a decline in net interest expense and debt redemption costs during the first quarter of 2008 compared to the same period in 2007, and the contribution of satellite capital leases to EchoStar in connection with the Spin-off. This decrease was partially offset by additional interest during 2008 associated with our capital lease obligation for the Anik F3 satellite.

Earnings before interest, taxes, depreciation and amortization. EBITDA was $771 million during the three months ended March 31, 2008, an increase of $112 million or 17.0% compared to the same period in 2007. The following table reconciles EBITDA to the accompanying financial statements.

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
EBITDA	$ 770,508	$ 658,481
Less:		
Interest expense, net	75,711	86,068
Income tax provision (benefit), net	163,846	95,154
Depreciation and amortization	272,368	320,119
Net income (loss)	$ 258,583	$ 157,140

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

Income tax (provision) benefit, net. Our income tax provision was $164 million during the three months ended March 31, 2008, an increase of $69 million compared to the same period in 2007. The increase in the provision was primarily related to the increase in Income (loss) before income taxes and an increase in the effective state tax rate due to changes in state apportionment percentages.

Net income (loss). Net income was $259 million during the three months ended March 31, 2008, an increase of $101 million compared to $157 million for the same period in 2007. The increase was primarily attributable to the changes in revenue and expenses discussed above.

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

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents and Marketable Investment Securities

We consider all liquid investments purchased within 90 days of their maturity to be cash equivalents. See *Item 3. Quantitative and Qualitative Disclosures about Market Risk* for further discussion regarding our marketable investment securities. Our restricted and unrestricted cash, cash equivalents and marketable investment securities as of March 31, 2008 totaled $1.895 billion, including $171 million of restricted cash and marketable investment securities, compared to $2.961 billion, including $173 million of restricted cash and marketable investment securities as of December 31, 2007. The $1.066 billion decrease in restricted and unrestricted cash, cash equivalents and marketable investment securities was primarily related to the contribution of approximately $1.4 billion of cash, cash equivalents and marketable investment securities to EchoStar in connection with the Spin-off, partially offset by the cash flow generated during the period discussed below.

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. Due to recent events in credit markets, however, the auctions for the ARS investments have failed. Additionally, the recent events in the credit markets have reduced or eliminated current liquidity for certain of our 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 rather than the credit risk associated with the underlying collateral, we have recorded an unrealized loss of $15 million, net of tax, to Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. As of March 31, 2008, we reclassified $143 million of these investments to non-current assets to reflect a longer expected holding period for these assets that results from the current and possible continued illiquidity. The ARS investments held by us at March 31, 2008 are primarily collateralized by high credit quality assets.

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 $11 million, net of tax, to Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. As of March 31, 2008, we reclassified $12 million of these investments to non-current assets to reflect a longer expected holding period for these assets that results from the current and possible continued illiquidity.

One of our wholly-owned subsidiaries 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 the subsidiary 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. As part of the Auction, we made a deposit of $115 million during the three months ended March 31, 2008, which is included in Other current assets in our Condensed Consolidated Balance Sheets, and the remaining balance of $597 million was paid in April 2008. 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 may be obligated to repay or refinance up to $1.5 billion in long-term indebtedness during 2008. Our $1 billion aggregate principal amount of $5^3/_4$% Senior Notes due 2008 will mature in October 2008. In addition, our $500 million in aggregate principal amount of 3% Convertible Subordinated Notes due 2010 includes a provision under which we may redeem or the holder may require that we repurchase the convertible notes at their principal amount in July 2008. We expect to repay these obligations through cash on hand or through debt refinancing. We cannot predict with any certainty whether or not we will be impacted in the future by the current conditions in credit markets, which may adversely affect our ability to refinance our indebtedness, including our indebtedness which is subject to repayment or repurchase in 2008 or to secure additional financing to support our growth initiatives.

The following discussion highlights our free cash flow and cash flow activities during the three months ended March 31, 2008 compared to the same period in 2007.

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

Free Cash Flow

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

During the three months ended March 31, 2008 and 2007, free cash flow was significantly impacted by changes in operating assets and liabilities as shown in the Net cash flows from operating activities section of our Condensed Consolidated Statements of Cash Flows included herein. Operating asset and liability balances can fluctuate significantly from period to period and there can be no assurance that free cash flow will not be negatively impacted by material changes in operating assets and liabilities in future periods, since these changes depend upon, among other things, management s timing of payments and control of inventory levels, and cash receipts. In addition to fluctuations resulting from changes in operating assets and liabilities, free cash flow can vary significantly from period to period depending upon, among other things, subscriber growth, subscriber revenue, subscriber churn, subscriber acquisition costs including amounts capitalized under our equipment lease programs, operating efficiencies, increases or decreases in purchases of property and equipment and other factors.

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

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Free cash flow	$ 638,966	$ 173,685
Add back:		
Purchases of property and equipment	266,771	330,784
Net cash flows from operating activities	$ 905,737	$ 504,469

The $465 million increase in free cash flow during the three months ended March 31, 2008 compared to the same period in 2007 resulted from an increase in Net cash flows from operating activities of $401 million, or 79.5%, and a decrease in Purchases of property and equipment of $64 million, or 19.4%. The increase in Net cash flows from operating activities was primarily attributable to an increase in cash resulting from changes in operating assets and liabilities of $406 million. The decrease in Purchases of property and equipment during the three months ended March 31, 2008 compared to the same period in 2007 was primarily attributable to a decline in spending for equipment under our new subscriber lease program and in expenditures for satellite construction, partially offset by an increase in spending for equipment under our existing subscriber lease program. Our future capital expenditures could increase or decrease depending on the strength of the economy, strategic opportunities or other factors.

Subscriber Turnover

Our percentage monthly subscriber churn for the three months ended March 31, 2008 was 1.68%, compared to 1.46% for the same period in 2007. We believe our subscriber churn rate has been and is likely to continue to be negatively impacted by a number of competitive factors, including the expansion of fiber-based pay TV providers, the effectiveness of certain competitors promotional offers and market perceptions of the availability of attractive programming, particularly the relative quantity of HD programming offered. Subscriber growth has also been affected by worsening economic conditions, including the slowdown in new housing starts as well as by operational inefficiencies at DISH Network, an increase in non-pay disconnects primarily resulting from adverse economic conditions, continuing effects of customer commitment expirations, signal piracy and other forms of fraud.

We cannot assure you that we will be able to lower our subscriber churn rate, or that our subscriber churn rate will not increase. We believe we can reduce churn if we are successful in improving customer service and other areas of

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

our operations in which have recently experienced operational inefficiencies. We also believe that the launch of new HD local channels may help to reduce subscriber churn in certain markets. However, given the increasingly competitive nature of our industry, it may not be possible to reduce churn without significantly increasing our spending on customer retention, which would have a negative effect on our earnings and free cash flow.

Our entire subscriber base is negatively impacted when existing and new competitors offer attractive promotions or attractive product and service alternatives, including, among other things, video services bundled with broadband and other telecommunications services, better priced or more attractive programming packages, including broader HD programming and a larger number of HD and standard definition local channels, and more compelling consumer electronic products and services, including DVRs, video on demand services and receivers with multiple tuners. We also expect to face increasing competition from content and other providers who distribute video services directly to consumers over the Internet. Additionally, certain of our promotions allow consumers with relatively lower credit scores to become subscribers, and these subscribers typically churn at a higher rate. However, these subscribers are also acquired at a lower cost resulting in a smaller economic loss upon disconnect.

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.

As the size of our subscriber base increases, even if our subscriber churn rate remains constant or declines, we will be required to attract increasing numbers of new DISH Network subscribers simply to sustain our historical net subscriber growth rates.

AT&T and other telecommunications providers offer DISH Network programming bundled with broadband, telephony and other services. Over the past several quarters a significant percentage of our gross subscriber additions have been generated through our distribution relationship with AT&T. Our current distribution relationship with AT&T expires during the fourth quarter of 2008 and AT&T may decline to renew this relationship or otherwise discontinue or curtail the marketing and distribution of our services. Our net new subscriber additions

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

and certain of our other key operating metrics could be adversely affected if AT&T or other telecommunication providers de-emphasize or discontinue selling our services and we are not able to develop comparable alternative distribution channels. Because of the size and scope of AT&T s distribution networks, it would be difficult for us to replace AT&T as a distribution partner or to develop appropriate alternatives to replace AT&T as a distribution channel.

Increases in theft of our signal, or our competitors signals, could in addition to reducing new subscriber activations, also cause subscriber churn to increase. We use microchips embedded in credit card-sized access cards, called smart cards, or security chips in our receiver systems to control access to authorized programming content. However, our signal encryption has been compromised by theft of service, and even though we continue to respond to compromises of our encryption system with security measures intended to make signal theft of our programming more difficult, theft of our signal is increasing. We cannot assure you that we will be successful in reducing or controlling theft of our service.

During 2005, we replaced our smart cards in order to reduce theft of our service. However, the smart card replacement did not fully secure our system, and we have since implemented software patches and other security measures to help protect our service. Nevertheless, these security measures are short-term fixes and we remain susceptible to additional signal theft. Therefore, we have developed a plan to replace our existing smart cards and/or security chips to re-secure our signals for a longer term which will commence later this year and is expected to take approximately nine to twelve months to complete. While our existing smart cards installed in 2005 remain under warranty, we could incur operational period costs in excess of $50 million in connection with our smart card replacement program.

We are also vulnerable to fraud, particularly in the acquisition of new subscribers. While we are addressing the impact of subscriber fraud through a number of actions, there can be no assurance that we will not continue to experience fraud, which could impact our subscriber growth and churn.

Subscriber Acquisition and Retention Costs

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

Capital expenditures resulting from our equipment lease program for new subscribers have been, and we expect will continue to be, partially mitigated by, among other things, the redeployment of equipment returned by disconnecting lease program subscribers. However, to remain competitive we will have to upgrade or replace subscriber equipment periodically as technology changes, and the associated costs may be substantial. To the extent technological changes render a portion of our existing equipment obsolete, we would be unable to redeploy all returned equipment and would realize less benefit from the SAC reduction associated with redeployment of that returned lease equipment.

Several years ago, we began deploying receivers that utilize 8PSK modulation technology and receivers that utilize MPEG-4 compression technology. These technologies, when fully deployed, will allow more programming channels to be carried over our existing satellites. A majority of our customers today, however, do not have receivers that use MPEG-4 compression and a smaller but still significant percentage do not have receivers that use 8PSK modulation. We may choose to invest significant capital to accelerate the conversion of customers to MPEG-4 and/or 8PSK in order to realize the bandwidth benefits sooner. The bandwidth benefits from MPEG-4 and 8PSK can be independently achieved.

While we may be able to generate increased revenue from such conversions, the deployment of equipment including new technologies will increase the cost of our consumer equipment, at least in the short-term. Our expensed and capitalized subscriber acquisition and retention costs will increase to the extent we subsidize those costs for new and

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

existing subscribers. These increases may be mitigated to the extent we successfully redeploy existing receivers and implement other equipment cost reduction strategies.

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

Cash necessary to fund retention programs and total subscriber acquisition costs are expected to be satisfied from existing cash and marketable investment securities balances and cash generated from operations to the extent available. We may, however, decide to raise additional capital in the future to meet these requirements. There can be no assurance that additional financing will be available on acceptable terms, or at all, if needed in the future.

Obligations and Future Capital Requirements

Future maturities of our contractual obligations as of March 31, 2008 are summarized as follows:

	Payments due by period							
	Total	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
	(In thousands)							
Long-term debt obligations	$ 5,525,000	$ 1,500,000	$	$	$ 1,025,000	$	$ 500,000	$ 2,500,000
Satellite-related obligations*	1,753,695	949,951	124,344	52,044	52,044	52,044	52,044	471,224
Capital lease obligations	191,401	5,934	8,445	9,097	9,800	10,556	11,371	136,198
Operating lease obligations	93,542	30,943	34,127	14,320	8,214	3,101	1,485	1,352
Purchase obligations	1,267,231	942,151	251,123	40,247	11,000	11,000	11,000	710
Mortgages and other notes payable	24,907	2,010	2,194	2,058	2,206	2,366	2,537	11,536
Total	$ 8,855,776	$ 3,430,989	$ 420,233	$ 117,766	$ 1,108,264	$ 79,067	$ 578,437	$ 3,121,020

* Includes the $597 million balance payment made in April 2008 for the 700 MHz wireless spectrum.

On April 14, 2008, Space Systems/Loral, Inc. began the construction of EchoStar XV, our 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 DISH Network to offer other value-added services.

We expect that our future working capital, capital expenditure and debt service requirements will be satisfied from existing cash and marketable investment securities balances, cash generated from operations or through new additional capital. However, current dislocations in the credit markets, which have significantly impacted the availability and pricing of financing, particularly in the high yield debt and leveraged credit markets, may significantly constrain our ability to obtain financing to support our growth initiatives. These developments in the credit markets may have a significant effect on our cost of financing and our liquidity position and may, as a result, cause us to defer or abandon profitable business strategies that we would otherwise pursue if financing were available on acceptable terms.

Our ability to generate positive future operating and net cash flows is dependent upon, among other things, our ability to retain existing DISH Network subscribers. There can be no assurance we will be successful in executing our business plan. The amount of capital required to fund our future working capital and capital expenditure needs will vary, depending on, among other things, the rate at which we acquire new subscribers and the cost of subscriber acquisition and retention, including capitalized costs associated with our new and existing subscriber equipment lease programs. The amount of capital required will also depend on the levels of investment necessary to support possible strategic initiatives including our plans to expand our national and local HD offering. Our capital

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

expenditures will vary depending on the number of satellites leased or under construction at any point in time. Our working capital and capital expenditure requirements could increase materially in the event of, among other factors, increased competition for subscription television customers, significant satellite failures, or general economic downturn. These factors could require that we raise additional capital in the future. There can be no assurance that we could raise all required capital or that required capital would be available on acceptable terms.

From time to time we evaluate opportunities for strategic investments or acquisitions that may complement our current services and products, enhance our technical capabilities, improve or sustain our competitive position, or otherwise offer growth opportunities. We may make investments in or partner with others to expand our business into mobile and portable video, data and voice services. Future material investments or acquisitions may require that we obtain additional capital, assume third party debt or other long-term obligations. Also, the plan to repurchase our Class A common stock extends through December 31, 2008, which could require that we raise additional capital. The maximum dollar value of shares that may still be purchased under the plan is $1.0 billion. There can be no assurance that we could raise all required capital or that required capital would be available on acceptable terms.

Interest on Long-Term Debt

As of March 31, 2008, expected future cash interest payments related to our debt are summarized in the table below.

	Payments due by period							
	Total	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
	(In thousands)							
Long-term debt	$ 1,882,515	$ 291,699	$ 287,663	$ 280,978	$ 272,391	$ 208,150	$ 208,147	$ 333,487
Capital lease obligations	118,377	10,563	13,551	12,899	12,197	11,440	10,625	47,102
Mortgages and other notes payable	10,200	1,667	1,540	1,404	1,258	1,101	932	2,298
Total	$ 2,011,092	$ 303,929	$ 302,754	$ 295,281	$ 285,846	$ 220,691	$ 219,704	$ 382,887

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks Associated With Financial Instruments

As of March 31, 2008, our restricted and unrestricted cash, cash equivalents and marketable investment securities had a fair value of $1.895 billion. Of that amount, a total of $1.834 billion was invested in: (a) cash; (b) debt instruments of the U.S. Government and its agencies; (c) commercial paper and notes with an overall average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; (d) instruments with similar risk characteristics to the commercial paper described above; and (e) auction rate, mortgage and asset-backed securities. The primary purpose of these investing activities has been to preserve principal until the cash is required to, among other things, fund operations, make strategic investments and expand the business. Consequently, the size of this portfolio fluctuates significantly as cash is received and used in our business.

Our restricted and unrestricted cash, cash equivalents and marketable investment securities had an average annual return for the three months ended March 31, 2008 of 3.3%. A hypothetical 10% decrease in interest rates would result in a decrease of approximately $6 million in annual interest income. Further, our returns could be lowered by credit losses should economic conditions worsen, as discussed below. The value of certain of the investments in this portfolio can be impacted by, among other things, the risk of adverse changes in securities and economic markets, as well as the risks related to the performance of the companies whose commercial paper and other instruments we hold. However, the high quality of these investments (as assessed by independent rating agencies) reduces these risks. The value of these investments can also be impacted by interest rate fluctuations.

At March 31, 2008, all of the $1.834 billion was invested in fixed or variable rate instruments or money market type accounts. While an increase in interest rates would ordinarily adversely impact the fair value of fixed and variable rate investments, we normally hold these investments to maturity. Consequently, neither interest rate fluctuations nor other market risks typically result in significant realized gains or losses to this portfolio. Further, our returns could be lowered by credit losses should economic conditions worsen, as discussed below. A decrease in interest rates has the effect of reducing our future annual interest income from this portfolio, since funds would be re-invested at lower rates as the instruments mature.

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. Due to recent events in credit markets, however, the auctions for the ARS investments have failed. Additionally, the recent events in the credit markets have reduced or eliminated current liquidity for certain of our 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 rather than the credit risk associated with the underlying collateral, we have recorded an unrealized loss of $15 million, net of tax, to Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. As of March 31, 2008, we reclassified $143 million of these investments to non-current assets to reflect a longer expected holding period for these assets that results from the current and possible continued illiquidity. The ARS investments held by us at March 31, 2008 are primarily collateralized by high credit quality assets.

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 $11 million, net of tax, to Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. As of March 31, 2008, we reclassified $12 million of these investments to non-current assets to reflect a longer expected holding period for these assets that results from the current and possible continued illiquidity.

Included in our marketable investment securities portfolio balance is debt and equity of public companies we hold for strategic and financial purposes. As of March 31, 2008, we held strategic and financial debt and equity investments of public companies with a fair value of $61 million. These investments are highly speculative and are concentrated in a small number of companies. During the three months ended March 31, 2008, our strategic investments experienced volatility, which is likely to continue. The fair value of our strategic and financial debt and equity investments can be significantly impacted by the risk of adverse changes in securities markets, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair value due to the volatility of the securities markets and of the underlying businesses. A hypothetical 10% adverse change in the price of our public strategic debt and equity investments would result in approximately a $6 million decrease in the fair value of that portfolio.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Continued

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

As of March 31, 2008, we had accumulated unrealized gains (losses) net of related tax effect of $42 million in losses as a part of Accumulated other comprehensive income (loss) within Total stockholders equity (deficit). During the three months ended March 31, 2008, 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 three months ended March 31, 2008, we recognized realized and unrealized net gains on marketable investment securities of $2 million. During the three months ended March 31, 2008, our strategic investments have experienced and continue to experience volatility. If the fair value of our strategic marketable investment securities portfolio does not remain above cost basis or if we become aware of any market or company specific factors that indicate that the carrying value of certain of our securities is impaired, we may be required to record charges to earnings in future periods equal to the amount of the decline in fair value.

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

Other Investment Securities	**As of March 31, 2008** (In thousands)
Cost method	$ 68,391
Equity method	47,717
Fair value method	6,772
Total	$ 122,880

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Continued

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 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 March 31, 2008** (In thousands)
Unrealized gains (losses), net	$ (4,632)
Impairments	
Total	$ (4,632)

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.

As of March 31, 2008, we had fixed-rate debt, mortgages and other notes payable of $5.550 billion on our Condensed Consolidated Balance Sheets. We estimated the fair value of this debt to be approximately $5.341 billion using quoted market prices for our publicly traded debt, which constitutes approximately 90% of our debt, and an analysis based on certain assumptions discussed below for our private debt. In completing our analysis for our private debt, we evaluate market conditions, related securities, various public and private offerings, and other publicly available information. In performing this analysis, we make various assumptions regarding credit spreads, volatility, and the impact of these factors on the value of the notes. The fair value of our debt is affected by fluctuations in interest rates. A hypothetical 10% decrease in assumed interest rates would increase the fair value of our debt by approximately $162 million. To the extent interest rates increase, our costs of financing would increase at such time as we are required to refinance our debt. As of March 31, 2008, a hypothetical 10% increase in assumed interest rates would increase our annual interest expense by approximately $35 million.

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

Item 4. CONTROLS AND PROCEDURES

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

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

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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 various of the Court s claim constructions and argues that the case should proceed immediately to the Federal Circuit. The Court has set a hearing for May 6, 2008, at which time it will determine whether the parties will proceed with additional invalidity motions or enter final judgment based on Acacia s agreement that all asserted claims are invalid.

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. 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.

PART II OTHER INFORMATION Continued

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 granted with leave for plaintiffs to amend their complaint. 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. We intend to vigorously defend this case. We cannot predict with any degree of certainty the outcome of the appeal or determine the extent of any potential liability or damages.

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

PART II OTHER INFORMATION Continued

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.

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.

PART II OTHER INFORMATION Continued

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 are vigorously defending against the suits and 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 August 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.

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.

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 (the Design-

PART II OTHER INFORMATION Continued

Around). We have formal legal opinions from outside counsel that conclude that our Design-Around does not infringe, literally or under the doctrine of equivalents, either the hardware or software claims of Tivo s patent.

In accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5), we recorded a total reserve of $129 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 the Design-Around, plus interest subsequent to the jury verdict.

If the Federal Circuit s decision is upheld and Tivo decides to challenge the Design-Around, we will mount a vigorous defense. If we are unsuccessful in subsequent appeals or in defending against claims that the Design-Around 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.

Other

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

Item 1A. RISK FACTORS

Item 1A, Risk Factors, of our Annual Report on Form 10-K/A for 2007 includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Annual Report on Form 10-K/A for 2007.

Our gross subscriber additions and certain of our other key operating metrics could be adversely affected if AT&T were to discontinue selling our services or reduce their marketing of our services.

Over the past several quarters, a significant percentage of our gross subscriber additions have been generated from our distribution relationship with AT&T. Our current distribution relationship with AT&T expires in the fourth quarter of 2008 and AT&T may decline to renew this relationship or otherwise discontinue or curtail the marketing and distribution of our services to its customers. Even if it continues the distribution relationship, AT&T may not continue to market and sell our services in the same manner as it has historically. If AT&T chooses not to renew its distribution relationship with us or it seeks to modify the terms of this relationship, there could be a significant negative impact on our business. Because of the size and scope of AT&T s distribution networks, it would be difficult for us to replace AT&T as a distribution partner or otherwise develop comparable alternative distribution channels if AT&T were to discontinue selling our services or reduce its marketing efforts.

We currently depend on EchoStar for substantially all of our FSS and digital broadcast operations.

EchoStar is currently our key provider of transponder leasing and our sole provider of digital broadcast operation services. Because these services are provided pursuant to contracts that generally expire on January 1, 2010, EchoStar will have no obligation to provide us transponder leasing or digital broadcast operation services after that date. Therefore, if we are unable to extend these contracts with EchoStar, or we are unable to obtain similar contracts from third parties after that date, there could be a significant adverse effect on our business, results of operations and financial position.

We have made significant commitments to acquire 700 MHz wireless licenses and will be required to make significant additional investments to commercialize this license.

A wholly-owned subsidiary of DISH Network participated in the auction of 700 MHz wireless spectrum designated by the FCC as Auction 73. On March 20, 2008, the FCC disclosed that the subsidiary was the provisional winning

PART II OTHER INFORMATION Continued

bidder of 168 E Block licenses, or the 700 MHz Licenses, in Auction 73 representing coverage of 76% of the U.S. population for a total bid of $712 million.

In addition to the cost to acquire the 700 MHz Licenses, we expect to invest a significant amount to develop services and infrastructure to effectively utilize the spectrum and provide services to our customers. There can be no assurance, however, that we will be able to develop and implement a business model that will realize a return on these investments and profitably deploy the spectrum represented by the 700 MHz Licenses.

Furthermore, the market values of wireless licenses may vary significantly in the future. In particular, valuation swings could occur if:

- consolidation in the wireless industry allows or requires carriers to sell significant portions of their wireless spectrum holdings;
- a sudden large sale of spectrum by one or more wireless providers occurs; or
- market prices decline as a result of the sale prices in FCC auctions.

In addition, the price of wireless licenses could decline as a result of the FCC s pursuit of policies designed to increase the number of wireless licenses available in each of our markets. For example, the 700 MHz Licenses that we acquired were only recently made available by the FCC. If the market value of our 700 MHz Licenses were to decline significantly, the value of our 700 MHz Licenses could be subject to non-cash impairment charges. We assess potential impairments to our indefinite-lived intangible assets, including our 700 MHz Licenses, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. Estimates of the fair value of our 700 MHz Licenses are based primarily on available market prices, including successful bid prices in FCC auctions and selling prices observed in wireless license transactions.

A portion of our short-term investment portfolio is invested in auction rate securities and as a result of unsuccessful auctions, a portion of our portfolio has restricted liquidity. If the credit ratings of these securities we hold deteriorate or the lack of liquidity in the marketplace becomes prolonged, we may be required to adjust the carrying value of these investments through an impairment charge.

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. We currently deem the declines in fair value associated with these securities to be not other than temporary and have reflected them in Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheet. Should the credit ratings of these securities deteriorate or the lack of liquidity in the marketplace become prolonged, we may deem any declines in fair value to be other than temporary and would then record them as impairment charges on our Condensed Consolidated Statements of Operations.

We May Be Required to Raise and Refinance Indebtedness During Unfavorable Market Conditions.

During 2008, we will have up to $1.5 billion in long-term debt come up for repayment or repurchase. In addition, our business plans may require that we raise additional debt to capitalize on our business opportunities. 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. Currently, we have not been materially impacted by events in the current credit market. However, 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 our indebtedness which is subject to repayment or repurchase in 2008 or to secure additional financing to support our growth initiatives.

PART II OTHER INFORMATION Continued

We have limited satellite capacity and satellite failures or launch delays could adversely affect our business.

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.

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

Issuer Purchases of Equity Securities

The following table provides information regarding purchases of our Class A common stock from January 1, 2008 through March 31, 2008.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (b)
		(In thousands, except share data)		
January 1 - January 31, 2008		$		$ 1,000,000
February 1 - February 29, 2008		$		$ 1,000,000
March 1 - March 31, 2008		$		$ 1,000,000
Total		$		$ 1,000,000

(a) During the period from January 1, 2008 through March 31, 2008, we did not repurchase any of our Class A common stock pursuant to our repurchase program.

(b) Our Board of Directors authorized the purchase of up to $1.0 billion of our Class A common stock on August 9, 2004. Prior to 2007, we purchased a total of 13.6 million shares for $374 million under this plan. During November 2007, our Board of Directors authorized an increase in the maximum dollar value of shares that may be repurchased under the plan, such that we are currently authorized to repurchase up to an aggregate of $1.0 billion of our outstanding shares through and including December 31, 2008. Purchases under our repurchase program may be made through open market purchases, privately negotiated transactions, or Rule 10b5-1 trading plans,

PART II OTHER INFORMATION Continued

subject to market conditions and other factors. We may elect not to purchase the maximum amount of shares allowable under this program and we may also enter into additional share repurchase programs authorized by our Board of Directors.

Item 6. EXHIBITS

(a) Exhibits.

10.1o	NIMIQ 5 Transponder Service Agreement, dated March 11, 2008, between Bell ExpressVu Limited Partnership, acting through its general partner Bell ExpressVu Inc., on the one hand, and EchoStar and DISH Network (solely as to the obligation set forth in Section 19.10), on the other hand.
10.2o	NIMIQ 5 Transponder Service Agreement, dated March 11, 2008, between EchoStar and DISH Network L.L.C.
31.1o	Section 302 Certification by Chairman and Chief Executive Officer.
31.2o	Section 302 Certification by Executive Vice President and Chief Financial Officer.
32.1o	Section 906 Certification by Chairman and Chief Executive Officer.
32.2o	Section 906 Certification by Executive Vice President and Chief Financial Officer.
99.1*	Separation Agreement between EchoStar and DISH Network (incorporated by reference from Exhibit 2.1 to the Form 10 of EchoStar Holding Corporation, Commission File No. 001-33807).
99.2*	Transition Services Agreement between EchoStar and DISH Network (incorporated by reference from Exhibit 10.1 to the Form 10 of EchoStar Holding Corporation, Commission File No. 001-33807).
99.3*	Tax Sharing Agreement between EchoStar and DISH Network (incorporated by reference from Exhibit 10.2 to the Form 10 of EchoStar Holding Corporation, Commission File No. 001-33807).
99.4*	Employee Matters Agreement between EchoStar and DISH Network (incorporated by reference from Exhibit 10.3 to the Form 10 of EchoStar Holding Corporation, Commission File No. 001-33807).
99.5*	Intellectual Property Matters Agreement between EchoStar, EchoStar Acquisition L.L.C., Echosphere L.L.C., EchoStar DBS Corporation, EIC Spain SL, EchoStar Technologies Corporation and DISH Network (incorporated by reference from Exhibit 10.4 to the Form 10 of EchoStar Holding Corporation, Commission File No. 001-33807).
99.6*	Management Services Agreement between EchoStar and DISH Network (incorporated by reference from Exhibit 10.5 to the Form 10 of EchoStar Holding Corporation, Commission File No. 001-33807).
99.7*	Receiver Agreement between EchoSphere L.L.C. and EchoStar Technologies L.L.C. (incorporated by reference from Exhibit 10.26 to the Form 10 of EchoStar Holding Corporation, Commission File No. 001-33807).
99.8*	Broadcast Agreement between EchoStar and EchoStar Satellite L.L.C. (incorporated by reference from Exhibit 10.27 to the Form 10 of EchoStar Holding Corporation, Commission File No. 001-33807).

o Filed herewith.

* Incorporated by reference.

SIGNATURES

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

DISH NETWORK CORPORATION

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

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

Date: May 12, 2008

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