DISH Network CORP
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008.

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________.

Commission File Number: 0-26176

DISH Network Corporation

(Exact name of registrant as specified in its charter)

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

(303) 723-1000

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

As of October 15, 2008, the registrant s outstanding common stock consisted of 208,622,455 shares of Class A common stock and 238,435,208 shares of Class B common stock.

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PART I FINANCIAL INFORMATION

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

We face intense and increasing competition from satellite and cable television providers as well as new competitors, including telephone companies. Many of our competitors offer video services bundled with 2-way high-speed Internet access and telephone services that consumers may find attractive and which are likely to further increase competition. We also expect to face increasing competition from content and other providers who distribute video services directly to consumers over the Internet. The competitive environment may require us to increase promotional and retention spending or accept lower subscriber acquisitions and higher subscriber churn.

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

DISH Network® gross subscriber additions may continue to decrease and subscriber turnover may continue to increase, in each case due to a variety of factors, such as increasing competition and worsening economic conditions, which are outside of our control, and other factors, such as our own operational inefficiencies and levels of customer satisfaction with our products and services, which are within our control, that would require significant investments and expenditures to overcome, which may have a material adverse effect on our results of operations and financial condition.

Our ability to grow or maintain our business may be adversely affected by weakening global or domestic economic conditions, wavering consumer confidence, unemployment, tight credit markets, declines in global and domestic stock markets, falling home prices and other factors adversely affecting the global and domestic economy. Unfavorable events in the economy, including a further deterioration in the credit and equity markets, could significantly affect consumer demand for our pay-TV services as consumers may delay purchasing decisions or reduce or reallocate their discretionary spending. Adverse economic conditions may also make it more difficult for us to access financing on acceptable terms or at all, cause us to impair our investment portfolio, and affect our ability to attract and retain subscribers.

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

The loss of our distribution relationship with AT&T on January 31, 2009 may impair our ability to generate gross and net subscriber additions, increase churn and impair our ability to generate revenue growth.

We have made and we will continue to make material investments in staffing, training, information systems, and other initiatives, primarily in our call center and in-home service businesses. These investments are intended to help combat inefficiencies introduced by the increasing complexity of our business and technology, improve customer satisfaction, reduce churn, increase productivity, and allow us to scale better over the long run. We cannot, however, be certain that our increased spending will ultimately be successful in yielding such returns. In the meantime, we may continue to incur higher costs as a result of both our operational inefficiencies and increased spending.

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

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

We depend on others to produce the programming we distribute to our subscribers, programming costs may increase beyond our current expectations and we may be unable to obtain or renew programming agreements on acceptable terms or at all. Existing programming agreements could be subject to cancellation. We may be denied access to sports and other programming. Foreign programming is increasingly offered on other platforms. We may also be unable to obtain required retransmission consents. Our inability to obtain or renew attractive programming could cause our subscriber base and related revenue to decline and could cause our subscriber turnover to increase.

We depend on and are subject to government regulations and requirements, primarily those of the Federal Communications Commission (FCC). Government regulations and requirements could become more burdensome at any time, causing us to expend additional resources on compliance, and critical protections provided for by FCC rules and regulations to ensure non-discriminatory access to cable-owned programming assets may be reduced. In addition, we may lose (or have altered) existing or future government authorizations and licenses that are necessary to conduct our business. We may be unable to obtain needed FCC authorizations or export licenses.

We made a substantial deposit for 700 MHz wireless licenses in an FCC auction. We will be required to make significant additional investments or partner with others to commercialize these licenses and satisfy FCC build-out requirements.

We are highly leveraged and subject to numerous constraints on our ability to raise additional debt. We may be required to raise and/or refinance indebtedness during unfavorable market conditions. Recent developments in the financial markets have made it more difficult for issuers of high yield indebtedness such as us to access capital markets at reasonable rates. We cannot predict with any certainty whether or not we will be impacted in the future by the current conditions, which may adversely affect our ability to refinance our indebtedness, or to secure additional financing to support our growth initiatives.

A portion of our investment portfolio is invested in asset backed securities, auction rate securities, mortgage backed securities and special investment vehicles. The markets associated with these investments have experienced greatly reduced liquidity in recent months and therefore have adversely affected our liquidity. In addition, certain of these securities have defaulted or been materially downgraded causing us to record impairment charges. Should the credit ratings of these securities deteriorate further, we may be required to record additional impairment charges.

If we and EchoStar are unsuccessful in defending against Tivo s motion for contempt or any subsequent claims that EchoStar s technology infringes Tivo s patent, we could be prohibited from distributing DVRs supplied to us by EchoStar, or be required to modify or eliminate certain user-friendly DVR features that we currently offer to consumers. In that event we would be at a significant disadvantage to our competitors who could offer this functionality and, while we would attempt to provide that functionality using different technology and/or manufacturers other than EchoStar, the adverse affect on our business could be material. We could also have to pay substantial additional damages.

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

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Our satellite launches may be delayed or fail, or our owned or leased satellites may fail in orbit prior to the end of their scheduled lives which could cause extended interruptions of some of the channels we offer and impair our ability to attract and retain subscribers.

We do not carry insurance for any satellite launches or any of the in-orbit satellites that we own or lease, and we bear the risk of any launch or in-orbit satellite failures. Therefore, launch failures and/or failures of any of the in-orbit satellites that we own or lease could have a material adverse effect on our results of operations and financial position and could require us to take substantial impairment charges.

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

We depend heavily on complex information technologies. Weaknesses in our information technology systems could have an adverse impact on our business. We may have difficulty attracting and retaining qualified personnel to maintain our information technology infrastructure.

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

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

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

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

We may pursue acquisitions, business combinations, strategic partnerships, divestitures and other significant transactions that may require us to raise additional capital, (which may not be available on acceptable terms), could become substantial over time, involve a high degree of risk, and could expose us to significant financial losses if the underlying ventures are not successful.

We periodically evaluate and test our internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act. Although our management concluded that our internal control over financial reporting was effective as of December 31, 2007, and while no change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, if in the future we are unable to report that our internal control over financial reporting is effective (or if our auditors do not agree with our assessment of the effectiveness of, or are unable to express an opinion on, our internal control over financial reporting), we could lose investor confidence in our financial reports, which could have a material adverse effect on our stock price and our business.

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

All cautionary statements made herein should be read as being applicable to all forward-looking statements wherever they appear. In this connection, investors should consider the risks described herein and should not place undue reliance on any forward-looking statements. We assume no responsibility for updating forward-looking information contained or incorporated by reference herein or in other reports we file with the SEC.

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

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Item 1. FINANCIAL STATEMENTS

DISH NETWORK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	As of	
	September 30, 2008	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 971,943	$ 919,543
Marketable investment securities	460,704	1,868,653
Restricted cash and cash equivalents (Note 5)	104,600	
Trade accounts receivable other, net of allowance for uncollectible accounts of $14,708 and $14,019, respectively	720,745	699,101
Trade accounts receivable EchoStar	72,160	
Inventories, net	394,659	306,915
Current deferred tax assets	15,179	342,813
Other current assets	113,139	108,113
Other current assets EchoStar	3,707	
Total current assets	2,856,836	4,245,138
Restricted cash and marketable investment securities	75,739	172,520
Property and equipment, net of accumulated depreciation of $2,366,559 and $3,591,594, respectively	2,622,830	4,058,189
FCC authorizations	679,570	845,564
700 MHz wireless spectrum deposit (Note 7)	711,871	
Deferred tax assets	14,522	
Intangible assets, net	5,426	218,875
Goodwill		256,917
Marketable investment securities	100,078	
Other noncurrent assets, net (Note 5)	110,376	289,326
Total assets	$ 7,177,248	$ 10,086,529
Liabilities and Stockholders Equity (Deficit)		
Current Liabilities:		
Trade accounts payable other	$ 97,406	$ 314,825
Trade accounts payable EchoStar	491,886	
Deferred revenue and other	849,262	857,846
Accrued programming	906,329	914,074
Litigation accrual	104,600	
Other accrued expenses	717,257	587,942
Current portion of capital lease obligations, mortgages and other notes payable	11,739	50,454
3% Convertible Subordinated Note due 2011 (Note 8)	25,000	
3% Convertible Subordinated Note due 2010 (Note 8)		500,000

5 3/4% Senior Notes due 2008 (Note 8)	971,555	1,000,000
Total current liabilities	4,175,034	4,225,141
Long-term obligations, net of current portion:		
6 3/8% Senior Notes due 2011	1,000,000	1,000,000
3% Convertible Subordinated Note due 2011		25,000
6 5/8% Senior Notes due 2014	1,000,000	1,000,000
7 1/8% Senior Notes due 2016	1,500,000	1,500,000
7% Senior Notes due 2013	500,000	500,000
7 3/4% Senior Notes due 2015 (Note 8)	750,000	
Capital lease obligations, mortgages and other notes payable, net of current portion	222,794	550,250
Deferred tax liabilities		386,493
Long-term deferred revenue, distribution and carriage payments and other long-term liabilities	158,918	259,656
Total long-term obligations, net of current portion	5,131,712	5,221,399
Total liabilities	9,306,746	9,446,540
Commitments and Contingencies (Note 11)		
Stockholders Equity (Deficit):		
Class A common stock, $.01 par value, 1,600,000,000 shares authorized, 256,689,257 and 255,138,160 shares issued, 208,622,342 and 210,125,360 shares outstanding, respectively	2,567	2,551
Class B common stock, $.01 par value, 800,000,000 shares authorized, 238,435,208 shares issued and outstanding.	2,384	2,384
Class C common stock, $.01 par value, 800,000,000 shares authorized, none issued and outstanding		
Additional paid-in capital	2,085,343	2,033,865
Accumulated other comprehensive income (loss)	(91,445)	46,698
Accumulated earnings (deficit)	(2,685,388)	(84,456)
Treasury stock, at cost	(1,442,959)	(1,361,053)
Total stockholders equity (deficit)	(2,129,498)	639,989
Total liabilities and stockholders equity (deficit)	$ 7,177,248	$ 10,086,529

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue:				
Subscriber-related revenue	$ 2,886,157	$ 2,699,018	$ 8,572,163	$ 7,927,311
Equipment sales and other revenue	41,918	95,309	95,755	272,009
Equipment sales EchoStar	2,433		8,533	
Transitional services and other revenue EchoStar	6,273		19,714	
Total revenue	2,936,781	2,794,327	8,696,165	8,199,320
Costs and Expenses:				
Subscriber-related expenses (exclusive of depreciation shown below Note 12)	1,534,133	1,384,632	4,402,771	4,067,518
Satellite and transmission expenses (exclusive of depreciation shown below Note 12):				
EchoStar	76,848		232,798	
Other	7,651	50,253	22,890	125,931
Equipment, transitional services and other cost of sales	69,315	66,745	131,488	189,576
Subscriber acquisition costs:				
Cost of sales subscriber promotion subsidies EchoStar (exclusive of depreciation shown below Note 12)	53,418	25,553	116,489	89,082
Other subscriber promotion subsidies	310,879	314,550	888,849	931,514
Subscriber acquisition advertising	73,469	60,521	178,800	157,521
Total subscriber acquisition costs	437,766	400,624	1,184,138	1,178,117
General and administrative EchoStar	14,300		40,740	
General and administrative	133,282	151,409	371,364	451,611
Depreciation and amortization (Note 12)	245,646	344,150	766,260	1,008,201
Total costs and expenses	2,518,941	2,397,813	7,152,449	7,020,954
Operating income (loss)	417,840	396,514	1,543,716	1,178,366
Other Income (Expense):				
Interest income	16,609	37,074	44,082	98,917
Interest expense, net of amounts capitalized	(101,802)	(96,251)	(284,845)	(312,413)
Other (Note 5)	(106,055)	(6,124)	(124,583)	(24,099)

Total other income (expense)	(191,248)	(65,301)	(365,346)	(237,595)
Income (loss) before income taxes	226,592	331,213	1,178,370	940,771
Income tax (provision) benefit, net	(134,697)	(131,533)	(492,007)	(359,752)
Net income (loss)	$ 91,895	$ 199,680	$ 686,363	$ 581,019
Denominator for basic and diluted net income (loss) per share Class A and B common stock:				
Denominator for basic net income (loss) per share weighted-average common shares outstanding	449,425	447,496	449,318	447,001
Denominator for diluted net income (loss) per share weighted-average common shares outstanding	460,042	456,543	461,040	456,048
Net income (loss) per share Class A and B common stock:				
Basic net income (loss)	$ 0.20	$ 0.45	$ 1.53	$ 1.30
Diluted net income (loss)	$ 0.20	$ 0.44	$ 1.50	$ 1.29

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

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

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Cash Flows From Operating Activities:		
Net income (loss)	$ 686,363	$ 581,019
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	766,260	1,008,201
Equity in losses (earnings) of affiliates	1,884	3,165
Realized and unrealized losses (gains) on investments	120,669	16,309
Non-cash, stock-based compensation	11,690	16,555
Deferred tax expense (benefit)	151,638	293,756
Other, net	5,878	5,320
Change in noncurrent assets	8,470	(5,253)
Change in long-term deferred revenue, distribution and carriage payments and other long-term liabilities	31,010	(15,549)
Changes in current assets and current liabilities, net	41,525	(6,868)
Net cash flows from operating activities	1,825,387	1,896,655
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(4,344,319)	(2,640,785)
Sales and maturities of marketable investment securities	4,457,908	2,413,757
Purchases of property and equipment	(844,265)	(1,070,033)
Change in restricted cash and marketable investment securities	1,700	2,269
Deposit for 700 MHz wireless spectrum acquisition	(711,871)	
Proceeds from the sale of strategic investment	106,200	
FCC authorizations		(57,463)
Purchase of strategic investments included in noncurrent assets and other		(71,906)
Other	(705)	5,803
Net cash flows from investing activities	(1,335,352)	(1,418,358)
Cash Flows From Financing Activities:		
Distribution of cash and cash equivalents to EchoStar in connection with the Spin-off (Note 1)	(585,147)	
Proceeds from issuance of 7 3/4% Senior Notes due 2015 (Note 8)	750,000	
Debt issuance costs	(4,972)	
Redemption of 5 3/4% Convertible Subordinated Notes due 2008		(999,985)
Redemption of 3% Convertible Subordinated Note due 2010	(500,000)	
Repurchases of 5 3/4% Senior Notes due 2008	(28,445)	
Repayment of capital lease obligations, mortgages and other notes payable	(7,068)	(31,835)

Repurchases of Class A common stock (Note 9)	(81,906)	
Net proceeds from Class A common stock options exercised and Class A common stock issued under the Employee Stock Purchase Plan	19,903	28,082
Excess tax benefits recognized on stock option exercises		4,407
Net cash flows from financing activities	(437,635)	(999,331)
Net increase (decrease) in cash and cash equivalents	52,400	(521,034)
Cash and cash equivalents, beginning of period	919,543	1,749,670
Cash and cash equivalents, end of period	$ 971,943	$ 1,228,636
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 240,437	$ 273,877
Capitalized interest	$ 11,812	$ 11,965
Cash received for interest	$ 36,354	$ 73,146
Cash paid for income taxes	$ 361,737	$ 72,861
Employee benefits paid in Class A common stock	$ 19,374	$ 17,674
Satellite financed under capital lease obligations	$	$ 198,219
Satellite and other vendor financing	$ 23,314	$
Net assets contributed in connection with the Spin-off, excluding cash and cash equivalents	$ 2,741,399	$

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

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

1. Organization and Business Activities

Principal Business

DISH Network Corporation, formerly known as EchoStar Communications Corporation, is a holding company. Its subsidiaries (which together with DISH Network Corporation are referred to as DISH Network, the Company, we, u and/or our) operate the DISH Network® television service, which provides a direct broadcast satellite (DBS) subscription television service in the United States and had 13.780 million subscribers as of September 30, 2008.

We have deployed substantial resources to develop the DISH Network DBS System. The DISH Network DBS System consists of our licensed Federal Communications Commission (FCC) authorized DBS and Fixed Satellite Service (FSS) spectrum, our owned and leased satellites, receiver systems, digital broadcast operations, customer service facilities, in-home service and call center operations and certain other assets utilized in our operations. Our principal business strategy is to continue developing our subscription television service in the United States to provide consumers with a fully-competitive alternative to others in the multi-channel video programming distribution (MVPD) industry.

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

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

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

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

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

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

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

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

	January 1, 2008 (In thousands)
Assets	
Current Assets:	
Cash and cash equivalents	$ 585,147
Marketable investment securities	947,120
Trade accounts receivable, net	38,054
Inventories, net	31,000
Current deferred tax assets	8,459
Other current assets	32,351
Total current assets	1,642,131
Restricted cash and marketable investment securities	3,150
Property and equipment, net	1,516,604
FCC authorizations	165,994
Intangible assets, net	214,544
Goodwill	256,917
Other noncurrent assets, net	93,707
Total assets	$ 3,893,047
Liabilities	
Current Liabilities:	
Trade accounts payable	$ 5,825
Deferred revenue and other accrued expenses	38,460
Current portion of capital lease obligations, mortgages and other notes payable	40,533
Total current liabilities	84,818
Long-term obligations, net of current portion:	
Capital lease obligations, mortgages and other notes payable, net of current portion	341,886
Deferred tax liabilities	139,797
Total long-term obligations, net of current portion	481,683
Total liabilities	566,501
Net assets distributed	$ 3,326,546

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required for complete financial statements prepared under GAAP. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2007 (2007 10-K/A). Certain prior period amounts have been reclassified to conform to the current period presentation. Variable rate demand notes (VRDNs), which we previously reported as cash and cash equivalents, are now classified as current marketable investment securities (see Note 5). We held VRDNs on December 31, 2007 prior to the Spin-off, we distributed VRDNs to EchoStar in connection with the Spin-off, and we continued to hold VRDNs as of September 30, 2008. We reclassified the allocation of cash and cash equivalents and marketable investment securities to accurately reflect the amounts of each we distributed to EchoStar in connection with the Spin-off. There was no change in the combined distribution total of $1.5 billion of cash and cash equivalents and current marketable investment securities (see Note 1). As a result of these reclassifications, Purchases of marketable investment securities and Sales and maturities of marketable investment securities in Net cash flows from investing activities and Distribution of cash and cash equivalents to EchoStar in connection with the Spin-off in Net cash flows from financing activities on our Condensed Consolidated Statements of Cash Flows have been reclassified for all prior periods. The ongoing purchase and sale of VRDNs now appear on our cash flow statement under Cash flows from investing activities.

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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 September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007
	(In thousands)			
Net income (loss)	$ 91,895	$ 199,680	$ 686,363	$ 581,019
Foreign currency translation adjustments	(1,384)	3,652	(2,961)	6,268
Unrealized holding gains (losses) on available-for-sale securities	(170,447)	38,103	(231,869)	44,184
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)	148,423	(268)	146,112	(2,263)
Deferred income tax (expense) benefit	(29,398)	(14,950)	(10,174)	(16,415)
Comprehensive income (loss)	$ 39,089	$ 226,217	$ 587,471	$ 612,793

Accumulated other comprehensive income (loss) presented on the accompanying Condensed Consolidated Balance

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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	(2,961)
Change in unrealized holding gains (losses) on available-for-sale securities, net	(85,757)
Deferred income tax (expense) benefit	(10,174)
Balance, September 30, 2008	$ (91,445)

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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	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
	(In thousands)			
Numerator:				
Numerator for basic net income (loss) per share Net income (loss)	$ 91,895	$ 199,680	$ 686,363	$ 581,019
Interest on subordinated notes convertible into common shares, net of related tax effect	1,537	2,432	6,494	7,295
Numerator for diluted net income (loss) per common share	$ 93,432	$ 202,112	$ 692,857	$ 588,314
Denominator:				
Denominator for basic net income (loss) per common share weighted-average common shares outstanding	449,425	447,496	449,318	447,001
Dilutive impact of options outstanding	2,318	1,782	2,941	1,782
Dilutive impact of subordinated notes convertible into common shares	8,299	7,265	8,781	7,265
Denominator for diluted net income (loss) per share weighted-average diluted common shares outstanding	460,042	456,543	461,040	456,048
Net income (loss) per share Class A and B common stock:				
Basic net income (loss)	$ 0.20	$ 0.45	$ 1.53	$ 1.30
Diluted net income (loss)	$ 0.20	$ 0.44	$ 1.50	$ 1.29
Shares of Class A common stock issuable upon conversion of:				
3% Convertible Subordinated Note due 2010 (Note 8) *	8,299	6,866	8,299	6,866
3% Convertible Subordinated Note due 2011 (Note 8)	482	399	482	399

* The 3% Convertible Subordinated Note due 2010 was repurchased in September 2008.

As of September 30, 2008 and 2007, there were 3.4 million and 1.4 million stock incentive awards outstanding, respectively, not included in the above denominator as their inclusion would have been antidilutive. Vesting of options and rights to acquire shares of our Class A common stock granted pursuant to our long-term incentive plans is contingent upon meeting certain long-term goals which have not yet been achieved. As a consequence, the following are not included in the diluted EPS calculation:

	As of September 30,	
	2008	**2007**
	(In thousands)	
Performance-based options	9,548	10,200
Restricted performance units	571	639
Total	10,119	10,839

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

Accounting for Uncertainty in Income Taxes

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48) on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to

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be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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 September 30, 2008, no taxing authority has proposed any significant adjustments to our tax positions. We have no significant current tax examinations in process.

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

Balance as of January 1, 2008	$ 20,160
Additions based on tax positions related to the current year	47,707
Reductions based on tax positions related to the current year	(36,712)
Additions for tax positions of prior years	106,098
Balance as of September 30, 2008	$ 137,253

Accrued interest and penalties on uncertain tax positions are recorded as a component of Other income (expense) on our Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2008, we recorded $1 million and $6 million in interest and penalty expense to earnings, respectively. Accrued interest and penalties was $8 million at September 30, 2008.

We have $128 million in unrecognized tax benefits that, if recognized, could favorably affect our effective tax rate. Of this amount, it is reasonably possible that $103 million may be paid or effectively settled within the next twelve months, depending on the resolution of a change in accounting method filed with the Internal Revenue Service.

New Accounting Pronouncements

Revised Business Combinations

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

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This standard is effective for fiscal years beginning after December 15, 2008. We do not expect the adoption of SFAS 160 to have a material impact on our financial position or results of operations.

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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 September 30, 2008, we had outstanding under these plans options to acquire 20.4 million shares of our Class A common stock and 1.6 million restricted stock awards. Stock options granted through September 30, 2008 were granted with exercise prices equal to or greater than the market value of our Class A common stock at the date of grant and with a maximum term of ten years. While historically we have issued options subject to vesting, typically at the rate of 20% per year, some options have been granted with immediate vesting and other options vest only upon the achievement of certain company-wide objectives. As of September 30, 2008, we had 64.3 million shares of our Class A common stock available for future grant under our stock incentive plans.

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

	As of September 30, 2008			
	Dish Network Awards		EchoStar Awards	
Stock Incentive Awards Outstanding	**Stock Options**	**Restricted Stock Units**	**Stock Options**	**Restricted Stock Units**
Held by DISH Network employees	14,847,200	452,495	3,199,525	90,481
Held by EchoStar employees	5,530,638	1,188,332	N/A	N/A
Total	20,377,838	1,640,827	3,199,525	90,481

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 Statement of Financial Accounting Standards No. 123R, *Share-Based Payments* (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 Sheets.

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Stock Award Activity

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

	For the Nine Months Ended September 30, 2008	
	Options	Weighted-Average Exercise Price
Total options outstanding, beginning of period	20,938,403	$ 22.61
Granted	1,188,500	28.46
Exercised	(844,278)	21.76
Forfeited and cancelled	(904,787)	27.16
Total options outstanding, end of period	20,377,838	22.79
Performance based options outstanding, end of period *	9,547,500	16.41
Exercisable at end of period	6,576,564	28.79

* 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 September 30, 2008.

We realized $3 million and $9 million of tax benefits from stock options exercised during the nine months ended September 30, 2008 and 2007, respectively. Based on the closing market price of our Class A common stock on

September 30, 2008, the aggregate intrinsic value of our outstanding stock options was $76 million. Of that amount, options with an aggregate intrinsic value of $5 million were exercisable at the end of the period.

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

	For the Nine Months Ended September 30, 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	(30,000)	26.66
Forfeited and cancelled	(46,251)	30.75
Total restricted stock awards outstanding, end of period	1,640,827	29.27
Restricted performance units outstanding, end of period *	570,827	25.99

* 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 September 30, 2008.

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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 on our financial statements unless and until management concludes achievement of the performance condition is probable. Given the competitive nature of our business, small variations in subscriber churn, gross subscriber addition rates and certain other factors can significantly impact subscriber growth. Consequently, while it was determined that achievement of either of the goals was not probable as of September 30, 2008, that assessment could change with respect to either goal at any time.

In accordance with SFAS 123R, if all of the awards under each plan were vested and each goal had been met during the nine months ended September 30, 2008, we would have recorded total non-cash, stock-based compensation expense for our employees as indicated in the table below. If the goals are met and there are unvested options at that time, the vested amounts would be expensed immediately on our Condensed Consolidated Statements of Operations, with the unvested portion recognized ratably over the remaining vesting period. During the nine months ended September 30, 2008, if we had determined each goal was probable, we would have recorded total non-cash, stock-based compensation expense for our employees as indicated in the table below.

	Total		Vested Portion	
	1999 LTIP	2005 LTIP	1999 LTIP	2005 LTIP
	(In thousands)			
DISH Network awards held by DISH Network employees	$ 21,609	$ 49,873	$ 19,772	$ 12,654
EchoStar awards held by DISH Network employees	4,387	10,126	4,015	2,569
Total	$ 25,996	$ 59,999	$ 23,787	$ 15,223

Of the 20.4 million options and 1.6 million restricted stock awards outstanding under our stock incentive plans as of September 30, 2008, the following awards were outstanding pursuant to the 1999 LTIP and the 2005 LTIP:

	As of September 30, 2008	
Long-Term Performance-Based Plans	**Stock Awards**	**Weighted-Average Exercise Price**
1999 LTIP options	5,098,000	$ 8.71
2005 LTIP options	4,449,500	25.22
2005 LTIP restricted performance units	570,827	

Total	10,118,327

No awards were granted under the 1999 LTIP or 2005 LTIP during the nine months ended September 30, 2008.

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Stock-Based Compensation

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Subscriber-related	$ 127	$ 152	$ 414	$ 458
Satellite and transmission		86		306
General and administrative	2,185	2,951	6,773	9,460
Total non-cash, stock-based compensation	$ 2,312	$ 3,189	$ 7,187	$ 10,224

As of September 30, 2008, our total unrecognized compensation cost related to our non-performance based unvested stock options was $31 million and includes compensation expense that we will recognize for EchoStar stock options held by our employees as a result of the Spin-off. This cost is based on an estimated future forfeiture rate of approximately 4.4% per year and will be recognized over a weighted-average period of approximatly 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 and nine months ended September 30, 2008 and 2007 was estimated at the date of the grant using a Black-Scholes option pricing model with the following assumptions:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			
	2008	2007		2008		2007	
Risk-free interest rate	3.15%	4.21%	4.49%	2.74%	3.42%	4.51%	4.77%
Volatility factor	24.90%	18.63%	23.95%	19.98%	24.90%	20.17%	22.29%
Expected term of options in years	6.1	6.0	10.0	6.0	6.1	5.9	10.0
Weighted-average fair value of options granted	$ 6.65	$13.70	$21.41	$6.65	$8.72	$13.56	$20.14

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 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.

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4. Inventories

Inventories consist of the following:

	As of September 30, 2008	As of December 31, 2007
	(In thousands)	
Finished goods DBS	$ 213,627	$ 170,463
Raw materials	119,994	70,103
Work-in-process used	78,771	67,542
Work-in-process new	3,784	13,546
Subtotal	416,176	321,654
Inventory allowance	(21,517)	(14,739)
Inventories, net	$ 394,659	$ 306,915

5. Investment Securities

Fair Value Measurements

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

- Level 1, defined as observable inputs being quoted prices in active markets for identical assets;
- Level 2, defined as observable inputs including quoted prices for similar assets; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring assumptions based on the best information available.

Investments in Debt and Equity Securities

We have investments in various debt and equity instruments including corporate bonds, corporate equity securities, government bonds, and VRDNs. VRDNs are long-term floating rate municipal bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. While they are classified as marketable investment securities, VRDNs can be liquidated per the put option on a same day or on a five business day settlement basis. As of September 30, 2008 and December 31, 2007, we held VRDNs with fair values of $113 million and $261 million, respectively.

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

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For our ARS and MBS investments, due to the lack of observable market quotes for identical assets, we utilize analyses that rely on Level 2 and/or Level 3 inputs. These inputs include observed prices on similar assets as well as our assumptions and estimates related to the counterparty credit quality, default risk underlying the security and overall capital market liquidity. The valuation of our ARS and MBS investments portfolio is subject to uncertainties that are difficult to estimate.

As of September 30, 2008, $75 million, net of tax, of unrealized losses were included in Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheets, as the result of the dislocation in the credit markets and temporary declines in the fair value for our ARS investments. We have established a full valuation allowance for the deferred tax assets associated with these capital losses. In addition, we continue to classify these investments totaling $92 million as noncurrent assets as we intend to hold these investments until they recover or mature.

As of September 30, 2008, $16 million, net of tax, of unrealized losses were included in Accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheets, as a result of the dislocation in the credit markets and temporary declines in the fair value for our MBS investments. We have established a full valuation allowance for the tax asset associated with this capital loss. In addition, we continue to classify a portion of these investments totaling $8 million as noncurrent assets as we intend to hold these investments until they recover or mature.

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):

	Total Fair Value as of				
	September 30, 2008				December 31,
	Total	Level 1	Level 2	Level 3	2007
Current:					
Marketable investment securities non strategic	$ 406,882	$ 345,109	$ 58,350	$ 3,423	$ 1,291,840
Marketable investment securities strategic	53,822	53,822			576,813
Current marketable investment securities	460,704	398,931	58,350	3,423	1,868,653
Noncurrent:					
Marketable investment securities restricted	68,296	68,296		&n	