

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 10, 2002

ECHOSTAR COMMUNICATIONS CORPORATION
(Exact name of registrant as specified in charter)

NEVADA (State or other jurisdiction of incorporation)	0-26176 (Commission File Number)	88-0336997 (IRS Employer Identification No.)
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5701 S. SANTA FE DRIVE LITTLETON, COLORADO (Address of principal executive offices)	80120 (Zip Code)
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Registrant's telephone number, including area code: (303) 723-1000

ITEM 5. OTHER EVENTS

Effective September 27, 2001, EchoStar Communications Corporation ("EchoStar" or "the Company") invested an additional \$50 million in StarBand Communications, Inc. ("StarBand"), increasing its equity interest from approximately 19% to approximately 32%. EchoStar originally invested \$50 million in StarBand in April 2000. As a result of the increased equity stake, this investment is now accounted for using the equity method of accounting. As required by APB Opinion No. 18, the equity method accounting has been retroactively applied back to April 2000, the date of EchoStar's original investment in StarBand.

The attached financial information is a retroactive adjustment of the Company's financial results for the periods from EchoStar's original investment in April 2000 to June 30, 2001 to give effect to the equity method accounting adjustments resulting from the increase in EchoStar's equity interest.

The Consolidated Financial Statements as retroactively adjusted may not be indicative of future financial performance of the Company. The accompanying notes to the Consolidated Financial Statements should be read in conjunction with the financial statements.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(c) Exhibits

A list of exhibits filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits and is incorporated herein by reference.

SIGNATURES

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

ECHOSTAR COMMUNICATIONS CORPORATION

Dated: January 10, 2002

By: /s/ Michael R. McDonnell

Michael R. McDonnell,
Senior Vice President and Chief
Financial Officer

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EXHIBIT
NUMBER

EXHIBIT ----
--- -

23.1 Consent
of
Independent
Public
Accountants
99.1

Retroactively
adjusted
Consolidated
Financial
Statements
and Notes to
Consolidated
Financial
Statements
for the Year
Ended
December 31,
2000 99.2

Retroactively
adjusted
Condensed
Consolidated
Financial
Statements
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Condensed
Consolidated
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Three Months
Ended March
31, 2001
99.3

Retroactively
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Retroactively
adjusted
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2000 99.5

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99.6

Retroactively

adjusted
Financial
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Three and
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Ended June
30, 2001

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report included in this Form 8-K, into the Company's previously filed Registration Statements, File Nos. 333-68618, 333-49144, 333-31894, 333-88755, 333-80745, 333-37683, 333-66490, 333-59148, 333-31890, 333-95099, 333-74779, 333-51259, 333-48895, 333-36791, 333-36749, 333-22971, 333-11597 and 333-05575.

ARTHUR ANDERSEN LLP

Denver, Colorado,
January 7, 2002.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To EchoStar Communications Corporation:

We have audited the accompanying consolidated balance sheets of EchoStar Communications Corporation (a Nevada corporation) and subsidiaries as of December 31, 1999 and 2000 and the related consolidated statements of operations and comprehensive loss, changes in stockholders' deficit and cash flows for each of the three years in the period ended December 31, 2000 (as retroactively adjusted - see Note 13). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of EchoStar Communications Corporation and subsidiaries as of December 31, 1999 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Denver, Colorado,
March 6, 2001 (except for the retroactive application of equity method
accounting discussed in Note 13, as to which the date is October
25, 2001).

ECHOSTAR COMMUNICATIONS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

DECEMBER 31, -----	1999	2000	-----
ASSETS AS RETROACTIVELY ADJUSTED (NOTE 13)			
Current Assets: Cash and cash equivalents			
		\$ 905,299	\$
856,818	Marketable investment securities		
		348,876	607,357
accounts receivable, net of allowance for uncollectible accounts			
of \$13,109 and \$31,241, respectively			
		159,685	278,614
receivable	Insurance		
		106,000	106,000
	Inventories		
		123,630	161,161
	Other current assets		
			40,205
50,656	Total current assets		
1,683,695	2,060,606	Restricted cash and marketable investment securities	
		3,000	3,000
for satellite insurance (Note 3)	Cash reserved		
-- 82,393	Property and equipment, net		
		1,339,939	
		1,511,303	
	FCC authorizations, net		
			722,402
	709,984	Other noncurrent assets	
			149,153
269,549	Total assets		
			\$
3,898,189	\$ 4,636,835	=====	=====
			LIABILITIES AND
STOCKHOLDERS' DEFICIT	Current Liabilities: Trade accounts payable		
		\$ 194,046	\$
	226,568	Deferred revenue	
		181,531	283,895
	Accrued expenses		
		499,265	691,482
	Current portion of long-term debt		
		22,067	21,132
	--	Total current liabilities	
			896,909
1,223,077	Long-term obligations, net of current portion: 9 1/4%		
	Seven Year Notes		
		375,000	
		375,000	9 3/8% Ten Year Notes
		1,625,000	
	1,625,000	4 7/8% Convertible Notes	
			1,000,000
		1,000,000	10 3/8% Seven Year Notes
			-- 1,000,000
1994 Notes, 1996 Notes, 1997 Notes, mortgages and other notes	payable, net of current portion		
		30,605	14,812
Long-term deferred distribution and carriage revenue and other	long-term liabilities		
		19,093	56,329
	--	Total long-term	
obligations, net of current portion			
3,049,698	4,071,141	Total liabilities	
			3,946,607
5,294,218	Commitments and Contingencies (Note 9)		
Deficit: 6 3/4% Series C Cumulative Convertible Preferred Stock,	908,665 and 218,951 shares issued and outstanding, respectively		
		45,434	10,948
	Class A Common Stock, \$.01		
par value, 1,600,000,000 shares authorized, 220,087,230 and	235,749,557 shares issued and outstanding, respectively ..		2,200
	2,357	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	outstanding		
	--	Additional paid-in capital	
			1,622,538

1,700,367	Deferred stock-based compensation		
	.....	(117,780)	(58,193)
	Accumulated other comprehensive loss		
	.....	--	(60,580)
deficit	.....		Accumulated
	(1,603,194)	(2,254,666)	----- Total
			stockholders' deficit
	.....		(48,418)
	(657,383)	-----	Total liabilities and
stockholders' deficit	.....	\$ 3,898,189	\$
		4,636,835	=====

See accompanying Notes to Consolidated Financial Statements.

.....	(260,882)	(523,848)	
(650,326)	Extraordinary charge for early retirement of debt, net of tax		
.....			--
(268,999)	-----		
	Net loss		
.....			
\$ (260,882)	\$ (792,847)	\$ (650,326)	=====
=====	=====	Change in unrealized gain (loss) on available-for-sale securities, net of tax	19 --
(60,580)	-----		
	Comprehensive loss		
.....			\$
(260,863)	\$ (792,847)	\$ (710,906)	=====
=====	=====	Net loss attributable to common shareholders (Note 2)	..... \$ (296,097) \$
(800,100)	\$ (651,472)	=====	=====
=====	Weighted-average common shares outstanding	.....	359,856 416,476
471,023	=====	=====	Basic
	and diluted loss per common share		
.....	\$ (0.82)	\$ (1.92)	\$ (1.38)
=====	=====	=====	

See accompanying Notes to Consolidated Financial Statements.

ECHOSTAR COMMUNICATIONS CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(In thousands, except per share amounts)

DEFERRED STOCK- COMMON STOCK SERIES A SERIES C BASED ADDITIONAL ----- PREFERRED PREFERRED COMPEN- PAID-IN SHARES AMT. STOCK STOCK SATION CAPITAL ----- -----				
----- Balance, December 31, 1997	358,480			
\$ 3,585 \$ 19,603 \$ 101,529 \$ --				
\$ 223,337 Series A Preferred Stock dividends (at \$0.75 per share)	-- --			
1,204 -- -- -- Series B Preferred Stock dividends payable in-kind	-- --			
- - - - Accretion of Series C Preferred Stock	-- --			
-- -- -- 7,137 -- -- Issuance of Class A Common Stock: Exercise of stock options	1,568 16 -- -- --			
2,480 Employee benefits	800 8 -- --			
-- 2,283 Employee Stock Purchase Plan	128 -- --			
-- -- 371 Unrealized holding gains on available-for-sale securities, net	-- --			
-- -- -- -- -- Net loss	-- --			
----- -- ----- Balance, December 31, 1998	360,976 3,609			
20,807 108,666 -- 228,471 Series A Preferred Stock dividends (at \$0.75 per share)	-- -- 124 -- --			
-- Retirement of Series A Preferred Stock	(20,931) -- -- --			
-- -- -- Series B Preferred Stock dividends payable in-kind	-- --			
- - - - Accretion of Series C Preferred Stock	-- --			
-- -- -- 6,335 -- -- Series C Preferred Stock dividends (at \$0.84375 per share, per quarter)	-- --			
-- -- -- -- -- Conversion of Series C Preferred Stock	22,832 228 -- (69,567) --			
69,339 Proceeds from Series C Preferred Stock deposit account	46 -- -- --			
953 Issuance of Class A Common Stock: Acquisition of Media4	1,376 14 -- -- -			
- 9,593 News Corporation and MCI transaction	68,824			
688 -- -- -- 1,123,632 Exercise				

of stock options			
3,868	39	-- --	7,125
Employee benefits			
.....	556	6 -- --	
--	3,789	Employee Stock	
Purchase Plan	44	-- --	
-- --	796	Deferred stock-based	
compensation	-- --	--	
(178,840)	178,840	Deferred	
stock-based compensation		recognized	
.....	-- --		
-- --	61,060	Net loss	
.....			

--	-----	Balance,	
		December 31, 1999	
.....	458,522	4,584 --	
45,434	(117,780)	1,622,538	
Series C Preferred Stock		dividends (at \$0.84375 per	
share, per quarter)			
.....	--		
-- --	--	Conversion of	
Series C Preferred Stock			
.....			
11,320	113	-- (34,486) --	
34,373	Issuance of Class A		
Common Stock: Acquisition of		Kelly Broadcasting Systems	
.....	510		
5 -- --	31,551	Exercise of	
stock options	3,593		
36 -- --	10,973	Employee	
benefits	182		
2 -- --	7,282	Employee Stock	
Purchase Plan	58	1 -- -	
- --	1,722	Forfeitures of	
deferred non-cash, stock-based		compensation	
compensation	-- --		
-- --	6,730	(8,072) Deferred	
stock-based compensation		recognized	
.....	-- --		
-- --	52,857	Unrealized	
holding gains on available-for-		sale securities, net	
.....			
-- --	--	Net loss (As	
retroactively adjusted - see		Note 13)	
Note 13)	-- --		

-----		Balance, December 31,	
2000 (As retroactively adjusted		- see Note 13)	
.....			
474,185	\$ 4,741	\$ -- \$ 10,948	\$
(58,193)	\$ 1,700,367	=====	
=====			
=====			
=====			
ACCUMULATED DEFICIT AND			
UNREALIZED HOLDING GAINS			
(LOSSES) TOTAL			
-----		Balance, December 31,	
1997	\$ (437,015)		
\$ (88,961)	Series A Preferred		
Stock dividends (at \$0.75 per		share)	(1,204)
--	Series B Preferred Stock		
dividends payable in-kind		.....	(26,874)
(26,874)	Accretion of Series C		
Preferred Stock		.....
(7,137)	--	Issuance of Class A	
Common Stock: Exercise of stock		options	-- 2,496
Employee benefits		.....	-- 2,291

Employee Stock Purchase Plan		
..... -- 371 Unrealized		
holding gains on available-for-		
sale securities, net		
.....		
19 19 Net loss		
.....		
(260,882) (260,882) -----		
-- ----- Balance, December		
31, 1998		
(733,093) (371,540) Series A		
Preferred Stock dividends (at		
\$0.75 per share)		
..... (124) --		
Retirement of Series A		
Preferred Stock		
.....		
(70,003) (90,934) Series B		
Preferred Stock dividends		
payable in-kind		
..... (241)		
(241) Accretion of Series C		
Preferred Stock		
.....		
(6,335) -- Series C Preferred		
Stock dividends (at \$0.84375		
per share, per quarter)		
.....		
(553) (553) Conversion of		
Series C Preferred Stock		
.....		
-- -- Proceeds from Series C		
Preferred Stock deposit account		
..... 2 955 Issuance		
of Class A Common Stock:		
Acquisition of Media4		
..... -- 9,607 News		
Corporation and MCI transaction		
..... --		
1,124,320 Exercise of stock		
options		
-- 7,164		
Employee benefits		
..... -- 3,795		
Employee Stock Purchase Plan		
..... -- 796 Deferred stock-		
based compensation -- --		
Deferred stock-based		
compensation recognized		
.....		
61,060 Net loss		
.....		
(792,847) (792,847) -----		
-- ----- Balance, December		
31, 1999		
(1,603,194) (48,418) Series C		
Preferred Stock dividends (at		
\$0.84375 per share, per		
quarter)		
.....		
(1,146) (1,146) Conversion of		
Series C Preferred Stock		
.....		
-- -- Issuance of Class A		
Common Stock: Acquisition of		
Kelly Broadcasting Systems		
..... --		
31,556 Exercise of stock		
options		
-- 11,009		
Employee benefits		
..... -- 7,284		
Employee Stock Purchase Plan		
..... -- 1,723 Forfeitures of		
deferred non-cash, stock-based		
compensation		
--		
(1,342) Deferred stock-based		
compensation recognized		
..... --		
52,857 Unrealized holding gains		
on available-for-sale		
securities, net		
.....		

(60,580)	(60,580)	Net loss (As retroactively adjusted - see Note 13)	(650,326)
(650,326)			
---		Balance, December 31, 2000 (As retroactively adjusted - see Note 13)	
.....			\$
(2,315,246)	\$	(657,383)	
=====		=====	

See accompanying Notes to Consolidated Financial Statements.

EHOSTAR COMMUNICATIONS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

YEAR ENDED DECEMBER 31, -----	-----	-----	-----
1998	1999	2000	-----
----- CASH FLOWS FROM OPERATING ACTIVITIES: AS			
RETROACTIVELY ADJUSTED (NOTE 13) Net loss			
	\$		
(260,882)	\$ (792,847)	\$ (650,326)	Adjustments to reconcile
net loss to net cash flows from operating activities:			
Extraordinary charge for early retirement of debt			
-----	-- 268,999	--	Equity in losses of affiliates

impairment of satellite (Note 3) -----			
-----	13,741	--	Loss on disposal of assets

-----	9,852	1,374	Loss
(gain) on sale of investments -----			
-----	(24,439)	3,039	Deferred stock-based compensation
recognized -----			
-----	61,060	51,465	Depreciation
and amortization -----			
-----	83,767	-----	Amortization of subscriber acquisition costs
113,228	185,356	18,869	-----

discount and deferred financing costs -----			
-----	125,724	13,678	-----
6,506	-----	-----	Change in reserve for excess and obsolete inventory

-----	1,341	(1,234)	5,959 Change in long-term
deferred satellite services revenue and other long-term			
liabilities -----			
-----	13,856	10,173	-----
37,236	-----	-----	Superstar exclusivity fee

-----	(10,000)	3,611	-----
Other, net -----			

-----	2,291	-----	-----
1,829	6,875	-----	Changes in current assets and current
liabilities: Trade accounts receivable, net			

-----	(41,159)	(52,452)	(111,898)
Inventories -----			

-----	(55,056)	-----	-----
(45,688) (41,851) Other current assets -----			

(8,296) Trade accounts payable -----			

-----	22,136	103,400	-----
27,250 Deferred revenue -----			

-----	10,275	48,549	-----
100,776 Accrued expenses -----			

-----	72,212	227,729	-----
235,132	-----	-----	Net cash flows
from operating activities -----			
(16,890)	(58,513)	(118,677)	CASH FLOWS FROM INVESTING
ACTIVITIES: Purchases of marketable investment securities			

-----	(570,096)	(541,401)	(1,363,884) Sales
of marketable investment securities -----			

-----	627,860	434,517	1,041,784
Purchases of restricted marketable investment securities			

-----	(5,928)	--	Cash reserved for satellite
insurance (Note 3) -----			
-----	(82,393)	-----	Funds
released from escrow and restricted cash and marketable			
investment securities -----			
-----	116,468	80,585	-- Purchases of property and equipment

-----	(161,140)	(91,152)	(331,401)
Advances and payments under in-orbit satellite contract			

-----	67,804	(48,894)	Issuance of notes receivable

-----	(17,666)	--	(8,675)
Investment in Wildblue Communications -----			

-----	(50,000)	-----	Investment in
Replay TV -----			
(10,000) Investment in StarBand Communications -----			

-----	(50,045)	-----	Other -----

(3,474)	(7,251)	(8,449)	-----
Net cash flows from investing activities -----			

-----	(8,048)	(62,826)	(911,957) CASH
FLOWS FROM FINANCING ACTIVITIES: Proceeds from issuance of 9			
1/4% Seven Year Notes -----			
-----	375,000	--	-----
Proceeds from issuance of 9 3/8% Ten Year Notes -----			

-----	1,625,000	--	Proceeds from issuance
of 4 7/8% Convertible Notes -----			
-----	1,000,000	--	-----

Proceeds from issuance of 10 3/8% Seven Year Notes				
.....	--	--	1,000,000	Debt issuance costs and
prepayment premiums				..... -- (293,987)
(9,645) Retirement of 1994 Notes				..... -- (575,674) --
.....				Retirement of 1996 Notes
.....				..... -- (501,350) --
.....				Retirement of 1997 Notes
.....				..... -- (378,110) --
.....				Retirement of Senior Exchange Notes
.....				..... -- (228,528) -- Redemption
of Series A Preferred Stock			 --
(90,934) -- Repayments of mortgage indebtedness and other				notes payable
.....			(16,552)	(22,201)
.....			(17,668)	Net
proceeds from Class A Common Stock options exercised				.....
.....			2,459	7,164
.....			11,009	Net proceeds from Class A
Common Stock issued for Employee Stock Purchase Plan and				proceeds from 6 3/4% Series C Cumulative Convertible
Preferred Stock deposit account			371	1,751
Other			577	.....
.....			
-- 1,960 (2,120)				----- Net
.....				cash flows from financing activities
.....			(13,722)	920,091
.....			982,153	-----
-----				Net increase (decrease) in cash
and cash equivalents				..... (38,660) 798,752
(48,481) Cash and cash equivalents, beginning of year				.....
.....			145,207	106,547
.....			905,299	-----
-----				Cash and cash equivalents, end of
year				..... \$ 106,547 \$ 905,299 \$
856,818			=====	=====

See accompanying Notes to Consolidated Financial Statements.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS ACTIVITIES

Principal Business

The operations of EchoStar Communications Corporation ("ECC," and together with its subsidiaries, or referring to particular subsidiaries in certain circumstances, "EchoStar" or the "Company") include three interrelated business units:

- o The DISH Network - a direct broadcast satellite ("DBS") subscription television service in the United States. As of December 31, 2000, we had approximately 5.26 million DISH Network subscribers.
- o EchoStar Technologies Corporation ("ETC") - engaged in the design, development, distribution and sale of DBS set-top boxes, antennae and other digital equipment for the DISH Network ("EchoStar receiver systems"), the design, development and distribution of similar equipment for international direct-to-home ("DTH") satellite and other systems and the provision of uplink center design, construction oversight and other project integration services for international DTH ventures.
- o Satellite Services - engaged in the delivery of video, audio and data services to business television customers and other satellite users. These services may include satellite uplink services, satellite transponder space usage, billing, customer service and other services.

Since 1994, EchoStar has deployed substantial resources to develop the "EchoStar DBS System." The EchoStar DBS System consists of EchoStar's FCC-allocated DBS spectrum, six DBS satellites ("EchoStar I," "EchoStar II," "EchoStar III," "EchoStar IV," "EchoStar V," and "EchoStar VI"), EchoStar receiver systems, digital broadcast operations centers, customer service facilities, and other assets utilized in its operations. EchoStar's principal business strategy is to continue developing its subscription television service in the United States to provide consumers with a fully competitive alternative to cable television service.

Organization and Legal Structure

In December 1995, ECC merged Dish, Ltd. with a wholly-owned subsidiary of ECC. During 1999, EchoStar placed ownership of all of its direct broadcast satellites and related FCC licenses into EchoStar Satellite Corporation. DirectSat Corporation, Direct Broadcasting Satellite Corporation and EchoStar Space Corporation were merged into ESC. Dish, Ltd. and EchoStar Satellite Broadcasting Company were merged into EchoStar DBS Corporation. EchoStar IV and the related FCC licenses were transferred to ESC. During September 2000, EchoStar Broadband Corporation was formed for the purposes of issuing new debt. Contracts for the construction and launch of EchoStar VII, EchoStar VIII and EchoStar IX are held in EchoStar Orbital Corporation. Substantially all of EchoStar's operations are conducted by subsidiaries of EBC.

The following table summarizes the organizational structure of EchoStar and its principal subsidiaries as of December 31, 2000:

REFERRED TO LEGAL ENTITY HEREIN AS	PARENT - ---- ----- ----- ----- ----- -----
EchoStar Communications Corporation ECC Publicly owned EchoStar Broadband Corporation EBC ECC EchoStar DBS Corporation EDBS EBC EchoStar Orbital Corporation	

EOC EBC
EchoStar
Satellite
Corporation
ESC EDBS
Echosphere
Corporation
Echosphere
EDBS EchoStar
Technologies
Corporation
ETC EDBS

Significant Risks and Uncertainties

Substantial Leverage. EchoStar is highly leveraged, which makes it vulnerable to changes in general economic conditions. As of December 31, 2000, EchoStar had outstanding long-term debt (including both the current and long-term portions) totaling approximately \$4.0 billion. In August 1999, EchoStar began paying semi-annual interest payments of approximately \$94 million related to its 9 1/4% Senior Notes due 2006 (the "9 1/4% Seven Year Notes") and its 9 3/8% Senior Notes due 2009 (the "9 3/8% Ten Year Notes"). During July 2000, EchoStar began making semi-annual interest payments on its 4 7/8% Convertible Subordinated Notes due 2007 (the "4 7/8% Convertible Notes") of approximately \$24 million. Further, beginning in April 2001, EchoStar will have semi-annual interest payments due on its 10 3/8% Senior Notes due 2007 (the "10 3/8% Seven Year Notes") of approximately \$52 million. EchoStar's ability to meet its debt service obligations will depend on, among other factors, the successful execution of its business strategy, which is subject to uncertainties and contingencies beyond EchoStar's control.

Expected Operating Losses. Since 1996, EchoStar has reported significant operating and net losses. Improvements in EchoStar's future results of operations are largely dependent upon its ability to increase its customer base while maintaining its overall cost structure, controlling subscriber turnover and effectively managing its subscriber acquisition costs. No assurance can be given that EchoStar will be effective with regard to these matters. In addition, EchoStar incurs significant acquisition costs to obtain DISH Network subscribers. The high cost of obtaining new subscribers magnifies the negative effects of subscriber turnover.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of EchoStar and all of its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. EchoStar accounts for investments in 50% or less owned entities using the equity or cost method, except for its investments in marketable equity securities, which are carried at fair value. At December 31, 1998, 1999 and 2000, these equity and cost method investments were not material to EchoStar's consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

Stock Splits

On each of July 19, 1999, October 25, 1999 and March 22, 2000, EchoStar completed a two-for-one split of its outstanding Class A and Class B common stock. An amount equal to the par value of the common shares issued for the July, October and March stock splits was transferred from additional paid-in capital to Class A common stock and Class B common stock. All references to shares and per share amounts included herein retroactively give effect to the stock splits completed in July 1999, October 1999 and March 2000.

Foreign Currency Transaction Gains and Losses

The functional currency of EchoStar's foreign subsidiaries is the U.S. dollar because their sales and purchases are predominantly denominated in that currency. Transactions denominated in currencies other than U.S. dollars are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in income as unrealized (based on period-end translation) or realized (upon settlement of the transaction). Net transaction gains (losses) during 1998, 1999 and 2000 were not material to EchoStar's results of operations.

EHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Statements of Cash Flows Data

The following presents EchoStar's supplemental cash flow statement disclosure (in thousands):

YEAR ENDED DECEMBER 31, -----		
1998 1999 2000 -----	Cash paid for	
interest .....	.....
\$ 52,293 \$ 128,553 \$ 211,064	Cash paid for income taxes	
.....	83	119 641
Capitalized interest		
.....	21,678	
-- 5,343 8% Series A Cumulative Preferred Stock dividends		
..... 1,204 124 -- 12 1/8% Series B		
Senior Redeemable Exchangeable Preferred Stock dividends payable		
in-kind		
.....		
26,874 241 -- Accretion of 6 3/4% Series C Cumulative		
Convertible Preferred Stock	7,137	6,335 -- 6 3/4%
Series C Cumulative Convertible Preferred Stock dividends		
..... -- 553 1,146	Satellite vendor financing	
.....	12,950	-- --
Assets acquired from News Corporation and MCI: FCC licenses and		
other	--	--
626,120 -- Satellites		
.....		
-- 451,200 -- Digital broadcast operations center		
..... -- 47,000 -- Common		
Stock issued to News Corporation and MCI		
..... -- 1,124,320 -- Class A common		
stock issued related to acquisition of Kelly Broadcasting		
Systems		
.....		
-- -- 31,556 Conversion of 6 3/4% Series C Cumulative		
Convertible Preferred Stock to Class A common stock		
..... -- --		
34,373 Forfeitures of deferred non-cash, stock-based		
compensation	-- --	8,072

Cash and Cash Equivalents

EchoStar considers all liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Cash equivalents as of December 31, 1999 and 2000 consist of money market funds, corporate notes and commercial paper; such balances are stated at cost which approximates market value.

Marketable Investment Securities and Restricted Cash and Marketable Investment Securities

As of December 31, 1999 and 2000, EchoStar has classified all marketable investment securities as available-for-sale. The fair market value of marketable investment securities approximates the carrying value and represents the quoted market prices at the balance sheet dates. Related unrealized gains and losses are reported as a separate component of stockholders' deficit, net of related deferred income taxes, if applicable. The specific identification method is used to determine cost in computing realized gains and losses. Such unrealized losses totaled approximately \$61 million as of December 31, 2000. Approximately \$17 million of these unrealized losses relate to a decline in the value of OpenTV. EchoStar acquired that stock in connection with the establishment of a strategic relationship with OpenTV which did not involve an investment of cash by EchoStar. In accordance with generally accepted accounting principles, unrealized losses which represent an "other than temporary impairment" must be recognized in the statement of operations, establishing a new cost basis for such investment. No such "other than temporary impairment" was recognized as of December 31, 2000. However, an "other than temporary impairment" could be recognized in 2001 if the fair value of such investments do not increase to their original cost basis.

Restricted cash and marketable investment securities, as reflected in the accompanying consolidated balance sheets, include restricted cash placed in trust for the purpose of repaying a note payable as of December 31, 1999 and 2000.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The major components of marketable investment securities and restricted cash and marketable investment securities are as follow (in thousands):

RESTRICTED CASH AND MARKETABLE	
MARKETABLE INVESTMENT	
SECURITIES INVESTMENT	
SECURITIES DECEMBER 31,	
DECEMBER 31, -----	

----- 1999 2000	
1999	2000 -----

Commercial	
paper.....	\$
121,802	\$ 327,250 \$ -- \$ --
Corporate notes and	
bonds.....	205,930
206,556	-- -- Corporate equity
securities..... --	
53,936 -- -- Government	
bonds.....	
21,144	19,615 -- -- Restricted
cash..... -	
- -- 3,000 3,000 Accrued	
interest.....	

----- \$	
348,876	\$ 607,357 \$ 3,000 \$
3,000	=====
	=====
	=====

As of December 31, 2000, marketable investment securities and restricted cash and marketable investment securities include debt securities of \$514 million with contractual maturities of one year or less and \$40 million with contractual maturities between one and five years. Actual maturities may differ from contractual maturities as a result of EchoStar's ability to sell these securities prior to maturity.

Fair Value of Financial Instruments

Fair values for EchoStar's high-yield debt are based on quoted market prices. The fair values of EchoStar's mortgages and other notes payable are estimated using discounted cash flow analyses. The interest rates assumed in such discounted cash flow analyses reflect interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

The following table summarizes the book and fair values of EchoStar's debt facilities at December 31, 1999 and 2000 (in thousands):

DECEMBER 31, 1999	
DECEMBER 31, 2000 -----	

BOOK VALUE	FAIR VALUE
BOOK VALUE	FAIR VALUE ---

----- 9	
1/4% Seven Year	
Notes.....	
\$ 375,000	\$ 377,813 \$
375,000	\$ 365,625 9 3/8%
Ten Year	
Notes.....	
1,625,000	1,637,188
1,625,000	1,584,375 4
7/8% Convertible	
Notes.....	
1,000,000	1,227,500
1,000,000	750,000 10 3/8%
Seven Year	
Notes.....	-
- -	1,000,000 985,000
1994 Notes, 1996 Notes,	

1997 Notes, mortgages and
other notes
payable..... 52,672
49,853 35,944 35,495

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method. Proprietary products are manufactured by outside suppliers to EchoStar's specifications. Manufactured inventories include materials, labor and manufacturing overhead. Cost of other inventories includes parts, contract manufacturers' delivered price, assembly and testing labor, and related overhead, including handling and storage costs. Inventories consist of the following (in thousands):

ECHOSTAR COMMUNICATIONS CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, -----	1999	2000	---
	----- Finished goods -		
DBS.....	\$ 63,567	\$	
	96,362 Raw		
materials.....			
35,751	40,247	Finished goods - reconditioned and	
		other.....	19,509 23,101
process.....			7,666
	8,879		
Consignment.....			
1,084	2,478	Reserve for excess and obsolete	
inventory.....	(3,947)	(9,906)	-----
-----	\$ 123,630	\$ 161,161	=====

During December 1999, EchoStar provided for losses of \$16.6 million, primarily for component parts and purchase commitments related to its first generation model 7100 set-top boxes. Production of model 7100 was suspended in favor of its second generation model 7200 set-top boxes.

Property and Equipment

Property and equipment are stated at cost. Cost includes interest capitalized of \$16 million and \$5 million during the years ended December 31, 1998 and 2000, respectively. No interest was capitalized during 1999. The costs of satellites under construction are capitalized during the construction phase, assuming the eventual successful launch and in-orbit operation of the satellite. If a satellite were to fail during launch or while in-orbit, the resultant loss would be charged to expense in the period such loss was incurred. The amount of any such loss would be reduced to the extent of insurance proceeds received as a result of the launch or in-orbit failure. Depreciation is recorded on a straight-line basis for financial reporting purposes. Repair and maintenance costs are charged to expense when incurred. Renewals and betterments are capitalized.

EchoStar reviews its long-lived assets and identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For assets which are held and used in operations, the asset would be impaired if the book value of the asset exceeded the undiscounted future net cash flows related to the asset. For those assets which are to be disposed of, the assets would be impaired to the extent the fair value does not exceed the book value. EchoStar considers relevant cash flow, estimated future operating results, trends and other available information including the fair value of frequency rights owned, in assessing whether the carrying value of assets are recoverable.

FCC Authorizations

FCC authorizations are recorded at cost and amortized using the straight-line method over a period of 40 years. Such amortization commences at the time the related satellite becomes operational; capitalized costs are written off at the time efforts to provide services are abandoned. FCC authorizations include capitalized interest of \$6 million during the year ended December 31, 1998. No interest was capitalized to FCC authorizations during 1999 or 2000.

Revenue Recognition

Revenue from the provision of DISH Network subscription television services and satellite services is recognized as revenue in the period such services are provided. Revenue from sales of digital set-top boxes and related accessories is recognized upon shipment to customers. Revenue from the provision of integration services is recognized as revenue in the period the services are performed.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 or SAB 101, "Views on Selected Revenue Recognition Issues." SAB 101 provides guidance on applying generally accepted accounting principles to selected revenue recognition issues. The provisions of SAB 101 and certain related EITF

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

consensuses were required to be adopted in the quarter ended December 31, 2000 retroactive to January 1, 2000, with any cumulative effect as of January 1, 2000 reported as a cumulative effect of a change in accounting principle. EchoStar's adoption of SAB 101 resulted in no recognition of a cumulative effect of a change in accounting principle.

Subscriber Promotion Subsidies and Subscriber Acquisition Costs

Subscriber promotion subsidies - promotional DTH equipment includes the cost of EchoStar receiver systems distributed to retailers and other distributors of EchoStar's equipment. Subscriber promotion subsidies - other includes net costs related to various installation promotions and other promotional incentives. Accordingly, subscriber acquisition costs are generally expensed as incurred except for under EchoStar's Digital Dynamite Plan which was initiated during 2000 wherein the Company retains title to the receiver system equipment resulting in the capitalization and depreciation of such equipment over its estimated useful life.

Deferred Debt Issuance Costs and Debt Discount

Costs of issuing debt are deferred and amortized to interest expense over the terms of the respective notes.

Deferred Revenue

Deferred revenue principally consists of prepayments received from subscribers for DISH Network programming. Such amounts are recognized as revenue in the period the programming is provided to the subscriber.

Long-Term Deferred Distribution and Carriage Revenue

Long-term deferred distribution and carriage revenue consists of advance payments from certain content providers for carriage of their signal on the DISH Network. Such amounts are deferred and recognized as revenue on a straight-line basis over the related contract terms (up to ten years).

Accrued Expenses

Accrued expenses consist of the following (in thousands):

DECEMBER 31,	-----	1999	2000

Programming.....		\$ 59,769	\$ 176,566
Interest.....		81,574	131,999
81,574 131,999 Royalties and copyright fees.....		91,387	111,228
Marketing.....		88,204	86,861
88,204 86,861 Advances from News Corporation and MCI for satellite payments.....			67,804
		18,910	
Other.....		110,527	165,918
		\$ 691,482	\$ 499,265
		=====	=====

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs totaled \$8 million, \$10 million and \$17 million for the years ended December 31, 1998, 1999, and 2000, respectively.

Comprehensive Loss

The change in unrealized gain (loss) on available-for-sale securities is the only component of EchoStar's other comprehensive loss. Accumulated other comprehensive loss presented on the accompanying consolidated balance sheets consists of the accumulated net unrealized loss on available-for-sale securities, net of deferred taxes.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Basic and Diluted Loss Per Share

Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FAS No. 128") requires entities to present both basic earnings per share ("EPS") and diluted EPS. Basic EPS excludes dilution and is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or warrants were exercised or convertible securities were converted to common stock, resulting in the issuance of common stock that then would share in any earnings of the Company. We had net losses for the years ending December 31, 1998, 1999 and 2000. Therefore, the effect of the common stock equivalents and convertible securities is excluded from the computation of diluted earnings (loss) per share since the effect is anti-dilutive.

Earnings per share amounts for all periods are presented below in accordance with the requirements of FAS No. 128.

YEAR ENDED DECEMBER 31, -----	1998	1999	2000	

	AS RETROACTIVELY ADJUSTED			
	(NOTE 13) (In thousands, except per share data)			
	Numerator: Net loss			
.....	\$ (260,882)	\$ (792,847)	\$ (650,326)	8% Series A
				Cumulative Preferred Stock dividends
	(1,204)	(124)	--	12 1/8% Series B Senior Redeemable
				Exchangeable Preferred Stock dividends payable in-
			(26,874)	(241) --
				Accretion of 6 3/4% Series C Cumulative Convertible
				Preferred Stock
.....			(7,137)	
	(6,335)	--	6 3/4% Series C Cumulative Convertible	
				Preferred Stock dividends
.....	-	(553)	(1,146)	-----
				Numerator for basic and diluted loss per share -
				loss attributable to common shareholders
.....		\$ (296,097)	\$ (800,100)	\$
	(651,472)	=====	=====	=====
				Denominator: Denominator for basic and diluted loss
				per share - weighted-average common shares
				outstanding
	359,856	416,476		
	471,023	=====	=====	Net loss
				per common share: Basic and diluted loss per share
				before extraordinary charge
	\$ (0.82)	\$ (1.28)	\$	
	(1.38)	Extraordinary charge for the early retirement		
		of debt	-- (0.64) --	-----
				-- ----- Basic and diluted loss per share
.....		\$ (0.82)	\$ (1.92)	\$
	(1.38)	=====	=====	=====
				Shares of
				Class A Common Stock issuable upon conversion of: 8%
				Series A Cumulative Preferred Stock
.....	12,936	--	--	6 3/4% Series C
				Cumulative Convertible Preferred Stock
	37,720	14,912	3,593	4 7/8% Convertible Subordinated
				Notes
		--	22,007	22,007

As of December 31, 1998, 1999 and 2000, options to purchase approximately 11,576,000, 27,844,000 and 25,118,000 shares of Class A common stock were outstanding, respectively.

Reclassifications

Certain prior year balances in the consolidated financial statements have been reclassified to conform with the 2000 presentation.

ECHOSTAR COMMUNICATIONS CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

DECEMBER 31, LIFE -----	----- (IN YEARS) 1999 2000 -----	----- EchoStar
I.....	12 \$	
	201,607 \$	201,607 EchoStar
II.....	12	
	228,694	228,694 EchoStar
III.....	12	
	234,083	234,083 EchoStar
IV.....	4	
	89,505	89,505 EchoStar
V.....	12	
	208,578	208,548 EchoStar
VI.....	12 --	
	243,789	Furniture, fixtures and
equipment.....	2-12	243,042 336,033
		Buildings and
improvements.....	7-40	68,338
		78,958 Digital Dynamite Plan
equipment.....	4 --	62,726 Tooling
and other.....	2	
	5,812	5,211 Land

	6,780	10,083
Vehicles.....		
	7 1,119	968 Construction in
progress.....	--	319,328
	226,454	----- Total
		property and equipment.....
	1,606,886	1,926,659 Accumulated
depreciation.....	(266,947)	
	(415,356)	-----
Property and equipment, net.....	\$	
	1,339,939	\$ 1,511,303 =====
		=====

Construction in progress consists of the following (in thousands):

DECEMBER 31, -----	----- 1999
2000 -----	----- Progress
	amounts for satellite construction,
	launch, and launch insurance: EchoStar VI
.....	\$ 243,633
	\$ -- EchoStar VII
.....	-- 76,382
	EchoStar VIII
.....	-- 46,487
	EchoStar IX
.....	-- 22,215
	Digital broadcast operations center
.....	47,000 39,797 Other

	28,695 41,573 ----- \$
	319,328 \$ 226,454 =====
	=====

Digital Dynamite Plans

During July 2000, we announced the commencement of our new Digital Dynamite promotion. The Digital Dynamite plans offer four choices to consumers, ranging from the use of one EchoStar receiver system and our America's Top 100 programming package for \$35.99 per month, to providing consumers two EchoStar receiver systems and our America's Top 150 programming package for \$49.99 per month. With each plan, consumers receive in-home-service, must agree to a one-year commitment and pay \$49.99 up front, which includes the first month's programming payment. Since the equipment in the Digital Dynamite plans are owned by us, those equipment costs are capitalized and depreciated over a period of 4 years.

EchoStar III

During the second quarter 2000, two transponder pairs on EchoStar III malfunctioned. Including the three transponder pairs that malfunctioned during 1998, these anomalies have resulted in the failure of a total of ten transponders on the satellite to date. While a maximum of 32 transponders can be operated at any time, the satellite was equipped with a total of 44 transponders to provide redundancy. As a result of this redundancy and because we

are only licensed by the FCC to operate 11 transponders at the 61.5 degree orbital location (together with an additional six leased transponders), the transponder anomalies have not resulted in a loss of service to date. The satellite manufacturer, Lockheed Martin, has advised us that it believes it has identified the root cause of the failures, and that while further transponder failures are possible, based upon the root cause and the operating configuration of the satellite, Lockheed Martin does not believe it is likely that the operational capacity of EchoStar III will be reduced below 32 transponders. Lockheed Martin also believes it is unlikely that our ability to operate at least the 11 licensed frequencies, and the six leased transponders, on the satellite will be affected. We will continue to evaluate the performance of EchoStar III and may be required to modify our loss assessment as new events or circumstances develop.

EchoStar V

EchoStar V is equipped with a total of 48 transponders, including 16 spares. Two transponders on the satellite have failed, the most recent loss occurring during July 2000. While the failures have not impacted the operational capacity of the satellite and the satellite manufacturer has advised that the anomalies are probably unrelated, until the root cause of the most recent anomaly is finally determined, there can be no assurance future similar anomalies will not cause further transponder losses which could reduce operational capacity.

Satellite Insurance

As a result of the failure of EchoStar IV solar arrays to fully deploy and the failure of 28 transponders to date, a maximum of approximately 14 of the 44 transponders on EchoStar IV are available for use at this time. Due to the normal degradation of the solar arrays, the number of available transponders will further decrease over time. In addition to the transponder and solar array failures, EchoStar IV experienced anomalies affecting its thermal systems and propulsion system. There can be no assurance that further material degradation, or total loss of use, of EchoStar IV will not occur in the immediate future.

In September 1998, EchoStar filed a \$219.3 million insurance claim for a constructive total loss under the launch insurance policies covering EchoStar IV. The satellite insurance consists of separate identical policies with different carriers for varying amounts which, in combination, create a total insured amount of \$219.3 million.

The insurance carriers offered EchoStar a total of approximately \$88 million, or 40% of the total policy amount, in settlement of the EchoStar IV insurance claim. The insurers allege that all other impairment to the satellite occurred after expiration of the policy period and is not covered. EchoStar strongly disagrees with the position of the insurers and has filed an arbitration claim against them for breach of contract, failure to pay a valid insurance claim and bad faith denial of a valid claim, among other things. There can be no assurance that EchoStar will receive the amount claimed or, if EchoStar does, that EchoStar will retain title to EchoStar IV with its reduced capacity.

At the time EchoStar filed its claim in 1998, EchoStar recognized an impairment loss of \$106 million to write-down the carrying value of the satellite and related costs, and simultaneously recorded an insurance claim receivable for the same amount. EchoStar continues to believe it will ultimately recover at least the amount originally recorded and does not intend to adjust the amount of the receivable until there is greater certainty with respect to the amount of the final settlement.

As a result of the thermal and propulsion system anomalies, EchoStar reduced the estimated remaining useful life of EchoStar IV to approximately 4 years during January 2000. This change increased depreciation expense recognized by EchoStar during the year ending December 31, 2000 by approximately \$9.6 million. EchoStar will continue to evaluate the performance of EchoStar IV and may modify its loss assessment as new events or circumstances develop.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The in-orbit insurance policies for EchoStar I, EchoStar II, and EchoStar III expired July 25, 2000. The insurers have to date refused to renew insurance on EchoStar I, EchoStar II and EchoStar III on reasonable terms. Based on, among other things, the insurance carriers' unanimous refusal to negotiate reasonable renewal insurance coverage, EchoStar believes that the carriers colluded and conspired to boycott EchoStar unless EchoStar accepts their offer to settle the EchoStar IV claim for \$88 million.

Based on the carriers' actions, EchoStar has added causes of action in its EchoStar IV demand for arbitration for breach of the duty of good faith and fair dealing, and unfair claim practices. Additionally, EchoStar has filed a lawsuit against the insurance carriers in the United States District Court for the District of Colorado asserting causes of action for violation of Federal and State Antitrust laws. While EchoStar believes it is entitled to the full amount claimed under the EchoStar IV insurance policy and believes the insurance carriers are in violation of Antitrust laws and have committed further acts of bad faith in connection with their refusal to negotiate reasonable insurance coverage on EchoStar's other satellites, there can be no assurance as to the outcome of these proceedings.

The indentures related to the outstanding senior notes of EDBS contain restrictive covenants that require EchoStar to maintain satellite insurance with respect to at least half of the satellites it owns. Insurance coverage is therefore required for at least three of EchoStar's six satellites currently in orbit. EchoStar has procured normal and customary launch insurance for EchoStar VI. This launch insurance policy provides for insurance of \$225.0 million. The EchoStar VI launch insurance policy expires in July 2001. EchoStar is currently self-insuring EchoStar I, EchoStar II, EchoStar III, EchoStar IV and EchoStar V. To satisfy insurance covenants related to the outstanding EDBS senior notes, as of December 31, 2000, EchoStar has reclassified approximately \$82 million from cash and cash equivalents to restricted cash and marketable investment securities on its balance sheet. The reclassification will continue until such time, if ever, as the insurers are again willing to insure EchoStar's satellites on commercially reasonable terms.

4. LONG-TERM DEBT

Debt Redemption

Effective July 14, 2000, we redeemed all of our remaining outstanding 12 7/8% Senior Secured Discount Notes Due 2004 (the "1994 Notes"), 13 1/8% Senior Secured Discount Notes due 2004 (the "1996 Notes"), 12 1/2% Senior Secured Notes due 2002 (the "1997 Notes") and 12 1/8% Senior Exchange Notes Due 2004 (the "Exchange Notes") totaling approximately \$2.6 million.

9 1/4% Seven and 9 3/8% Ten Year Notes

On January 25, 1999, EDBS sold \$375 million principal amount of 9 1/4% Senior Notes due 2006 (the 9 1/4% Seven Year Notes) and \$1.625 billion principal amount of 9 3/8% Senior Notes due 2009 (the 9 3/8% Ten Year Notes). Interest accrues at annual rates of 9 1/4% and 9 3/8% on the 9 1/4% Seven Year and 9 3/8% Ten Year Notes, respectively. Interest on the 9 1/4% Seven and 9 3/8% Ten Year Notes is payable semi-annually in cash in arrears on February 1 and August 1 of each year, commencing August 1, 1999.

Concurrently with the closing of the 9 1/4% Seven Year Notes and 9 3/8% Ten Year Notes offering, EchoStar used approximately \$1.658 billion of net proceeds received from the sale of the 9 1/4% Seven and 9 3/8% Ten Year Notes to complete tender offers for its outstanding 1994 Notes, 1996 Notes and 1997 Notes. In February 1999, EchoStar used approximately \$268 million of net proceeds received from the sale of the 9 1/4% Seven and 9 3/8% Ten Year Notes to complete the tender offers related to the 12 1/8% Senior Exchange Notes due 2004, issued on January 4, 1999, in exchange for all issued and outstanding 12 1/8% Series B Senior Redeemable Exchangeable Preferred Stock.

With the exception of certain de minimis domestic and foreign subsidiaries, the 9 1/4% Seven and 9 3/8% Ten Year Notes are fully, unconditionally and jointly and severally guaranteed by all subsidiaries of EDBS. The 9 1/4% Seven and 9 3/8% Ten Year Notes are general senior unsecured obligations which:

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

- o rank pari passu in right of payment to each other and to all existing and future senior unsecured obligations;
- o rank senior to all existing and future junior obligations; and
- o are effectively junior to secured obligations to the extent of the collateral securing such obligations, including any borrowings under future secured credit facilities.

Except under certain circumstances requiring prepayment premiums, and in other limited circumstances, the 9 1/4% Seven and 9 3/8% Ten Year Notes are not redeemable at EDBS's option prior to February 1, 2003 and February 1, 2004, respectively. Thereafter, the 9 1/4% Seven Year Notes will be subject to redemption, at the option of EDBS, in whole or in part, at redemption prices decreasing from 104.625% during the year commencing February 1, 2003 to 100% on or after February 1, 2005, together with accrued and unpaid interest thereon to the redemption date. The 9 3/8% Ten Year Notes will be subject to redemption, at the option of EDBS, in whole or in part, at redemption prices decreasing from 104.688% during the year commencing February 1, 2004 to 100% on or after February 1, 2008, together with accrued and unpaid interest thereon to the redemption date.

The indentures related to the 9 1/4% Seven and 9 3/8% Ten Year Notes (the "Seven and Ten Year Notes Indentures") contain restrictive covenants that, among other things, impose limitations on the ability of EDBS to:

- o incur additional indebtedness;
- o apply the proceeds of certain asset sales;
- o create, incur or assume liens;
- o create dividend and other payment restrictions with respect to EDBS's subsidiaries;
- o merge, consolidate or sell assets; and
- o enter into transactions with affiliates.

In addition, EDBS may pay dividends on its equity securities only if no default shall have occurred or is continuing under the Seven and Ten Year Notes Indentures; and after giving effect to such dividend and the incurrence of any indebtedness (the proceeds of which are used to finance the dividend), EDBS's ratio of total indebtedness to cash flow (calculated in accordance with the Indentures) would not exceed 8.0 to 1.0. Moreover, the aggregate amount of such dividends generally may not exceed the sum of the difference of cumulative consolidated cash flow (calculated in accordance with the Indentures) minus 120% of consolidated interest expense of EDBS (calculated in accordance with the Indentures), in each case from April 1, 1999 plus an amount equal to 100% of the aggregate net cash proceeds received by EDBS and its subsidiaries from the issuance or sale of certain equity interests of EDBS or EchoStar.

In the event of a change of control, as defined in the Seven and Ten Year Notes Indentures, EDBS will be required to make an offer to repurchase all of the 9 1/4% Seven and 9 3/8% Ten Year Notes at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon, to the date of repurchase.

4 7/8% Convertible Notes

On December 2, 1999, EchoStar sold \$1 billion principal amount of 4 7/8% Convertible Subordinated Notes due 2007 (the "4 7/8% Convertible Notes"). Interest accrues at an annual rate of 4 7/8% on the 4 7/8% Convertible Notes and is payable semi-annually in cash, in arrears on January 1 and July 1 of each year, commencing July 1, 2000.

The 4 7/8% Convertible Notes are general unsecured obligations, which rank junior in right of payment to:

- o all existing and future senior obligations;
- o all of EchoStar's secured debts to the extent of the value of the assets securing those debts; and
- o all existing and future debts and other liabilities of EchoStar's subsidiaries.

Except under certain circumstances requiring prepayment premiums, and in other limited circumstances, the 4 7/8% Convertible Notes are not redeemable at EchoStar's option prior to January 1, 2003. Thereafter, the 4 7/8% Convertible Notes will be subject to redemption, at the option of the Company, in whole or in part, at redemption prices

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

decreasing from 102.786% during the year commencing January 1, 2003 to 100% on or after January 1, 2007, together with accrued and unpaid interest thereon to the redemption date.

The 4 7/8% Convertible Notes, unless previously redeemed, are convertible at the option of the holder any time after 90 days following the date of their original issuance and prior to maturity into shares of our class A common stock at a conversion price of \$45.44 per share.

The indenture related to the 4 7/8% Convertible Notes (the "4 7/8% Convertible Notes Indenture") contain certain restrictive covenants that do not impose material limitations on EchoStar.

In the event of a change of control, as defined in the 4 7/8% Convertible Notes Indenture, EchoStar will be required to make an offer to repurchase all or any part of the holder's 4 7/8% Convertible Notes at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon, to the date of repurchase.

10 3/8% Seven Year Notes

On September 25, 2000, our wholly-owned subsidiary, EBC, sold \$1 billion principal amount of 10 3/8% Senior Notes due 2007 (the "10 3/8% Seven Year Notes"). Interest accrues at an annual rate of 10 3/8% on the 10 3/8% Seven Year Notes and is payable semi-annually in cash, in arrears on April 1 and October 1 of each year, commencing April 1, 2001. The proceeds of the 10 3/8% Seven Year Notes will be used primarily by our subsidiaries for the construction and launch of additional satellites, strategic acquisitions and other general working capital purposes.

The indenture related to the 10 3/8% Seven Year Notes (the "10 3/8% Seven Year Notes Indenture") contains certain restrictive covenants that generally do not impose material limitations on us. Subject to certain limitations, the 10 3/8% Seven Year Notes Indenture permits EBC to incur additional indebtedness, including secured and unsecured indebtedness that ranks on parity with the 10 3/8% Seven Year Notes. Any secured indebtedness will, as to the collateral securing such indebtedness, be effectively senior to the 10 3/8% Seven Year Notes to the extent of such collateral.

The 10 3/8% Seven Year Notes are:

- o general unsecured obligations of EBC;
- o ranked equally in right of payment with all of EBC's existing and future senior debt;
- o ranked senior in right of payment to all of EBC's other existing and future subordinated debt; and
- o ranked effectively junior to (i) all liabilities (including trade payables) of EBC's subsidiaries and (ii) all of EBC's secured obligations, to the extent of the collateral securing such obligations, including any borrowings under any of EBC's future secured credit facilities, if any.

Except under certain circumstances requiring prepayment premiums, and in other limited circumstances, the 10 3/8% Seven Year Notes are not redeemable at EchoStar's option prior to October 1, 2004. Thereafter, the 10 3/8% Seven Year Notes will be subject to redemption, at EchoStar's option, in whole or in part, at redemption prices decreasing from 105.188% during the year commencing October 1, 2004 to 100% on or after October 1, 2006, together with accrued and unpaid interest thereon to the redemption date.

In the event of a change of control, as defined in the 10 3/8% Seven Year Notes Indenture, EBC will be required to make an offer to repurchase all or any part of a holder's 10 3/8% Seven Year Notes at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon, to the date of repurchase.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Under the terms of the 10 3/8% Seven Year Notes Indenture, EBC has agreed to cause its subsidiary, EDBS to make an offer to exchange (the "EDBS Exchange Offer") all of the outstanding 10 3/8% Seven Year Notes for a new class of notes issued by EDBS as soon as practical following the first date (as reflected in EDBS' most recent quarterly or annual financial statements) on which EDBS is permitted to incur indebtedness in an amount equal to the outstanding principal balance of the 10 3/8% Seven Year Notes under the "Indebtedness to Cash Flow Ratio" test contained in the indentures (the "EDBS Indentures") governing the EDBS 9 1/4% Seven Year Notes and 9 3/8% Ten Year Notes, and such incurrence of indebtedness would not otherwise cause any breach or violation of, or result in a default under, the terms of the EDBS Indentures.

On October 25, 2000, as contemplated by the terms of the EBC Indenture, EDBS amended the terms of the EDBS Indentures to provide that the recording of some or all of the indebtedness represented by the 10 3/8% Seven Year Notes on the EDBS balance sheet as a result of the application of generally accepted accounting principles and related rules prior to the completion of the EDBS Exchange Offer would not be deemed to constitute an incurrence of indebtedness for certain purposes under the EDBS Indentures. These amendments were approved by more than a majority in principal amount of each issue of the 9 1/4% Seven and 9 3/8% Ten Year Notes. The cost of obtaining these consents was immaterial to EchoStar.

Mortgages and Other Notes Payable

Mortgages and other notes payable consists of the following (in thousands):

DECEMBER 31, -----	1999	2000	-----	-----	8.25%
note payable for satellite vendor financing for EchoStar I due in equal monthly installment of \$722, including interest, through February 2001					
.....					\$ 9,606
\$ 2,137 8.25% note payable for satellite vendor financing for EchoStar II due in equal monthly installments of \$562, including interest, through November 2001	11,909	5,930			
.....					
8.25% note payable for satellite vendor financing for EchoStar III due in equal monthly installments of \$294, including interest, through October 2002	8,645	5,978			
.....					
8.25% note payable for satellite vendor financing for EchoStar IV due upon resolution of satellite insurance claim (Note 3)					9,409
.....					
11,327 Mortgages and other unsecured notes payable due in installments through November 2015 with interest rates ranging from 4% to 10%	13,103	10,572	-----	-----	Total
.....					
	52,672	35,944			Less current portion
.....					
					(22,067)
(21,132) -----					Mortgages and other notes payable, net of current portion
.....					
	\$ 30,605	\$ 14,812	=====		
			=====		

Future maturities of EchoStar's outstanding long-term debt are summarized as follows (in thousands):

RESIDUAL 9 1/4%	
NOTES, SEVEN 4	
7/8% 10 3/8%	
MORTGAGES YEAR 9	
3/8% TEN	
CONVERTIBLE TEN	
YEAR AND OTHER	
NOTES YEAR NOTES	
NOTES NOTES NOTES	
PAYABLE TOTAL ---	

YEAR ENDING	
DECEMBER 31,	
2001.....	
\$ -- \$ -- \$ -- \$	
-- \$ 21,132 \$	
21,132	
2002.....	
-- -- -- -- 7,365	

Satellite Vendor Financing

The purchase price for satellites is required to be paid in progress payments, some of which are non-contingent payments that are deferred until after the respective satellites are in orbit (satellite vendor financing). EchoStar utilized \$36 million, \$28 million, \$14 million and \$13 million of satellite vendor financing for EchoStar I, EchoStar II, EchoStar III and EchoStar IV, respectively. The satellite vendor financing with respect to EchoStar I and EchoStar II is secured by substantially all assets of EDBS and its subsidiaries (subject to certain restrictions) and a corporate guarantee of ECC. The satellite vendor financings for both EchoStar III and EchoStar IV are secured by an ECC corporate guarantee.

5. INCOME TAXES

As of December 31, 2000, EchoStar had net operating loss carryforwards ("NOLs") for Federal income tax purposes of approximately \$2.050 billion. The NOLs will begin to expire in the year 2012. The use of the NOLs is subject to statutory and regulatory limitations regarding changes in ownership. Financial Accounting Standard No. 109, "Accounting for Income Taxes," ("FAS No. 109") requires that the potential future tax benefit of NOLs be recorded as an asset. FAS No. 109 also requires that deferred tax assets and liabilities be recorded for the estimated future tax effects of temporary differences between the tax basis and book value of assets and liabilities. Deferred tax assets are offset by a valuation allowance to the extent deemed necessary.

In 2000, EchoStar increased its valuation allowance sufficient to fully offset net deferred tax assets arising during the year. Realization of net deferred tax assets is not assured and is principally dependent on generating future taxable income prior to expiration of the NOLs. Management believes existing net deferred tax assets in excess of the valuation allowance will, more likely than not, be realized. EchoStar continuously reviews the adequacy of its valuation allowance. Future decreases to the valuation allowance will be made only as changed circumstances indicate that it is more likely than not that the additional benefits will be realized. Any future adjustments to the valuation allowance will be recognized as a separate component of EchoStar's provision for income taxes.

The actual tax (provision) benefit for 1998, 1999 and 2000 are reconciled to the amounts computed by applying the statutory Federal tax rate to income before taxes as follows:

YEAR ENDED DECEMBER 31, -----	1998	1999	2000	-----
----- AS RETROACTIVELY ADJUSTED (NOTE 13) Statutory rate.....				35.0%
35.0% 35.0% State income taxes, net of Federal benefit.....	1.6	2.3	2.9	Employee stock option exercise and sale
deductible interest expense.....				-- -- 3.2 Non-
Other.....	(1.4)	(0.3)	--	
0.5 1.3 1.4 Increase in valuation allowance.....	(35.7)	(38.3)	(42.5)	
----- Total benefit from income taxes.....	--%	--%	--%	=====
	=====	=====		

EHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The components of the (provision for) benefit from income taxes are as follows (in thousands):

YEAR ENDED DECEMBER 31, -----	-----	1998	1999	2000
----- AS RETROACTIVELY ADJUSTED (NOTE 13)				
Current (provision) benefit:				
Federal.....	\$ 15	\$ --	\$ --	
State.....	18	(45)	(80)	
Foreign.....	(77)	(108)	(475)	
----- (44) (153) (555) Deferred (provision) benefit:				
Federal.....	86,604	286,195	247,519	
State.....	6,463	27,748	28,809	Increase in valuation allowance..... (93,067)
	(313,943)	(276,328)		

-- ----- Total (provision) benefit.....				
	\$ (44)	\$ (153)	\$ (555)	=====

The temporary differences, which give rise to deferred tax assets and liabilities as of December 31, 1999 and 2000, are as follows (in thousands):

DECEMBER 31, -----	-----	1999	2000
----- AS RETROACTIVELY ADJUSTED (NOTE 13)			
Current deferred tax assets: Accrued royalties.....			
	\$ 30,018	\$ 36,425	
Inventory reserves and cost methods.....			
	1,380	3,974	Accrued expenses.....
	40,685		29,846
Allowance for doubtful accounts.....			
	5,636	12,533	Reserve for warranty costs.....
	78	79	
----- Total current deferred tax assets.....			
	66,958	93,696	Current deferred tax liabilities:
Other.....	(68)	(40)	
----- Total current deferred tax liabilities.....			
	(68)	(40)	
----- Gross current deferred tax assets.....			
	66,890	93,656	Valuation allowance.....
	(55,162)	(79,194)	
----- Net current deferred tax assets.....			
	11,728	14,462	Noncurrent deferred tax assets: General business and foreign tax credits.....
	2,504	2,504	Net operating loss carryforwards.....
	528,961		771,748 Incentive plan stock compensation.....
	22,600	38,841	
Other.....	9,553	34,763	
----- Total noncurrent deferred tax assets.....			
	563,618	847,856	Noncurrent deferred tax liabilities:
Depreciation.....	(43,459)	(77,452)	
Other.....	(425)	(1,108)	
----- Total noncurrent deferred tax liabilities.....			
	(43,884)	(78,560)	
----- Gross deferred tax assets.....			
	519,734	769,296	Valuation allowance.....
	(464,327)	(716,623)	
----- Net noncurrent deferred tax assets.....			
	55,407		Net deferred tax
	52,673		

assets..... \$ 67,135 \$
67,135 =====

6. STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock

The Class A, Class B and Class C common stock are equivalent in all respects except voting rights. Holders of Class A and Class C common stock are entitled to one vote per share and holders of Class B common stock are entitled to ten votes per share. Each share of Class B and Class C common stock is convertible, at the option of the holder, into one share of Class A common stock. Upon a change in control of ECC, each holder of outstanding shares of Class C common stock is entitled to ten votes for each share of Class C common stock held. ECC's principal stockholder owns all outstanding Class B common stock and all other stockholders own Class A common stock. There are no shares of Class C common stock outstanding.

Series C Cumulative Convertible Preferred Stock

In November 1997, EchoStar issued 2.3 million shares of 6 3/4% Series C Cumulative Convertible Preferred Stock (the "Series C Preferred Stock") which resulted in net proceeds to EchoStar of approximately \$97 million. Simultaneous with the issuance of the Series C Preferred Stock, the purchasers of the Series C Preferred Stock placed approximately \$15 million into an account (the "Deposit Account"). EchoStar recorded proceeds from the issuance of the Series C Preferred Stock net of the amount placed in the Deposit Account. As of November 2, 1999, proceeds from the issuance of the Series C Preferred Stock were accreted to the face amount of \$115 million. However, as of December 31, 2000, approximately 2.1 million shares of Series C Preferred Stock have been converted into approximately 34.2 million shares of EchoStar's class A common stock, reducing the book value of the Series C Preferred Stock to approximately \$11 million. The Deposit Account provided quarterly cash payments of approximately \$0.844 per share of Series C Preferred Stock, from February 1, 1998 until November 1, 1999.

On November 2, 1999, dividends on the Series C Preferred Stock began to accrue. Each share of Series C Preferred Stock has a liquidation preference of \$50 per share. Holders of the Series C Preferred Stock are entitled to receive cumulative dividends at an annual rate of 6 3/4% of the liquidation preference, payable quarterly in arrears commencing February 1, 2000, or upon conversion. Dividends may, at the option of EchoStar, be paid in cash, by delivery of fully paid and nonassessable shares of Class A common stock, or a combination thereof. Each share of Series C Preferred Stock is convertible at any time, unless previously redeemed, at the option of the holder thereof, into approximately 16.4 shares of Class A common stock, subject to adjustment upon the occurrence of certain events. The Series C Preferred Stock is redeemable at any time on or after November 1, 2000, in whole or in part, at the option of EchoStar, in cash, by delivery of fully paid and nonassessable shares of Class A common stock, or a combination thereof, initially at a price of \$51.929 per share and thereafter at prices declining to \$50.000 per share on or after November 1, 2004, plus in each case all accumulated and unpaid dividends to the redemption date.

7. STOCK COMPENSATION PLANS

Stock Incentive Plan

In April 1994, EchoStar adopted a stock incentive plan to provide incentive to attract and retain officers, directors and key employees. EchoStar currently has reserved up to 80 million shares of its Class A common stock for granting awards under its 1995 Stock Incentive Plan and an additional 80 million shares of its Class A common stock for granting awards under its 1999 Stock Incentive Plan. In general, stock options granted through December 31, 2000 have included exercise prices not less than the fair market value of EchoStar's Class A common stock at the date of grant, and vest, as determined by EchoStar's Board of Directors, generally at the rate of 20% per year.

During 1999, EchoStar adopted the 1999 Incentive Plan which provided certain key employees a contingent incentive including stock options and cash. The payment of these incentives was contingent upon the achievement of certain financial and other goals of EchoStar. EchoStar met certain of these goals during 1999. Accordingly, in

EHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

1999, EchoStar recorded approximately \$179 million of deferred compensation related to post-grant appreciation of options to purchase approximately 4.2 million shares, granted pursuant to the 1999 Incentive Plan. The related deferred compensation will be recognized over the five-year vesting period. During the year ended December 31, 1999 and 2000, EchoStar recognized \$61 million and \$51 million, respectively, under the 1999 Incentive Plan. The remainder will be recognized over the remaining vesting period.

Options to purchase an additional 11.2 million shares were granted at fair market value during 1999 pursuant to the Long Term Incentive Plan. Vesting of these options is contingent on meeting certain longer-term goals, the achievement of which can not be reasonably predicted as of December 31, 2000. Accordingly, no compensation was recorded during 1999 and 2000 related to these long-term options. EchoStar will continue to evaluate the likelihood of achieving these long-term goals and will record the related compensation at the time achievement of these goals becomes probable. During 2000, the Board of Directors approved a 2000 Incentive Plan. The payment of these incentives was contingent upon the achievement of certain financial and other goals of EchoStar. EchoStar did not meet any of these goals in 2000. Accordingly, no cash incentives were paid and all stock options granted pursuant to the 2000 Incentive Plan were cancelled.

A summary of EchoStar's incentive stock option activity for the years ended December 31, 1998, 1999 and 2000 is as follows:

1998	1999	2000	-----
WEIGHTED-	WEIGHTED-	WEIGHTED-	-----
AVERAGE	AVERAGE	AVERAGE	-----
EXERCISE	EXERCISE	EXERCISE	-----
OPTIONS PRICE	OPTIONS PRICE	OPTIONS PRICE	-----

Options			
outstanding, beginning of			
.....	12,196,536	\$ 1.88	
11,576,120	\$ 2.04	27,843,640	\$
	6.26	year	Granted

5,585,080	2.35	20,847,712	7.71
2,942,000	51.56	Exercised	

(1,505,456)	1.57	(3,808,114)	
1.84	(3,591,209)	3.05	
	Forfeited		

(4,700,040)	2.14	(772,078)	
4.92	(2,076,538)	20.78	-----

Options outstanding, end of			
year	11,576,120	\$ 2.04	
27,843,640	\$ 6.26	25,117,893	\$
10.81	=====	=====	
	=====	=====	
	=====	=====	
Exercisable at end of year			
.....	3,858,424	\$ 1.73	
2,755,432	\$ 1.86	2,911,256	\$
5.49	=====	=====	
	=====	=====	
	=====	=====	

Exercise prices for options outstanding as of December 31, 2000 are as follows:

OPTIONS OUTSTANDING
OPTIONS EXERCISABLE

NUMBER WEIGHTED-

EHOSTAR COMMUNICATIONS CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Accounting for Stock-Based Compensation

EchoStar has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and related interpretations in accounting for its stock-based compensation plans. Under APB 25, EchoStar generally does not recognize compensation expense on the issuance of stock under its Stock Incentive Plan because the option terms are typically fixed and typically the exercise price equals the market price of the underlying stock on the date of grant. In October 1995, the Financial Accounting Standards Board issued Financial Accounting Standard No. 123, "Accounting and Disclosure of Stock-Based Compensation," ("FAS No. 123") which established an alternative method of expense recognition for stock-based compensation awards to employees based on fair values. EchoStar elected to not adopt FAS No. 123 for expense recognition purposes.

Pro forma information regarding net income and earnings per share is required by FAS No. 123 and has been determined as if EchoStar had accounted for its stock-based compensation plans using the fair value method prescribed by that statement. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. All options are initially assumed to vest. Compensation previously recognized is reversed to the extent applicable to forfeitures of unvested options. EchoStar's pro forma net loss attributable to common shares and pro forma basic and diluted loss per common share were as follows (in thousands, except per share amounts):

YEAR ENDED	
DECEMBER 31, ---	

----- 1998	
1999 2000 -----	

AS RETROACTIVELY	
ADJUSTED (NOTE	
13) Net loss	
attributable to	
common	
shares..... \$	
(297,197) \$	
(749,836) \$	
(622,925)	
=====	
=====	
===== Basic	
and diluted loss	
per	
share.....	
\$ (0.83) \$	
(1.80) \$ (1.32)	
=====	
=====	
=====	

The pro forma net loss for 1999 and 2000 is less than the loss reported in the statement of operations because of the \$61 million and \$51 million charge, respectively, for the post-grant appreciation of stock-based compensation, determined under APB 25 and reported by EchoStar, is greater than the amount of stock-based compensation that would have been reported by EchoStar under the provisions of FAS No. 123.

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

YEAR ENDED DECEMBER 31, -----	
----- 1998 1999 2000 -----	

Risk-free interest	
rate..... 5.64%	
5.38% 6.19% Volatility	
factor.....	
67% 76% 98% Dividend	
yield.....	
0.00% 0.00% 0.00% Expected term of	

options.....	6
years 6 years 6 years Weighted-average	
fair value of options granted...	\$ 1.51
	\$ 7.14 \$ 30.41

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. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based compensation awards.

8. EMPLOYEE BENEFIT PLANS

Employee Stock Purchase Plan

During 1997, the Board of Directors and shareholders approved an employee stock purchase plan (the "ESPP"), effective beginning October 1, 1997. Under the ESPP, EchoStar is authorized to issue a total of 800,000 shares of Class A common stock. Substantially all full-time employees who have been employed by EchoStar for at least one calendar quarter are eligible to participate in the ESPP. Employee stock purchases are made through payroll deductions. Under the terms of the ESPP, employees may not deduct an amount which would permit such employee to purchase capital stock of EchoStar under all stock purchase plans of EchoStar at a rate which would exceed \$25,000 in fair market value of capital stock in any one year. The purchase price of the stock is 85% of the closing price of the Class A common stock on the last business day of each calendar quarter in which such shares of Class A common stock are deemed sold to an employee under the ESPP. The ESPP shall terminate upon the first to occur of (i) October 1, 2007 or (ii) the date on which the ESPP is terminated by the Board of Directors. During 1998, 1999 and 2000, employees purchased approximately 128,000, 44,000 and 58,000 shares of Class A common stock through the ESPP, respectively.

401(k) Employee Savings Plan

EchoStar sponsors a 401(k) Employee Savings Plan (the "401(k) Plan") for eligible employees. Voluntary employee contributions to the 401(k) Plan may be matched 50% by EchoStar, subject to a maximum annual contribution by EchoStar of \$1,000 per employee. EchoStar also may make an annual discretionary contribution to the plan with approval by EchoStar's Board of Directors, subject to the maximum deductible limit provided by the Internal Revenue Code of 1986, as amended. EchoStar's cash contributions to the 401(k) Plan totaled \$314,000 in 1998 and 1999, and \$1.6 million in 2000. Additionally, during 1998, EchoStar contributed 640,000 shares of its Class A common stock (fair value of approximately \$2 million) to the 401(k) Plan related to its 1997 discretionary contribution. During 1999, EchoStar contributed 520,000 shares of its Class A common stock (fair value of approximately \$3 million) to the 401(k) Plan related to its 1998 discretionary contribution. During 2000, EchoStar contributed 120,000 shares of its Class A common stock (fair value of approximately \$6 million) to the 401(k) Plan related to its 1999 discretionary contribution. EchoStar has not yet determined the amount to be contributed during 2001 relating to its 2000 discretionary contribution.

9. OTHER COMMITMENTS AND CONTINGENCIES

Leases

Future minimum lease payments under noncancelable operating leases as of December 31, 2000, are as follows (in thousands):

YEAR ENDING DECEMBER 31,	
2001.....	\$ 10,627
2002.....	10,407
2003.....	9,369
2004.....	4,032
2005.....	2,245
Thereafter.....	4,505

Total minimum lease payments.....	\$ 41,185
	=====

Total rental expense for operating leases approximated \$1 million in 1998, \$3 million in 1999 and \$5 million in 2000.

Purchase Commitments

As of December 31, 2000, EchoStar's purchase commitments totaled approximately \$204 million. The majority of these commitments relate to EchoStar receiver systems and related components. All of the purchases related to these commitments are expected to be made during 2001. EchoStar expects to finance these purchases from existing unrestricted cash balances and future cash flows generated from operations, if any.

VisionStar

During November 2000, one of EchoStar's wholly owned subsidiaries purchased a 49.9% interest in VisionStar, Inc. VisionStar holds an FCC license, and is constructing a Ka-band satellite, to launch into the 113 W.L. orbital slot. Together with VisionStar EchoStar has requested FCC approval to acquire control over VisionStar by increasing its ownership of VisionStar to 90%, for a total purchase price of approximately \$2.8 million. EchoStar has also provided loans to VisionStar totaling less than \$10 million to date for the construction of their satellite and expect to provide additional funding to VisionStar in the future. EchoStar is not obligated to finance the full remaining cost to construct and launch the VisionStar satellite, but VisionStar's FCC license currently requires construction of the satellite to be completed by April 30, 2002 or the license could be revoked. EchoStar currently expects to continue to fund loans and equity contributions for construction of the satellite in the near term from cash on hand, and expect that it may spend approximately \$79.5 million during 2001 for that purpose subject to, among other things, FCC action.

Patents and Intellectual Property

Many entities, including some of EchoStar's competitors, now have and may in the future obtain patents and other intellectual property rights that cover or affect products or services directly or indirectly related to those that EchoStar offers. EchoStar may not be aware of all patents and other intellectual property rights that its products may potentially infringe. Damages in patent infringement cases can include a tripling of actual damages in certain cases. Further, EchoStar cannot estimate the extent to which it may be required in the future to obtain licenses with respect to patents held by others and the availability and cost of any such licenses. Various parties have asserted patent and other intellectual property rights with respect to components within EchoStar's direct broadcast satellite system. EchoStar cannot be certain that these persons do not own the rights they claim, that its products do not infringe on these rights, that it would be able to obtain licenses from these persons on commercially reasonable terms or, if it was unable to obtain such licenses, that it would be able to redesign its products to avoid infringement.

DirectTV

During February 2000 EchoStar filed suit against DirectTV and Thomson Consumer Electronics/RCA in the Federal District Court of Colorado. The suit alleges that DirectTV has utilized improper conduct in order to fend off competition from the DISH Network. According to the complaint, DirectTV has demanded that certain retailers stop displaying EchoStar's merchandise and has threatened to cause economic damage to retailers if they continue to offer both product lines in head-to-head competition. The suit alleges, among other things, that DirectTV has acted in violation of federal and state anti-trust laws in order to protect DirectTV's market share. EchoStar is seeking injunctive relief and monetary damages. On December 8, 2000, EchoStar submitted an Amended Complaint adding claims against Circuit City, Radio Shack and Best Buy, alleging that these retailers are engaging in improper conduct that has had an anti-competitive impact on EchoStar. It is too early in the litigation to make an assessment of the probable outcome. During October 2000, DirectTV filed a motion for summary judgment asking that the Court enter judgment in DirectTV's favor on certain of EchoStar's claims. EchoStar has filed a motion asking the Court to allow it an opportunity to conduct discovery prior to having to substantively respond to DirectTV's motion. DirectTV's motion for summary judgment and EchoStar's motion remain pending.

The DirectTV defendants filed a counterclaim against EchoStar. DirectTV alleges that EchoStar tortuously interfered with a contract that DirectTV allegedly had with Kelly Broadcasting Systems, Inc. ("KBS"). DirectTV alleges that EchoStar "merged" with KBS, in contravention of DirectTV's contract with KBS. DirectTV also alleges

that EchoStar has falsely advertised to consumers about its right to offer network programming. DirectTV further alleges that EchoStar improperly used certain marks owned by PrimeStar, now owned by DirectTV. Finally, DirectTV alleges that EchoStar has been marketing National Football League games in a misleading manner. The amount of damages DirectTV is seeking is as yet unquantified. EchoStar intends to vigorously defend against these claims. The case is currently in discovery. It is too early in the litigation to make an assessment of the probable outcome.

Fee Dispute

EchoStar had a contingent fee arrangement with the attorneys who represented EchoStar in the litigation with News Corporation. The contingent fee arrangement provides for the attorneys to be paid a percentage of any net recovery obtained by EchoStar in the News Corporation litigation. The attorneys have asserted that they may be entitled to receive payments totaling hundreds of millions of dollars under this fee arrangement.

During mid-1999, EchoStar initiated litigation against the attorneys in the Arapahoe County, Colorado, District Court arguing that the fee arrangement is void and unenforceable. In December 1999, the attorneys initiated an arbitration proceeding before the American Arbitration Association. The litigation has been stayed while the arbitration is ongoing. A two week arbitration hearing has been set to begin on April 2, 2001. It is not possible to determine the outcome of arbitration or litigation regarding this fee dispute. EchoStar is vigorously contesting the attorneys' interpretation of the fee arrangement, which EchoStar believes significantly overstates the magnitude of its liability.

WIC Premium Television Ltd.

During July 1998, a lawsuit was filed by WIC Premium Television Ltd., an Alberta corporation, in the Federal Court of Canada Trial Division, against General Instrument Corporation, HBO, Warner Communications, Inc., John Doe, Showtime, United States Satellite Broadcasting Company, Inc., EchoStar Communications Corporation, and two of EchoStar's wholly-owned subsidiaries, EchoSphere Corporation and Dish, Ltd. The lawsuit seeks, among other things, an interim and permanent injunction prohibiting the defendants from activating receivers in Canada and from infringing any copyrights held by WIC. It is too early to determine whether or when any other lawsuits or claims will be filed.

During September 1998, WIC filed another lawsuit in the Court of Queen's Bench of Alberta Judicial District of Edmonton against certain defendants, including EchoStar. WIC is a company authorized to broadcast certain copyrighted work, such as movies and concerts, to residents of Canada. WIC alleges that the defendants engaged in, promoted, and/or allowed satellite dish equipment from the United States to be sold in Canada and to Canadian residents and that some of the defendants allowed and profited from Canadian residents purchasing and viewing subscription television programming that is only authorized for viewing in the United States. The lawsuit seeks, among other things, an interim and permanent injunction prohibiting the defendants from importing hardware into Canada and from activating receivers in Canada, together with damages in excess of \$175 million.

EchoStar filed motions to dismiss each of the actions for lack of personal jurisdiction. The Court in the Alberta action recently denied EchoStar's Motion to Dismiss, which EchoStar appealed. The Alberta Court also granted a motion to add more EchoStar parties to the lawsuit. EchoStar Satellite Corporation, EDBS, EchoStar Technologies Corporation, and EchoStar Satellite Broadcast Corporation have been added as defendants in the litigation. The newly added defendants have also challenged jurisdiction. The Court of Appeals denied EchoStar's appeal and the Alberta Court has asserted jurisdiction over all of the EchoStar defendants. The Court in the Federal action has stayed that case pending the outcome of the Alberta action. The case is now currently in discovery. EchoStar intends to vigorously defend the suit. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

Broadcast network programming

Until July 1998, EchoStar obtained distant broadcast network channels (ABC, NBC, CBS and FOX) for distribution to its customers through PrimeTime 24. In December 1998, the United States District Court for the Southern District of Florida entered a nationwide permanent injunction requiring PrimeTime 24 to shut off distant network channels to many of its customers, and henceforth to sell those channels to consumers in accordance with certain stipulations in the injunction.

In October 1998, EchoStar filed a declaratory judgment action against ABC, NBC, CBS and FOX in Denver Federal Court. EchoStar asked the court to enter a judgment declaring that its method of providing distant network programming did not violate the Satellite Home Viewer Act and hence did not infringe the networks' copyrights. In November 1998, the networks and their affiliate groups filed a complaint against EchoStar in Miami Federal Court alleging, among other things, copyright infringement. The court combined the case that EchoStar filed in Colorado with the case in Miami and transferred it to the Miami court. The case remains pending in Miami. While the networks have not sought monetary damages, they have sought to recover attorney fees if they prevail.

In February 1999, the networks filed a "Motion for Temporary Restraining Order, Preliminary Injunction and Contempt Finding" against DirecTV, Inc. in Miami related to the delivery of distant network channels to DirecTV customers by satellite. DirecTV settled this lawsuit with the networks. Under the terms of the settlement between DirecTV and the networks, some DirecTV customers were scheduled to lose access to their satellite-provided distant network channels by July 31, 1999, while other DirecTV customers were to be disconnected by December 31, 1999. Subsequently, PrimeTime 24 and substantially all providers of satellite-delivered network programming other than EchoStar agreed to this cut-off schedule, although EchoStar does not know if they adhered to this schedule.

In December 1998, the networks filed a Motion for Preliminary Injunction against EchoStar in the Miami court, and asked the court to enjoin EchoStar from providing network programming except under limited circumstances. A preliminary injunction hearing was held on September 21, 1999. The court took the issues under advisement to consider the networks' request for an injunction, whether to hear live testimony before ruling upon the request, and whether to hear argument on why the Satellite Home Viewer Act may be unconstitutional, among other things.

In March 2000, the networks filed an emergency motion again asking the court to issue an injunction requiring EchoStar to turn off network programming to certain of its customers. At that time, the networks also argued that EchoStar's compliance procedures violate the Satellite Home Viewer Improvement Act. EchoStar opposed the networks' motion and again asked the court to hear live testimony before ruling upon the networks' injunction request.

During September 2000, the Court granted the Networks' motion for preliminary injunction, denied the Network's emergency motion and denied EchoStar's request to present live testimony and evidence. The Court's original order required EchoStar to terminate network programming to certain subscribers "no later than February 15, 1999," and contained other dates which would be physically impossible to comply with. The order imposes restrictions on EchoStar's past and future sale of distant ABC, NBC, CBS and Fox channels similar to those imposed on PrimeTime 24 (and, EchoStar believes, on DirecTV and others). Some of those restrictions go beyond the statutory requirements imposed by the Satellite Home Viewer Act and the Satellite Home Viewer Improvement Act. For these and other reasons EchoStar believes the Court's order is, among other things, fundamentally flawed, unconstitutional and should be overturned. However, it is very unusual for a Court of Appeals to overturn a lower court's order and there can be no assurance whatsoever that it will be overturned.

On October 3, 2000, and again on October 25, 2000, the Court amended its original preliminary injunction order in an effort to fix some of the errors in the original order. The twice amended preliminary injunction order required EchoStar to shut off, by February 15, 2001, all subscribers who are ineligible to receive distant network

programming under the court's order. EchoStar has appealed the September 2000 preliminary injunction order and the October 3, 2000 amended preliminary injunction order. On November 22, 2000, the United States Court of Appeals for the Eleventh Circuit stayed the Florida Court's preliminary injunction order pending EchoStar's appeal. At that time, the Eleventh Circuit also expedited its consideration of EchoStar's appeal.

During November 2000, EchoStar filed its appeal brief with the Eleventh Circuit. During December 2000, the Satellite Broadcasting and Communications Association submitted an amicus brief in support of EchoStar's appeal. The Consumer Federation of America and the Media Access Project have also submitted an amicus brief in support of EchoStar's appeal. The Networks have responded to EchoStar's appeal brief and the amicus briefs filed by the Consumer Federation of America and the Media Access Project and the Satellite Broadcasting and Communications Association. In December 2000, the Department of Justice filed a motion to intervene with respect to EchoStar's constitutional challenge of the Satellite Home Viewers Act, and the National Association of Broadcasters filed an amicus brief in support of the Networks' position in the appeal. During January 2001, EchoStar filed its reply appeal brief and asked the Eleventh Circuit for an opportunity to respond to the amicus brief filed by the National Association of Broadcasters and the brief filed by the Department of Justice. On January 11, 2001, the Networks advised the Eleventh Circuit that they did not object to EchoStar's filing a response to the National Association of Broadcasters' amicus brief or the Department of Justice's brief. On January 19, 2001, EchoStar filed its supplemental brief responding to the Department of Justice's brief. On January 23, 2001, the Department of Justice filed a motion to strike EchoStar's supplemental brief or for an opportunity to reply to EchoStar's supplemental brief. On February 2, 2001, without explanation, the Eleventh Circuit issued an order striking EchoStar's supplemental reply and denying EchoStar an opportunity to file a response to the Department of Justice's motion to intervene. The Eleventh Circuit has currently set oral argument for the week of April 23, 2001. EchoStar cannot predict when the Eleventh Circuit will rule on its appeal, but it could be as early as April 2001. EchoStar's appeal effort may not be successful and EchoStar may be required to comply with the Court's preliminary injunction order on short notice. The preliminary injunction could force EchoStar to terminate delivery of distant network channels to a substantial portion of its distant network subscriber base, which could also cause many of these subscribers to cancel their subscription to EchoStar's other services. Such terminations would result in a small reduction in EchoStar's reported average monthly revenue per subscriber and could result in a temporary increase in churn.

Starsight

During October 2000, Starsight Telecast, Inc., a subsidiary of Gemstar-TV Guide, filed a suit for patent infringement against EchoStar and certain of its subsidiaries in the United States District Court for the Western District of North Carolina, Asheville Division. The suit alleges infringement of United States Patent No. 4,706,121 ("the `121 patent") which relates to certain electronic program guide functions. EchoStar has examined this patent and believes that it is not infringed by any of EchoStar's products or services. EchoStar is vigorously contesting the suit and has filed counterclaims challenging both the validity and enforceability of this patent.

In December 2000 EchoStar filed suit against Gemstar - TV Guide International, Inc. (and certain of its subsidiaries) in the United States District Court for the District of Colorado alleging violations by Gemstar of various federal and state anti-trust laws and laws governing unfair competition. The lawsuit seeks an injunction and monetary damages.

In February 2001, Gemstar filed patent infringement actions against EchoStar in District Court in Atlanta, Georgia and in the International Trade Commission (ITC). These suits allege infringement of US Patent Nos. 5,252,066, 5,479,268 and 5,809,204 which all relate to certain electronic program guide functions. In addition, the ITC action alleges infringement of the `121 patent which is asserted in the North Carolina case. In the Atlanta District Court case, Gemstar seeks damages and an injunction. Pursuant to Federal law, the Atlanta case can be stayed pending the resolution of the ITC action. It is also possible the North Carolina action will be stayed while the ITC case proceeds. ITC actions typically proceed according to an expedited schedule. EchoStar expects the ITC action to go to trial by the end of 2001 or early in 2002. A final decision should be issued by the ITC by mid-2002.

While the ITC cannot award damages, it can issue exclusion orders that would prevent the importation of articles that are found to infringe the asserted patents. In addition, it can issue cease and desist orders that would prohibit the sale of infringing products that had been previously imported. EchoStar has examined these patents and believe they are not infringed by any of our products or services. EchoStar will vigorously contest the ITC and Atlanta allegations of infringement and will, among other things, challenge both the validity and enforceability of the asserted patents.

During 2000, Superguide Corp. also filed suit against EchoStar, DirectTV and others in the North Carolina Court, alleging infringement of United States Patent Nos. 5,038,211, 5,293,357 and 4,751,578 which relate to certain electronic program guide functions, including the use of electronic program guides to control VCRs. It is EchoStar's understanding that these patents may be licensed by Superguide to Gemstar, although Gemstar has not asserted the patents against EchoStar. EchoStar has examined these patents and believes that they are not infringed by any of EchoStar's products or services. EchoStar intends to vigorously defend against this action and assert a variety of counterclaims.

In the event it is ultimately determined that EchoStar infringes on any of aforementioned patents EchoStar may be subject to substantial damages, and/or an injunction that could require EchoStar to materially modify certain user friendly electronic programming guide and related features it currently offers to consumers. It is too early to make an assessment of the probable outcome of either suit.

IPPV Enterprises

IPPV Enterprises, LLC and MAAST, Inc. filed a patent infringement suit against EchoStar in the United States District Court for the District of Delaware. The suit alleges infringement of 5 patents. The patents disclose various systems for the implementation of features such as impulse-pay-per view, parental control and category lock-out. One patent relates to an encryption technique. Three of the patents have expired. EchoStar is vigorously defending against the suit based, among other things, on non-infringement, invalidity and failure to provide notice of alleged infringement.

In the event it is ultimately determined that EchoStar infringes on any of these patents we may be subject to substantial damages, and/or an injunction with respect to the two unexpired patents, that could require EchoStar to materially modify certain user friendly features it currently offer to consumers. It is too early to make an assessment of the probable outcome of either suit.

Retailer Class Actions

EchoStar has been sued by retailers in three separate class actions. In two separate lawsuits, Air Communication & Satellite, Inc. and John DeJong, et. al. filed lawsuits on October 6, 2000 on behalf of themselves and a class of persons similarly situated. The plaintiffs are attempting to certify nationwide classes allegedly brought on behalf of persons, primarily retail dealers, who were alleged signatories to certain retailer agreements with EchoStar Satellite Corporation. The plaintiffs are requesting the Court to declare certain provisions of the alleged agreements invalid and unenforceable, to declare that certain unilateral changes to the agreements are invalid and unenforceable, and to award damages for lost commissions and payments, charge backs, and other compensation. The plaintiffs are alleging breach of contract and breach of the covenant of good faith and fair dealing and are seeking declaratory relief, compensatory damages, injunctive relief, and pre-judgment and post-judgment interest. EchoStar intends to vigorously defend the lawsuit and to assert a variety of counterclaims. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

Satellite Dealers Supply, Inc. filed a lawsuit on September 25, 2000, on behalf of itself and a class of persons similarly situated. The plaintiff is attempting to certify a nationwide class allegedly brought on behalf of sellers, installers, and servicers of equipment used to provide satellite who contract with EchoStar and claims the alleged class has been "subject to improper chargebacks." The plaintiff alleges that (1) EchoStar charged back

certain fees paid by members of the class to professional installers in violation of contractual terms; (2) EchoStar manipulated the accounts of subscribers to deny payments to class members; and (3) EchoStar misrepresented to class members who owns certain equipment related to provision of satellite television service. The plaintiff is requesting a permanent injunction and monetary damages. EchoStar intends to vigorously defend the lawsuit and to assert a variety of counterclaims. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

EchoStar is subject to various other legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to those actions will not materially affect EchoStar's financial position or results of operations.

Meteoroid Events

Meteoroid events pose a potential threat to all in orbit geosynchronous satellites including EchoStar's DBS satellites. While the probability that EchoStar's satellites will be damaged by meteoroids is very small, that probability increases significantly when the Earth passes through the particulate stream left behind by various comets.

Due to the current peak in the 11-year solar cycle, increased solar activity is likely for the next year. Some of these solar storms pose a potential threat to all in-orbit geosynchronous satellites including EchoStar's DBS satellites. The probability that the effects from the storms will damage our satellites or cause service interruptions is generally very small.

Some decommissioned spacecraft are in uncontrolled orbits which pass through the geostationary belt at various points, and present hazards to operational spacecraft including EchoStar's DBS satellites. The locations of these hazards are generally well known and may require EchoStar to perform maneuvers to avoid collisions.

10. SEGMENT REPORTING

Financial Data by Business Unit (in thousands)

Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("FAS No. 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 shareholders. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker(s) of an enterprise. Under this definition, we are currently operating as three separate business units.

EHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

EHOSTAR DISH TECHNOLOGIES
SATELLITE ELIMINATIONS
CONSOLIDATED NETWORK CORPORATION
SERVICES AND OTHER TOTAL -----

----- YEAR
ENDED DECEMBER 31, 1998 Revenue
.....
\$ 733,382 \$ 251,958 \$ 23,442 \$
(26,116) \$ 982,666 Depreciation
and amortization

85,107 2,097 26 15,406 102,636
Total expenses
.....
871,269 193,852 3,495 36,941
1,105,557 EBITDA
.....
(52,781) 60,202 19,973 (47,649)
(20,255) Interest income
..... 9,280 -
- 2 21,004 30,286 Interest
expense, net of interest
capitalized
.....
(49,042) (282) -- (118,205)
(167,529) Income tax benefit
(provision), net 17 (11) --
(50) (44) Net income (loss)
..... (199,356)
30,333 18,409 (110,268)
(260,882) YEAR ENDED DECEMBER
31, 1999 Revenue

.....
\$ 1,373,789 \$ 160,276 \$ 47,312 \$
21,464 \$ 1,602,841 Depreciation
and amortization

97,899 4,434 193 10,702 113,228
Total expenses
.....
1,622,928 165,238 15,956 145,810
1,949,932 EBITDA
.....
(151,241) (528) 31,549 (52,583)
(172,803) Interest income
..... 26,205
1 375 (402) 26,179 Interest
expense, net of interest
capitalized
.....
(201,356) (253) -- (4) (201,613)
Income tax benefit (provision),
net -- (46) -- (108) (154)
Net income (loss)

.....
(1,949,914) (31,884) 27,273
1,161,678 (792,847) YEAR ENDED
DECEMBER 31, 2000 AS
RETROACTIVELY ADJUSTED (NOTE 13)
Revenue

.....
\$ 2,407,554 \$ 207,945 \$ 55,028 \$
44,693 \$ 2,715,220 Depreciation
and amortization

160,910 5,338 121 18,987 185,356
Total expenses
.....
2,746,000 197,073 (1,695)
197,908 3,139,286 EBITDA
.....
(177,535) 16,210 56,844 (82,764)
(187,245) Interest income
..... 79,724
-- 220 (211) 79,733 Interest
expense, net of interest
capitalized

.....
 (267,650) (233) -- (107)
 (267,990) Income tax benefit
 (provision), net (48) (32)
 -- (475) (555) Net income (loss)
 (804,696)
 (155) 52,964 101,561 (650,326)

Geographic Information (in thousands)

UNITED STATES EUROPE TOTAL -

 ----- 1998 Total
 revenue*.....
 \$ 964,503 \$ 18,163 \$ 982,666
 Long-lived
 assets.....
 978,850 1,498 980,348 1999
 Total
 revenue*.....
 \$ 1,579,992 \$ 22,849 \$
 1,602,841 Long-lived
 assets.....
 2,059,242 3,099 2,062,341
 2000 Total
 revenue*.....
 \$ 2,667,133 \$ 48,087 \$
 2,715,220 Long-lived
 assets.....
 2,217,741 3,546 2,221,287

* Revenues are attributed to geographic regions based upon the location from which the sale originated.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Transactions with Major Customers

During the years ended December 31, 1998, 1999 and 2000, export sales to two customers together totaled \$210 million, \$126 million and \$187 million, respectively. These export sales accounted for approximately 21%, 8% and 7% of EchoStar's total revenue during each of the three years ended December 31, 2000, respectively. Revenues from these customers are included within the EchoStar Technologies Corporation business unit.

11. VALUATION AND QUALIFYING ACCOUNTS

EchoStar's valuation and qualifying accounts as of December 31, 1998, 1999 and 2000 are as follows (in thousands):

BALANCE AT CHARGED TO BEGINNING OF COSTS AND BALANCE AT YEAR EXPENSES DEDUCTIONS END OF YEAR ---- -----				

--- ----- YEAR ENDED				
DECEMBER 31, 1998: Assets:				
Allowance for doubtful accounts.....	\$ 1,347	\$	10,692	\$ (9,043)
Loan loss		\$ 2,996		
reserve.....				
1,254	858	(101)	2,011	
Reserve for				
inventory.....				
3,840	1,744	(403)	5,181	
Liabilities: Reserve for				
warranty costs and other..				
710 -- (435)	275			
DECEMBER 31, 1999: Assets:				
Allowance for doubtful accounts.....	\$ 2,996	\$	23,481	\$ (13,368)
Loan loss		\$ 13,109		
reserve.....				
2,011	100	(272)	1,839	
Reserve for				
inventory.....				
5,181	1,785	(3,019)	3,947	
Liabilities: Reserve for				
warranty costs and other..				
275 -- (65)	210			
DECEMBER 31, 2000: Assets:				
Allowance for doubtful accounts.....	\$ 13,109	\$	45,985	\$ (27,853)
Loan loss		\$ 31,241		
reserve.....				
1,839	66	(346)	1,559	
Reserve for				
inventory.....				
3,947	6,357	(398)	9,906	
Liabilities: Reserve for				
warranty costs and other..				
210 -- --	210			

EHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

EchoStar's quarterly unaudited results of operations are summarized as follows (in thousands, except per share amounts):

THREE MONTHS ENDED -----

MARCH 31 JUNE 30
SEPTEMBER 30 DECEMBER 31

(Unaudited) Year Ended
December 31, 1999: Total
revenue

..... \$
309,576 \$ 350,217 \$
428,180 \$ 514,868
Operating loss
.....
(55,682) (50,989)
(79,455) (160,965) Net
loss

.....
(372,331) (76,129)
(124,401) (219,986) Basic
and diluted loss per
share .. \$ (1.03) \$
(0.20) \$ (0.27) \$ (0.48)
Year Ended December 31,
2000 (As retroactively
adjusted - see Note 13):

Total revenue
..... \$
565,721 \$ 646,129 \$
697,972 \$ 805,398
Operating loss
.....
(142,017) (86,231)
(82,082) (113,736) Net
loss

.....
(185,130) (138,963)
(142,049) (184,184) Basic
and diluted loss per
share .. \$ (0.40) \$
(0.30) \$ (0.30) \$ (0.39)

13. SUBSEQUENT EVENTS

Satellite Launches

During February 2001, EchoStar announced an agreement with Lockheed Martin's International Launch Services to provide launch services for the EchoStar VII and EchoStar VIII satellites, which also includes options for launch services for additional satellites. EchoStar VII is expected to launch in the fourth quarter of 2001 on a Lockheed Martin Atlas III launch vehicle from Cape Canaveral, Fla. EchoStar VIII is expected to launch during the first quarter of 2002 on a Russian Proton K launch vehicle from the Baikonur Cosmodrome in Kazakhstan.

Retroactive Application of Equity Method of Accounting

Effective September 27, 2001, EchoStar invested an additional \$50 million in StarBand, increasing its equity interest from approximately 19% to approximately 32%. If and when construction is commenced for a next generation satellite to be allocated for StarBand's service, EchoStar's equity interest would increase to approximately 60%. EchoStar originally invested \$50 million in StarBand in April 2000. As a result of the increased equity stake, this investment is now accounted for using the equity method of accounting. As required by APB Opinion No. 18, the equity method accounting has been retroactively applied back to April 2000, the date of EchoStar's original investment in StarBand. This retroactive application resulted in an increase in previously reported net loss and basic and diluted loss per share for each of

the four quarters in the year ended December 31, 2000 as follows (in thousands):

THREE MONTHS ENDED	-----	-----	-----	-----
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
	2000	2000	2000	2000
	-----	-----	-----	-----
	Net			
loss.....	\$ --	\$ (6,103)	\$ (11,156)	\$ (11,856)
	=====	=====	=====	=====
			Basic	
			and diluted net loss per common	
share.....	\$ --	\$ (0.02)	\$ (0.02)	\$ (0.03)
	=====	=====	=====	=====
	=====	=====	=====	=====

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PART I - FINANCIAL INFORMATION

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EHOSTAR COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

DECEMBER 31, 2000	MARCH 31, 2001	2000	2001
(Unaudited) AS RETROACTIVELY ADJUSTED (NOTE 7) ASSETS Current			
Assets: Cash and cash equivalents			
	\$ 856,818	\$	
801,081	Marketable investment securities		
	607,357	493,544	
Trade accounts receivable, net of allowance for uncollectible			
accounts of \$31,241 and \$21,766, respectively			
	278,614	251,800	
Insurance receivable			
		106,000	
106,000	Inventories		

161,161	149,243	Other current assets	
		50,656	
50,830	----- Total current assets		

2,060,606	1,852,498	Restricted cash and marketable investment securities	
	3,000	3,000	Cash reserved
for satellite insurance (Note 4)			
	82,393	78,295	Property and equipment, net
		1,511,303	
1,619,556	FCC authorizations, net		
		709,984	
705,374	Other noncurrent assets		
		269,549	
202,687	----- Total assets		
		\$	
4,636,835	\$ 4,461,410	===== LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities: Trade accounts payable			
	\$ 226,568		
\$ 120,339 Deferred revenue			
283,895	330,000	Accrued expenses	
691,482	689,594	Current portion of long-term debt	
	21,132	17,375	-----
----- Total current liabilities			
		1,223,077	
1,157,308	Long-term obligations, net of current portion: 9 1/4% Seven Year Notes		
		375,000	
375,000	9 3/8% Ten Year Notes		
1,625,000	1,625,000	4 7/8% Convertible Notes	
		1,000,000	
1,000,000	10 3/8% Seven Year Notes		
		1,000,000	
1,000,000	Mortgages and other notes payable, net of current portion		
	14,812	14,585	Long-term deferred distribution and carriage revenue and other long-term liabilities
56,329	75,974	----- Total long-term obligations, net of current portion	
		4,071,141	
4,090,559	----- Total liabilities		
5,294,218	5,247,867	Commitments and Contingencies (Note 5)	
Stockholders' Deficit: 6 3/4% Series C Cumulative Convertible Preferred Stock, 218,951 and 199,182 shares issued and outstanding, respectively			
	10,948	9,959	Class A Common Stock, \$.01 par value, 1,600,000,000 shares authorized, 235,749,557 and 236,360,794 shares issued and outstanding, respectively
	2,357	2,364	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 outstanding

			Additional paid-in capital
		1,700,367	

1,702,246	Deferred stock-based compensation		
.....	.....	(58,193)	(50,137)
	Accumulated other comprehensive loss		
.....	.....	(60,580)	(28,562)
	Accumulated deficit		
.....		
(2,254,666)	(2,424,711)	-----	----- Total
	stockholders' deficit		
.....	.....		(657,383)
(786,457)	-----	-----	Total liabilities and
stockholders' deficit	.....		\$
4,636,835	\$ 4,461,410	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements.

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

THREE MONTHS ENDED MARCH 31, -----			
2000	2001	----- AS RETROACTIVELY	
ADJUSTED REVENUE: (NOTE 7) DISH Network: Subscription			
television services	\$		
	476,874	\$	794,448
			Other
.....			
1,313	2,483	----- Total DISH Network	
			478,187
796,931		DTH equipment sales and integration services	
		62,704	41,019
			Other
.....			
24,830	23,980	----- Total revenue	
.....			
565,721	861,930	COSTS AND EXPENSES: DISH Network Operating	
Expenses: Subscriber-related expenses			
		201,574	316,335
		Customer service center and other	
		56,049	64,782
		Satellite and	
			transmission
			12,476
9,095		----- Total DISH Network	
			operating expenses
			270,099
390,212		Cost of sales - DTH equipment and integration	
		46,222	28,836
		Cost of sales - other	
		8,116	15,929
		Marketing: Subscriber promotion subsidies - promotional	
		DTH equipment	
172,138	190,265	Subscriber promotion subsidies - other	
		77,949	82,966
		Advertising and	
			other
			23,170
26,927		----- Total marketing expenses	
			273,257
			300,158
		General and administrative	
		55,577	75,672
		Non-	
		cash, stock-based compensation	
		14,009	7,456
		Depreciation	
			and amortization
40,458	58,850	----- Total costs and	
			expenses
707,738	877,113	----- Operating loss	
.....			
(142,017)	(15,183)	Other Income (Expense): Interest income	
			18,998
		24,564	Interest expense
			(61,513)
		(83,097) Other	
.....			
(543)	(96,102)	----- Total other	
		income (expense)	
(43,058)	(154,635)	----- Loss before	
		income taxes	
		(185,075)	(169,818)
		Income tax provision, net	
			(55)
			(49)
		----- Net loss	
.....			
(185,130)	(169,867)	6 3/4% Series C Cumulative Convertible	
		Preferred Stock dividends	
.....			
(493)	(178)	----- Numerator for basic	
		and diluted loss per share - loss attributable to common	
			shareholders
		\$	(185,623)
(170,045)		===== Denominator for basic	
		and diluted loss per share - weighted-average common	
			shares outstanding
		465,768	474,563
===== Net loss per common share: Basic			
		and diluted net loss	
		\$	(0.40)
		\$	(0.36)
		=====	

See accompanying Notes to Condensed Consolidated Financial Statements.

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

THREE MONTHS ENDED MARCH 31,	2000	2001	-----
AS RETROACTIVELY ADJUSTED (NOTE 7) CASH FLOWS FROM OPERATING ACTIVITIES: Net loss			
.....			\$
(185,130) \$ (169,867) Adjustments to reconcile net loss to net cash flows from operating activities: Equity in losses of affiliates			
..... -- 12,826 Deferred stock-based compensation recognized		13,709	
7,456 Loss due to decline in the estimated fair value of strategic investments	-- 81,803		
..... Depreciation and amortization		40,458	58,850
Amortization of debt discount and deferred financing costs			
..... 1,534 1,878 Employee benefits funded by issuance of Class A Common Stock		7,280	--
Change in reserve for excess and obsolete inventory		303	679
..... Change in long-term deferred satellite services revenue and other long-term liabilities			7,448
..... 19,645 Other, net			990
..... 1,348 Changes in current assets and current liabilities, net			8,831
..... (34,941) ----- Net cash flows from operating activities			
(104,577) (20,323) CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of marketable investment securities			
..... (218,888) (706,698) Sales of marketable investment securities		198,107	820,126
..... Purchases of property and equipment			
(36,900) (148,600) Change in cash reserved for satellite insurance due to depreciation on related satellites (Note 4)			
..... -- 4,098 Investment in Wildblue Communications			
..... (50,000) -- Investment in Replay TV			
..... (10,000) -- Other			
..... Net cash flows from investing activities		(118,375)	(32,749)
CASH FLOWS FROM FINANCING ACTIVITIES: Repayments of mortgage indebtedness and notes payable		(4,236)	(3,984)
..... Net proceeds from Class A Common Stock options exercised and Class A Common Stock issued to Employee Stock Purchase Plan		2,170	1,497
Other			
..... Net cash flows from financing activities		(2,559)	(2,665)
----- Net increase (decrease) in cash and cash equivalents		(225,511)	(55,737)
..... Cash and cash equivalents, beginning of period		905,299	
856,818 ----- Cash and cash equivalents, end of period		\$ 679,788	\$ 801,081
===== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: 6 3/4% Series C Cumulative Convertible Preferred Stock dividends		\$ --	\$ 178
Conversion of 6 3/4% Series C Cumulative Convertible Preferred Stock to Class A common stock			--
..... 989 Forfeitures of deferred non-cash, stock-based compensation		-- 600	Class A Common Stock issued related to acquisition of Kelly Broadcasting Systems, Inc.
..... 31,556 --			

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. ORGANIZATION AND BUSINESS ACTIVITIES

Principal Business

The operations of EchoStar Communications Corporation ("ECC," and together with its subsidiaries, or referring to particular subsidiaries in certain circumstances, "EchoStar" or the "Company") include two interrelated business units (Note 6):

- o The DISH Network - a direct broadcast satellite ("DBS") subscription television service in the United States. As of March 31, 2001, we had approximately 5.7 million DISH Network subscribers.
- o EchoStar Technologies Corporation ("ETC") - engaged in the design, development, distribution and sale of DBS set-top boxes, antennae and other digital equipment for the DISH Network ("EchoStar receiver systems"), the design, development and distribution of similar equipment for international direct-to-home ("DTH") satellite and other systems and the provision of uplink center design, construction oversight and other project integration services for international DTH ventures.

Since 1994, EchoStar has deployed substantial resources to develop the "EchoStar DBS System." The EchoStar DBS System consists of EchoStar's FCC-allocated DBS spectrum, six DBS satellites ("EchoStar I," "EchoStar II," "EchoStar III," "EchoStar IV," "EchoStar V," and "EchoStar VI"), EchoStar receiver systems, digital broadcast operations centers, customer service facilities, and other assets utilized in its operations. EchoStar's principal business strategy is to continue developing its subscription television service in the United States to provide consumers with a fully competitive alternative to cable television service.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in EchoStar's Annual Report on Form 10-K for the year ended December 31, 2000. Certain amounts have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

Basic and Diluted Loss Per Share

Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FAS No. 128") requires entities to present both basic earnings per share ("EPS") and diluted EPS. Basic EPS excludes dilution and is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or warrants were exercised or convertible securities were converted to common stock, resulting in the issuance of common stock that then would share in any earnings of the Company. We had net losses for the three months ending March 31, 2000 and 2001. Therefore, the effect of the common stock equivalents and convertible securities is excluded from the computation of diluted earnings (loss) per share since the effect is anti-dilutive.

As of March 31, 2001 and 2000, options to purchase a total of approximately 24,825,000 and 27,861,000 shares of Class A common stock were outstanding, respectively. Approximately 3,269,000 and 5,713,000 shares of Class A common stock were issuable upon conversion of the 6 3/4% Series C Cumulative Convertible Preferred Stock as of March 31, 2001 and 2000, respectively. As of March 31, 2001, the 4 7/8% Convertible Subordinated Notes are convertible into approximately 22 million shares of Class A common stock.

3. INVENTORIES

Inventories consist of the following (in thousands):

DECEMBER 31, MARCH 31, 2000	2001	-----	-----
	Finished goods -		
DBS.....		\$ 96,362	\$
	88,727 Raw		
materials.....			
40,247	43,195	Finished goods - reconditioned and	
		other.....	23,101 18,905
		process.....	8,879
		6,178	
Consignment.....			
2,478	1,465	Reserve for excess and obsolete	
inventory.....	(9,906)	(9,227)	-----
-----	\$ 161,161	\$ 149,243	=====

4. SATELLITE INSURANCE

As a result of the failure of EchoStar IV solar arrays to fully deploy and the failure of 28 transponders to date, a maximum of approximately 14 of the 44 transponders on EchoStar IV are available for use at this time. Due to the normal degradation of the solar arrays, the number of available transponders will further decrease over time. In addition to the transponder and solar array failures, EchoStar IV experienced anomalies affecting its thermal systems and propulsion system. There can be no assurance that further material degradation, or total loss of use, of EchoStar IV will not occur in the immediate future.

In September 1998, EchoStar filed a \$219.3 million insurance claim for a constructive total loss under the launch insurance policies covering EchoStar IV. The satellite insurance consists of separate identical policies with different carriers for varying amounts which, in combination, create a total insured amount of \$219.3 million.

The insurance carriers offered EchoStar a total of approximately \$88 million, or 40% of the total policy amount, in settlement of the EchoStar IV insurance claim. The insurers allege that all other impairment to the satellite occurred after expiration of the policy period and is not covered. EchoStar strongly disagrees with the position of the insurers and has filed an arbitration claim against them for breach of contract, failure to pay a valid insurance claim and bad faith denial of a valid claim, among other things. There can be no assurance that EchoStar will receive the amount claimed or, if EchoStar does, that EchoStar will retain title to EchoStar IV with its reduced capacity.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

At the time EchoStar filed its claim in 1998, EchoStar recognized an impairment loss of \$106 million to write-down the carrying value of the satellite and related costs, and simultaneously recorded an insurance claim receivable for the same amount. EchoStar continues to believe it will ultimately recover at least the amount originally recorded and does not intend to adjust the amount of the receivable until there is greater certainty with respect to the amount of the final settlement.

As a result of the thermal and propulsion system anomalies, EchoStar reduced the estimated remaining useful life of EchoStar IV to approximately 4 years during January 2000. EchoStar will continue to evaluate the performance of EchoStar IV and may modify its loss assessment as new events or circumstances develop.

The in-orbit insurance policies for EchoStar I, EchoStar II, and EchoStar III expired July 25, 2000. The insurers have to date refused to renew insurance on EchoStar I, EchoStar II and EchoStar III on reasonable terms. Based on, among other things, the insurance carriers' unanimous refusal to negotiate reasonable renewal insurance coverage, EchoStar believes that the carriers colluded and conspired to boycott EchoStar unless EchoStar accepts their offer to settle the EchoStar IV claim for \$88 million.

Based on the carriers' actions, EchoStar has added causes of action in its EchoStar IV demand for arbitration for breach of the duty of good faith and fair dealing, and unfair claim practices. Additionally, EchoStar filed a lawsuit against the insurance carriers in the United States District Court for the District of Colorado asserting causes of action for violation of Federal and State Antitrust laws. While EchoStar believes it is entitled to the full amount claimed under the EchoStar IV insurance policy and believes the insurance carriers are in violation of Antitrust laws and have committed further acts of bad faith in connection with their refusal to negotiate reasonable insurance coverage on EchoStar's other satellites, there can be no assurance as to the outcome of these proceedings. During March 2001, EchoStar voluntarily dismissed the antitrust lawsuit without prejudice. EchoStar has the right to re-file an antitrust action against the insurers again in the future.

The indentures related to the outstanding senior notes of EDBS contain restrictive covenants that require EchoStar to maintain satellite insurance with respect to at least half of the satellites it owns. Insurance coverage is therefore required for at least three of EchoStar's six satellites currently in orbit. EchoStar has procured normal and customary launch insurance for EchoStar VI. This launch insurance policy provides for insurance of \$225.0 million. The EchoStar VI launch insurance policy expires in July 2001. EchoStar is currently self-insuring EchoStar I, EchoStar II, EchoStar III, EchoStar IV and EchoStar V. To satisfy insurance covenants related to the outstanding EDBS senior notes, as of March 31, 2001, EchoStar has reclassified approximately \$78 million from cash and cash equivalents to restricted cash and marketable investment securities on its balance sheet. The reclassification will continue until such time, if ever, as the insurers are again willing to insure EchoStar's satellites on commercially reasonable terms. The amount of cash reserved for satellite insurance will be increased by approximately \$60 million in the event EchoStar has not procured satellite insurance by July 2001. EchoStar believes it has in-orbit satellite capacity sufficient to expeditiously recover transmission of most programming in the event one of its in-orbit satellites was to fail. However, the cash reserved for satellite insurance is not adequate to fund the construction, launch and insurance for a replacement satellite in the event of a complete loss of a satellite and programming continuity could not be assured in the event of multiple satellite losses.

5. COMMITMENTS AND CONTINGENCIES

VisionStar

During November 2000, one of EchoStar's wholly owned subsidiaries purchased a 49.9% interest in VisionStar, Inc. VisionStar holds an FCC license, and is constructing a Ka-band satellite, to launch into the 113 W.L. orbital slot. Together with VisionStar, EchoStar has requested FCC approval to acquire control over VisionStar by increasing its ownership of VisionStar to 90%, for a total purchase price of approximately \$2.8 million. EchoStar has also provided loans to VisionStar totaling less than \$10 million to date for the construction of their satellite and expects to provide additional funding to VisionStar in the future. EchoStar is not obligated to

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

finance the full remaining cost to construct and launch the VisionStar satellite, but VisionStar's FCC license currently requires construction of the satellite to be completed by April 30, 2002 or the license could be revoked. EchoStar currently expects to continue to fund loans and equity contributions for construction of the satellite in the near term from cash on hand, and expects that it may spend approximately \$79.5 million during 2001 for that purpose subject to, among other things, FCC action.

DirectTV

During February 2000, EchoStar filed suit against DirectTV and Thomson Consumer Electronics/RCA in the Federal District Court of Colorado. The suit alleges that DirectTV has utilized improper conduct in order to fend off competition from the DISH Network. According to the complaint, DirectTV has demanded that certain retailers stop displaying EchoStar's merchandise and has threatened to cause economic damage to retailers if they continue to offer both product lines in head-to-head competition. The suit alleges, among other things, that DirectTV has acted in violation of federal and state anti-trust laws in order to protect DirectTV's market share. EchoStar is seeking injunctive relief and monetary damages. EchoStar subsequently amended the Complaint adding claims against Circuit City, Radio Shack and Best Buy, alleging that these retailers are engaging in improper conduct that has had an anti-competitive impact on EchoStar. It is too early in the litigation to make an assessment of the probable outcome. During October 2000, DirectTV filed a motion for summary judgment asking that the Court enter judgment in DirectTV's favor on certain of EchoStar's claims. DirectTV's motion for summary judgment remains pending.

The DirectTV defendants filed a counterclaim against EchoStar. DirectTV alleges that EchoStar tortiously interfered with a contract that DirectTV allegedly had with Kelly Broadcasting Systems, Inc. ("KBS"). DirectTV alleges that EchoStar "merged" with KBS, in contravention of DirectTV's contract with KBS. DirectTV also alleges that EchoStar has falsely advertised to consumers about its right to offer network programming. DirectTV further alleges that EchoStar improperly used certain marks owned by PrimeStar, now owned by DirectTV. Finally, DirectTV alleges that EchoStar has been marketing National Football League games in a misleading manner. Discovery has been stayed until the next scheduling conference on June 13, 2001. The amount of damages DirectTV is seeking is as yet unquantified. However, in an arbitration proceeding related to DirectTV's allegations with respect to KBS, DirectTV has claimed damages totaling hundreds of millions of dollars. It is too early in the litigation to make an assessment of the probable outcome. EchoStar and KBS intend to vigorously defend against DirectTV's allegations in the litigation and in the arbitration.

Fee Dispute

EchoStar had a contingent fee arrangement with the attorneys who represented EchoStar in the litigation with News Corporation. The contingent fee arrangement provides for the attorneys to be paid a percentage of any net recovery obtained by EchoStar in the News Corporation litigation. The attorneys have asserted that they may be entitled to receive payments totaling hundreds of millions of dollars under this fee arrangement.

During mid-1999, EchoStar initiated litigation against the attorneys in the Arapahoe County, Colorado, District Court arguing that the fee arrangement is void and unenforceable. In December 1999, the attorneys initiated an arbitration proceeding before the American Arbitration Association. The litigation has been stayed while the arbitration is ongoing. The arbitration hearing commenced April 2, 2001 and continued through April 13, 2001. The hearing could not be completed during that time period and has been continued until August 7, 2001, when it will resume until it is presumably completed. While there can be no assurance that the attorneys will not continue to claim a right to hundreds of millions of dollars, the damage model the attorneys presented during the arbitration was for \$56 million. EchoStar believes that even that amount significantly overstates the amount the attorneys should reasonably be entitled to receive under the fee agreement but it is not possible for EchoStar to predict what the decision of the three person arbitrator panel will be with any degree of certainty. EchoStar continues to vigorously contest the attorneys' interpretation of the fee arrangement, which EchoStar believes significantly overstates the magnitude of its liability.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

WIC Premium Television Ltd.

During July 1998, a lawsuit was filed by WIC Premium Television Ltd., an Alberta corporation, in the Federal Court of Canada Trial Division, against General Instrument Corporation, HBO, Warner Communications, Inc., John Doe, Showtime, United States Satellite Broadcasting Company, Inc., EchoStar Communications Corporation, and two of EchoStar's wholly-owned subsidiaries, Echosphere Corporation and Dish, Ltd. The lawsuit seeks, among other things, an interim and permanent injunction prohibiting the defendants from activating receivers in Canada and from infringing any copyrights held by WIC. It is too early to determine whether or when any other lawsuits or claims will be filed.

During September 1998, WIC filed another lawsuit in the Court of Queen's Bench of Alberta Judicial District of Edmonton against certain defendants, including EchoStar. WIC is a company authorized to broadcast certain copyrighted work, such as movies and concerts, to residents of Canada. WIC alleges that the defendants engaged in, promoted, and/or allowed satellite dish equipment from the United States to be sold in Canada and to Canadian residents and that some of the defendants allowed and profited from Canadian residents purchasing and viewing subscription television programming that is only authorized for viewing in the United States. The lawsuit seeks, among other things, an interim and permanent injunction prohibiting the defendants from importing hardware into Canada and from activating receivers in Canada, together with damages in excess of \$175 million.

EchoStar filed motions to dismiss each of the actions for lack of personal jurisdiction. The Court in the Alberta action recently denied EchoStar's Motion to Dismiss, which EchoStar appealed. The Alberta Court also granted a motion to add more EchoStar parties to the lawsuit. EchoStar Satellite Corporation, EDBS, EchoStar Technologies Corporation, and EchoStar Satellite Broadcast Corporation have been added as defendants in the litigation. The newly added defendants have also challenged jurisdiction. The Court of Appeals denied EchoStar's appeal and the Alberta Court has asserted jurisdiction over all of the EchoStar defendants. The Court in the Federal action has stayed that case pending the outcome of the Alberta action. The case is now currently in discovery. EchoStar intends to vigorously defend the suit. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

Broadcast network programming

Until July 1998, EchoStar obtained distant broadcast network channels (ABC, NBC, CBS and FOX) for distribution to its customers through PrimeTime 24. In December 1998, the United States District Court for the Southern District of Florida entered a nationwide permanent injunction requiring PrimeTime 24 to shut off distant network channels to many of its customers, and henceforth to sell those channels to consumers in accordance with certain stipulations in the injunction.

In October 1998, EchoStar filed a declaratory judgment action against ABC, NBC, CBS and FOX in Denver Federal Court. EchoStar asked the court to enter a judgment declaring that its method of providing distant network programming did not violate the Satellite Home Viewer Act and hence did not infringe the networks' copyrights. In November 1998, the networks and their affiliate groups filed a complaint against EchoStar in Miami Federal Court alleging, among other things, copyright infringement. The court combined the case that EchoStar filed in Colorado with the case in Miami and transferred it to the Miami court. The case remains pending in Miami. While the networks have not sought monetary damages, they have sought to recover attorney fees if they prevail.

In February 1999, the networks filed a "Motion for Temporary Restraining Order, Preliminary Injunction and Contempt Finding" against DirecTV, Inc. in Miami related to the delivery of distant network channels to DirecTV customers by satellite. DirecTV settled this lawsuit with the networks. Under the terms of the settlement between DirecTV and the networks, some DirecTV customers were scheduled to lose access to their satellite-provided distant network channels by July 31, 1999, while other DirecTV customers were to be disconnected by December 31, 1999. Subsequently, PrimeTime 24 and substantially all providers of satellite-delivered network

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

programming other than EchoStar agreed to this cut-off schedule, although EchoStar does not know if they adhered to this schedule.

In December 1998, the networks filed a Motion for Preliminary Injunction against EchoStar in the Miami court, and asked the court to enjoin EchoStar from providing network programming except under limited circumstances. A preliminary injunction hearing was held on September 21, 1999. The court took the issues under advisement to consider the networks' request for an injunction, whether to hear live testimony before ruling upon the request, and whether to hear argument on why the Satellite Home Viewer Act may be unconstitutional, among other things.

In March 2000, the networks filed an emergency motion again asking the court to issue an injunction requiring EchoStar to turn off network programming to certain of its customers. At that time, the networks also argued that EchoStar's compliance procedures violate the Satellite Home Viewer Improvement Act. EchoStar opposed the networks' motion and again asked the court to hear live testimony before ruling upon the networks' injunction request.

During September 2000, the Court granted the Networks' motion for preliminary injunction, denied the Network's emergency motion and denied EchoStar's request to present live testimony and evidence. The Court's original order required EchoStar to terminate network programming to certain subscribers "no later than February 15, 1999," and contained other dates which would be physically impossible to comply with. The order imposes restrictions on EchoStar's past and future sale of distant ABC, NBC, CBS and Fox channels similar to those imposed on PrimeTime 24 (and, EchoStar believes, on DirectTV and others). Some of those restrictions go beyond the statutory requirements imposed by the Satellite Home Viewer Act and the Satellite Home Viewer Improvement Act. For these and other reasons EchoStar believes the Court's order is, among other things, fundamentally flawed, unconstitutional and should be overturned. However, it is very unusual for a Court of Appeals to overturn a lower court's order and there can be no assurance whatsoever that it will be overturned.

On October 3, 2000, and again on October 25, 2000, the Court amended its original preliminary injunction order in an effort to fix some of the errors in the original order. The twice amended preliminary injunction order required EchoStar to shut off, by February 15, 2001, all subscribers who are ineligible to receive distant network programming under the court's order. EchoStar has appealed the September 2000 preliminary injunction order and the October 3, 2000 amended preliminary injunction order. On November 22, 2000, the United States Court of Appeals for the Eleventh Circuit stayed the Florida Court's preliminary injunction order pending EchoStar's appeal. At that time, the Eleventh Circuit also expedited its consideration of EchoStar's appeal.

During November 2000, EchoStar filed its appeal brief with the Eleventh Circuit. During December 2000, the Satellite Broadcasting and Communications Association submitted an amicus brief in support of EchoStar's appeal. The Consumer Federation of America and the Media Access Project have also submitted an amicus brief in support of EchoStar's appeal. The Networks have responded to EchoStar's appeal brief and the amicus briefs filed by the Consumer Federation of America and the Media Access Project and the Satellite Broadcasting and Communications Association. In December 2000, the Department of Justice filed a motion to intervene with respect to EchoStar's constitutional challenge of the Satellite Home Viewers Act, and the National Association of Broadcasters filed an amicus brief in support of the Networks' position in the appeal. During January 2001, EchoStar filed its reply appeal brief and asked the Eleventh Circuit for an opportunity to respond to the amicus brief filed by the National Association of Broadcasters and the brief filed by the Department of Justice. On January 11, 2001, the Networks advised the Eleventh Circuit that they did not object to EchoStar's filing a response to the National Association of Broadcasters' amicus brief or the Department of Justice's brief. On January 19, 2001, EchoStar filed its supplemental brief responding to the Department of Justice's brief. On January 23, 2001, the Department of Justice filed a motion to strike EchoStar's supplemental brief or for an opportunity to reply to EchoStar's supplemental brief. On February 2, 2001, without explanation, the Eleventh Circuit issued an order striking EchoStar's supplemental reply and denying EchoStar an opportunity to file a response to the Department of Justice's motion to intervene. The Eleventh Circuit has currently set oral argument for May 24, 2001. EchoStar

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

cannot predict when the Eleventh Circuit will rule on its appeal, but it could be as early as May 2001. EchoStar's appeal effort may not be successful and EchoStar may be required to comply with the Court's preliminary injunction order on short notice. The preliminary injunction could force EchoStar to terminate delivery of distant network channels to a substantial portion of its distant network subscriber base, which could also cause many of these subscribers to cancel their subscription to EchoStar's other services. Such terminations would result in a small reduction in EchoStar's reported average monthly revenue per subscriber and could result in a temporary increase in churn.

Starsight

During October 2000, Starsight Telecast, Inc., a subsidiary of Gemstar-TV Guide, filed a suit for patent infringement against EchoStar and certain of its subsidiaries in the United States District Court for the Western District of North Carolina, Asheville Division. The suit alleges infringement of United States Patent No. 4,706,121 (the "121 Patent") which relates to certain electronic program guide functions. EchoStar has examined this patent and believes that it is not infringed by any of its products or services.

In December 2000, EchoStar filed suit against Gemstar - TV Guide International, Inc. (and certain of its subsidiaries) in the United States District Court for the District of Colorado alleging violations by Gemstar of various federal and state anti-trust laws and laws governing unfair competition. The lawsuit seeks an injunction and monetary damages. The Court recently denied a motion by Gemstar to transfer this case to the Western District of North Carolina.

In February 2001, Gemstar filed patent infringement actions against EchoStar in District Court in Atlanta, Georgia and in the International Trade Commission (ITC). These suits allege infringement of United States Patent Nos. 5,252,066, 5,479,268 and 5,809,204 which all relate to certain electronic program guide functions. In addition, the ITC action alleges infringement of the 121 Patent which is asserted in the North Carolina case. In the Atlanta District Court case, Gemstar seeks damages and an injunction. We expect the Atlanta and North Carolina cases will be stayed pending resolution of the ITC action. ITC actions typically proceed according to an expedited schedule. EchoStar expects the ITC action to go to trial by the end of 2001. EchoStar further expects that the ITC will issue an initial determination by March of 2002 and that a final determination will be issued by June 2002. While the ITC cannot award damages, it can issue exclusion orders that would prevent the importation of articles that are found to infringe the asserted patents. In addition, it can issue cease and desist orders that would prohibit the sale of infringing products that had been previously imported. EchoStar has examined these patents and believes they are not infringed by any of EchoStar's products or services. EchoStar will vigorously contest the ITC, North Carolina and Atlanta allegations of infringement and will, among other things, challenge both the validity and enforceability of the asserted patents.

During 2000, Superguide Corp. also filed suit against EchoStar, DirecTV and others in the same North Carolina Court, alleging infringement of United States Patent Nos. 5,038,211, 5,293,357 and 4,751,578 which relate to certain electronic program guide functions, including the use of electronic program guides to control VCRs. It is EchoStar's understanding that these patents may be licensed by Superguide to Gemstar, although Gemstar has not asserted the patents against EchoStar. Nevertheless, Gemstar was recently added by the Court as a party to this lawsuit. EchoStar has examined these patents and believes that they are not infringed by any of its products or services. EchoStar intends to vigorously defend against this action and assert a variety of counterclaims.

In the event it is ultimately determined that EchoStar infringes on any of the aforementioned patents EchoStar may be subject to substantial damages, and/or an injunction that could require EchoStar to materially modify certain user friendly electronic programming guide and related features it currently offers to consumers. It is too early to make an assessment of the probable outcome of the suits.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

IPPV Enterprises

IPPV Enterprises, LLC and MAAST, Inc. filed a patent infringement suit against EchoStar in the United States District Court for the District of Delaware. The suit alleges infringement of 5 patents. The patents disclose various systems for the implementation of features such as impulse-pay-per view, parental control and category lock-out. One patent relates to an encryption technique. Three of the patents have expired. The trial is expected to commence July 9, 2001. EchoStar is vigorously defending against the suit based, among other things, on non-infringement, invalidity and failure to provide notice of alleged infringement.

In the event it is ultimately determined that EchoStar infringes on any of these patents, EchoStar may be subject to substantial damages, and/or an injunction with respect to the two unexpired patents, that could require EchoStar to materially modify certain user friendly features it currently offers to consumers. It is too early to make an assessment of the probable outcome of the suit.

Retailer Class Actions

EchoStar has been sued by retailers in three separate class actions. In two separate lawsuits filed in the District Court, Arapahoe County, State of Colorado and the United States District Court for the District of Colorado, respectively, Air Communication & Satellite, Inc. and John DeJong, et. al. filed lawsuits on October 6, 2000 on behalf of themselves and a class of persons similarly situated. The plaintiffs are attempting to certify nationwide classes allegedly brought on behalf of persons, primarily retail dealers, who were alleged signatories to certain retailer agreements with EchoStar Satellite Corporation. The plaintiffs are requesting the Court to declare certain provisions of the alleged agreements invalid and unenforceable, to declare that certain changes to the agreements are invalid and unenforceable, and to award damages for lost commissions and payments, charge backs, and other compensation. The plaintiffs are alleging breach of contract and breach of the covenant of good faith and fair dealing and are seeking declaratory relief, compensatory damages, injunctive relief, and pre-judgment and post-judgment interest. EchoStar intends to vigorously defend against the suits and to assert a variety of counterclaims. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

Satellite Dealers Supply, Inc. filed a lawsuit in the United States District Court for the Eastern District of Texas on September 25, 2000, on behalf of itself and a class of persons similarly situated. The plaintiff is attempting to certify a nationwide class on behalf of sellers, installers, and servicers of satellite equipment who contract with EchoStar and claims the alleged class has been "subject to improper chargebacks." The plaintiff alleges that (1) EchoStar charged back certain fees paid by members of the class to professional installers in violation of contractual terms; (2) EchoStar manipulated the accounts of subscribers to deny payments to class members; and (3) EchoStar misrepresented to class members who owns certain equipment related to the provision of satellite television service. The plaintiff is requesting a permanent injunction and monetary damages. EchoStar intends to vigorously defend the lawsuit and to assert a variety of counterclaims. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

EchoStar is subject to various other legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to those actions will not materially affect EchoStar's financial position or results of operations.

Meteoroid Events

Meteoroid events pose a potential threat to all in orbit geosynchronous satellites including EchoStar's DBS satellites. While the probability that EchoStar's satellites will be damaged by meteoroids is very small, that probability increases significantly when the Earth passes through the particulate stream left behind by various comets.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

Due to the current peak in the 11-year solar cycle, increased solar activity is likely for the next year. Some of these solar storms pose a potential threat to all in-orbit geosynchronous satellites including EchoStar's DBS satellites. The probability that the effects from the storms will damage our satellites or cause service interruptions is generally very small.

Some decommissioned spacecraft are in uncontrolled orbits which pass through the geostationary belt at various points, and present hazards to operational spacecraft including EchoStar's DBS satellites. The locations of these hazards are generally well known and may require EchoStar to perform maneuvers to avoid collisions.

6. SEGMENT REPORTING

Financial Data by Business Unit (in thousands)

Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("FAS No. 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 shareholders. 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. During 2000, under this definition, we were operating as three separate business units. However, beginning 2001, it was determined that the chief operating decision maker of our Company regularly evaluates the following two separate business units. All prior year amounts have been restated to conform to the current year presentation.

ECHOSTAR ELIMINATIONS DISH TECHNOLOGIES AND OTHER, CONSOLIDATED NETWORK CORPORATION NET TOTAL ----- -----			
----- THREE MONTHS ENDED MARCH 31, 2000			
Revenue.....			
	\$ 484,448	\$ 52,469	\$ 28,804
	565,721		Net income
(loss).....			(190,764)
	(4,494)	10,128	(185,130)
	THREE MONTHS ENDED MARCH 31, 2001 AS RETROACTIVELY ADJUSTED (NOTE 7)		
Revenue.....			
	\$ 817,991	\$ 18,728	\$ 25,211
	861,930		Net income
(loss).....			(224,693)
	(7,788)	62,614	(169,867)

7. SUBSEQUENT EVENTS

EchoStar VI

EchoStar VI is equipped with a total of 48 transponders, including 16 spares. During April, 2001, EchoStar VI experienced a series of anomalous events resulting in a temporary interruption of service. The satellite was quickly restored to normal operations mode. However, spare transponders and a station-keeping thruster were activated while the anomaly investigation period proceeds. The satellite is equipped with a substantial number of backup transponders and thrusters. Consequently, the anomalous events have not impacted commercial operation of the satellite. However, until the root cause of the most recent anomaly is finally determined, there can be no assurance future similar anomalies will not cause further losses which could impact commercial operation of the satellite.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
(UNAUDITED)

Retroactive Application of Equity Method of Accounting

Effective September 27, 2001, EchoStar invested an additional \$50 million in StarBand, increasing its equity interest from approximately 19% to approximately 32%. If and when construction is commenced for a next generation satellite to be allocated for StarBand's service, EchoStar's equity interest would increase to approximately 60%. EchoStar originally invested \$50 million in StarBand in April 2000. As a result of the increased equity stake, this investment is now accounted for using the equity method of accounting. As required by APB Opinion No. 18, the equity method accounting has been retroactively applied back to April 2000, the date of EchoStar's original investment in StarBand. This retroactive application resulted in an increase in previously reported net loss and basic and diluted loss per share for the three months ended March 31, 2001 as follows (in thousands):

THREE MONTHS ENDED MARCH 31, 2001 -----
---- (Unaudited) Net
loss.....
\$ (2,826) ===== Basic and diluted net loss
per common share..... \$ (0.01) =====

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EHOSTAR COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

DECEMBER 31, JUNE 30, 2000 2001 -----		
(Unaudited) AS RETROACTIVELY ADJUSTED (NOTE 8) ASSETS Current		
Assets: Cash and cash equivalents		
.....	\$ 856,818	\$
1,492,560 Marketable investment securities		
.....	607,357	823,307
Trade accounts receivable, net of allowance for uncollectible		
accounts of \$31,241 and \$25,940, respectively		
.....	278,614	273,689
Insurance receivable		
.....	106,000	
106,000 Inventories		
.....		
161,161 150,319 Other current assets		
.....	50,656	
60,640 ----- Total current assets		
.....		
2,060,606 2,906,515 Restricted cash and marketable investment		
securities	3,000	2,035
for satellite insurance (Note 4)		
.....	82,393	74,196
Property and		
equipment, net		
.....	1,511,303	
1,716,077 FCC authorizations, net		
.....	709,984	
700,264 Other noncurrent assets		
.....	269,549	
207,515 ----- Total assets		
.....		\$
4,636,835 \$ 5,606,602 =====		
STOCKHOLDERS' DEFICIT Current Liabilities: Trade accounts payable		
.....	\$ 226,568	
\$ 186,515 Deferred revenue		
.....		
283,895 339,769 Accrued expenses		
.....		
691,482 734,918 Current portion of long-term debt		
.....	21,132	15,794
----- Total current liabilities		
.....	1,223,077	
1,276,996 Long-term obligations, net of current portion: 9 1/4%		
Seven Year Notes		
.....	375,000	
375,000 9 3/8% Ten Year Notes		
.....		
1,625,000 1,625,000 10 3/8% Seven Year Notes		
.....	1,000,000	
1,000,000 4 7/8% Convertible Notes		
.....	1,000,000	
1,000,000 5 3/4% Convertible Notes		
.....		
1,000,000 Mortgages and other notes payable, net of current portion		
.....	14,812	13,388
Long-term deferred		
distribution and carriage revenue and other long-term liabilities		
.....		
56,329 80,633 ----- Total long-term obligations,		
net of current portion	4,071,141	
5,094,021 ----- Total liabilities		
.....		
5,294,218 6,371,017 Commitments and Contingencies (Note 5)		
Stockholders' Deficit: 6 3/4% Series C Cumulative Convertible		
Preferred Stock, 218,951 and 111,566 shares issued and outstanding,		
respectively	10,948	5,578
Class		
A Common Stock, \$.01 par value, 1,600,000,000 shares authorized,		
235,749,557 and 238,446,218 shares issued and outstanding,		
respectively	2,357	2,384
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		
outstanding		
.....		

.....	-- -- Additional paid-in capital	1,700,367
.....	1,709,706 Deferred stock-based compensation	
.....	..... (58,193) (41,680)	
.....	Accumulated other comprehensive loss	
.....	..... (60,580) (12,063)	
.....	Accumulated deficit	
.....	
.....	(2,254,666) (2,430,724) ----- Total	
.....	stockholders' deficit	(657,383)
.....	(764,415) ----- Total liabilities and	
.....	stockholders' deficit	\$
.....	4,636,835 \$ 5,606,602 =====	

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,
	2000	2001	2000	2001
----- AS RETROACTIVELY ADJUSTED (NOTE 8) REVENUE: DISH Network: Subscription television services	\$ 555,309	\$ 883,055	\$ 1,032,183	\$ 1,677,503
Other	2,169	3,245	3,482	5,728
----- Total DISH Network	886,300	1,035,665	1,683,231	1,683,231
DTH equipment sales and integration services	60,034	47,159	122,738	88,178
Other	28,617	32,813	53,447	56,793
----- Total revenue	646,129	966,272	1,211,850	1,828,202
COSTS AND EXPENSES: DISH Network Operating Expenses: Subscriber-related expenses	231,450	358,634	433,024	674,969
Customer service center and other	69,914	124,420	134,696	13,895
Satellite and transmission	17,916	17,916	13,895	8,821
Other	646,129	966,272	1,211,850	1,828,202
----- Total DISH Network operating expenses	827,581	525,553	674,969	583,815
Cost of sales - DTH equipment and integration services	46,320	31,160	92,542	59,996
Cost of sales - other	7,120	22,572	15,236	38,501
Marketing: Subscriber promotion subsidies - promotional DTH equipment	154,568	105,488	326,706	295,753
Subscriber promotion subsidies - other	151,206	204,332	151,206	204,332
Advertising and other	47,641	53,804	24,471	26,877
----- Total marketing expenses	252,296	253,731	525,553	553,889
General and administrative	113,753	163,349	13,022	7,011
Non-cash, stock-based compensation	121,689	121,689	13,022	7,011
Depreciation and amortization	41,710	62,839	41,710	62,839
----- Total costs and expenses	902,359	1,440,098	1,779,472	1,779,472
Operating income (loss)	63,913	(228,248)	48,730	(86,231)
Other Income (Expense): Interest income	22,196	35,945	46,760	46,760
Interest expense, net of amounts capitalized	(123,015)	(169,155)	(123,015)	(169,155)
Other	(8,141)	(5,858)	(8,684)	(101,960)
----- Total other expense	(69,720)	(95,754)	(224,355)	(224,355)
Loss before income taxes	(5,807)	(324,002)	(175,625)	(324,002)
Income tax provision, net	(97)	(97)	(36)	(48)
----- Net loss	(97)	(97)	(36)	(48)

.....			
(138,963)	(5,855)	(324,093)	(175,722) 6 3/4% Series C
Cumulative Convertible Preferred Stock dividends			
.....			
(240)	(158)	(733)	(336) -----
----- Numerator for basic and diluted			
loss per share - loss attributable to common			
shareholders \$ (139,203) \$			
(6,013) \$ (324,826) \$ (176,058) =====			
===== Denominator for			
basic and diluted loss per share - weighted-average			
common shares outstanding 471,555			
475,768 468,661 475,169 =====			
===== Basic and diluted net loss			
per common share \$ (0.30) \$ (0.01) \$			
(0.69) \$ (0.37) =====			
=====			

See accompanying Notes to Condensed Consolidated Financial Statements.

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

SIX MONTHS ENDED JUNE 30, -----	2000	2001	----
AS RETROACTIVELY ADJUSTED (NOTE 8) CASH FLOWS FROM			
OPERATING ACTIVITIES: Net loss			
	\$		
(324,093)	\$ (175,722)		
Adjustments to reconcile net loss to net cash flows			
from operating activities: Equity in losses of affiliates			
	6,103	20,930	
Deferred stock-based compensation recognized			
27,031	14,467		
Loss due to decline in the estimated fair value of strategic			
investments -- 82,683 Depreciation and amortization			
	82,168	121,689	
Amortization of debt discount and deferred financing costs			
	3,068	3,756	
Employee benefits funded by issuance of			
Class A Common Stock 7,280 1,200 Change in long-term			
deferred distribution and carriage revenue and other long-term liabilities			
	6,433	24,304	
Other, net			
1,958	9,813		
Changes in current assets and current liabilities, net			
	52,758	51,146	
----- Net cash			
flows from operating activities			
(137,294)	154,266		
CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of			
marketable investment securities			
(478,825)	(1,298,036)		
Sales of marketable investment securities			
	422,782	1,097,344	
Purchases of property and equipment			
(114,709)	(302,276)		
Change in cash reserved for satellite insurance due to			
depreciation on related satellites (Note 4)			
	--	8,197	
Investment in Wildblue Communications			
	(50,000)		
-- Investment in			
Replay TV			
	(10,000)		
-- Investment in StarBand Communications			
	(50,045)		
-- Other			
(1,445)	(1,497)		
----- Net cash flows from investing			
activities (282,242) (496,268)			
CASH FLOWS FROM FINANCING ACTIVITIES: Net proceeds from issuance of 5 3/4%			
Convertible Notes -- 980,000 Repayments of			
mortgage indebtedness and notes payable			
(7,982)	(6,762)		
Net proceeds from Class A Common Stock options exercised and			
Class A Common Stock issued to Employee Stock Purchase Plan			
	9,103	4,843	
Other			
(732)	(337)		
----- Net cash flows from financing			
activities 389 977,744 -----			
-- Net (decrease) increase in cash and cash equivalents			
	(419,147)	635,742	
Cash and cash equivalents, beginning of period			
	905,299	856,818	
----- Cash and cash equivalents, end of period			
	\$ 486,152	\$ 1,492,560	
===== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Conversion of 6 3/4% Series C Cumulative Convertible Preferred Stock to			
Class A common stock			
	\$ 32,879	\$ 5,370	
Forfeitures of deferred non-cash, stock-based compensation			
	5,994	2,046	
Class A Common Stock issued related to			
acquisition of Kelly Broadcasting Systems, Inc.			
	31,556		

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. ORGANIZATION AND BUSINESS ACTIVITIES

Principal Business

The operations of EchoStar Communications Corporation ("ECC," and together with its subsidiaries, or referring to particular subsidiaries in certain circumstances, "EchoStar" or the "Company") include two interrelated business units (Note 7):

- o The DISH Network - a direct broadcast satellite ("DBS") subscription television service in the United States. As of June 30, 2001, we had approximately 6.07 million DISH Network subscribers.
- o EchoStar Technologies Corporation ("ETC") - engaged in the design, development, distribution and sale of DBS set-top boxes, antennae and other digital equipment for the DISH Network ("EchoStar receiver systems"), the design, development and distribution of similar equipment for international direct-to-home ("DTH") satellite and other systems and the provision of uplink center design, construction oversight and other project integration services for international DTH ventures.

Since 1994, EchoStar has deployed substantial resources to develop the "EchoStar DBS System." The EchoStar DBS System consists of EchoStar's FCC-allocated DBS spectrum, six DBS satellites ("EchoStar I," "EchoStar II," "EchoStar III," "EchoStar IV," "EchoStar V," and "EchoStar VI"), EchoStar receiver systems, digital broadcast operations centers, customer service facilities, and other assets utilized in its operations. EchoStar's principal business strategy is to continue developing its subscription television service in the United States to provide consumers with a fully competitive alternative to cable television service.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in EchoStar's Annual Report on Form 10-K for the year ended December 31, 2000. Certain amounts have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

Investment Securities

As of June 30, 2001, EchoStar has classified all marketable investment securities as available-for-sale. The fair market value of marketable investment securities approximates the carrying value and represents the quoted market prices at the balance sheet dates. Related unrealized gains and losses are reported as a separate component of

ECHOSTAR COMMUNICATIONS CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (UNAUDITED)

stockholders' deficit, net of related deferred income taxes, if applicable. The specific identification method is used to determine cost in computing realized gains and losses. Such unrealized losses totaled approximately \$12 million as of June 30, 2001. Approximately \$9 million of these unrealized losses relate to a decline in the value of OpenTV. EchoStar acquired that stock in connection with the establishment of a strategic relationship with OpenTV which did not involve an investment of cash by EchoStar.

In accordance with generally accepted accounting principles, declines in the market value of a marketable investment security which are estimated to be "other than temporary" must be recognized in the statement of operations, thus establishing a new cost basis for such investment. EchoStar reviewed the fair value of its marketable investment securities as of June 30, 2001 and determined that some declines in market value have occurred which may be other than temporary. As such, EchoStar established a new cost basis for these securities, and accordingly reduced its previously recorded unrealized loss and recorded a charge to earnings of approximately \$856,000 during the three months ended June 30, 2001. During the six months ended June 30, 2001, EchoStar recorded an aggregate charge to earnings for other than temporary declines of approximately \$33.3 million.

EchoStar also has made strategic equity investments in certain non-marketable investment securities including Wildblue Communications, StarBand Communications, VisionStar, Inc. and Replay TV. The original cost basis of EchoStar's investments in these non-marketable investment securities totaled approximately \$116 million. The securities of these companies are not publicly traded. EchoStar's ability to create realizable value for its strategic investments in companies that are not public is dependent on the success of their business plans and ability to obtain sufficient capital to execute their business plans. StarBand and Wildblue cancelled their planned initial public stock offerings. As a result of the cancellation of those offerings and other factors, during the six months ended June 30, 2001, EchoStar recorded a non-recurring charge of approximately \$49.4 million to reduce the carrying value of certain of these non-marketable investment securities to their estimated fair values. StarBand and Wildblue need to obtain significant additional capital in the near term. Absent such funding, additional write-downs of EchoStar's investments could be necessary. During July 2001, EchoStar announced its intention to invest an additional \$50 million in StarBand (Note 8).

Comprehensive Income (Loss)

The components of comprehensive loss, net of tax, are as follows (in thousands):

SIX MONTHS ENDED JUNE 30, -----	2000	2001	----- (Unaudited) AS RETROACTIVELY ADJUSTED (NOTE 8) Net
loss.....			
\$ (324,093)	\$ (175,722)		Unrealized holding (losses) gains on available-for-sale securities arising during period..... (676) 15,258
			Reclassification adjustment for impairment losses on available-for-sale securities included in net loss..... -- 33,259 -----
			Comprehensive
loss.....			\$
	(324,769)	\$ (127,205)	=====

Accumulated other comprehensive loss presented on the accompanying condensed consolidated balance sheets consists of the accumulated net unrealized gains (losses) on available-for-sale securities, net of deferred taxes.

ECHOSTAR COMMUNICATIONS CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (UNAUDITED)

Basic and Diluted Loss Per Share

Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FAS No. 128") requires entities to present both basic earnings per share ("EPS") and diluted EPS. Basic EPS excludes dilution and is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or warrants were exercised or convertible securities were converted to common stock, resulting in the issuance of common stock that then would share in any earnings of the Company.

As of June 30, 2001 and 2000, options to purchase a total of approximately 24,206,000 and 25,569,000 shares of Class A common stock were outstanding, respectively. Approximately 1,831,000 and 4,121,000 shares of Class A common stock were issuable upon conversion of the 6 3/4% Series C Cumulative Convertible Preferred Stock, respectively. As of June 30, 2001, the 4 7/8% Convertible Subordinated Notes and the 5 3/4% Convertible Subordinated Notes were convertible into approximately 22 million shares and approximately 23 million shares of Class A common stock, respectively.

3. INVENTORIES

Inventories consist of the following (in thousands):

DECEMBER 31, 2000	JUNE 30, 2000	2001	
-----	-----	-----	Finished goods - DBS
			\$
96,362	\$ 83,590		Raw materials
40,247	42,442		Finished goods - reconditioned and other
23,101	20,195		Work-in-process
			Consignment
8,879	11,536		
2,478	1,697		Reserve for excess and obsolete inventory
(9,906)	(9,141)		
-----	-----	-----	
	\$ 161,161	\$ 150,319	
=====	=====	=====	

4. PROPERTY AND EQUIPMENT

EchoStar VI

EchoStar VI is equipped with a total of 48 transponders, including 16 spares. During April, 2001, EchoStar VI experienced a series of anomalous events resulting in a temporary interruption of service. The satellite was quickly restored to normal operations mode. As a result of the anomaly, we believe that one stationkeeping thruster and a pair of transponders are unusable. The satellite is equipped with a substantial number of backup transponders and thrusters. EchoStar VI has also experienced anomalies resulting in the loss of two solar array strings. The satellite has a total of approximately 112 solar array strings and approximately 106 are required to assure full power availability for the 12-year design life of the satellite. An investigation of the anomalies, none of which have impacted commercial operation of the satellite to date, is continuing. Until the root cause of the anomalies is finally determined, there can be no assurance future anomalies will not cause further losses which could impact commercial operation of the satellite.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(UNAUDITED)

Satellite Insurance

As a result of the failure of EchoStar IV solar arrays to fully deploy and the failure of 28 transponders to date, a maximum of approximately 14 of the 44 transponders on EchoStar IV are available for use at this time. Due to the normal degradation of the solar arrays, the number of available transponders will further decrease over time. In addition to the transponder and solar array failures, EchoStar IV experienced anomalies affecting its thermal systems and propulsion system. There can be no assurance that further material degradation, or total loss of use, of EchoStar IV will not occur in the immediate future.

In September 1998, EchoStar filed a \$219.3 million insurance claim for a constructive total loss under the launch insurance policies covering EchoStar IV. The satellite insurance consists of separate identical policies with different carriers for varying amounts which, in combination, create a total insured amount of \$219.3 million.

The insurance carriers offered EchoStar a total of approximately \$88 million, or 40% of the total policy amount, in settlement of the EchoStar IV insurance claim. The insurers allege that all other impairment to the satellite occurred after expiration of the policy period and is not covered. EchoStar strongly disagrees with the position of the insurers and has filed an arbitration claim against them for breach of contract, failure to pay a valid insurance claim and bad faith denial of a valid claim, among other things. There can be no assurance that EchoStar will receive the amount claimed or, if EchoStar does, that EchoStar will retain title to EchoStar IV with its reduced capacity.

At the time EchoStar filed its claim in 1998, EchoStar recognized an impairment loss of \$106 million to write-down the carrying value of the satellite and related costs, and simultaneously recorded an insurance claim receivable for the same amount. EchoStar continues to believe it will ultimately recover at least the amount originally recorded and does not intend to adjust the amount of the receivable until there is greater certainty with respect to the amount of the final settlement.

As a result of the thermal and propulsion system anomalies, EchoStar reduced the estimated remaining useful life of EchoStar IV to approximately 4 years during January 2000. EchoStar will continue to evaluate the performance of EchoStar IV and may modify its loss assessment as new events or circumstances develop.

The in-orbit insurance policies for EchoStar I, EchoStar II, and EchoStar III expired on July 25, 2000. The insurers refused to renew insurance on EchoStar I, EchoStar II and EchoStar III on reasonable terms. Based on, among other things, the insurance carriers' unanimous refusal to negotiate reasonable renewal insurance coverage, EchoStar believes that the carriers colluded and conspired to boycott EchoStar unless EchoStar accepted their offer to settle the EchoStar IV claim for \$88 million.

Based on the carriers' actions, EchoStar added causes of action in its EchoStar IV demand for arbitration for breach of the duty of good faith and fair dealing, and unfair claim practices. Additionally, EchoStar filed a lawsuit against the insurance carriers in the United States District Court for the District of Colorado asserting causes of action for violation of Federal and State antitrust laws. While EchoStar believes it is entitled to the full amount claimed under the EchoStar IV insurance policy and believes the insurance carriers are in violation of antitrust laws and have committed further acts of bad faith in connection with their refusal to negotiate reasonable insurance coverage on EchoStar's other satellites, there can be no assurance as to the outcome of these proceedings. During March 2001, EchoStar voluntarily dismissed the antitrust lawsuit without prejudice. EchoStar has the right to re-file an antitrust action against the insurers again in the future.

The indentures related to the outstanding senior notes of EDBS contain restrictive covenants that require EchoStar to maintain satellite insurance with respect to at least half of the satellites it owns. Insurance coverage is therefore required for at least three of EchoStar's six satellites currently in orbit. EchoStar had procured normal and customary launch insurance for EchoStar VI, which expired on July 14, 2001. As a result, EchoStar is currently self-insuring EchoStar I, EchoStar II, EchoStar III, EchoStar IV, EchoStar V and EchoStar VI. To satisfy insurance

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(UNAUDITED)

covenants related to the outstanding EDBS senior notes, as of June 30, 2001, EchoStar had reclassified approximately \$74 million from cash and cash equivalents to restricted cash and marketable investment securities on its balance sheet. Cash reserved for satellite insurance increased by approximately \$60 million on July 14, 2001 as a result of the expiration of the EchoStar VI launch insurance policy. The reclassification will continue until such time, if ever, as EchoStar can again insure its satellites on acceptable terms and for acceptable amounts. EchoStar believes it has in-orbit satellite capacity sufficient to expeditiously recover transmission of most programming in the event one of its in-orbit satellites fails. However, the cash reserved for satellite insurance is not adequate to fund the construction, launch and insurance for a replacement satellite in the event of a complete loss of a satellite. Programming continuity could not be assured in the event of multiple satellite losses.

5. COMMITMENTS AND CONTINGENCIES

VisionStar

During November 2000, one of EchoStar's wholly-owned subsidiaries purchased a 49.9% interest in VisionStar, Inc. VisionStar holds an FCC license for, and is constructing a Ka-band satellite to launch into, the 113 degree orbital location. Together with VisionStar, EchoStar has requested FCC approval to acquire control over VisionStar by increasing its ownership of VisionStar to 90%, for a total purchase price of approximately \$2.8 million. EchoStar has also provided loans to VisionStar totaling less than \$10 million to date for the construction of their satellite and expects to provide additional funding to VisionStar in the future. EchoStar is not obligated to finance the full remaining cost to construct and launch the VisionStar satellite, but VisionStar's FCC license currently requires construction of the satellite to be completed by April 30, 2002 or the license could be revoked. EchoStar currently expects to continue to fund loans and equity contributions for construction of the satellite in the near term from cash on hand, and expects that it may spend approximately \$79.5 million during 2001 for that purpose subject to, among other things, FCC action.

DirecTV

During February 2000, EchoStar filed suit against DirecTV and Thomson Consumer Electronics/RCA in the Federal District Court of Colorado. The suit alleges that DirecTV has utilized improper conduct in order to fend off competition from the DISH Network. According to the complaint, DirecTV has demanded that certain retailers stop displaying EchoStar's merchandise and has threatened to cause economic damage to retailers if they continue to offer both product lines in head-to-head competition. The suit alleges, among other things, that DirecTV has acted in violation of federal and state antitrust laws in order to protect DirecTV's market share. EchoStar is seeking injunctive relief and monetary damages. EchoStar subsequently amended the complaint adding claims against Circuit City, Radio Shack and Best Buy, alleging that these retailers are engaging in improper conduct that has had an anti-competitive impact on EchoStar. It is too early in the litigation to make an assessment of the probable outcome. During October 2000, DirecTV filed a motion for summary judgment on certain of EchoStar's claims. DirecTV's motion remains pending.

The DirecTV defendants filed a counterclaim against EchoStar. DirecTV alleges that EchoStar tortiously interfered with a contract that DirecTV allegedly had with Kelly Broadcasting Systems, Inc. ("KBS"). DirecTV alleges that EchoStar "merged" with KBS in contravention of DirecTV's contract with KBS. DirecTV also alleges that EchoStar has falsely advertised to consumers about its right to offer network programming. DirecTV further alleges that EchoStar improperly used certain trademarks owned by PrimeStar, which is now owned by DirecTV. Finally, DirecTV alleges that EchoStar has been marketing National Football League games in a misleading manner. Discovery has been stayed until the next scheduling conference on August 21, 2001. The amount of damages DirecTV is seeking is as yet unquantified. However, in an arbitration proceeding related to DirecTV's allegations with respect to KBS, DirecTV has claimed damages totaling hundreds of millions of dollars. It is too early in the litigation to make an assessment of the probable outcome. EchoStar and KBS intend to vigorously defend against DirecTV's allegations in the litigation. The arbitration between DirecTV and KBS was held in June 2001, with closing arguments held on July 3, 2001. On July 10, 2001, the parties submitted post-hearing briefs. The arbitration

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(UNAUDITED)

panel has indicated that a ruling in the arbitration will be issued in late August or early September 2001. DirecTV has alleged damages in the arbitration in excess of \$200 million.

Fee Dispute

EchoStar had a contingent fee arrangement with the attorneys who represented EchoStar in the litigation with News Corporation. The contingent fee arrangement provides for the attorneys to be paid a percentage of any net recovery obtained by EchoStar in the News Corporation litigation. The attorneys have asserted that they may be entitled to receive payments totaling hundreds of millions of dollars under this fee arrangement.

During mid-1999, EchoStar initiated litigation against the attorneys in the Arapahoe County, Colorado, District Court arguing that the fee arrangement is void and unenforceable. In December 1999, the attorneys initiated an arbitration proceeding before the American Arbitration Association. The litigation has been stayed while the arbitration is ongoing. The arbitration hearing commenced April 2, 2001 and continued through April 13, 2001. The hearing could not be completed during that time period and has been continued until August 7, 2001, when it will resume until it is presumably completed. While there can be no assurance that the attorneys will not continue to claim a right to hundreds of millions of dollars, the damage model the attorneys presented during the arbitration was for \$56 million. EchoStar believes that even that amount significantly overstates the amount the attorneys should reasonably be entitled to receive under the fee agreement but EchoStar cannot predict with certainty what the arbitration panel will decide. EchoStar continues to vigorously contest the attorneys' interpretation of the fee arrangement, which EchoStar believes significantly overstates the magnitude of liability.

WIC Premium Television Ltd.

During July 1998, a lawsuit was filed by WIC Premium Television Ltd., an Alberta corporation, in the Federal Court of Canada Trial Division, against General Instrument Corporation, HBO, Warner Communications, Inc., John Doe, Showtime, United States Satellite Broadcasting Company, Inc., EchoStar Communications Corporation, and two of EchoStar's wholly-owned subsidiaries, Echosphere Corporation and Dish, Ltd. EchoStar Satellite Corporation, EchoStar DBS Corporation, EchoStar Technologies Corporation, and EchoStar Satellite Broadcast Corporation were subsequently added as defendants. The lawsuit seeks, among other things, interim and permanent injunctions prohibiting the defendants from activating receivers in Canada and from infringing any copyrights held by WIC. It is too early to determine whether or when any other lawsuits or claims will be filed.

During September 1998, WIC filed another lawsuit in the Court of Queen's Bench of Alberta Judicial District of Edmonton against certain defendants, including EchoStar. WIC is a company authorized to broadcast certain copyrighted work, such as movies and concerts, to residents of Canada. WIC alleges that the defendants engaged in, promoted, and/or allowed satellite dish equipment from the United States to be sold in Canada and to Canadian residents and that some of the defendants allowed and profited from Canadian residents purchasing and viewing subscription television programming that is only authorized for viewing in the United States. The lawsuit seeks, among other things, an interim and permanent injunction prohibiting the defendants from importing hardware into Canada and from activating receivers in Canada, together with damages in excess of \$175 million.

The Court in the Alberta action recently denied EchoStar's Motion to Dismiss, which EchoStar appealed. The Court in the Federal action has stayed that case pending the outcome of the Alberta action. The case is now currently in discovery. EchoStar intends to vigorously defend the suit. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

Broadcast network programming

Until July 1998, EchoStar obtained distant broadcast network channels (ABC, NBC, CBS and FOX) for distribution to its customers through PrimeTime 24. In December 1998, the United States District Court for the Southern District of Florida entered an nationwide permanent injunction requiring PrimeTime 24 to shut

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(UNAUDITED)

network channels to many of its customers, and henceforth to sell those channels to consumers in accordance with certain stipulations in the injunction.

In October 1998, EchoStar filed a declaratory judgment action against ABC, NBC, CBS and FOX in Denver Federal Court. EchoStar asked the court to enter a judgment declaring that its method of providing distant network programming did not violate the Satellite Home Viewer Act and hence did not infringe the networks' copyrights. In November 1998, the networks and their affiliate groups filed a complaint against EchoStar in Miami Federal Court alleging, among other things, copyright infringement. The court combined the case that EchoStar filed in Colorado with the case in Miami and transferred it to the Miami court. The case remains pending in Miami. While the networks have not sought monetary damages, they have sought to recover attorney fees if they prevail.

In February 1999, the networks filed a "Motion for Temporary Restraining Order, Preliminary Injunction and Contempt Finding" against DirecTV, Inc. in Miami related to the delivery of distant network channels to DirecTV customers by satellite. DirecTV settled this lawsuit with the networks. Under the terms of the settlement between DirecTV and the networks, some DirecTV customers were scheduled to lose access to their satellite-provided distant network channels by July 31, 1999, while other DirecTV customers were to be disconnected by December 31, 1999. Subsequently, PrimeTime 24 and substantially all providers of satellite-delivered network programming other than EchoStar agreed to this cut-off schedule, although EchoStar does not know if they adhered to this schedule.

In December 1998, the networks filed a Motion for Preliminary Injunction against EchoStar in the Miami court, and asked the court to enjoin EchoStar from providing network programming except under limited circumstances. A preliminary injunction hearing was held on September 21, 1999. The court took the issues under advisement to consider the networks' request for an injunction, whether to hear live testimony before ruling upon the request, and whether to hear argument on why the Satellite Home Viewer Act may be unconstitutional, among other things.

In March 2000, the networks filed an emergency motion again asking the court to issue an injunction requiring EchoStar to turn off network programming to certain of its customers. At that time, the networks also argued that EchoStar's compliance procedures violate the Satellite Home Viewer Improvement Act. EchoStar opposed the networks' motion and again asked the court to hear live testimony before ruling upon the networks' injunction request.

During September 2000, the Court granted the Networks' motion for preliminary injunction, denied the Network's emergency motion and denied EchoStar's request to present live testimony and evidence. The Court's original order required EchoStar to terminate network programming to certain subscribers "no later than February 15, 1999," and contained other dates with which it would be physically impossible to comply. The order imposes restrictions on EchoStar's past and future sale of distant ABC, NBC, CBS and Fox channels similar to those imposed on PrimeTime 24 (and, EchoStar believes, on DirecTV and others). Some of those restrictions go beyond the statutory requirements imposed by the Satellite Home Viewer Act and the Satellite Home Viewer Improvement Act. For these and other reasons EchoStar believes the Court's order is, among other things, fundamentally flawed, unconstitutional and should be overturned. However, it is very unusual for a Court of Appeals to overturn a lower court's order and there can be no assurance whatsoever that it will be overturned.

On October 3, 2000, and again on October 25, 2000, the Court amended its original preliminary injunction order in an effort to fix some of the errors in the original order. The twice amended preliminary injunction order required EchoStar to shut off, by February 15, 2001, all subscribers who are ineligible to receive distant network programming under the court's order. EchoStar has appealed the September 2000 preliminary injunction order and the October 3, 2000 amended preliminary injunction order. On November 22, 2000, the United States Court of Appeals for the Eleventh Circuit stayed the Florida Court's preliminary injunction order pending EchoStar's appeal. At that time, the Eleventh Circuit also expedited its consideration of EchoStar's appeal.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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During November 2000, EchoStar filed its appeal brief with the Eleventh Circuit. Oral argument before the Eleventh Circuit was held on May 24, 2001. At the oral argument, the parties agreed to participate in a court supervised mediation and that the mediator was to report back to the Eleventh Circuit on July 11, 2001. The Eleventh Circuit indicated that it would not rule on the pending appeal until after July 11, 2001. Since May 24, 2001, the parties participated in the court supervised mediation. On July 11, 2001, the mediator reported to the Eleventh Circuit the status of the parties' mediation efforts. On July 16, 2001, the Eleventh Circuit issued an order for the parties to engage in further mediation efforts until August 10, 2001. On August 10, 2001, the mediator is expected to report to the Eleventh Circuit the status of any continued mediation efforts by the parties.

EchoStar cannot predict when the Eleventh Circuit will rule on its appeal, but it will not be before August 10, 2001. EchoStar's appeal effort may not be successful and EchoStar may be required to comply with the Court's preliminary injunction order on short notice. The preliminary injunction could force EchoStar to terminate delivery of distant network channels to a substantial portion of its distant network subscriber base, which could also cause many of these subscribers to cancel their subscription to EchoStar's other services. Management has determined that such terminations would result in a small reduction in EchoStar's reported average monthly revenue per subscriber and could result in a temporary increase in churn. If EchoStar loses the case at trial, the judge could, as one of many possible remedies, prohibit all future sales of distant network programming by EchoStar, which would have a material adverse affect on EchoStar's business.

Gemstar

During October 2000, Starsight Telecast, Inc., a subsidiary of Gemstar-TV Guide International, Inc., filed a suit for patent infringement against EchoStar and certain of its subsidiaries in the United States District Court for the Western District of North Carolina, Asheville Division. The suit alleges infringement of United States Patent No. 4,706,121 (the "121 Patent") which relates to certain electronic program guide functions. EchoStar has examined this patent and believes that it is not infringed by any of its products or services. EchoStar will vigorously defend against this suit.

In December 2000, EchoStar filed suit against Gemstar - TV Guide (and certain of its subsidiaries) in the United States District Court for the District of Colorado alleging violations by Gemstar of various federal and state anti-trust laws and laws governing unfair competition. The lawsuit seeks an injunction and monetary damages. Gemstar recently filed counterclaims in this lawsuit alleging infringement of United States Patent Nos. 5,923,362 and 5,684,525 which relate to certain electronic program guide functions. EchoStar has examined these patents and believes they are not infringed by any of EchoStar's products or services. EchoStar will vigorously contest these counterclaims.

In February 2001, Gemstar filed patent infringement actions against EchoStar in District Court in Atlanta, Georgia and in the International Trade Commission (ITC). These suits allege infringement of United States Patent Nos. 5,252,066, 5,479,268 and 5,809,204 all of which relate to certain electronic program guide functions. In addition, the ITC action alleges infringement of the 121 Patent which is asserted in the North Carolina case. In the Atlanta District Court case, Gemstar seeks damages and an injunction. The North Carolina case has been stayed pending resolution of the ITC action and EchoStar expects that the Atlanta action will also be stayed pending resolution of the ITC action. ITC actions typically proceed according to an expedited schedule. EchoStar expects the ITC action to go to trial by the end of 2001. EchoStar further expects that the ITC will issue an initial determination by March of 2002 and that a final determination will be issued by April 2002. While the ITC cannot award damages, it can issue exclusion orders that would prevent the importation of articles that are found to infringe the asserted patents. Portions of EchoStar's receivers are currently manufactured outside the United States. In addition, it can issue cease and desist orders that would prohibit the sale of infringing products that had been previously imported. EchoStar has examined these patents and believes they are not infringed by any of EchoStar's products or services. EchoStar will vigorously contest the ITC, North Carolina and Atlanta allegations of infringement and will, among other things, challenge both the validity and enforceability of the asserted patents.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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During 2000, Superguide Corp. also filed suit against EchoStar, DirecTV and others in the same North Carolina Court, alleging infringement of United States Patent Nos. 5,038,211, 5,293,357 and 4,751,578 which relate to certain electronic program guide functions, including the use of electronic program guides to control VCRs. It is EchoStar's understanding that these patents may be licensed by Superguide to Gemstar. Gemstar has been added as a party to this case and is now asserting these patents against EchoStar. EchoStar has examined these patents and believes that they are not infringed by any of its products or services. A Markman hearing is currently scheduled for July 23, 2001. EchoStar intends to vigorously defend against this action and assert a variety of counterclaims.

In the event it is ultimately determined that EchoStar infringes on any of the aforementioned patents EchoStar may be subject to substantial damages, including the potential for treble damages, and/or an injunction that could require EchoStar to materially modify certain user friendly electronic programming guide and related features it currently offers to consumers. It is too early to make an assessment of the probable outcome of the suits.

IPPV Enterprises

IPPV Enterprises, LLC and MAAST, Inc. filed a patent infringement suit against EchoStar, and its conditional access vendor Nagra, in the United States District Court for the District of Delaware. The suit alleged infringement of 5 patents. The patents disclose various systems for the implementation of features such as impulse-pay-per view, parental control and category lock-out. One patent relates to an encryption technique. One patent was subsequently dropped by plaintiffs. The Court entered summary judgment in favor of EchoStar that the encryption patent, with respect to which the plaintiffs claimed \$80 million in damages, was not infringed by EchoStar. On July 13, 2001, a jury found that the remaining three patents were infringed and awarded damages of \$15 million. The jury also found that one of the patents was willfully infringed which means that the judge is entitled to increase the award of damages. EchoStar intends to appeal the decision and plaintiffs have indicated they will appeal as well. Any final award of damages would be split between EchoStar and Nagra in percentages to be agreed upon between EchoStar and Nagra.

California Actions

A purported class action was filed against EchoStar in the California State Superior Court for Alameda County during May 2001 by Andrew A. Werby. The complaint, relating to late fees, alleges unlawful, unfair and fraudulent business practices in violation of California Business and Professions Code Section 17200 et seq., false and misleading advertising in violation of California Business and Professions Code Section 17500, and violation of the California Consumer Legal Remedies Act. EchoStar has not yet filed a responsive pleading. It is too early in the litigation to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages. EchoStar intends to deny all liability and intends to vigorously defend the lawsuit.

A purported class action relating to the use of terms such as "crystal clear digital video," "CD-quality audio," and "on-screen program guide", and with respect to the number of channels available in various programming packages, has also been filed against EchoStar in the California State Superior Court for Los Angeles County by David Pritikin and by Consumer Advocates, a nonprofit unincorporated association. The complaint alleges breach of express warranty and violation of the California Consumer Legal Remedies Act, Civil Code Sections 1750, et. seq., and the California Business & Professions Code Sections 17500, 17200. EchoStar has filed an answer and the case is currently in discovery. No motion for class certification has been filed to date. It is too early in the litigation to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages. EchoStar denies all liability and intends to vigorously defend the lawsuit.

Retailer Class Actions

EchoStar has been sued by retailers in three separate purported class actions. In two separate lawsuits filed in the District Court, Arapahoe County, State of Colorado and the United States District Court for the District of Colorado, respectively, Air Communication & Satellite, Inc. and John DeJong, et. al. filed lawsuits on October 6, 2000 on behalf of themselves and a class of persons similarly situated. The plaintiffs are attempting to certify

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nationwide classes allegedly brought on behalf of persons, primarily retail dealers, who were alleged signatories to certain retailer agreements with EchoStar Satellite Corporation. The plaintiffs are requesting the Court to declare certain provisions of the alleged agreements invalid and unenforceable, to declare that certain changes to the agreements are invalid and unenforceable, and to award damages for lost commissions and payments, charge backs, and other compensation. The plaintiffs allege breach of contract and breach of the covenant of good faith and fair dealing and seek declaratory relief, compensatory damages, injunctive relief, and pre-judgment and post-judgment interest. EchoStar intends to vigorously defend against the suits and to assert a variety of counterclaims. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

Satellite Dealers Supply, Inc. filed a lawsuit in the United States District Court for the Eastern District of Texas on September 25, 2000, on behalf of itself and a class of persons similarly situated. The plaintiff is attempting to certify a nationwide class on behalf of sellers, installers, and servicers of satellite equipment who contract with EchoStar and claims the alleged class has been "subject to improper chargebacks." The plaintiff alleges that EchoStar: (1) charged back certain fees paid by members of the class to professional installers in violation of contractual terms; (2) manipulated the accounts of subscribers to deny payments to class members; and (3) misrepresented to class members who own certain equipment related to the provision of satellite television service. The plaintiff is requesting a permanent injunction and monetary damages. EchoStar intends to vigorously defend the lawsuit and to assert a variety of counterclaims. It is too early to make an assessment of the probable outcome of the litigation or to determine the extent of any potential liability or damages.

EchoStar is subject to various other legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to those actions will not materially affect EchoStar's financial position or results of operations.

Meteoroid Events

Meteoroid events pose a potential threat to all in orbit geosynchronous satellites including EchoStar's DBS satellites. While the probability that EchoStar's satellites will be damaged by meteoroids is very small, that probability increases significantly when the Earth passes through the particulate stream left behind by various comets.

Due to the current peak in the 11-year solar cycle, increased solar activity is likely for the next year. Some of these solar storms pose a potential threat to all in-orbit geosynchronous satellites including EchoStar's DBS satellites. The probability that the effects from the storms will damage our satellites or cause service interruptions is generally very small.

Some decommissioned spacecraft are in uncontrolled orbits which pass through the geostationary belt at various points, and present hazards to operational spacecraft including EchoStar's DBS satellites. The locations of these hazards are generally well known and may require EchoStar to perform maneuvers to avoid collisions.

6. LONG - TERM DEBT

5 3/4% Convertible Notes

On May 24, 2001, EchoStar sold \$1 billion principal amount of 5 3/4% Convertible Subordinated Notes due 2008 (the "5 3/4% Convertible Notes"). Interest accrues at an annual rate of 5 3/4% on the 5 3/4% Convertible Notes and is payable semi-annually in cash, in arrears on May 15 and November 15 of each year, commencing November 15, 2001.

The 5 3/4% Convertible Notes are general unsecured obligations, which rank junior in right of payment to:

- o all existing and future senior obligations;
- o all of EchoStar's secured debts to the extent of the value of the assets securing those debts; and
- o all existing and future debts and other liabilities of EchoStar's subsidiaries.

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In addition, the 5 3/4% Convertible Notes rank equal to EchoStar's 4 7/8% Convertible Subordinated Notes due 2007.

Except under certain circumstances requiring prepayment premiums, and in other limited circumstances, the 5 3/4% Convertible Notes are not redeemable at EchoStar's option prior to May 15, 2004. Thereafter, the 5 3/4% Convertible Notes will be subject to redemption, at the option of the Company, in whole or in part, at redemption prices decreasing from 103.286% during the year commencing May 15, 2004 to 100% on or after May 15, 2008, together with accrued and unpaid interest thereon to the redemption date.

The 5 3/4% Convertible Notes, unless previously redeemed, are convertible at the option of the holder any time after 90 days following the date of their original issuance and prior to maturity into shares of EchoStar's class A common stock at a conversion price of \$43.29 per share.

The indenture related to the 5 3/4% Convertible Notes (the "5 3/4% Convertible Notes Indenture") contains certain restrictive covenants that do not impose material limitations on EchoStar.

In the event of a change of control, as defined in the 5 3/4% Convertible Notes Indenture, EchoStar will be required to make an offer to repurchase all or any part of the holder's 5 3/4% Convertible Notes at a purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon, to the date of repurchase.

7. SEGMENT REPORTING

Financial Data by Business Unit (in thousands)

Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("FAS No. 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 shareholders. 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. During 2000, under this definition, we were operating as three separate business units. However, beginning 2001, it was determined that the chief operating decision maker of our Company regularly evaluates the following two separate business units. All prior year amounts have been restated to conform to the current year presentation. Eliminations and other primarily consists of intercompany eliminations. These amounts also consist of revenue and expenses from other immaterial operating segments for which the disclosure requirements of FAS No. 131 do not apply.

ECHOSTAR COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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ECHOSTAR ELIMINATIONS DISH TECHNOLOGIES AND OTHER, CONSOLIDATED AS RETROACTIVELY ADJUSTED (NOTE 8) NETWORK CORPORATION NET TOTAL ----- -----		
----- THREE MONTHS ENDED JUNE 30, 2000		
Revenue.....	\$ 572,786	\$ 48,045 \$ 25,298 \$
	646,129	Net income
(loss).....	(156,067)	
4,139 12,965 (138,963) THREE MONTHS ENDED JUNE 30, 2001		
Revenue.....	\$ 906,590	\$ 25,760 \$ 33,922 \$
	966,272	Net income
(loss).....	25,433	
(7,469) (23,819) (5,855) SIX MONTHS ENDED JUNE 30, 2000		
Revenue.....	\$ 1,057,234	\$ 100,514 \$ 54,102 \$
	1,211,850	Net income
(loss).....	(346,831)	
(355) 23,093 (324,093) SIX MONTHS ENDED JUNE 30, 2001		
Revenue.....	\$ 1,724,581	\$ 44,488 \$ 59,133 \$
	1,828,202	Net income
(loss).....	(199,260)	
(15,257) 38,795 (175,722)		

8. SUBSEQUENT EVENTS

DirectTV

EchoStar has had discussions with representatives of Hughes Electronics Corporation and its DirectTV subsidiary concerning the possible spin off of all or a portion of Hughes and a possible transaction between Hughes and EchoStar. Hughes and DirectTV management recently informed EchoStar that General Motors is unwilling to further consider EchoStar's proposal.

EchoStar V

EchoStar V is equipped with a total of three momentum wheels, including one spare. During July 2001, EchoStar V experienced an anomaly resulting in the loss of one momentum wheel. The satellite was quickly restored to normal operations mode. While no further momentum wheel losses are expected, until the root cause of the anomaly is finally determined, there can be no assurance future anomalies will not cause further losses which could impact commercial operation of the satellite. The extent to which the loss of an additional momentum wheel would impair commercial operation has not yet been finally determined, but terms for in-orbit insurance, if procured, could be impacted.

Series C Preferred Stock Redemption

Effective July 6, 2001, EchoStar redeemed, for cash, all of its remaining outstanding 6 3/4% Series C Cumulative Convertible Preferred Stock (the "Series C Preferred Stock") at a total redemption price of approximately \$2,400 or \$51.929 per share.

StarBand

On July 11, 2001, EchoStar announced that, subject, among other things, to customary regulatory approvals, it intends to increase its equity stake in StarBand Communications Inc. to approximately 32% and acquire four out of seven seats on the StarBand Board of Directors. In exchange, EchoStar would invest an additional \$50 million in StarBand. Further, EchoStar would lease transponder capacity to StarBand from a next generation satellite. In accordance with the agreement and subject to customary regulatory approvals, EchoStar's equity stake would increase to approximately 60% upon commencement of the construction of the next generation satellite. This investment is expected to be accounted for using the equity method of accounting, which will be retroactively applied during the

ECHOSTAR COMMUNICATIONS CORPORATION
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Retroactive Application of Equity Method of Accounting

Effective September 27, 2001, EchoStar invested an additional \$50 million in StarBand, increasing its equity interest from approximately 19% to approximately 32%. If and when construction is commenced for a next generation satellite to be allocated for StarBand's service, EchoStar's equity interest would increase to approximately 60%. EchoStar originally invested \$50 million in StarBand in April 2000. As a result of the increased equity stake, this investment is now accounted for using the equity method of accounting. As required by APB Opinion No. 18, the equity method accounting has been retroactively applied back to April 2000, the date of EchoStar's original investment in StarBand. This retroactive application resulted in an increase in previously reported net loss and basic and diluted loss per share for the three and six-month periods ended June 30, 2000 and June 30, 2001 as follows (in thousands):

	THREE MONTHS ENDED ----- 2000	SIX MONTHS ENDED ----- 2001	JUNE 30, ----- 2000	JUNE 30, ----- 2001
	(Unaudited) Net			
loss.....	\$ (6,103)	\$ (8,104)	\$ (6,103)	\$ (10,930)
	===== Basic and diluted net loss			
per common share.....	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)
	=====			

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data as of and for each of the five years ended December 31, 2000 have been derived from, and are qualified by reference to our Consolidated Financial Statements which have been audited by Arthur Andersen LLP, independent public accountants. This data should be read in conjunction with our Consolidated Financial Statements and related Notes thereto for the three years ended December 31, 2000, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

YEAR ENDED DECEMBER 31, -----	-----	-----	-----	-----
	1996	1997		
1998 1999 2000 -----				
--- (IN THOUSANDS, EXCEPT SUBSCRIBERS AND PER SHARE STATEMENTS OF OPERATIONS DATA DATA) REVENUE: DISH Network				
..... \$				
60,132 \$ 344,250 \$ 683,032 \$ 1,352,603				
\$ 2,352,237 DTH equipment sales and integration services				
.....				
78,062 91,637 256,193 184,041 259,830				
Satellite services				
..... 5,822				
11,135 22,366 41,071 61,105 Other				
.....				
54,885 30,396 21,075 25,126 42,048 ---				
----- Total revenue				
.....				
198,901 477,418 982,666 1,602,841				
2,715,220 COSTS AND EXPENSES: DISH Network operating expenses				
..... 42,456 193,274 395,411				
732,675 1,265,445 Cost of sales - DTH equipment and integration services				
..... 76,384 61,992				
173,388 148,427 194,963 Cost of sales - other				
..... 42,349				
23,909 16,496 17,084 32,992 Marketing expenses				
.....				
51,520 179,923 320,521 727,061				
1,158,640 General and administrative				
..... 52,123 69,315				
97,105 150,397 250,425 Non-cash, stock-based compensation				
..... -- --				
61,060 51,465 Depreciation and amortization				
..... 43,414				
173,276 102,636 113,228 185,356 -----				
----- Total costs and expenses				
.....				
308,246 701,689 1,105,557 1,949,932				
3,139,286 -----				

Operating loss				
.....				
(109,345) (224,271) (122,891)				
(347,091) (424,066) Extraordinary charge for early retirement of debt, net of tax				
..... -- -- --				
(268,999) -- =====				
=====				
Net loss				
.....				
\$ (100,986) \$ (312,825) \$ (260,882) \$				
(792,847) \$ (650,326) =====				
=====				
===== Net loss attributable to common shares				
..... \$ (102,190) \$				
(321,267) \$ (296,097) \$ (800,100) \$				
(651,472) =====				
=====				
Weighted-average common shares outstanding 324,384 335,344				

359,856 416,476 471,023 =====
=====
===== Basic and diluted loss
per share (1) \$ (0.32) \$
(0.96) \$ (0.82) \$ (1.92) \$ (1.38)
=====
=====

AS OF DECEMBER 31, -----

----- 1996 1997 1998
1999 2000 -----

----- BALANCE
SHEETS DATA Cash, cash
equivalents and marketable
investment securities
\$ 58,038 \$ 420,514 \$ 324,100
\$ 1,254,175 \$ 1,464,175 Cash
reserved for satellite
insurance

.....
-- -- -- -- 82,393
Restricted cash and
marketable investment
securities
79,291 187,762 77,657 3,000
3,000 Total assets

.....
1,141,380 1,805,646
1,806,852 3,898,189
4,636,835 Long-term
obligations (less current
portion): 1994 Notes

.....
437,127 499,863 571,674
1,503 -- 1996 Notes

.....
386,165 438,512 497,955
1,097 -- 1997 Notes

.....
-- 375,000 375,000 15 -- 9
1/4% Seven Year Notes

.....
375,000 375,000 9 3/8% Ten
Year Notes

-- -- -- 1,625,000 1,625,000
4 7/8% Convertible Notes

.....
1,000,000 1,000,000 10 3/8%
Seven Year Notes

.....
1,000,000 Mortgages and
other notes payable, net of
current portion 51,428

51,846 43,450 27,990 14,812
Series B Preferred Stock
..... -- 199,164

226,038 -- -- Total
stockholders' equity
(deficit) 61,197

(88,961) (371,540) (48,418)
(657,383)

million and \$51 million in non-cash, stock-based compensation expense resulting from significant post-grant appreciation of stock options granted to employees, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All statements contained herein, as well as statements made in press releases and oral statements that may be made by us or by officers, directors or employees acting on our behalf, that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause our actual results to differ materially are the following: a total or partial loss of one or more satellites due to operational failures, space debris or otherwise; delays in the construction of our seventh, eighth or ninth satellites; an unsuccessful deployment of future satellites; inability to settle outstanding claims with insurers; a decrease in sales of digital equipment and related services to international direct-to-home service providers; a decrease in DISH Network subscriber growth; an increase in subscriber turnover; an increase in subscriber acquisition costs; an inability to obtain certain retransmission consents; our inability to retain necessary authorizations from the FCC; an inability to obtain patent licenses from holders of intellectual property or redesign our products to avoid patent infringement; an increase in competition from cable as a result of digital cable or otherwise, direct broadcast satellite, other satellite system operators, and other providers of subscription television services; the introduction of new technologies and competitors into the subscription television business; a change in the regulations governing the subscription television service industry; the outcome of any litigation in which we may be involved; general business and economic conditions; and other risk factors described from time to time in our reports and statements filed with the Securities and Exchange Commission. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements that include the terms "believes," "belief," "expects," "plans," "anticipates," "intends" or the like to be uncertain and forward-looking. 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.

RESULTS OF OPERATIONS

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999.

Revenue. Total revenue for the year ended December 31, 2000 was \$2.715 billion, an increase of \$1.112 billion compared to total revenue for the year ended December 31, 1999 of \$1.603 billion. The increase in total revenue was primarily attributable to DISH Network subscriber growth. We expect that our revenues will continue to increase significantly as the number of DISH Network subscribers increases.

DISH Network subscription television services revenue totaled \$2.347 billion for the year ended December 31, 2000, an increase of \$1.003 billion compared to the same period in 1999. DISH Network subscription television services revenue principally consists of revenue from basic, premium and pay-per-view subscription television services. This increase was directly attributable to the increase in the number of DISH Network subscribers and higher average revenue per subscriber. DISH Network added approximately 1.85 million net new subscribers for the year ended December 31, 2000, an increase of approximately 26% compared to approximately 1.47 million net subscriber additions during 1999. As of December 31, 2000, we had approximately 5.26 million DISH Network subscribers compared to approximately 3.4 million at December 31, 1999, an increase of 54%. The strong subscriber growth reflects the impact of aggressive marketing promotions, including our free installation program, together with increased interest in satellite television resulting from the availability of local network channels by satellite, and positive momentum for the DISH Network. DISH Network subscription television services revenue will continue to increase to the extent we are successful in increasing the number of DISH Network subscribers and maintaining or increasing revenue per subscriber. While there can be no assurance, assuming the U.S. economy continues to grow at a slow pace, we expect to add approximately 1.5 to 2.0 million net new subscribers during 2001, and to obtain a majority of all net new DBS subscribers.

Monthly average revenue per subscriber was approximately \$45.33 during the year ended December 31, 2000 and approximately \$42.71 during the same period in 1999. The increase in monthly average revenue per subscriber is primarily attributable to a \$1.00 price increase in America's Top 100 CD, our most popular programming package, during May 2000, the increased availability of local

channels by satellite together with the earlier successful

introduction of our \$39.99 per month America's Top 150 programming package. During August 2000, we announced a promotion offering consumers free premium movie channels. Under this promotion, all new subscribers who order either our America's Top 100 CD or America's Top 150 programming package and any or all of our four premium movie packages between August 1, 2000 and January 31, 2001, received those premium movie packages free for three months. This promotion had a negative impact on monthly average revenue per subscriber since premium movie package revenue from participating subscribers was deferred until the expiration of each participating subscriber's free service. While there can be no assurance, we expect our moderate historical increases in revenue per subscriber to continue during 2001 and expect to reach monthly average revenue per subscriber of approximately \$50 by the end of December 2001.

For the year ended December 31, 2000, DTH equipment sales and integration services totaled \$260 million, an increase of \$76 million compared to the same period during 1999. DTH equipment sales consist of sales of digital set-top boxes and other digital satellite broadcasting equipment to international DTH service operators and sales of DBS accessories. This increase in DTH equipment sales and integration services revenue was primarily attributable to an increase in international demand for digital set-top boxes as compared to the same period during 1999.

A significant portion of DTH equipment sales and integration services revenues have resulted from sales to two international DTH providers. We currently have agreements to provide equipment to DTH service operators in Spain and Canada. Our future revenue from the sale of DTH equipment and integration services in international markets depends largely on the success of these DTH operators and continued demand for our digital set-top boxes. Although we continue to actively pursue additional distribution and integration service opportunities internationally, no assurance can be given that any such efforts will be successful.

As previously reported, since 1998, Telefonica's Via Digital, one of the two DTH service providers described above, has had recurrent discussions and negotiations for a possible merger with Sogetel's Canal Satellite Digital, one of its primary competitors. While we are not currently aware of any formal negotiations between Via Digital and Canal Satellite Digital, there are again rumors of a potential merger in the marketplace. Although we have binding purchase orders from Via Digital for deliveries of DTH equipment in 2001, we cannot predict the impact, if any, eventual consummation of this possible merger might have on our future sales to Via Digital.

Satellite services revenue totaled \$61 million during the year ended December 31, 2000, an increase of \$20 million as compared to the same period during 1999. These revenues principally include fees charged to content providers for signal carriage and revenues earned from business television, or BTV customers. The increase in satellite services revenue was primarily attributable to the addition of new full-time BTV customers and additional sales of idle satellite capacity to occasional-use customers. As a greater percentage of our satellite capacity is utilized during 2001 for local network channels and other programming designed to drive consumer subscriber acquisitions, satellite services revenues may decline.

In order, among other things, to commence compliance with the injunction issued against us in our pending litigation with the four major broadcast networks and their affiliate groups, we have terminated the delivery of distant network channels to certain of our subscribers. Additionally, the FCC recently issued rules which impair our ability to deliver certain superstation channels to our customers. Those rules will increase the cost of our delivery of superstations, and could require that we terminate the delivery of certain superstations to a material portion of our subscriber base. In combination, these terminations would result in a small reduction in average monthly revenue per subscriber and could increase subscriber turnover. While there can be no assurance, any such decreases could be offset by increases in average monthly revenue per subscriber resulting from the delivery of local network channels by satellite, and increases in other programming offerings.

DISH Network Operating Expenses. DISH Network operating expenses totaled \$1.265 billion during the year ended December 31, 2000, an increase of \$532 million or 73% compared to the same period in 1999. DISH Network operating expenses represented 54% and 55% of subscription television services revenue during the years ended December 31, 2000 and 1999, respectively. The increase in DISH Network operating expenses in total was consistent with, and primarily attributable to, the increase in the number of DISH Network subscribers. While there can be no assurance, we expect that our efforts to control costs and create operating efficiencies will result in a moderate decrease in operating expenses as a percentage of subscription television services revenue during

Subscriber-related expenses totaled \$970 million during the year ended December 31, 2000, an increase of \$395 million compared to the same period in 1999. Such expenses, which include programming expenses, copyright royalties, residuals currently payable to retailers and distributors, and billing, lockbox and other variable subscriber expenses, represented 41% and 43% of subscription television services revenues during the years ended December 31, 2000 and 1999, respectively. Although we do not currently expect subscriber-related expenses as a percentage of subscription television services revenue to increase materially in future periods, there can be no assurance this expense to revenue ratio will not materially increase.

Customer service center and other expenses principally consist of costs incurred in the operation of our DISH Network customer service centers, such as personnel and telephone expenses, as well as other operating expenses related to our service and installation business. Customer service center and other expenses totaled \$251 million during the year ended December 31, 2000, an increase of \$134 million as compared to the same period in 1999. The increase in customer service center and other expenses primarily resulted from increased personnel and telephone expenses to support the growth of the DISH Network and from operating expenses related to the expansion of our installation and service business. Customer service center and other expenses totaled 11% of subscription television services revenue during the year ended December 31, 2000, as compared to 9% during the same period in 1999. The increase in this expense to revenue ratio primarily resulted from the on-going construction and start-up costs of our fifth customer service center in Virginia, our sixth customer service center in West Virginia, and the continued build-out of our installation offices nationwide. These expenses in total, and as a percentage of subscription television services revenue, may continue to increase in future periods as we continue to develop and expand our customer service centers and installation business to provide additional customer support and help us better accommodate anticipated subscriber growth, resulting in long term efficiency improvements. We continue to work to automate simple phone responses, and intend to increase internet based customer assistance in the future, in order to better manage customer service costs.

Satellite and transmission expenses include expenses associated with the operation of our digital broadcast center, contracted satellite telemetry, tracking and control services, and satellite in-orbit insurance. Satellite and transmission expenses totaled \$44 million during the year ended December 31, 2000, a \$3 million increase compared to the same period in 1999. This increase resulted from higher satellite and other digital broadcast center operating expenses due to an increase in the number of operational satellites. Satellite and transmission expenses totaled 2% and 3% of subscription television services revenue during the years ended December 31, 2000 and 1999, respectively. We expect satellite and transmission expenses to continue to increase in the future as additional satellites or digital broadcast centers are placed in service, but do not expect these expenses to increase as a percentage of subscription television services revenue.

Cost of sales - DTH equipment and Integration Services. Cost of sales - DTH equipment and integration services totaled \$195 million during the year ended December 31, 2000, an increase of \$47 million compared to the same period in 1999. Cost of sales - DTH equipment and integration services principally includes costs associated with digital set-top boxes and related components sold to international DTH operators and DBS accessories. This increase in cost of sales - DTH equipment and integration services is consistent with the increase in DTH equipment sales and integration services revenue. Cost of sales - DTH equipment and integration services represented 75% and 81% of DTH equipment revenue, during the years ended December 31, 2000 and 1999, respectively. The higher margin was principally attributable to a \$16.6 million loss provision recorded during 1999 primarily for component parts and purchase commitments related to our first generation model 7100 set-top boxes, for which production was suspended in favor of our second generation model 7200 set-top boxes.

Marketing Expenses. We subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. Consequently, our subscriber acquisition costs are significant. Marketing expenses totaled \$1.159 billion during the year ended December 31, 2000, an increase of \$432 million compared to the same period in 1999. The increase in marketing expenses was primarily attributable to an increase in subscriber promotion subsidies. Subscriber promotion subsidies - promotional DTH equipment includes the cost related to EchoStar receiver systems distributed to retailers and other distributors of our equipment. Subscriber promotion subsidies - other includes net costs related to our free installation promotion and other promotional incentives. Advertising and other expenses totaled \$139 million and \$65 million during the years ended December 31, 2000 and 1999, respectively.

During the year ended December 31, 2000, our marketing promotions included our DISH Network One-Rate Plan, C-band bounty program, Great Rewards program (PrimeStar bounty), Digital Dynamite Plan, cable bounty and a free installation program. Our subscriber acquisition costs under these programs are significantly higher than those under our marketing programs historically.

Under the DISH Network One-Rate Plan, consumers were eligible to receive a rebate of up to \$199 on the purchase of certain EchoStar receiver systems. To be eligible for this rebate, a subscriber must have made a one-year commitment to subscribe to our America's Top 150 programming or our America's Top 100 CD programming package plus one premium movie package (or equivalent additional programming). This promotion expired on January 31, 2001.

Under our bounty programs, current cable customers were eligible to receive a free base-level EchoStar receiver system and free installation. To be eligible for this program, a subscriber must have made a one-year commitment to subscribe to either our America's Top 100 CD programming package plus one premium movie package (or equivalent additional programming) or our America's Top 150 programming package and prove that they are a current cable customer. This promotion expired on January 31, 2001.

During July 2000, we announced the commencement of our new Digital Dynamite promotion. The Digital Dynamite plans offer four choices to consumers, ranging from the use of one EchoStar receiver system and our America's Top 100 CD programming package for \$35.99 per month, to providing consumers two EchoStar receiver systems and our America's Top 150 programming package for \$49.99 per month. With each plan, consumers receive in-home-service, must agree to a one-year commitment and incur a one-time set-up fee of \$49.99, which includes the first month's programming payment.

During February 2001, we announced our Free Now promotion offering all new subscribers a free base-level EchoStar receiver system and free installation. To be eligible for this program, a subscriber must provide a valid major credit card and make a one-year commitment to subscribe to either our America's Top 150 programming package or our America's Top 100 CD or DISH Latino Dos programming package plus additional programming totaling at least \$39.98 per month. Although subscriber acquisition costs are materially higher under this plan compared to historical promotions, customers under this plan generally are expected to produce materially greater average revenue per subscriber than a typical DISH Network subscriber. In addition, we believe that these customers represent lower credit risk and therefore may be marginally less likely to disconnect their service than other DISH Network subscribers. To the extent that actual consumer participation levels exceed present expectations, subscriber acquisition costs may increase. Although there can be no assurance as to the ultimate duration of the Free Now promotion, we intend to continue it through at least March 2001.

Under our free installation program all customers who purchase an EchoStar receiver system from January 2000 through April 2000, from May 24, 2000 to July 31, 2000 and from September 15, 2000 to March 31, 2001, are eligible to receive a free professional installation. The free installation program was responsible, in part, for the strong subscriber growth during the first half of 2000.

We subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. There is no clear industry standard used in the calculation of subscriber acquisition costs. Our subscriber acquisition costs include subscriber promotion subsidies - promotional DTH equipment, subscriber promotion subsidies - other and DISH Network acquisition marketing expenses. During the year ended December 31, 2000, our subscriber acquisition costs totaled approximately \$1.155 billion, or approximately \$452 per new subscriber activation. Since we retain ownership of the equipment, amounts capitalized under our Digital Dynamite Plan are not included in our calculation of these subscriber acquisition costs. Comparatively, our subscriber acquisition costs during the year ended December 31, 1999 totaled \$729 million, or approximately \$385 per new subscriber activation. The increase in our subscriber acquisition expenses, on a per new subscriber activation basis, principally resulted from the impact of several marketing promotions to acquire new subscribers, including most significantly our free installation offer which was reinstated during September 2000. As a result of continuing competition and our plans to attempt to continue to drive rapid subscriber growth, we expect our per subscriber acquisition costs for 2001 will remain in a range consistent with our 2000 average of approximately \$452 per new subscriber activation.

Our subscriber acquisition costs, both in the aggregate and on a per new subscriber activation basis, may materially increase further to the extent that we continue or expand our Free Now program, or introduce other more aggressive promotions if we determine that they are necessary to respond to competition, or for other reasons.

General and Administrative Expenses. General and administrative expenses totaled \$250 million during the year ended December 31, 2000, an increase of \$100 million as compared to the same period in 1999. The increase in G&A expenses was principally attributable to increased personnel expenses to support the growth of the DISH Network. G&A expenses represented 9% of total revenue during the years ended December 31, 2000 and 1999. Although we expect G&A expenses as a percentage of total revenue to remain near the current level or decline modestly in future periods, this expense to revenue ratio could increase.

Non-cash, Stock-based Compensation. During 1999, we adopted an incentive plan which provided certain key employees with incentives including stock options. The payment of these incentives was contingent upon our achievement of certain financial and other goals. We met certain of these goals during 1999. Accordingly, during 1999, we recorded approximately \$179 million of deferred compensation related to post-grant appreciation of stock options granted pursuant to the 1999 incentive plan. The related deferred compensation will be recognized over the five-year vesting period. Accordingly, during the years ended December 31, 2000 and 1999 we recognized \$51 million and \$61 million, respectively, under this performance-based plan.

We report all non-cash compensation based on stock option appreciation as a single expense category in our accompanying statements of operations. The following table represents the other expense categories in our statements of operations that would be affected if non-cash, stock-based compensation was allocated to the same expense categories as the base compensation for key employees who participate in the 1999 incentive plan:

DECEMBER 31, 1999	2000	-----	-----
Customer service center and other.....		\$ 4,328	\$
1,744 Satellite and transmission.....			
2,308 3,061 General and administrative.....			
54,424 46,660 -----			Total non-
cash, stock-based compensation.....			
\$ 61,060	\$ 51,465	=====	=====

Pre-Marketing Cash Flow. Pre-marketing cash flow is comprised of EBITDA plus total marketing expenses. Pre-marketing cash flow was \$971 million during the year ended December 31, 2000, an increase of 75% compared to the same period in 1999. Our pre-marketing cash flow as a percentage of total revenue was 36% in 2000 compared to 35% in 1999. We believe that pre-marketing cash flow can be a useful measure of operating efficiency for companies in the DBS industry. While there can be no assurance, we expect that pre-marketing cash flow as a percentage of total revenue will continue to improve, and will approach 40% during 2001.

Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is defined as operating income (loss) plus depreciation and amortization, and non-cash, stock-based compensation. EBITDA was negative \$187 million during the year ended December 31, 2000 compared to negative \$173 million during the same period in 1999. This decline in EBITDA principally resulted from an increase in DISH Network marketing expenses primarily resulting from increased subscriber additions. Our calculation of EBITDA for the years ended December 31, 2000 and 1999 does not include approximately \$51 million and \$61 million, respectively, of non-cash compensation expense resulting from post-grant appreciation of employee stock options. While there can be no assurance, we expect to achieve positive EBITDA for the year ended December 31, 2001. As previously discussed, to the extent we expand our current marketing promotions and our subscriber acquisition costs materially increase, our EBITDA results will be negatively impacted because subscriber acquisition costs are generally expensed as incurred.

It is important to note that EBITDA and pre-marketing cash flow do not represent cash provided or used by operating activities. EBITDA and pre-marketing cash flow should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

Depreciation and Amortization. Depreciation and amortization expenses aggregated \$185 million during the year ended December 31, 2000, a \$72 million increase compared to the same period in 1999. The increase in depreciation and amortization expenses principally resulted from an increase in depreciation related to the commencement of operation of EchoStar V in November 1999 and EchoStar VI in October 2000 and other depreciable assets placed in service during 2000 and late 1999.

Other Income and Expense. Other expense, net, totaled \$226 million during the year ended December 31, 2000, an increase of \$49 million compared to the same period in 1999. This increase resulted from our equity in the loss of StarBand, as well as an increase in interest expense as a result of the issuance of our 10 3/8% Senior Notes due 2007 in September 2000. This increase in interest expense was partially offset by an increase in interest income.

Year Ended December 31, 1999 compared to the year ended December 31, 1998.

Revenue. Total revenue for the year ended December 31, 1999 was \$1.603 billion, an increase of \$620 million compared to total revenue for the year ended December 31, 1998 of \$983 million. The increase in total revenue was primarily attributable to DISH Network subscriber growth.

DISH Network subscription television services revenue totaled \$1.344 billion for the year ended December 31, 1999, an increase of \$675 million compared to the same period in 1998. This increase was directly attributable to the increase in the number of DISH Network subscribers and higher average revenue per subscriber. Average DISH Network subscribers for the year ended December 31, 1999 increased approximately 85% compared to the same period in 1998. As of December 31, 1999, we had approximately 3.4 million DISH Network subscribers compared to 1.9 million at December 31, 1998. Monthly revenue per subscriber was approximately \$42.71 during the year ended December 31, 1999 and approximated \$39.25 during the same period during 1998. DISH Network subscription television services revenue principally consists of revenue from basic, premium and pay-per-view subscription television services.

For the year ended December 31, 1999, DTH equipment sales and integration services totaled \$184 million, a decrease of \$72 million compared to the same period during 1998. DTH equipment sales consist of sales of digital set-top boxes and other digital satellite broadcasting equipment to international DTH service operators and sales of DBS accessories. This expected decrease in DTH equipment sales and integration services revenue was primarily attributable to a decrease in demand combined with a decrease in the sales price of digital set-top boxes attributable to increased competition.

Satellite services revenue totaled \$41 million during 1999, an increase of \$19 million as compared to the same period during 1998. These revenues principally include fees charged to content providers for signal carriage and revenues earned from business television, or BTV customers. The increase in satellite services revenue was primarily attributable to increased BTV revenue due to the addition of new full-time BTV customers.

DISH Network Operating Expenses. DISH Network operating expenses totaled \$733 million during 1999, an increase of \$338 million or 85%, compared to the same period in 1998. The increase in DISH Network operating expenses was consistent with, and primarily attributable to, the increase in the number of DISH Network subscribers. DISH Network operating expenses represented 55% and 59% of subscription television services revenue during the years ended December 31, 1999 and 1998, respectively.

Subscriber-related expenses totaled \$575 million during 1999, an increase of \$278 million compared to the same period in 1998. Such expenses, which include programming expenses, copyright royalties, residuals payable to retailers and distributors, and billing, lockbox and other variable subscriber expenses, represented 43% of subscription television services revenues during the year ended December 31, 1999 compared to 44% during the same period in 1998.

Customer service center and other expenses principally consist of costs incurred in the operation of our DISH Network customer service centers, such as personnel and telephone expenses, as well as subscriber equipment installation and other operating expenses. Customer service center and other expenses totaled \$117 million during 1999, an increase of \$45 million as compared to the same period in 1998. The increase in customer service center

and other expenses resulted from increased personnel and telephone expenses to support the growth of the DISH Network. Customer service center and other expenses totaled 9% of subscription television services revenue during 1999, as compared to 11% during the same period in 1998.

Satellite and transmission expenses include expenses associated with the operation of our digital broadcast center, contracted satellite telemetry, tracking and control services, and satellite in-orbit insurance. Satellite and transmission expenses totaled \$41 million during 1999, a \$15 million increase compared to the same period in 1998. This increase resulted from higher satellite and other digital broadcast center operating expenses due to an increase in the number of operational satellites. Satellite and transmission expenses totaled 3% and 4% of subscription television services revenue during the year ended December 31, 1999 and 1998, respectively.

Cost of sales - DTH equipment and Integration Services. Cost of sales - DTH equipment and integration services totaled \$148 million during 1999, a decrease of \$25 million compared to the same period in 1998. Cost of sales - DTH equipment and integration services principally includes costs associated with digital set-top boxes and related components sold to international DTH operators and DBS accessories. Cost of sales - DTH equipment and integration services represented 81% and 68% of DTH equipment revenue, during the years ended December 31, 1999 and 1998, respectively. The lower margin was principally attributable to a \$16.6 million loss provision primarily for component parts and purchase commitments related to our first generation model 7100 set-top boxes, for which production has been suspended in favor of our second generation model 7200 set-top boxes. The write-off partially offset the expected decrease in cost of sales - DTH equipment and integration services attributable to a decrease in demand combined with increased competition.

Marketing Expenses. Marketing expenses totaled \$727 million during 1999, an increase of \$406 million compared to the same period in 1998. The increase in marketing expenses was primarily attributable to an increase in subscriber promotion subsidies. Subscriber promotion subsidies - promotional DTH equipment includes the cost related to EchoStar receiver systems distributed to retailers and other distributors of our equipment. Subscriber promotion subsidies - other includes net costs related to our free installation promotion and other promotional incentives. Advertising and other expenses totaled \$65 million and \$48 million during the years ended December 31, 1999 and 1998, respectively.

During 1999, our total subscriber acquisition costs, inclusive of acquisition marketing expenses, totaled approximately \$729 million, or approximately \$385 per new subscriber activation. Comparatively, our subscriber acquisition costs during the year ended December 31, 1998, inclusive of acquisition marketing expenses and deferred subscriber acquisition costs, totaled \$317 million, or approximately \$285 per new subscriber activation. The increase in our subscriber acquisition costs, on a per new subscriber activation basis, principally resulted from the introduction of several aggressive marketing promotions to acquire new subscribers.

General and Administrative Expenses. General and administrative expenses totaled \$150 million during 1999, an increase of \$53 million as compared to the same period in 1998. The increase in G&A expenses was principally attributable to increased personnel expenses to support the growth of the DISH Network. G&A expenses as a percentage of total revenue increased to 9% during the year ended December 31, 1999 compared to 10% during the same period in 1998.

Non-cash, Stock-based Compensation. During 1999, we adopted an incentive plan which provided certain key employees with incentives including stock options. The payment of these incentives was contingent upon our achievement of certain financial and other goals. We met certain of these goals during 1999. Accordingly, during 1999, we recorded approximately \$179 million of deferred compensation related to post-grant appreciation of stock options granted pursuant to the 1999 incentive plan. The related deferred compensation will be recognized over the five-year period. Accordingly, during the year ended December 31, 1999 we recognized \$61 million under this performance-based plan.

Pre-Marketing Cash Flow. Pre-marketing cash flow is comprised of EBITDA plus total marketing expenses. Pre-marketing cash flow was \$554 million during the year ended December 31, 1999, an increase of 85% compared to the same period in 1998. Our pre-marketing cash flow as a percentage of total revenue was 35% in 1999 compared to 31% in 1998. We believe that pre-marketing cash flow can be a useful measure of operating efficiency for companies in the DBS industry.

Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is defined as operating income (loss) plus depreciation and amortization, and non-cash, stock-based compensation. EBITDA was negative \$173 million during the year ended December 31, 1999 compared to negative \$20 million during the same period in 1998. EBITDA, as adjusted to exclude amortization of subscriber acquisition costs, was negative \$173 million for the year ended December 31, 1999 compared to negative \$39 million for the same period in 1998. This decline in EBITDA principally resulted from an increase in DISH Network operating and marketing expenses. Our calculation of EBITDA for the year ended December 31, 1999 does not include approximately \$61 million of non-cash compensation expense resulting from post-grant appreciation of stock options granted to employees.

It is important to note that EBITDA and pre-marketing cash flow do not represent cash provided or used by operating activities. EBITDA and pre-marketing cash flow should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

Depreciation and Amortization. Depreciation and amortization expenses aggregated \$113 million during 1999, a \$10 million increase compared to the same period in 1998, during which subscriber acquisition costs were amortized. Commencing October 1997, we instead expensed all of these costs at the time of sale. The increase in depreciation and amortization expenses principally resulted from an increase in depreciation related to the commencement of operation of EchoStar IV in August of 1998, the commencement of operation of EchoStar V in November 1999 and other depreciable assets placed in service during 1999, partially offset by subscriber acquisition costs becoming fully amortized during the third quarter of 1998.

Other Income and Expense. Other expense, net totaled \$177 million during 1999, an increase of \$39 million compared to the same period in 1998. This increase resulted from an increase in interest expense. In January 1999, we refinanced our outstanding 12 1/2% Senior Secured Notes due 2002 issued in June 1997, our 12 7/8% Senior Secured Discount Notes due 2004 issued in 1994, and our 13 1/8% Senior Secured Discount Notes due 2004 issued in 1996 at more favorable interest rates and terms. In connection with the refinancing, we consummated an offering of 9 1/4% Senior Notes due 2006 and 9 3/8% Senior Notes due 2009, referred to herein as the 9 1/4% Seven Year Notes and 9 3/8% Ten Year Notes. Although the 9 1/4% Seven Year Notes and 9 3/8% Ten Year Notes have lower interest rates than the debt securities we repurchased, interest expense increased by approximately \$34 million because we raised additional debt to cover tender premiums and consent and other fees related to the refinancing.

Extraordinary Charge for Early Retirement of Debt. In connection with the January 1999 refinancing, we recognized an extraordinary loss of \$269 million comprised of debt costs, discounts, tender costs, and premiums paid over the accreted values of the debt retired.

LIQUIDITY AND CAPITAL RESOURCES

Cash Sources

Since inception, we have financed the development of our EchoStar DBS system and the related commercial introduction of the DISH Network service primarily through the sale of equity and debt securities and cash from operations. From May 1994 through December 31, 2000, we have raised total gross cash proceeds of approximately \$249 million from the sale of our equity securities and as of December 31, 2000, we had approximately \$4.0 billion of outstanding long-term debt (including current portion).

On September 25, 2000, our wholly-owned subsidiary, EchoStar Broadband Corporation, sold \$1 billion principal amount of 10 3/8% Senior Notes due 2007. The proceeds of these notes will be used primarily by our subsidiaries for the construction and launch of additional satellites, strategic acquisitions and other general working capital purposes.

As of December 31, 2000, our unrestricted cash, cash equivalents and marketable investment securities totaled \$1.464 billion compared to \$1.254 billion as of December 31, 1999. For the years ended December 31, 2000, 1999 and 1998, we reported net cash flows from operating activities of negative \$119 million, negative \$59 million and negative \$17 million, respectively. The increase in net cash flow used in operating activities reflects, among other things, the

significant increase in subscriber acquisition costs associated with our rapid subscriber growth and our "free installation" promotion.

We expect that our future working capital, capital expenditure and debt service requirements will be satisfied primarily from existing cash and investment balances and cash generated from operations. Our ability to generate positive future operating and net cash flows is dependent upon our ability to continue to expand our DISH Network subscriber base, retain existing DISH Network subscribers, and our ability to grow our ETC and Satellite Services businesses. There can be no assurance that we will be successful in achieving our goals. The amount of capital required to fund our 2001 working capital and capital expenditure needs will vary, depending, among other things, on the rate at which we acquire new subscribers and the cost of subscriber acquisition. Our working capital and capital expenditure requirements could increase materially in the event of increased competition for subscription television customers, significant satellite failures, or in the event of a general economic downturn, among other factors. These factors could require that we raise additional capital in the future.

Subscriber Turnover

Our churn for the year ended December 31, 2000 was consistent with our churn for the same period in 1999. We believe that our percentage churn continues to be lower than satellite and cable industry averages. While we have successfully managed churn within a narrow range historically, our maturing subscriber base, a slowing economy, the effects of rapid growth, bounty programs offered by competitors and other factors could cause future increases in churn. Further, impacts from our litigation with the networks in Miami, new FCC rules governing the delivery of superstations and other factors, could cause us to terminate delivery of distant network channels and superstations to a material portion of our subscriber base, which could cause many of those customers to cancel their subscription to our other services. Any such terminations could result in a small reduction in average monthly revenue per subscriber and could result in increased churn. While there can be no assurance, notwithstanding the issues discussed above we have and expect to be able to continue to manage churn below industry averages during 2001.

Subscriber Acquisition Costs

As previously described, we subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. Our average subscriber acquisition costs were \$452 per new subscriber activation during the year ended December 31, 2000. Since we retain ownership of the equipment, amounts capitalized under our Digital Dynamite Plan are not included in our calculation of these subscriber acquisition costs. As a result of continuing competition and our plans to attempt to continue to drive rapid subscriber growth, we expect our per subscriber acquisition costs for 2001 will remain in a range consistent with our 2000 average of approximately \$452 per new subscriber activation. Our subscriber acquisition costs, both in the aggregate and on a per new subscriber activation basis, may materially increase to the extent that we continue or expand our Free Now promotion, or introduce other more aggressive promotions if we determine that they are necessary to respond to competition, or for other reasons.

Funds necessary to meet subscriber acquisition costs will be satisfied from existing cash and investment balances to the extent available. We may, however, be required to raise additional capital in the future to meet these requirements. If we were required to raise capital today, a variety of debt and equity funding sources would likely be available to us. However, there can be no assurance that additional financing will be available on acceptable terms, or at all, if needed in the future.

Digital Dynamite

During July 2000, we announced the commencement of our new Digital Dynamite promotion. The Digital Dynamite plans offer four choices to consumers, ranging from the use of one EchoStar receiver system and our America's Top 100 CD programming package for \$35.99 per month, to providing consumers two EchoStar receiver systems and our America's Top 150 programming package for \$49.99 per month. With each plan, consumers receive in-home-service, must agree to a one-year commitment and incur a one-time set-up fee of \$49.99, which includes the first month's programming payment. Our Digital Dynamite promotion allows us to capitalize and depreciate over 4 years equipment costs that would otherwise be expensed at the time of sale, but also results in increased capital

expenditures. Capital expenditures under our Digital Dynamite promotion totaled approximately \$65.4 million for the year ended December 31, 2000.

Conditional Access System

The access control system is central to the security network that prevents unauthorized viewing of programming. Theft of cable and satellite programming has been widely reported and our signal encryption has been pirated and could be further compromised in the future. If other measures are not successful, it could be necessary to replace the credit card size card that controls the security of each consumer set top box at a material cost to us.

Intellectual Property

Many entities, including some of our competitors, now have and may in the future obtain patents and other intellectual property rights that cover or affect products or services directly or indirectly related to those that we offer. In general, if a court determines that one or more of our products infringes on intellectual property held by others, we would be required to cease developing or marketing those products, to obtain licenses to develop and market those products from the holders of the intellectual property, or to redesign those products in such a way as to avoid infringing the patent claims. Various parties have asserted patent and other intellectual property rights with respect to components within our direct broadcast satellite system. Certain of these parties have filed suit against us, including Starsight, Superguide, and IPPV Enterprises, as previously described. We cannot be certain that these persons do not own the rights they claim, that our products do not infringe on these rights, that we would be able to obtain licenses from these persons on commercially reasonable terms or, if we were unable to obtain such licenses, that we would be able to redesign our products to avoid infringement.

Obligations and Future Capital Requirements

Semi-annual cash debt service of approximately \$94 million related to our 9 1/4% Senior Notes due 2006 (Seven Year Notes) and our 9 3/8% Senior Notes due 2009 (Ten Year Notes), is payable in arrears on February 1 and August 1 each year. Semi-annual cash debt service requirements of approximately \$24 million related to our 4 7/8% Convertible Subordinated Notes due 2007 is payable in arrears on January 1 and July 1 of each year, commencing July 1, 2000. Semi-annual cash debt service of approximately \$52 million related to our 10 3/8% Senior Notes due 2007 is payable in arrears on April 1 and October 1 of each year, commencing April 1, 2001. There are no scheduled principal payment or sinking fund requirements prior to maturity of any of these notes.

The indentures related to our 9 1/4% Senior Notes due 2006 (the "Seven Year Notes") and our 9 3/8% Senior Notes due 2009 (the "Ten Year Notes") (collectively, the "Seven and Ten Year Notes Indentures") contain restrictive covenants that require us to maintain satellite insurance with respect to at least half of the satellites we own. Insurance coverage is therefore required for at least three of our six satellites currently in orbit. We have procured normal and customary launch insurance for EchoStar VI. This launch insurance policy provides for insurance of \$225.0 million. The EchoStar VI launch insurance policy expires in July 2001. We are currently self-insuring EchoStar I, EchoStar II, EchoStar III, EchoStar IV and EchoStar V. During 2000, to satisfy insurance covenants related to the outstanding EchoStar DBS senior notes, we reclassified the depreciated cost of two of our satellites from cash and cash equivalents to cash reserved for satellite insurance on our balance sheet. As of December 31, 2000, cash reserved for satellite insurance totaled approximately \$82 million. The reclassifications will continue until such time, if ever, as the insurers are again willing to insure our satellites on commercially reasonable terms.

We utilized \$91 million of satellite vendor financing for our first four satellites. As of December 31, 2000, approximately \$25 million of that satellite vendor financing remained outstanding. The satellite vendor financing bears interest at 8 1/4% and is payable in equal monthly installments over five years following launch of the satellite to which it relates. A portion of the contract price with respect to EchoStar VII is payable over a period of 13 years following launch with interest at 8%, and a portion of the contract price with respect to EchoStar VIII and EchoStar IX is payable following launch with interest at 8%. Those in orbit payments are contingent on the continued health of the satellite.

Dividends on our 6 3/4% Series C Cumulative Convertible Preferred Stock began to accrue on November 2, 1999. Holders of the Series C Preferred Stock are entitled to receive cumulative dividends at an annual rate of 6 3/4% of the Liquidation Preference of \$50 per share. Dividends are payable quarterly in arrears, commencing February 1, 2000, when, as, and if declared by our Board of Directors. All accumulated and unpaid dividends may, at our option, be paid in cash, Class A common stock, or a combination thereof upon conversion or redemption.

During 2001, we anticipate total capital expenditures of between \$600-\$900 million depending upon the strength of the economy and other factors. We expect approximately 40% of that amount to be utilized for satellite construction and approximately 60% for EchoStar receiver systems in connection with our Digital Dynamite Plan and for general corporate expansion. Our anticipated capital expenditures related to the Digital Dynamite promotion may materially increase to the extent this promotion is successful and to the extent that we continue or expand our Digital Dynamite promotion.

In addition to our DBS business plan, we have licenses, or applications pending with the FCC, for a two satellite FSS Ku-band satellite system, a two satellite FSS Ka-band satellite system, and a proposed modification thereof and a 6-satellite Low Earth Orbit Mobile system. We will need to raise additional capital to fully construct these satellites. During February 2000, we announced agreements for the construction and delivery of three new satellites. Two of these satellites, EchoStar VII and EchoStar VIII, will be advanced, high-powered DBS satellites. The third satellite, EchoStar IX, will be a hybrid Ku/Ka-band satellite.

During November 2000, one of our wholly owned subsidiaries purchased a 49.9% interest in VisionStar, Inc. VisionStar holds an FCC license, and is constructing a Ka-band satellite, to launch into the 113 W.L. orbital slot. Together with VisionStar we have requested FCC approval to acquire control over VisionStar by increasing our ownership of VisionStar to 90%, for a total purchase price of approximately \$2.8 million. We have also provided loans to VisionStar totaling less than \$10 million to date for the construction of their satellite and expect to provide additional funding to VisionStar in the future. We are not obligated to finance the full remaining cost to construct and launch the VisionStar satellite, but VisionStar's FCC license currently requires construction of the satellite to be completed by April 30, 2002 or the license could be revoked. We currently expect to continue to fund loans and equity contributions for construction of the satellite in the near term from cash on hand, and expect that we may spend approximately \$79.5 million during 2001 for that purpose subject to, among other things, FCC action. In the future we may fund construction, launch and insurance of the satellite through cash from operations, public or private debt or equity financing, joint ventures with others, or from other sources.

We expect that our future working capital, capital expenditure and debt service requirements will be satisfied from existing cash and investment balances, and cash generated from operations. Our ability to generate positive future operating and net cash flows is dependent, among other things, upon our ability to retain existing DISH Network subscribers, our ability to manage the growth of our subscriber base, and our ability to grow our ETC and Satellite Services businesses. During 2000, subscriber growth was strong. To the extent future subscriber growth exceeds our expectations, it may be necessary for us to raise additional capital to fund increased working capital requirements. There may be a number of other factors, some of which are beyond our control or ability to predict, that could require us to raise additional capital. These factors include unexpected increases in operating costs and expenses, a defect in or the loss of any satellite, or an increase in the cost of acquiring subscribers due to additional competition, among other things. If cash generated from our operations is not sufficient to meet our debt service requirements or other obligations, we would be required to obtain cash from other financing sources. If we were required to raise capital today a variety of debt and equity funding sources would likely be available to us. However, there can be no assurance that such financing would be available on terms acceptable to us, or if available, that the proceeds of such financing would be sufficient to enable us to meet all of our obligations.

EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 or SAB 101, "Views on Selected Revenue Recognition Issues." SAB 101 provides guidance on applying generally accepted accounting principles to selected revenue recognition issues. The provisions of SAB 101 and certain related EITF consensuses were required to be adopted in the quarter ended December 31, 2000 retroactive to January 1, 2000, with any cumulative

effect as of January 1, 2000 reported as the cumulative effect of a change in accounting principle. Our adoption of SAB 101 resulted in no recognition of a cumulative effect of a change in accounting principle.

SEASONALITY

Our revenues vary throughout the year. As is typical in the subscription television service industry, our first half of the year generally produces lower new subscriber revenues than the second half of the year. Our operating results in any period may be affected by the incurrence of advertising and promotion expenses that do not necessarily produce commensurate revenues in the short-term until the impact of such advertising and promotion is realized in future periods.

INFLATION

Inflation has not materially affected our operations during the past three years. We believe that our ability to increase the prices charged for our products and services in future periods will depend primarily on competitive pressures. We do not have any material backlog of our products.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

As of December 31, 2000, our unrestricted cash, cash equivalents and marketable investment securities had a fair value of \$1.464 billion. Of that amount, a total of \$1.374 billion was invested in: (a) cash; (b) debt instruments of the U.S. Government and its agencies; (c) commercial paper with an average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; and (d) instruments with similar risk characteristics to the commercial paper described above. The primary purpose of these investing activities has been to preserve principal until the cash is required to fund operations. Consequently, the size of this portfolio fluctuates significantly as cash is raised and used in our business.

The value of certain of the investments in this portfolio can be impacted by, among other things, the risk of adverse changes in securities and economic markets generally, as well as the risks related to the performance of the companies whose commercial paper and other instruments we hold. However, the high quality of these investments (as assessed by independent rating agencies), reduces these risks. The value of these investments can also be impacted by interest rate fluctuations. At December 31, 2000, all of our investments in this category were in fixed rate instruments or money market type accounts. While an increase in interest rates would ordinarily adversely impact the fair value of fixed rate investments, we normally hold these investments to maturity. Consequently, neither interest rate fluctuations nor other market risks typically result in significant gains or losses to this portfolio. A decrease in interest rates has the effect of reducing our future annual interest income from this portfolio, since funds would be re-invested at lower rates as the instruments mature. Over time, any net percentage decrease in interest rates could be reflected in a corresponding net percentage decrease in our interest income. During 1999 and 2000, the impact of interest rate fluctuations, changed business prospects and all other factors did not have a material impact on the fair value of the portfolio, or on our income derived from this portfolio.

We also invest in debt and equity of public and private companies for strategic business purposes. We had strategic debt and equity investments totaling approximately \$3.9 million at December 31, 1999. As of December 31, 2000, we held strategic debt and equity investments with a fair value of approximately \$90 million. We acquired stock in one of those companies, OpenTV, in connection with establishment of a strategic relationship which did not involve the investment of cash by us. None of these investments accounted for more than 40% of the total fair value of the portfolio. We may make additional strategic investments in other debt and equity securities in the future.

The fair value of our strategic debt investments can be impacted by interest rate fluctuations. Absent the effect of other factors, a hypothetical 10% increase in LIBOR would result in a decrease in the fair value of our investments in these debt instruments of approximately \$2 million. The fair value of our strategic debt and equity investments can also be significantly impacted by the risk of adverse changes in securities markets generally, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair market value due to the volatility of the securities markets and of the underlying businesses. A hypothetical 30% adverse change in the price of our public strategic debt and equity investments would result in approximately a \$9 million decrease in the fair value of that portfolio.

In addition to the \$1.464 billion, we have made strategic equity investments in Wildblue Communications, StarBand Communications, VisionStar, Inc. and Replay TV totaling approximately \$110 million. The securities of these companies are not publicly traded. StarBand recently announced that it was canceling its planned initial public stock offering. Our ability to create realizable value for our strategic investments in companies that are not public is dependent on the success of their business plans. Among other things, there is relatively greater risk that those companies may not be able to raise sufficient capital to fully finance their business plans. Since 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 that we will be able to obtain full value for them.

We currently have accumulated net unrealized losses on certain of our investments as disclosed on our accompanying balance sheets. There can be no assurance that the accumulated net unrealized losses will not increase or that some or all of these losses will not have to be recorded as charges to earnings in future periods. We have not used derivative financial instruments for speculative purposes. We have not hedged or otherwise protected against the risks associated with any of our investing or financing activities.

As of December 31, 2000, we estimated the fair value of our fixed-rate debt and mortgages and other notes payable to be approximately \$3.7 billion using quoted market prices where available, or discounted cash flow analyses. The fair value of our fixed rate debt and mortgages 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 \$196 million. To the extent interest rates increase, our costs of financing would increase at such time as we are required to refinance our debt.

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

All statements contained herein, as well as statements made in press releases and oral statements that may be made by us or by officers, directors or employees acting on our behalf, that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause our actual results to differ materially are the following: a total or partial loss of one or more satellites due to operational failures, space debris or otherwise; delays in the construction of our seventh, eighth or ninth satellites; an unsuccessful deployment of future satellites; inability to settle outstanding claims with insurers; a decrease in sales of digital equipment and related services to international direct-to-home service providers; a decrease in DISH Network subscriber growth; an increase in subscriber turnover; an increase in subscriber acquisition costs; an inability to obtain certain retransmission consents; our inability to retain necessary authorizations from the FCC; an inability to obtain patent licenses from holders of intellectual property or redesign our products to avoid patent infringement; an increase in competition from cable as a result of digital cable or otherwise, direct broadcast satellite, other satellite system operators, and other providers of subscription television services; the introduction of new technologies and competitors into the subscription television business; a change in the regulations governing the subscription television service industry; the outcome of any litigation in which we may be involved; general business and economic conditions; and other risk factors described from time to time in our reports and statements filed with the Securities and Exchange Commission. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements that include the terms "believes," "belief," "expects," "plans," "anticipates," "intends" or the like to be uncertain and forward-looking. 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.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2001 Compared to the Three Months Ended March 31, 2000.

Revenue. Total revenue for the three months ended March 31, 2001 was \$862 million, an increase of \$296 million compared to total revenue for the three months ended March 31, 2000 of \$566 million. The increase in total revenue was primarily attributable to DISH Network subscriber growth. We expect that our revenues will continue to increase significantly as the number of DISH Network subscribers increases.

DISH Network subscription television services revenue totaled \$794 million for the three months ended March 31, 2001, an increase of \$317 million compared to the same period in 2000. DISH Network subscription television services revenue principally consists of revenue from basic, premium and pay-per-view subscription television services. This increase was directly attributable to the increase in the number of DISH Network subscribers and higher average revenue per subscriber. DISH Network added approximately 460,000 net new subscribers for the three months ended March 31, 2001 compared to approximately 455,000 net subscriber additions during the same period in 2000. As of March 31, 2001, we had approximately 5.7 million DISH Network subscribers compared to approximately 3.9 million at March 31, 2000, an increase of approximately 48%. The subscriber growth reflects the impact of aggressive marketing promotions, including our free installation program, together with increased interest in satellite television resulting from the availability of local network channels by satellite. DISH Network subscription television services revenue will continue to increase to the extent we are successful in increasing the number of DISH Network subscribers and maintaining or increasing revenue per subscriber. While there can be no assurance, assuming the U.S. economy continues to grow at a slow pace, we expect to add approximately 1.5 to 2.0 million net new subscribers during 2001, and to obtain a majority of all net new DBS subscribers.

Monthly average revenue per subscriber was approximately \$48.23 during the three months ended March 31, 2001 and approximately \$43.85 during the same period in 2000. The increase in monthly average revenue

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

per subscriber is primarily attributable to a \$1.00 price increase in America's Top 100 CD, our most popular programming package, during both May 2000 and February 2001, the increased availability of local channels by satellite, the successful introduction of our \$39.99 per month America's Top 150 programming package during April 2000 together with an increase in subscriber penetration in our higher priced Digital Home Plans. While there can be no assurance, we expect our moderate historical increases in revenue per subscriber to continue during 2001 and expect to reach monthly average revenue per subscriber of approximately \$50 by the end of December 2001.

For the three months ended March 31, 2001, DTH equipment sales and integration services totaled \$41 million, a decrease of \$22 million compared to the same period during 2000. DTH equipment sales consist of sales of digital set-top boxes and other digital satellite broadcasting equipment to international DTH service operators and sales of DBS accessories. This decrease in DTH equipment sales and integration services revenue was primarily attributable to a decrease in international demand for digital set-top boxes as compared to the same period during 2000.

A significant portion of DTH equipment sales and integration services revenues have resulted from sales to two international DTH providers. We currently have agreements to provide equipment to DTH service operators in Spain and Canada. Our future revenue from the sale of DTH equipment and integration services in international markets depends largely on the success of these DTH operators and continued demand for our digital set-top boxes. While we have binding purchase orders from both providers for 2001, we expect overall demand for 2001 to be lower than the same period in 2000. As a result, we expect total DTH equipment sales and integration services revenue to decrease in 2001 compared to 2000. Although we continue to actively pursue additional distribution and integration service opportunities internationally, no assurance can be given that any such efforts will be successful.

In order, among other things, to commence compliance with the injunction issued against us in our pending litigation with the four major broadcast networks and their affiliate groups, we have terminated the delivery of distant network channels to certain of our subscribers. Additionally, during 2000, the FCC issued rules which impair our ability to deliver certain superstation channels to our customers. Those rules will increase the cost of our delivery of superstations, and could require that we terminate the delivery of certain superstations to a material portion of our subscriber base. In combination, these terminations would result in a small reduction in average monthly revenue per subscriber and could increase subscriber turnover. While there can be no assurance, any such decreases could be offset by increases in average monthly revenue per subscriber resulting from the delivery of local network channels by satellite, and increases in other programming offerings.

DISH Network Operating Expenses. DISH Network operating expenses totaled \$390 million during the three months ended March 31, 2001, an increase of \$120 million or 44% compared to the same period in 2000. DISH Network operating expenses represented 49% and 57% of subscription television services revenue during the three months ended March 31, 2001 and 2000, respectively. The increase in DISH Network operating expenses in total was consistent with, and primarily attributable to, the increase in the number of DISH Network subscribers. We expect to continue to control costs and create operating efficiencies. While there can be no assurance, we expect operating expenses as a percentage of subscription television services revenue to remain near current levels during the remainder of 2001.

Subscriber-related expenses totaled \$316 million during the three months ended March 31, 2001, an increase of \$114 million compared to the same period in 2000. Such expenses, which include programming expenses, copyright royalties, residuals currently payable to retailers and distributors, and billing, lockbox and other variable subscriber expenses, represented 40% and 42% of subscription television services revenues during the three months ended March 31, 2001 and 2000, respectively. Although we do not currently expect subscriber-related expenses as a percentage of subscription television services revenue to increase materially in future periods, there can be no assurance this expense to revenue ratio will not materially increase.

Customer service center and other expenses principally consist of costs incurred in the operation of our DISH Network customer service centers, such as personnel and telephone expenses, as well as other operating expenses related to our service and installation business. Customer service center and other expenses totaled \$65 million during the three months ended March 31, 2001, an increase of \$9 million as compared to the same period in 2000. The

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

increase in customer service center and other expenses primarily resulted from increased personnel and telephone expenses to support the growth of the DISH Network and from operating expenses related to the expansion of our installation and service business. Customer service center and other expenses totaled 8% of subscription television services revenue during the three months ended March 31, 2001, as compared to 12% during the same period in 2000. The decrease in this expense to revenue ratio primarily resulted from the on-going construction and start-up costs of our fifth customer service center in Virginia and our sixth customer service center in West Virginia during 2000. While there can be no assurance, we expect these expenses in total, and as a percentage of subscription television services revenue, to remain near current levels during the remainder of 2001. We continue to work to automate simple phone responses, and intend to increase internet based customer assistance in the future, in order to better manage customer service costs.

Satellite and transmission expenses include expenses associated with the operation of our digital broadcast center, contracted satellite telemetry, tracking and control services, and commercial satellite in-orbit insurance premiums. Satellite and transmission expenses totaled \$9 million during the three months ended March 31, 2001, a \$3 million decrease compared to the same period in 2000. This decrease resulted from the expiration of the commercial in-orbit satellite insurance policies for EchoStar I, EchoStar II and EchoStar III during July 2000. As discussed below, we are currently self-insuring these satellites. Satellite and transmission expenses totaled 1% and 3% of subscription television services revenue during the three months ended March 31, 2001 and 2000, respectively. We expect satellite and transmission expenses in total and as a percentage of subscription television services revenue, to increase in the future as additional satellites or digital broadcast centers are placed in service and to the extent we successfully renegotiate commercial in-orbit insurance.

Cost of sales - DTH equipment and Integration Services. Cost of sales - DTH equipment and integration services totaled \$29 million during the three months ended March 31, 2001, a decrease of \$17 million compared to the same period in 2000. Cost of sales - DTH equipment and integration services principally includes costs associated with digital set-top boxes and related components sold to international DTH operators and DBS accessories. This decrease in cost of sales - DTH equipment and integration services is consistent with the decrease in DTH equipment sales and integration services revenue. Cost of sales - DTH equipment and integration services represented 70% and 74% of DTH equipment revenue, during the three months ended March 31, 2001 and 2000, respectively.

Marketing Expenses. We subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. Consequently, our subscriber acquisition costs are significant. Marketing expenses totaled \$300 million during the three months ended March 31, 2001, an increase of \$27 million compared to the same period in 2000. The increase in marketing expenses was primarily attributable to an increase in subscriber promotion subsidies. Subscriber promotion subsidies - promotional DTH equipment includes the cost related to EchoStar receiver systems distributed to retailers and other distributors of our equipment. Subscriber promotion subsidies - other includes net costs related to our free installation promotion and other promotional incentives. Advertising and other expenses totaled \$27 million and \$23 million during the three months ended March 31, 2001 and 2000, respectively.

During the three months ended March 31, 2001, our marketing promotions included our Digital Home Plan, Free Now and a free installation program. Our subscriber acquisition costs under these programs are significantly higher than those under our marketing programs historically.

During July 2000, we announced the commencement of our new Digital Dynamite promotion. This promotion was re-named the Digital Home Plan effective February 1, 2001. The Digital Home Plan offers four choices to consumers, ranging from the use of one EchoStar receiver system and our America's Top 100 CD programming package for \$35.99 per month, to providing consumers two EchoStar receiver systems and our America's Top 150 programming package for \$49.99 per month. With each plan, consumers receive in-home-service, must agree to a one-year commitment and incur a one-time set-up fee of \$49.99, which includes the first month's programming payment.

During February 2001, we announced our Free Now promotion offering all new subscribers a free base-level EchoStar receiver system and free installation. To be eligible for this program, a subscriber must provide a valid

major credit card and make a one-year commitment to subscribe to either our America's Top 150 programming package or

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

our America's Top 100 CD or DISH Latino Dos programming package plus additional programming totaling at least \$39.98 per month. Subscriber acquisition costs are materially higher under this plan compared to historical promotions. To the extent that actual consumer participation levels exceed present expectations, subscriber acquisition costs may increase. Although there can be no assurance as to the ultimate duration of the Free Now promotion, we intend to continue it through at least May 2001.

We subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. There is no clear industry standard used in the calculation of subscriber acquisition costs. Our subscriber acquisition costs include subscriber promotion subsidies - promotional DTH equipment, subscriber promotion subsidies - other and DISH Network acquisition marketing expenses. During the three months ended March 31, 2001, our subscriber acquisition costs totaled approximately \$297 million, or approximately \$432 per new subscriber activation. Since we retain ownership of the equipment, amounts capitalized under our Digital Home Plan are not included in our calculation of these subscriber acquisition costs. Comparatively, our subscriber acquisition costs during the three months ended March 31, 2000, prior to the introduction of our Digital Home Plan, totaled \$273 million, or approximately \$467 per new subscriber activation. The increase in our total subscriber acquisition expenses principally resulted from strong DISH Network subscriber growth during the three months ended March 31, 2001. As a result of continuing competition and our plans to attempt to continue to drive rapid subscriber growth, we expect our per subscriber acquisition costs for 2001 will remain in a range consistent with our 2000 average of approximately \$452 per new subscriber activation.

Our subscriber acquisition costs, both in the aggregate and on a per new subscriber activation basis, may materially increase further to the extent that we continue or expand our Free Now program, or introduce other more aggressive promotions if we determine that they are necessary to respond to competition, or for other reasons.

General and Administrative Expenses. General and administrative expenses totaled \$76 million during the three months ended March 31, 2001, an increase of \$20 million as compared to the same period in 2000. The increase in G&A expenses was principally attributable to increased personnel expenses to support the growth of the DISH Network. G&A expenses represented 9% and 10% of total revenue during the three months ended March 31, 2001 and 2000, respectively. Although we expect G&A expenses as a percentage of total revenue to remain near the current level or decline modestly in future periods, this expense to revenue ratio could increase.

Non-cash, Stock-based Compensation. During 1999, we adopted an incentive plan which provided certain key employees with incentives including stock options. The payment of these incentives was contingent upon our achievement of certain financial and other goals. We met certain of these goals during 1999. Accordingly, during 1999, we recorded approximately \$179 million of deferred compensation related to post-grant appreciation of stock options granted pursuant to the 1999 incentive plan. The related deferred compensation will be recognized over the five-year vesting period. Accordingly, during the three months ended March 31, 2001 and 2000 we recognized \$7 million and \$14 million, respectively, under this performance-based plan.

We report all non-cash compensation based on stock option appreciation as a single expense category in our accompanying statements of operations. The following table represents the other expense categories in our statements of operations that would be affected if non-cash, stock-based compensation was allocated to the same expense categories as the base compensation for key employees who participate in the 1999 incentive plan:

MARCH 31, 2000	2001
-----	-----
- Customer service center and other	
.....	\$ 655
\$ 233 Satellite and transmission	
.....	
655 466 General and administrative	
.....	
12,699 6,757	-----
---	----- Total

non-cash, stock-
based compensation
.... \$ 14,009 \$
7,456 =====
=====

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Pre-Marketing Cash Flow. Pre-marketing cash flow is comprised of EBITDA plus total marketing expenses. Pre-marketing cash flow was \$351 million during the three months ended March 31, 2001, an increase of 89% compared to the same period in 2000. Our pre-marketing cash flow as a percentage of total revenue was approximately 40% during the three months ended March 31, 2001 compared to 33% during the same period in 2000. We believe that pre-marketing cash flow can help to measure of operating efficiency for companies in the DBS industry. While there can be no assurance, we expect pre-marketing cash flow as a percentage of total revenue to remain near the current level during the remainder of 2001.

Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is defined as operating income (loss), plus depreciation and amortization, and non-cash, stock-based compensation. EBITDA was \$51 million during the three months ended March 31, 2001, compared to negative \$88 million during the same period in 2000. This improvement in EBITDA was directly attributable to the increase in the number of DISH Network subscribers and higher average revenue per subscriber, resulting in recurring revenue which was large enough to support the cost of new and existing subscribers, together with the introduction of our Digital Home Plan in July 2000. Our calculation of EBITDA for the three months ended March 31, 2001 and 2000 does not include approximately \$7 million and \$14 million, respectively, of non-cash compensation expense resulting from post-grant appreciation of employee stock options. While there can be no assurance, we expect to continue to have positive EBITDA for the year ended December 31, 2001. As previously discussed, to the extent we expand our current marketing promotions and our subscriber acquisition costs materially increase, our EBITDA results will be negatively impacted because subscriber acquisition costs are generally expensed as incurred.

It is important to note that EBITDA and pre-marketing cash flow do not represent cash provided or used by operating activities. EBITDA and pre-marketing cash flow should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

Depreciation and Amortization. Depreciation and amortization expenses aggregated \$59 million during the three months ended March 31, 2001, a \$19 million increase compared to the same period in 2000. The increase in depreciation and amortization expenses principally resulted from an increase in depreciation related to the commencement of operation of EchoStar VI in October 2000 and other depreciable assets placed in service during late 2000.

Other Income and Expense. Other expense, net, totaled \$155 million during the three months ended March 31, 2001, an increase of \$112 million compared to the same period in 2000. This increase primarily resulted from impairment losses on marketable and non-marketable investment securities of approximately \$82 million, as discussed below, our equity in the loss of affiliates, and from an increase in interest expense as a result of the issuance of our 10 3/8% Senior Notes due 2007 in September 2000. This increase in interest expense was partially offset by an increase in interest income.

LIQUIDITY AND CAPITAL RESOURCES

Cash Sources

As of March 31, 2001, our unrestricted cash, cash equivalents and marketable investment securities totaled \$1.295 billion compared to \$1.464 billion as of December 31, 2000. For the three months ended March 31, 2001 and 2000, we reported net cash flows from operating activities of negative \$20 million and negative \$105 million, respectively. The decrease in net cash flow used in operating activities reflects, among other things, an increase in the number of DISH Network subscribers and higher average revenue per subscriber, resulting in recurring revenue which is large enough to support the cost of new and existing subscribers.

We expect that our future working capital, capital expenditure and debt service requirements will be satisfied primarily from existing cash and investment balances and cash generated from operations. Our ability to generate positive future operating and net cash flows is dependent upon our ability to continue to expand our DISH Network subscriber base, retain existing DISH Network subscribers, and our ability to grow our ETC and Satellite Services

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

businesses. There can be no assurance that we will be successful in achieving our goals. The amount of capital required to fund our remaining 2001 working capital and capital expenditure needs will vary, depending, among other things, on the rate at which we acquire new subscribers and the cost of subscriber acquisition. Our working capital and capital expenditure requirements could increase materially in the event of increased competition for subscription television customers, significant satellite failures, or in the event of a general economic downturn, among other factors. These factors could require that we raise additional capital in the future.

Subscriber Turnover

Our percentage churn for the three months ended March 31, 2001 was generally consistent with our percentage churn for the same period in 2000. We believe that our percentage churn continues to be lower than satellite and cable industry averages. While we have successfully managed churn within a narrow range historically, our maturing subscriber base, a slowing economy, the effects of rapid growth, bounty programs offered by competitors and other factors could cause future increases in churn. Further, we expect a temporary increase in our percentage churn during the second quarter of 2001 due in part to price increases in certain of our programming packages, which went into effect on February 1, 2001. Finally, impacts from our litigation with the networks in Miami, new FCC rules governing the delivery of superstations and other factors, could cause us to terminate delivery of distant network channels and superstations to a material portion of our subscriber base, which could cause many of those customers to cancel their subscription to our other services. Any such terminations could result in a small reduction in average monthly revenue per subscriber and could result in an increase in our percentage churn. While there can be no assurance, notwithstanding the issues discussed above we have and expect to be able to continue to manage our percentage churn below industry averages during the remainder of 2001.

Subscriber Acquisition Costs

As previously described, we subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. Our average subscriber acquisition costs were \$432 per new subscriber activation during the three months ended March 31, 2001. Since we retain ownership of the equipment, amounts capitalized under our Digital Home Plan are not included in our calculation of these subscriber acquisition costs. As a result of continuing competition and our plans to attempt to continue to drive rapid subscriber growth, we expect our per subscriber acquisition costs for 2001 will remain in a range consistent with our 2000 average of approximately \$452 per new subscriber activation. Our subscriber acquisition costs, both in the aggregate and on a per new subscriber activation basis, may materially increase to the extent that we continue or expand our Free Now promotion, or introduce other more aggressive promotions if we determine that they are necessary to respond to competition, or for other reasons.

Funds necessary to meet subscriber acquisition costs will be satisfied from existing cash and investment balances to the extent available. We may, however, be required to raise additional capital in the future to meet these requirements. If we were required to raise capital today, a variety of debt and equity funding sources would likely be available to us. However, there can be no assurance that additional financing will be available on acceptable terms, or at all, if needed in the future.

Digital Home Plan

During July 2000, we announced the commencement of our new Digital Dynamite promotion, which was re-named the Digital Home Plan effective February 1, 2001. The Digital Home Plan offers four choices to consumers, ranging from the use of one EchoStar receiver system and our America's Top 100 CD programming package for \$35.99 per month, to providing consumers two EchoStar receiver systems and our America's Top 150 programming package for \$49.99 per month. With each plan, consumers receive in-home-service, must agree to a one-year commitment and incur a one-time set-up fee of \$49.99, which includes the first month's programming payment. Our Digital Home Plan promotion allows us to capitalize and depreciate over 4 years equipment costs that would otherwise be expensed at the time of sale, but also results in increased capital expenditures. Capital expenditures under our Digital Home Plan promotion totaled approximately \$62.7 million for the three months ended March 31, 2001.

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

Conditional Access System

The access control system is central to the security network that prevents unauthorized viewing of programming. Theft of cable and satellite programming has been widely reported and our signal encryption has been pirated and could be further compromised in the future. Theft of our programming reduces future potential revenue and increases our net subscriber acquisition costs. If other measures are not successful, it could be necessary to replace the credit card size card that controls the security of each consumer set top box at a material cost to us.

Intellectual Property

Many entities, including some of our competitors, now have and may in the future obtain patents and other intellectual property rights that cover or affect products or services directly or indirectly related to those that we offer. In general, if a court determines that one or more of our products infringes on intellectual property held by others, we would be required to cease developing or marketing those products, to obtain licenses to develop and market those products from the holders of the intellectual property, or to redesign those products in such a way as to avoid infringing the patent claims. Various parties have asserted patent and other intellectual property rights with respect to components within our direct broadcast satellite system. Certain of these parties have filed suit against us, including Starsight, Superguide, and IPPV Enterprises, as previously described. We cannot be certain that these persons do not own the rights they claim, that our products do not infringe on these rights, that we would be able to obtain licenses from these persons on commercially reasonable terms or, if we were unable to obtain such licenses, that we would be able to redesign our products to avoid infringement.

Obligations and Future Capital Requirements

Semi-annual cash debt service of approximately \$94 million related to our 9 1/4% Senior Notes due 2006 (Seven Year Notes) and our 9 3/8% Senior Notes due 2009 (Ten Year Notes), is payable in arrears on February 1 and August 1 each year. Semi-annual cash debt service requirements of approximately \$24 million related to our 4 7/8% Convertible Subordinated Notes due 2007 is payable in arrears on January 1 and July 1 of each year. Semi-annual cash debt service of approximately \$52 million related to our 10 3/8% Senior Notes due 2007 is payable in arrears on April 1 and October 1 of each year, commencing April 1, 2001. There are no scheduled principal payment or sinking fund requirements prior to maturity of any of these notes.

The indentures related to our 9 1/4% Senior Notes due 2006 (the "Seven Year Notes") and our 9 3/8% Senior Notes due 2009 (the "Ten Year Notes") (collectively, the "Seven and Ten Year Notes Indentures") contain restrictive covenants that require us to maintain satellite insurance with respect to at least half of the satellites we own. Insurance coverage is therefore required for at least three of our six satellites currently in orbit. We have procured normal and customary launch insurance for EchoStar VI. This launch insurance policy provides for insurance of \$225.0 million. The EchoStar VI launch insurance policy expires in July 2001. We are currently self-insuring EchoStar I, EchoStar II, EchoStar III, EchoStar IV and EchoStar V. During 2000, to satisfy insurance covenants related to the outstanding EchoStar DBS senior notes, we reclassified the depreciated cost of two of our satellites from cash and cash equivalents to cash reserved for satellite insurance on our balance sheet. As of March 31, 2001, cash reserved for satellite insurance totaled approximately \$78 million. The reclassifications will continue until such time, if ever, as the insurers are again willing to insure our satellites on commercially reasonable terms. The amount of cash reserved for satellite insurance will be increased by approximately \$60 million in the event we have not procured satellite insurance by July 2001. We believe we have in-orbit satellite capacity sufficient to expeditiously recover transmission of most programming in the event one of our in-orbit satellites was to fail. However, the cash reserved for satellite insurance is not adequate to fund the construction, launch and insurance for a replacement satellite in the event of a complete loss of a satellite and programming continuity could not be assured in the event of multiple satellite losses.

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

We utilized \$91 million of satellite vendor financing for our first four satellites. As of March 31, 2001, approximately \$22 million of that satellite vendor financing remained outstanding. The satellite vendor financing bears interest at 8 1/4% and is payable in equal monthly installments over five years following launch of the satellite to which it relates. A portion of the contract price with respect to EchoStar VII is payable over a period of 13 years following launch with interest at 8%, and a portion of the contract price with respect to EchoStar VIII and EchoStar IX is payable following launch with interest at 8%. Those in orbit payments are contingent on the continued health of the satellite.

Dividends on our 6 3/4% Series C Cumulative Convertible Preferred Stock began to accrue on November 2, 1999. Holders of the Series C Preferred Stock are entitled to receive cumulative dividends at an annual rate of 6 3/4% of the Liquidation Preference of \$50 per share. Dividends are payable quarterly in arrears, commencing February 1, 2000, when, as, and if declared by our Board of Directors. All accumulated and unpaid dividends may, at our option, be paid in cash, Class A common stock, or a combination thereof upon conversion or redemption.

During the remainder of 2001, we anticipate total capital expenditures of between \$450-\$750 million depending upon the strength of the economy and other factors. We expect approximately 40% of that amount to be utilized for satellite construction and approximately 60% for EchoStar receiver systems in connection with our Digital Home Plan and for general corporate expansion. Our anticipated capital expenditures related to the Digital Home Plan promotion may materially increase to the extent this promotion is successful and to the extent that we continue or expand our Digital Home Plan promotion.

In addition to our DBS business plan, we have licenses, or applications pending with the FCC, for a two satellite FSS Ku-band satellite system and a two satellite FSS Ka-band satellite system. We will need to raise additional capital to fully construct these satellites. During February 2000, we announced agreements for the construction and delivery of three new satellites. Two of these satellites, EchoStar VII and EchoStar VIII, will be advanced, high-powered DBS satellites. The third satellite, EchoStar IX, will be a hybrid Ku/Ka-band satellite.

During November 2000, one of our wholly owned subsidiaries purchased a 49.9% interest in VisionStar, Inc. VisionStar holds an FCC license, and is constructing a Ka-band satellite, to launch into the 113 W.L. orbital slot. Together with VisionStar we have requested FCC approval to acquire control over VisionStar by increasing our ownership of VisionStar to 90%, for a total purchase price of approximately \$2.8 million. We have also provided loans to VisionStar totaling less than \$10 million to date for the construction of their satellite and expect to provide additional funding to VisionStar in the future. We are not obligated to finance the full remaining cost to construct and launch the VisionStar satellite, but VisionStar's FCC license currently requires construction of the satellite to be completed by April 30, 2002 or the license could be revoked. We currently expect to continue to fund loans and equity contributions for construction of the satellite in the near term from cash on hand, and expect that we may spend approximately \$79.5 million during 2001 for that purpose subject to, among other things, FCC action. In the future we may fund construction, launch and insurance of the satellite through cash from operations, public or private debt or equity financing, joint ventures with others, or from other sources.

We expect that our future working capital, capital expenditure and debt service requirements will be satisfied from existing cash and investment balances, and cash generated from operations. Our ability to generate positive future operating and net cash flows is dependent, among other things, upon our ability to retain existing DISH Network subscribers, our ability to manage the growth of our subscriber base, and our ability to grow our ETC and Satellite Services businesses. During the first quarter of 2001, subscriber growth was strong. To the extent future subscriber growth exceeds our expectations, it may be necessary for us to raise additional capital to fund increased working capital requirements. There may be a number of other factors, some of which are beyond our control or ability to predict, that could require us to raise additional capital. These factors include unexpected increases in operating costs and expenses, a defect in or the loss of any satellite, or an increase in the cost of acquiring subscribers due to additional competition, among other things. If cash generated from our operations is not sufficient to meet our debt service requirements or other obligations, we would be required to obtain cash from other financing sources. If we were required to raise capital today a

variety of debt and equity funding sources would likely be available to us. However, there can be no assurance that such financing would be available on terms acceptable to us, or if available, that the proceeds of such financing would be sufficient to enable us to meet all of our obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

As of March 31, 2001, our unrestricted cash, cash equivalents and marketable investment securities had a fair value of \$1.295 billion. Of that amount, a total of \$1.204 billion was invested in: (a) cash; (b) debt instruments of the U.S. Government and its agencies; (c) commercial paper with an average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; and (d) instruments with similar risk characteristics to the commercial paper described above. The primary purpose of these investing activities has been to preserve principal until the cash is required to fund operations. Consequently, the size of this portfolio fluctuates significantly as cash is raised and used in our business.

The value of certain of the investments in this portfolio can be impacted by, among other things, the risk of adverse changes in securities and economic markets generally, as well as the risks related to the performance of the companies whose commercial paper and other instruments we hold. However, the high quality of these investments (as assessed by independent rating agencies), reduces these risks. The value of these investments can also be impacted by interest rate fluctuations. At March 31, 2001, all of our investments in this category were in fixed rate instruments or money market type accounts. While an increase in interest rates would ordinarily adversely impact the fair value of fixed rate investments, we normally hold these investments to maturity. Consequently, neither interest rate fluctuations nor other market risks typically result in significant gains or losses to this portfolio. A decrease in interest rates has the effect of reducing our future annual interest income from this portfolio, since funds would be re-invested at lower rates as the instruments mature. Over time, any net percentage decrease in interest rates could be reflected in a corresponding net percentage decrease in our interest income. During the three months ending March 31, 2000 and 2001, the impact of interest rate fluctuations, changed business prospects and all other factors did not have a material impact on the fair value of the portfolio, or on our income derived from this portfolio.

We also invest in debt and equity of public and private companies for strategic business purposes. As of March 31, 2001, we held strategic debt and equity investments of public companies with a fair value of approximately \$91 million. We acquired stock in one of those companies, OpenTV, in connection with establishment of a strategic relationship which did not involve the investment of cash by us. None of these investments accounted for more than 40% of the total fair value of the portfolio. We may make additional strategic investments in other debt and equity securities in the future.

The fair value of our strategic debt investments can be impacted by interest rate fluctuations. Absent the effect of other factors, a hypothetical 10% increase in LIBOR would result in a decrease in the fair value of our investments in these debt instruments of approximately \$8 million. The fair value of our strategic debt and equity investments can also be significantly impacted by the risk of adverse changes in securities markets generally, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair market 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 \$9.1 million decrease in the fair value of that portfolio.

In accordance with generally accepted accounting principles, declines in the market value of a marketable investment securities which are estimated to be "other than temporary" must be recognized in the statement of operations, thus establishing a new cost basis for such investment. We reviewed the fair value of our marketable investment securities as of March 31, 2001 and determined that some declines in market value have occurred which may be other than temporary. As a result, we established a new cost basis for certain of these investments, and accordingly reduced our previously recorded unrealized loss and recorded a charge to earnings of approximately \$32.4 million during the three months ended March 31, 2001. We have not used derivative financial instruments for speculative purposes. We have not hedged or otherwise protected against the risks associated with any of our investing or financing activities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - CONTINUED

In addition to the \$1.295 billion, we have made strategic equity investments in certain non-marketable investment securities including Wildblue Communications, StarBand Communications, VisionStar, Inc. and Replay TV. The original cost basis of our investments in these non-marketable investment securities totaled approximately \$116 million. The securities of these companies are not publicly traded. Our ability to create realizable value for our strategic investments in companies that are not public is dependent on the success of their business plans. Among other things, there is relatively greater risk that those companies may not be able to raise sufficient capital to fully finance their business plans and ability to obtain sufficient capital to execute their business plans. Since 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 that we will be able to obtain full value for them. StarBand and Wildblue recently cancelled their planned initial public stock offerings. As a result of the cancellation of those offerings and other factors, during the three months ended March 31, 2001, we recorded a non-recurring charge of approximately \$49.4 million to reduce the carrying value of certain of our non-marketable investment securities to their estimated fair values. Starband and Wildblue need to obtain significant additional capital in the near term. Absent such funding, additional write-downs of our investments could be necessary.

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

All statements contained herein, as well as statements made in press releases and oral statements that may be made by us or by officers, directors or employees acting on our behalf, that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause our actual results to differ materially are the following: a total or partial loss of one or more satellites due to operational failures, space debris or otherwise; delays in the construction of our seventh, eighth or ninth satellites; an unsuccessful deployment of future satellites; inability to settle outstanding claims with insurers; a decrease in sales of digital equipment and related services to international direct-to-home service providers; a decrease in DISH Network subscriber growth; an increase in subscriber turnover; an increase in subscriber acquisition costs; an inability to obtain certain retransmission consents; our inability to retain necessary authorizations from the FCC; an inability to obtain patent licenses from holders of intellectual property or redesign our products to avoid patent infringement; an increase in competition from cable as a result of digital cable or otherwise, direct broadcast satellite, other satellite system operators, and other providers of subscription television services; future acquisitions, business combinations, strategic partnerships and divestitures; the introduction of new technologies and competitors into the subscription television business; a change in the regulations governing the subscription television service industry; the outcome of any litigation in which we may be involved; general business and economic conditions; and other risk factors described from time to time in our reports and statements filed with the Securities and Exchange Commission. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements that include the terms "believes," "belief," "expects," "plans," "anticipates," "intends" or the like to be uncertain and forward-looking. 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.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2001 Compared to the Three Months Ended June 30, 2000.

Revenue. Total revenue for the three months ended June 30, 2001 was \$966 million, an increase of \$320 million compared to total revenue for the three months ended June 30, 2000 of \$646 million. The increase in total revenue was primarily attributable to higher average revenue per subscriber and continued DISH Network subscriber growth. We expect that our revenues will continue to increase as the number of DISH Network subscribers increases.

DISH Network subscription television services revenue totaled \$883 million for the three months ended June 30, 2001, an increase of \$328 million compared to the same period in 2000. DISH Network subscription television services revenue principally consists of revenue from basic, premium and pay-per-view subscription television services. This increase was directly attributable to higher average revenue per subscriber and continued DISH Network subscriber growth. DISH Network added approximately 350,000 net new subscribers for the three months ended June 30, 2001 compared to approximately 445,000 net subscriber additions during the same period in 2000. The reduction in net new subscribers for the quarter ended June 30, 2001 primarily resulted from increased churn. As of June 30, 2001, we had approximately 6.07 million DISH Network subscribers compared to approximately 4.3 million at June 30, 2000, an increase of approximately 41%. DISH Network subscription television services revenue will continue to increase to the extent we are successful in increasing the number of DISH Network subscribers and maintaining or increasing revenue per subscriber. While there can be no assurance, assuming the U.S. economy continues to grow at a slow pace, we expect to add approximately 1.5 to 1.75 million net new subscribers during 2001, and to obtain a majority of all net new DBS subscribers. This subscriber guidance has been refined from our previous estimate of 1.5 to 2.0 million net new subscriber additions during 2001.

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

Monthly average revenue per subscriber was approximately \$50.00 during the three months ended June 30, 2001 and approximately \$45.22 during the same period in 2000. For the six months ended June 30, 2001, our monthly average revenue per subscriber was approximately \$49.00. The increase in monthly average revenue per subscriber is primarily attributable to \$1.00 price increases in America's Top 100 CD, our most popular programming package, during both May 2000 and February 2001, the increased availability of local channels by satellite, the successful introduction of our \$39.99 per month America's Top 150 programming package during April 2000 together with an increase in subscriber penetration in our higher priced Digital Home Plans. Anticipated programming promotions may reduce monthly average revenue per subscriber for new subscriber additions during the third quarter of 2001. Those reductions would also impact monthly average revenue per subscriber in total during the third quarter.

For the three months ended June 30, 2001, DTH equipment sales and integration services revenue totaled \$47 million, a decrease of \$13 million compared to the same period during 2000. DTH equipment sales consist of sales of digital set-top boxes and other digital satellite broadcasting equipment to international DTH service operators and sales of DBS accessories. This decrease in DTH equipment sales and integration services revenue was primarily attributable to a decrease in demand for digital set-top boxes from our two primary international customers as compared to the same period during 2000.

A significant portion of DTH equipment sales and integration services revenues have resulted from sales to two international DTH providers. We currently have agreements to provide equipment to DTH service operators in Spain and Canada. Our future revenue from the sale of DTH equipment and integration services in international markets depends largely on the success of these DTH operators and continued demand for our digital set-top boxes. While we have binding purchase orders from both providers for 2001, we expect overall demand for 2001 to be lower than the same period in 2000. As a result, we expect total DTH equipment sales and integration services revenue to decrease in 2001 compared to 2000. Although we continue to actively pursue additional distribution and integration service opportunities internationally, no assurance can be given that any such efforts will be successful.

In order, among other things, to comply with the injunction issued against us in our pending litigation with the four major broadcast networks and their affiliate groups, we may terminate the delivery of distant network channels to certain of our subscribers. Additionally, during 2000, the FCC issued rules which impair our ability to deliver certain superstation channels to our customers. Those rules will increase the cost of our delivery of superstations, and could require that we terminate the delivery of certain superstations to a material portion of our subscriber base. Further, in the event our EchoStar VII spot beam satellite is not delivered and launched in accordance with contractual schedules, or for any other reason is not operational by January 1, 2002, we could be required to temporarily terminate delivery of local network channels in specific markets. Such terminations could be necessary in order to comply with government imposed must carry obligations to carry all channels in markets where popular channels are carried. In combination, these terminations would result in a small reduction in average monthly revenue per subscriber and could increase subscriber churn. While there can be no assurance, any such decreases could be offset by increases in average monthly revenue per subscriber resulting from the delivery of local network channels by satellite, and increases in other programming offerings.

DISH Network Operating Expenses. DISH Network operating expenses totaled \$437 million during the three months ended June 30, 2001, an increase of \$123 million or 39% compared to the same period in 2000. DISH Network operating expenses represented 50% and 56% of subscription television services revenue during the three months ended June 30, 2001 and 2000, respectively. The increase in DISH Network operating expenses in total was consistent with, and primarily attributable to, the increase in the number of DISH Network subscribers. We expect to continue to control costs and create operating efficiencies. We would expect operating expenses as a percentage of subscription television services revenue to remain near current levels during the remainder of 2001, however anticipated programming promotions could cause the percentage to increase.

Subscriber-related expenses totaled \$359 million during the three months ended June 30, 2001, an increase of \$128 million compared to the same period in 2000. Such expenses, which include programming expenses, copyright royalties, residuals currently payable to retailers and distributors, and billing, lockbox and other variable subscriber expenses, represented 41% and 42%

of subscription television services revenues during the three months

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

ended June 30, 2001 and 2000, respectively. While there can be no assurance, we expect subscriber-related expenses as a percentage of subscription television services revenue to remain near current levels during the remainder of 2001.

Customer service center and other expenses principally consist of costs incurred in the operation of our DISH Network customer service centers, such as personnel and telephone expenses, as well as other operating expenses related to our service and installation business. Customer service center and other expenses totaled \$70 million during the three months ended June 30, 2001, an increase of \$2 million as compared to the same period in 2000. The increase in customer service center and other expenses primarily resulted from increased personnel and telephone expenses to support the growth of the DISH Network and from operating expenses related to the expansion of our installation and service business. Customer service center and other expenses totaled 8% of subscription television services revenue during the three months ended June 30, 2001, as compared to 12% during the same period in 2000. The decrease in this expense to revenue ratio primarily resulted from the on-going construction and start-up costs of our fifth customer service center in Virginia and our sixth customer service center in West Virginia during 2000. While there can be no assurance, we expect these expenses in total, and as a percentage of subscription television services revenue, to remain near current levels during the remainder of 2001. These expenses and percentages could temporarily increase in the future as additional infrastructure is added to meet future growth. We continue to work to automate simple telephone responses, and intend to increase internet based customer assistance in the future, in order to better manage customer service costs.

Satellite and transmission expenses include expenses associated with the operation of our digital broadcast center, contracted satellite telemetry, tracking and control services, and commercial satellite in-orbit insurance premiums. Satellite and transmission expenses totaled \$9 million during the three months ended June 30, 2001, a \$5 million decrease compared to the same period in 2000. This decrease resulted from the expiration of the commercial in-orbit satellite insurance policies for EchoStar I, EchoStar II and EchoStar III during July 2000. As discussed below, we are currently self-insuring these satellites. Satellite and transmission expenses totaled 1% and 3% of subscription television services revenue during the three months ended June 30, 2001 and 2000, respectively. We expect satellite and transmission expenses in total and as a percentage of subscription television services revenue, to increase in the future as additional satellites or digital broadcast centers are placed in service and to the extent we successfully place commercial in-orbit insurance.

Cost of sales - DTH equipment and Integration Services. Cost of sales - DTH equipment and integration services totaled \$31 million during the three months ended June 30, 2001, a decrease of \$15 million compared to the same period in 2000. Cost of sales - DTH equipment and integration services principally includes costs associated with digital set-top boxes and related components sold to international DTH operators and DBS accessories. This decrease in cost of sales - DTH equipment and integration services is consistent with the decrease in DTH equipment sales and integration services revenue. Cost of sales - DTH equipment and integration services represented 66% and 77% of DTH equipment revenue, during the three months ended June 30, 2001 and 2000, respectively.

Marketing Expenses. We subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. Consequently, our subscriber acquisition costs are significant. Marketing expenses totaled \$254 million during the three months ended June 30, 2001 compared to \$252 million for the same period in 2000. Subscriber promotion subsidies - promotional DTH equipment includes the cost related to EchoStar receiver systems distributed to retailers and other distributors of our equipment. Subscriber promotion subsidies - other includes net costs related to our free installation promotion and other promotional incentives. Advertising and other expenses totaled \$27 million and \$24 million during the three months ended June 30, 2001 and 2000, respectively.

During the three months ended June 30, 2001, our marketing promotions included our Digital Home Plan, Free Now and a free installation program. Our subscriber acquisition costs under these programs are significantly higher than those under our marketing programs historically.

During July 2000, we announced the commencement of our new Digital Dynamite promotion. This promotion was re-named the Digital Home Plan effective

February 1, 2001. The Digital Home Plan offers several choices to consumers, ranging from the use of one EchoStar receiver system and our America's Top 100 CD

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

programming package for \$35.99 per month, to providing consumers two or more EchoStar receiver systems and our America's Top 150 programming package for \$49.99 per month. Consumers may also choose from one of our DishPVR Plans which includes the use of two or more EchoStar receiver systems, one of which includes a built-in hard drive that allows viewers to pause and record live programming without the need for video tape. The DishPVR Plans also included either America's Top 100 CD or DISH Latino Dos programming package for \$49.99 per month or America's Top 150 programming package for \$59.99 per month. With each plan, consumers receive in-home-service, must agree to a one-year commitment and incur a one-time set-up fee of \$49.99, which includes the first month's programming payment.

During February 2001, we announced our Free Now promotion offering all new subscribers a free base-level EchoStar receiver system and free installation. To be eligible for this program, a subscriber must provide a valid major credit card and make a one-year commitment to subscribe to either our America's Top 150 programming package or our America's Top 100 CD or DISH Latino Dos programming package plus additional programming totaling at least \$39.98 per month. Subscriber acquisition costs are materially higher under this plan compared to historical promotions. To the extent that actual consumer participation levels increase beyond current levels, subscriber acquisition costs may increase. Although there can be no assurance as to the ultimate duration of the Free Now promotion, we intend to continue it through at least July 2001.

We subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. There is no clear industry standard used in the calculation of subscriber acquisition costs. Our subscriber acquisition costs include subscriber promotion subsidies - promotional DTH equipment, subscriber promotion subsidies - other and DISH Network acquisition marketing expenses. During the three months ended June 30, 2001, our subscriber acquisition costs totaled approximately \$252 million, or approximately \$384 per new subscriber activation. Since we retain ownership of the equipment, amounts capitalized under our Digital Home Plan are not included in our calculation of these subscriber acquisition costs. Comparatively, our subscriber acquisition costs during the three months ended June 30, 2000, prior to the introduction of our Digital Home Plan, totaled \$252 million, or approximately \$408 per new subscriber activation. The decrease in our per new subscriber acquisition cost primarily resulted from an increase in direct sales and an increase in penetration of our Digital Home Plans. While there can be no assurance, we expect total subscriber acquisition costs for the year ended December 31, 2001 to be less than our prior estimate of approximately \$450 per subscriber.

Our subscriber acquisition costs, both in the aggregate and on a per new subscriber activation basis, may materially increase further to the extent that we continue or expand our Free Now program, or introduce other more aggressive promotions if we determine that they are necessary to respond to competition, or for other reasons.

General and Administrative Expenses. General and administrative expenses totaled \$88 million during the three months ended June 30, 2001, an increase of \$30 million as compared to the same period in 2000. The increase in G&A expenses was principally attributable to increased personnel expenses to support the growth of the DISH Network. G&A expenses represented 9% of total revenue during each of the three months ended June 30, 2001 and 2000. Although we expect G&A expenses as a percentage of total revenue to remain near the current level or decline modestly in future periods, this expense to revenue ratio could increase.

Non-cash, Stock-based Compensation. During 1999, we adopted an incentive plan which provided certain key employees with incentives including stock options. The payment of these incentives was contingent upon our achievement of certain financial and other goals. We met certain of these goals during 1999. Accordingly, during 1999 we recorded approximately \$179 million of deferred compensation related to post-grant appreciation of stock options granted pursuant to the 1999 incentive plan. The related deferred compensation will be recognized over the five-year vesting period. Accordingly, during the three months ended June 30, 2001 and 2000 we recognized \$7 million and \$13 million, respectively, under this performance-based plan.

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

We report all non-cash compensation based on stock option appreciation as a single expense category in our accompanying statements of operations. The following table represents the other expense categories in our statements of operations that would be affected if non-cash, stock-based compensation was allocated to the same expense categories as the base compensation for key employees who participate in the 1999 incentive plan:

THREE MONTHS ENDED JUNE 30, 2000	2001	-----
--- -----	Customer service center and other.....	\$ 546 \$ 388
	Satellite and transmission.....	
	656 311 General and administrative.....	
11,820	6,312	----- ----- Total non-cash, stock-based compensation.....
\$ 13,002	\$ 7,011	===== =====

Pre-Marketing Cash Flow. Pre-marketing cash flow is comprised of EBITDA plus total marketing expenses. Pre-marketing cash flow was \$387 million during the three months ended June 30, 2001, an increase of 75% compared to the same period in 2000. Our pre-marketing cash flow as a percentage of total revenue was approximately 40% during the three months ended June 30, 2001 compared to 34% during the same period in 2000. We believe that pre-marketing cash flow can be a helpful measure of operating efficiency for companies in the DBS industry. While there can be no assurance, we expect pre-marketing cash flow as a percentage of total revenue to remain near the current level during the remainder of 2001.

Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is defined as operating income (loss) plus depreciation and amortization, and non-cash, stock-based compensation. EBITDA was \$134 million during the three months ended June 30, 2001, compared to negative \$31 million during the same period in 2000. This improvement in EBITDA was directly attributable to the increase in the number of DISH Network subscribers and higher average revenue per subscriber, resulting in recurring revenue which was large enough to support the cost of new and existing subscribers, together with the introduction of our Digital Home Plan in July 2000. Our calculation of EBITDA for the three months ended June 30, 2001 and 2000 does not include approximately \$7 million and \$13 million, respectively, of non-cash compensation expense resulting from post-grant appreciation of employee stock options. While there can be no assurance, we expect to continue to have positive EBITDA for the year ended December 31, 2001. As previously discussed, to the extent we expand our current marketing promotions and our subscriber acquisition costs materially increase, our EBITDA results will be negatively impacted because subscriber acquisition costs are generally expensed as incurred.

It is important to note that EBITDA and pre-marketing cash flow do not represent cash provided or used by operating activities. EBITDA and pre-marketing cash flow should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

Depreciation and Amortization. Depreciation and amortization expenses aggregated \$63 million during the three months ended June 30, 2001, a \$21 million increase compared to the same period in 2000. The increase in depreciation and amortization expenses principally resulted from an increase in depreciation related to the commencement of operation of EchoStar VI in October 2000 and other depreciable assets placed in service during late 2000.

Other Income and Expense. Other expense, net, totaled \$70 million during the three months ended June 30, 2001, an increase of \$17 million compared to the same period in 2000. This increase primarily resulted from an increase in interest expense as a result of the issuance of our 10 3/8% Senior Notes in September 2000 and the issuance of our 5 3/4% Convertible Subordinated Notes in late May 2001. This increase in interest expense was partially offset by an increase in interest income.

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

Six Months Ended June 30, 2001 Compared to the Six Months Ended June 30, 2000.

Revenue. Total revenue for the six months ended June 30, 2001 was \$1.828 billion, an increase of \$616 million compared to total revenue for the six months ended June 30, 2000 of \$1.212 billion. The increase in total revenue was primarily attributable to higher average revenue per subscriber and continued DISH Network subscriber growth.

DISH Network subscription television services revenue totaled \$1.678 billion for the six months ended June 30, 2001, an increase of \$646 million compared to the same period in 2000. This increase was directly attributable to higher average revenue per subscriber and continued DISH Network subscriber growth.

For the six months ended June 30, 2001, DTH equipment sales and integration services revenue totaled \$88 million, a decrease of \$35 million compared to the same period during 2000. This decrease in DTH equipment sales and integration services revenue was primarily attributable to a decrease in demand for digital set-top boxes from our two primary international customers as compared to the same period during 2000.

DISH Network Operating Expenses. DISH Network operating expenses totaled \$828 million during the six months ended June 30, 2001, an increase of \$244 million or 42% compared to the same period in 2000. DISH Network operating expenses represented 49% and 57% of subscription television services revenue during the six months ended June 30, 2001 and 2000, respectively. The increase in DISH Network operating expenses in total was consistent with, and primarily attributable to, the increase in the number of DISH Network subscribers.

Subscriber-related expenses totaled \$675 million during the six months ended June 30, 2001, an increase of \$242 million compared to the same period in 2000. Such expenses represented 40% and 42% of subscription television services revenues during the six months ended June 30, 2001 and 2000, respectively.

Customer service center and other expenses totaled \$135 million during the six months ended June 30, 2001, an increase of \$11 million as compared to the same period in 2000. The increase in customer service center and other expenses primarily resulted from increased personnel and telephone expenses to support the growth of the DISH Network and from operating expenses related to the expansion of our installation and service business. Customer service center and other expenses totaled 8% of subscription television services revenue during the six months ended June 30, 2001, as compared to 12% during the same period in 2000. The decrease in this expense to revenue ratio primarily resulted from the on-going construction and start-up costs of our fifth customer service center in Virginia and our sixth customer service center in West Virginia during 2000.

Satellite and transmission expenses totaled \$18 million during the six months ended June 30, 2001, a \$8 million decrease compared to the same period in 2000. This decrease resulted from the expiration of the commercial in-orbit satellite insurance policies for EchoStar I, EchoStar II and EchoStar III during July 2000. As discussed below, we are currently self-insuring these satellites. Satellite and transmission expenses totaled 1% and 3% of subscription television services revenue during the six months ended June 30, 2001 and 2000, respectively.

Cost of sales - DTH equipment and Integration Services. Cost of sales - DTH equipment and integration services totaled \$60 million during the six months ended June 30, 2001, a decrease of \$33 million compared to the same period in 2000. This decrease in cost of sales - DTH equipment and integration services is consistent with the decrease in DTH equipment sales and integration services revenue. Cost of sales - DTH equipment and integration services represented 68% and 75% of DTH equipment revenue, during the six months ended June 30, 2001 and 2000, respectively.

Marketing Expenses. Marketing expenses totaled \$554 million during the six months ended June 30, 2001, an increase of \$28 million compared to the same period in 2000. The increase in marketing expenses was primarily attributable to an increase in subscriber promotion subsidies. Advertising and other expenses totaled \$54 million and \$48 million during the six months ended June 30, 2001 and 2000, respectively.

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

General and Administrative Expenses. General and administrative expenses totaled \$163 million during the six months ended June 30, 2001, an increase of \$49 million as compared to the same period in 2000. The increase in G&A expenses was principally attributable to increased personnel expenses to support the growth of the DISH Network. G&A expenses represented 9% of total revenue during each of the six months ended June 30, 2001 and 2000.

Non-cash, Stock-based Compensation. As a result of substantial post-grant appreciation of stock options, during the six months ended June 30, 2001 and 2000 we recognized \$14 million and \$27 million, respectively, of the total remaining deferred stock-based compensation under the 1999 incentive plan. The remainder will be recognized over the remaining vesting period.

We report all non-cash compensation based on stock option appreciation as a single expense category in our accompanying statements of operations. The following table represents the other expense categories in our statements of operations that would be affected if non-cash, stock-based compensation was allocated to the same expense categories as the base compensation for key employees who participate in the 1999 incentive plan:

SIX MONTHS ENDED JUNE 30, 2000	2001	-----
-----	Customer service center and	
other.....	\$ 1,201	\$ 621
	Satellite and	
transmission.....		
	1,311	777
administrative.....		
24,519	13,069	-----
		Total non-
cash, stock-based compensation.....		
\$ 27,031	\$ 14,467	=====

Pre-Marketing Cash Flow. Pre-marketing cash flow is comprised of EBITDA plus total marketing expenses. Pre-marketing cash flow was \$739 million during the six months ended June 30, 2001, an increase of 82% compared to the same period in 2000. Our pre-marketing cash flow as a percentage of total revenue was approximately 40% during the six months ended June 30, 2001 compared to 34% during the same period in 2000.

Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is defined as operating income (loss) plus depreciation and amortization, and non-cash, stock-based compensation. EBITDA was \$185 million during the six months ended June 30, 2001, compared to negative \$119 million during the same period in 2000. This improvement in EBITDA was directly attributable to the increase in the number of DISH Network subscribers and higher average revenue per subscriber, resulting in recurring revenue which was large enough to support the cost of new and existing subscribers, though not yet adequate to support interest payments and other non-operating costs, together with the introduction of our Digital Home Plan in July 2000. Our calculation of EBITDA for the six months ended June 30, 2001 and 2000 does not include approximately \$14 million and \$27 million, respectively, of non-cash compensation expense resulting from post-grant appreciation of employee stock options.

It is important to note that EBITDA and pre-marketing cash flow do not represent cash provided or used by operating activities. EBITDA and pre-marketing cash flow should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

Depreciation and Amortization. Depreciation and amortization expenses aggregated \$122 million during the six months ended June 30, 2001, a \$40 million increase compared to the same period in 2000. The increase in depreciation and amortization expenses principally resulted from an increase in depreciation related to the commencement of operation of EchoStar VI in October 2000 and other depreciable assets placed in service during late 2000.

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

Other Income and Expense. Other expense, net, totaled \$224 million during the six months ended June 30, 2001, an increase of \$128 million compared to the same period in 2000. This increase primarily resulted from impairment losses on marketable and non-marketable investment securities of approximately \$83 million, as discussed below, our equity in the loss of affiliates, and from an increase in interest expense as a result of the issuance of our 10 3/8% Senior Notes in September 2000 and the issuance of our 5 3/4% Convertible Subordinated Notes in late May 2001. This increase in interest expense was partially offset by an increase in interest income.

LIQUIDITY AND CAPITAL RESOURCES

Cash Sources

On May 31, 2001, we sold \$1 billion principal amount of 5 3/4% Convertible Subordinated Notes due 2008. The net proceeds of the offering are expected to be used for the construction, launch and insurance of additional satellites, strategic investments and acquisitions, and other general corporate purposes.

As of June 30, 2001, our cash, cash equivalents and marketable investment securities totaled \$2.392 billion, including \$74 million of cash reserved for satellite insurance and approximately \$2 million of restricted cash, compared to \$1.550 billion, including \$82 million of cash reserved for satellite insurance and \$3 million of restricted cash, as of December 31, 2000. For the six months ended June 30, 2001 and 2000, we reported net cash flows from operating activities of \$154 million and negative \$137 million, respectively. The increase in net cash flow from operating activities reflects, among other things, an increase in the number of DISH Network subscribers and higher average revenue per subscriber, resulting in recurring revenue which is large enough to support the cost of new and existing subscribers, though not yet adequate to support interest payments and other non-operating costs.

We expect that our future working capital, capital expenditure and debt service requirements will be satisfied primarily from existing cash and investment balances and cash generated from operations. Our ability to generate positive future operating and net cash flows is dependent upon our ability to continue to expand our DISH Network subscriber base, retain existing DISH Network subscribers, and our ability to grow our ETC and Satellite Services businesses. There can be no assurance that we will be successful in achieving our goals. The amount of capital required to fund our remaining 2001 working capital and capital expenditure needs will vary, depending, among other things, on the rate at which we acquire new subscribers and the cost of subscriber acquisition. Our working capital and capital expenditure requirements could increase materially in the event of increased competition for subscription television customers, significant satellite failures, or in the event of a general economic downturn, among other factors. These factors could require that we raise additional capital in the future.

Subscriber Turnover

Our percentage churn for the six months ended June 30, 2001 increased compared to our percentage churn for the same period in 2000. The increase in our percentage churn during the second quarter of 2001 was due in part to price increases in certain of our programming packages, which went into effect on February 1, 2001. We believe that our percentage churn continues to be lower than satellite and cable industry averages. While we have successfully managed churn within a narrow range historically, we expect our percentage churn to be in excess of our historical average percentage churn for the remainder of 2001 as a result of the slowing economy, significant piracy of our competitor's product, bounty programs offered by competitors, our maturing subscriber base, and other factors. Finally, impacts from our litigation with the networks in Miami, new FCC rules governing the delivery of superstations and other factors, could cause us to terminate delivery of distant network channels and superstations to a material portion of our subscriber base, which could cause many of those customers to cancel their subscription to our other services. Any such terminations could result in a small reduction in average monthly revenue per subscriber and could result in an increase in our percentage churn. While there can be no assurance, notwithstanding the issues discussed above we have and expect to be able to continue to manage our percentage churn below industry averages during the remainder of 2001.

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

Subscriber Acquisition Costs

As previously described, we subsidize the cost and installation of EchoStar receiver systems in order to attract new DISH Network subscribers. Our average subscriber acquisition costs were \$408 per new subscriber activation during the six months ended June 30, 2001. Since we retain ownership of the equipment, amounts capitalized under our Digital Home Plan are not included in our calculation of these subscriber acquisition costs. While there can be no assurance, we expect total subscriber acquisition costs for the year ended December 31, 2001 to be less than our prior estimate of approximately \$450 per subscriber. Our subscriber acquisition costs, both in the aggregate and on a per new subscriber activation basis, may materially increase to the extent that we continue or expand our Free Now promotion, or introduce other more aggressive promotions if we determine that they are necessary to respond to competition, or for other reasons.

Funds necessary to meet subscriber acquisition costs will be satisfied from existing cash and investment balances to the extent available. We may, however, be required to raise additional capital in the future to meet these requirements. If we were required to raise capital today, a variety of debt and equity funding sources would likely be available to us. However, there can be no assurance that additional financing will be available on acceptable terms, or at all, if needed in the future.

Digital Home Plan

During July 2000, we announced the commencement of our new Digital Dynamite promotion, which was re-named the Digital Home Plan effective February 1, 2001. The Digital Home Plan offers four choices to consumers, ranging from the use of one EchoStar receiver system and our America's Top 100 CD programming package for \$35.99 per month, to providing consumers two or more EchoStar receiver systems and our America's Top 150 programming package for \$49.99 per month. Consumers may also choose from one of our DishPVR Plans which includes the use of two or more EchoStar receiver systems, one of which includes a built-in hard disk drive that allows viewers to pause and record live programming without the need for video tape. The DishPVR Plans also included either America's Top 100 CD or DISH Latino Dos programming package for \$49.99 per month or America's Top 150 programming package for \$59.99 per month. With each plan, consumers receive in-home-service, must agree to a one-year commitment and incur a one-time set-up fee of \$49.99, which includes the first month's programming payment. Our Digital Home Plan promotion allows us to capitalize and depreciate over 4 years equipment costs that would otherwise be expensed at the time of sale, but also results in increased capital expenditures. Capital expenditures under our Digital Home Plan promotion totaled approximately \$149.1 million for the six months ended June 30, 2001.

Conditional Access System

The access control system is central to the security network that prevents unauthorized viewing of programming. Theft of cable and satellite programming has been widely reported and our signal encryption has been pirated and could be further compromised in the future. Theft of our programming reduces future potential revenue and increases our net subscriber acquisition costs. If other measures are not successful, it could be necessary to replace the credit card size smart card that controls the security of each consumer set top box at a material cost to us. In order to combat piracy and to generate additional future revenue opportunities, we may decide to replace smart cards at any time in the future. The cost of replacing these smart cards will not have a material effect on our results of operations.

Intellectual Property

Many entities, including some of our competitors, now have and may in the future obtain patents and other intellectual property rights that cover or affect products or services directly or indirectly related to those that we offer. In general, if a court determines that one or more of our products infringes on intellectual property held by others, we would be required to cease developing or marketing those products, to obtain licenses to develop and market those products from the holders of the intellectual property, or to redesign those products in such a way as to avoid infringing the patent claims. Material damage awards, including the potential for triple damages under patent laws, could also result. Various parties have asserted patent and other intellectual property rights with respect to components within our

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

direct broadcast satellite system. Certain of these parties have filed suit against us, including Starsight, Superguide, and IPPV Enterprises, as previously described. We cannot be certain that these persons do not own the rights they claim, that our products do not infringe on these rights, that we would be able to obtain licenses from these persons on commercially reasonable terms or, if we were unable to obtain such licenses, that we would be able to redesign our products to avoid infringement.

Obligations and Future Capital Requirements

Semi-annual cash debt service of approximately \$94 million related to our 9 1/4% Senior Notes due 2006 (Seven Year Notes) and our 9 3/8% Senior Notes due 2009 (Ten Year Notes), is payable in arrears on February 1 and August 1 each year. Semi-annual cash debt service requirements of approximately \$24 million related to our 4 7/8% Convertible Subordinated Notes due 2007 is payable in arrears on January 1 and July 1 of each year. Semi-annual cash debt service of approximately \$52 million related to our 10 3/8% Senior Notes due 2007 is payable in arrears on April 1 and October 1 of each year. Semi-annual debt service requirements of approximately \$29 million related to our 5 3/4% Convertible Subordinated Notes due 2008 is payable in arrears on May 15 and November 15 of each year, commencing November 15, 2001. There are no scheduled principal payment or sinking fund requirements prior to maturity of any of these notes.

The indentures related to our 9 1/4% Senior Notes due 2006 (the "Seven Year Notes") and our 9 3/8% Senior Notes due 2009 (the "Ten Year Notes") (collectively, the "Seven and Ten Year Notes Indentures") contain restrictive covenants that require us to maintain satellite insurance with respect to at least half of the satellites we own. Insurance coverage is therefore required for at least three of our six satellites currently in orbit. We had procured normal and customary launch insurance for EchoStar VI, which expired on July 14, 2001. As a result, we are currently self-insuring EchoStar I, EchoStar II, EchoStar III, EchoStar IV, EchoStar V and EchoStar VI. During 2000, to satisfy insurance covenants related to the outstanding EchoStar DBS senior notes, we reclassified an amount equal to the depreciated cost of two of our satellites from cash and cash equivalents to cash reserved for satellite insurance on our balance sheet. As of June 30, 2001, cash reserved for satellite insurance totaled approximately \$74 million. Cash reserved for satellite insurance increased by approximately \$60 million on July 14, 2001 as a result of the expiration of the EchoStar VI launch insurance policy. The reclassifications will continue until such time, if ever, as we can again insure our satellites on acceptable terms and for acceptable amounts. We believe we have in-orbit satellite capacity sufficient to expeditiously recover transmission of most programming in the event one of our in-orbit satellites fails. However, the cash reserved for satellite insurance is not adequate to fund the construction, launch and insurance for a replacement satellite in the event of a complete loss of a satellite. Programming continuity could not be assured in the event of multiple satellite losses.

We utilized \$91 million of satellite vendor financing for our first four satellites. As of June 30, 2001, approximately \$20 million of that satellite vendor financing remained outstanding. The satellite vendor financing bears interest at 8 1/4% and is payable in equal monthly installments over five years following launch of the satellite to which it relates. A portion of the contract price with respect to EchoStar VII is payable over a period of 13 years following launch with interest at 8%, and a portion of the contract price with respect to EchoStar VIII and EchoStar IX is payable following launch with interest at 8%. Those in orbit payments are contingent on the continued health of the satellites.

Effective July 6, 2001, we redeemed, for cash, all of our remaining outstanding 6 3/4% Series C Cumulative Convertible Preferred Stock at a total redemption price of approximately \$2,400 or \$51.929 per share.

During the remainder of 2001, we anticipate total capital expenditures of between \$300-\$500 million depending upon the strength of the economy and other factors. We expect as much as 40% of that amount to be utilized for satellite construction and approximately 60% for EchoStar receiver systems in connection with our Digital Home Plan and for general corporate expansion. These percentages could change depending on actual total expenditures for the year. While the Digital Home Plan is a competitive promotion for consumers who want multiple receivers, consumers who only want a single receiver tend to be more attracted to other industry

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

promotions. Consequently, our anticipated capital expenditures related to the Digital Home Plan promotion will decrease to the extent those consumers find other promotions we offer to be more compelling.

In addition to our DBS business plan, we have licenses, or applications pending with the FCC, for a two satellite FSS Ku-band satellite system and a two satellite FSS Ka-band satellite system. We will need to raise additional capital to fully construct these satellites. We are currently funding the construction phase for three satellites. Two of these satellites, EchoStar VII and EchoStar VIII, will be advanced, high-powered DBS satellites. The third satellite, EchoStar IX, will be a hybrid Ku/Ka-band satellite.

During November 2000, one of our wholly-owned subsidiaries purchased a 49.9% interest in VisionStar, Inc. VisionStar holds an FCC license for, and is constructing a Ka-band satellite to launch into, the 113 W.L. orbital slot. Together with VisionStar we have requested FCC approval to acquire control over VisionStar by increasing our ownership of VisionStar to 90%, for a total purchase price of approximately \$2.8 million. We have also provided loans to VisionStar totaling less than \$10 million to date for the construction of their satellite and expect to provide additional funding to VisionStar in the future. We are not obligated to finance the full remaining cost to construct and launch the VisionStar satellite, but VisionStar's FCC license currently requires construction of the satellite to be completed by April 30, 2002 or the license could be revoked. There can be no assurance construction of the satellite will be completed within this time frame. We currently expect to continue to fund loans and equity contributions for construction of the satellite in the near term from cash on hand, and expect that we may spend approximately \$79.5 million during 2001 for that purpose subject to, among other things, FCC action. In the future we may fund construction, launch and insurance of the satellite through cash from operations, public or private debt or equity financing, joint ventures with others, or from other sources.

On July 11, 2001, we announced that, subject, among other things, to customary regulatory approvals, we intend to increase our equity stake in StarBand Communications Inc. to approximately 32% and acquire four out of seven seats on the StarBand Board of Directors. In exchange, we would invest an additional \$50 million in StarBand. Further, we would lease transponder capacity to StarBand from a next generation satellite. In accordance with the agreement and subject to customary regulatory approvals, our equity stake would increase to approximately 60% upon commencement of the construction of the next generation satellite. This investment is expected to be accounted for using the equity method of accounting, which will be retroactively applied during the third quarter 2001. In the future we may fund construction, launch and insurance of satellites through cash from operations, public or private debt or equity financing, joint ventures with others, or from other sources.

From time to time we evaluate opportunities for strategic investments or acquisitions that would complement our current services and products, enhance our technical capabilities or otherwise offer growth opportunities. As a result, acquisition discussions and offers, and in some cases, negotiations may take place and future material investments or acquisitions involving cash, debt or equity securities or a combination thereof may result.

We expect that our future working capital, capital expenditure and debt service requirements will be satisfied from existing cash and investment balances, and cash generated from operations. Our ability to generate positive future operating and net cash flows is dependent, among other things, upon our ability to retain existing DISH Network subscribers, our ability to manage the growth of our subscriber base, and our ability to grow our ETC business. To the extent future subscriber growth exceeds our expectations, it may be necessary for us to raise additional capital to fund increased working capital requirements. There may be a number of other factors, some of which are beyond our control or ability to predict, that could require us to raise additional capital. These factors include unexpected increases in operating costs and expenses, a defect in or the loss of any satellite, or an increase in the cost of acquiring subscribers due to additional competition, among other things. If cash generated from our operations is not sufficient to meet our debt service requirements or other obligations, we would be required to obtain cash from other financing sources. If we were required to raise capital today a variety of debt and equity funding sources would likely be available to us. However, there can be no assurance that such financing would be available on terms acceptable to us, or if available, that the proceeds of such financing would be sufficient to enable us to meet all of our obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

As of June 30, 2001, our unrestricted cash, cash equivalents and marketable investment securities had a fair value of \$2.316 billion. Of that amount, a total of \$2.174 billion was invested in: (a) cash; (b) debt instruments of the U.S. Government and its agencies; (c) commercial paper with an average maturity of less than one year and rated in one of the four highest rating categories by at least two nationally recognized statistical rating organizations; and (d) instruments with similar risk characteristics to the commercial paper described above. The primary purpose of these investing activities has been to preserve principal until the cash is required to fund operations. Consequently, the size of this portfolio fluctuates significantly as cash is raised and used in our business.

The value of certain of the investments in this portfolio can be impacted by, among other things, the risk of adverse changes in securities and economic markets generally, as well as the risks related to the performance of the companies whose commercial paper and other instruments we hold. However, the high quality of these investments (as assessed by independent rating agencies), reduces these risks. The value of these investments can also be impacted by interest rate fluctuations. At June 30, 2001, all of our investments in this category were in fixed rate instruments or money market type accounts. While an increase in interest rates would ordinarily adversely impact the fair value of fixed rate investments, we normally hold these investments to maturity. Consequently, neither interest rate fluctuations nor other market risks typically result in significant gains or losses to this portfolio. A decrease in interest rates has the effect of reducing our future annual interest income from this portfolio, since funds would be re-invested at lower rates as the instruments mature. Over time, any net percentage decrease in interest rates could be reflected in a corresponding net percentage decrease in our interest income. During the six months ending June 30, 2000 and 2001, the impact of interest rate fluctuations, changed business prospects and all other factors did not have a material impact on the fair value of the portfolio, or on our income derived from this portfolio.

We also invest in debt and equity of public and private companies for strategic and financial purposes. As of June 30, 2001, we held strategic and financial debt and equity investments of public companies with a fair value of approximately \$142 million. We acquired stock in one of those companies, OpenTV, in connection with establishment of a strategic relationship which did not involve the investment of cash by us. None of these investments accounted for more than 40% of the total fair value of the portfolio. We may make additional strategic and financial investments in other debt and equity securities in the future.

The fair value of our strategic debt investments can be impacted by interest rate fluctuations. Absent the effect of other factors, a hypothetical 10% increase in LIBOR would result in a decrease in the fair value of our investments in these debt instruments of approximately \$40 million. The fair value of our strategic debt and equity investments can also be significantly impacted by the risk of adverse changes in securities markets generally, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair market 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 \$14.2 million decrease in the fair value of that portfolio.

In accordance with generally accepted accounting principles, declines in the market value of a marketable investment securities which are estimated to be "other than temporary" must be recognized in the statement of operations, thus establishing a new cost basis for such investment. We reviewed the fair value of our marketable investment securities as of June 30, 2001 and determined that some declines in market value have occurred which may be other than temporary. As a result, we established a new cost basis for certain of these investments, and accordingly reduced our previously recorded unrealized loss and recorded a charge to earnings of approximately \$856,000 during the three months ended June 30, 2001. During the six months ended June 30, 2001, EchoStar recorded an aggregate charge to earnings for other than temporary declines of approximately \$33.3 million. We have not used derivative financial instruments for speculative purposes. We have not hedged or otherwise protected against the risks associated with any of our investing or financing activities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - CONTINUED

In addition to the \$2.316 billion, we have made strategic equity investments in certain non-marketable investment securities including Wildblue Communications, StarBand Communications, VisionStar, Inc. and Replay TV. The original cost basis of our investments in these non-marketable investment securities totaled approximately \$116 million. The securities of these companies are not publicly traded. Our ability to create realizable value for our strategic investments in companies that are not public is dependent on the success of their business plans. Among other things, there is relatively greater risk that those companies may not be able to raise sufficient capital to fully finance and execute their business plans. Since 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 that we will not be able to obtain full value for them. StarBand and Wildblue cancelled their planned initial public stock offerings. As a result of the cancellation of those offerings and other factors, during the six months ended June 30, 2001, we recorded a non-recurring charge of approximately \$49.4 million to reduce the carrying value of certain of our non-marketable investment securities to their estimated fair values. Starband and Wildblue need to obtain significant additional capital in the near term. Absent such funding, additional write-downs of our investments could be necessary. As previously discussed, we intend to increase our equity stake in StarBand to approximately 32% and acquire four out of seven seats on the StarBand Board of Directors. In exchange, we would invest an additional \$50 million in StarBand. Further, we would lease transponder capacity to StarBand from a next generation satellite. In accordance with the agreement and subject to customary regulatory approvals, our equity stake would increase to approximately 60% upon commencement of the construction of the next generation satellite.