

DISH Network CORP  
Form 10-Q  
August 06, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013.**

OR

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

Commission File Number: 0-26176

**DISH Network Corporation**

(Exact name of registrant as specified in its charter)

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**Nevada**

(State or other jurisdiction of incorporation or organization)

**88-0336997**

(I.R.S. Employer Identification No.)

**9601 South Meridian Boulevard**

**Englewood, Colorado**

(Address of principal executive offices)

**80112**

(Zip code)

**(303) 723-1000**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of July 31, 2013, the registrant's outstanding common stock consisted of 218,230,414 shares of Class A common stock and 238,435,208 shares of Class B common stock.



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**PART I FINANCIAL INFORMATION**

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

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

**Competition and Economic Risks Affecting our Business**

- We face intense and increasing competition from satellite television providers, cable companies and telecommunications companies, especially as the pay-TV industry has matured, which may require us to increase subscriber acquisition and retention spending or accept lower subscriber activations and higher subscriber churn.
- Competition from digital media companies that provide or facilitate the delivery of video content via the Internet may reduce our gross new subscriber activations and may cause our subscribers to purchase fewer services from us or to cancel our services altogether, resulting in less revenue to us.
- Sustained economic weakness, including continued high unemployment and reduced consumer spending, may adversely affect our ability to grow or maintain our business.
- Our competitors may be able to leverage their relationships with programmers to reduce their programming costs and offer exclusive content that will place them at a competitive advantage to us.
- We face increasing competition from other distributors of unique programming services such as foreign language and sports programming that may limit our ability to maintain subscribers that desire these unique programming services.

**Operational and Service Delivery Risks Affecting our Business**

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- If we do not continue improving our operational performance and customer satisfaction, our gross new subscriber activations may decrease and our subscriber churn may increase.
- If our gross new subscriber activations decrease, or if subscriber churn, subscriber acquisition costs or retention costs increase, our financial performance will be adversely affected.
- Programming expenses are increasing and could adversely affect our future financial condition and results of operations.
- We depend on others to provide the programming that we offer to our subscribers and, if we lose access to this programming, our gross new subscriber activations may decline and subscriber churn may increase.
- Our local programming strategy faces uncertainty because we may not be able to obtain necessary retransmission consent agreements at acceptable rates, or at all, from local network stations.
- We may be required to make substantial additional investments to maintain competitive programming offerings.
- Any failure or inadequacy of our information technology infrastructure could harm our business.
- We currently depend on EchoStar Corporation and its subsidiaries, or EchoStar, to design, develop and manufacture all of our new set-top boxes and certain related components, and to provide transponder capacity, digital broadcast operations and other services to us. Our business would be adversely affected if EchoStar ceases to provide these products and services to us and we are unable to obtain suitable replacement products and services from third parties.

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- We operate in an extremely competitive environment and our success may depend in part on our timely introduction and implementation of, and effective investment in, new competitive products and services, the failure of which could negatively impact our business.
  
- Technology in our industry changes rapidly and our inability to offer new subscribers and upgrade existing subscribers with more advanced equipment could cause our products and services to become obsolete.
  
- We rely on a single vendor or a limited number of vendors to provide certain key products or services to us such as information technology support, billing systems, and security access devices, and the inability of these key vendors to meet our needs could have a material adverse effect on our business.
  
- Our sole supplier of new set-top boxes, EchoStar, relies on a few suppliers and in some cases a single supplier, for many components of our new set-top boxes, and any reduction or interruption in supplies or significant increase in the price of supplies could have a negative impact on our business.
  
- Our programming signals are subject to theft, and we are vulnerable to other forms of fraud that could require us to make significant expenditures to remedy.
  
- We depend on third parties to solicit orders for our services that represent a significant percentage of our total gross new subscriber activations.
  
- We have limited owned and leased satellite capacity and failures or reduced capacity could adversely affect our business.
  
- Our owned and leased satellites are subject to construction, launch, operational and environmental risks that could limit our ability to utilize these satellites.
  
- We generally do not carry commercial insurance for any of the in-orbit satellites that we use, other than certain satellites leased from third parties, and could face significant impairment charges if one of our satellites fails.
  
- We may have potential conflicts of interest with EchoStar due to our common ownership and management.

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- We rely on key personnel and the loss of their services may negatively affect our businesses.

### Acquisition and Capital Structure Risks Affecting our Business

- We made a substantial investment to acquire certain AWS-4 wireless spectrum licenses and other assets from DBSD North America Inc. ( DBSD North America ) and TerreStar Networks, Inc. ( TerreStar ). We will need to make significant additional investments or partner with others to commercialize these licenses and assets.
- We made a substantial investment to acquire certain 700 MHz wireless spectrum licenses and will need to make significant additional investments or partner with others to commercialize these licenses.
- To the extent we commercialize our wireless spectrum licenses, we will face certain risks entering and competing in the wireless services industry and operating a wireless services business.
- Our Blockbuster business faces risks, including, among other things, operational challenges and increasing competition from video rental kiosks and streaming and mail order businesses that may negatively impact the business, financial condition or results of operations of Blockbuster.
- We may pursue acquisitions and other strategic transactions to complement or expand our businesses that may not be successful and we may lose up to the entire value of our investment in these acquisitions and transactions.
- We may need additional capital, which may not be available on acceptable terms or at all, to continue investing in our businesses and to finance acquisitions and other strategic transactions.
- A portion of our investment portfolio is invested in securities that have experienced limited or no liquidity and may not be immediately accessible to support our financing needs, including investments in public companies that are highly speculative and have experienced and continue to experience volatility.
- We have substantial debt outstanding and may incur additional debt.
- It may be difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders, because of our ownership structure.





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- We are controlled by one principal stockholder who is also our Chairman.

**Legal and Regulatory Risks Affecting our Business**

- Our business depends on certain intellectual property rights and on not infringing the intellectual property rights of others.
- We are party to various lawsuits which, if adversely decided, could have a significant adverse impact on our business, particularly lawsuits regarding intellectual property.
- Our ability to distribute video content via the Internet involves regulatory risk.
- Changes in the Cable Act of 1992 ( Cable Act ), and/or the rules of the Federal Communications Commission ( FCC ) that implement the Cable Act, may limit our ability to access programming from cable-affiliated programmers at non-discriminatory rates.
- The injunction against our retransmission of distant networks, which is currently waived, may be reinstated.
- We are subject to significant regulatory oversight, and changes in applicable regulatory requirements, including any adoption or modification of laws or regulations relating to the Internet, could adversely affect our business.
- Our business depends on FCC licenses that can expire or be revoked or modified and applications for FCC licenses that may not be granted.
- We are subject to digital high-definition ( HD ) carry-one, carry-all requirements that cause capacity constraints.
- There can be no assurance that there will not be deficiencies leading to material weaknesses in our internal control over financial reporting.

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

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

Unless otherwise required by the context, in this report, the words DISH Network, the Company, we, our and us refer to DISH Network Corporation and its subsidiaries, EchoStar refers to EchoStar Corporation and its subsidiaries, and DISH DBS refers to DISH DBS Corporation and its subsidiaries, a wholly-owned, indirect subsidiary of DISH Network.

Table of Contents**Item 1. FINANCIAL STATEMENTS****DISH NETWORK CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except share amounts)

(Unaudited)

	June 30, 2013	As of	December 31, 2012
<b>Assets</b>			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 4,093,822	\$	3,606,140
Marketable investment securities	5,433,340		3,631,637
Trade accounts receivable - other, net of allowance for doubtful accounts of \$15,987 and \$16,945, respectively	878,579		842,905
Trade accounts receivable - EchoStar, net of allowance for doubtful accounts of zero	23,648		26,960
Inventory	577,288		623,720
Deferred tax assets	99,854		99,854
Prepaid income taxes	91,459		110,608
Other current assets (Note 2)	963,901		117,329
Total current assets	12,161,891		9,059,153
<i>Noncurrent Assets:</i>			
Restricted cash and marketable investment securities	90,858		134,410
Property and equipment, net of accumulated depreciation of \$3,130,717 and \$3,043,609, respectively	3,990,025		4,402,360
FCC authorizations	3,296,665		3,296,665
Marketable and other investment securities	134,295		119,051
Other noncurrent assets, net	392,067		367,969
Total noncurrent assets	7,903,910		8,320,455
Total assets	\$ 20,065,801	\$	17,379,608
<b>Liabilities and Stockholders Equity (Deficit)</b>			
<i>Current Liabilities:</i>			
Trade accounts payable - other	\$ 294,390	\$	298,722
Trade accounts payable - EchoStar	321,711		281,875
Deferred revenue and other	887,338		857,280
Accrued programming	1,186,807		1,096,908
Accrued interest	261,488		224,383
Litigation accrual			70,999
Other accrued expenses	524,329		556,599
Current portion of long-term debt and capital lease obligations	535,837		537,701
Total current liabilities	4,011,900		3,924,467
<i>Long-Term Obligations, Net of Current Portion:</i>			
Long-term debt and capital lease obligations, net of current portion	13,633,032		11,350,399
Deferred tax liabilities	1,664,891		1,662,732

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Long-term deferred revenue, distribution and carriage payments and other long-term liabilities	386,290	370,382
Total long-term obligations, net of current portion	15,684,213	13,383,513
Total liabilities	19,696,113	17,307,980

Commitments and Contingencies (Note 12)

*Stockholders' Equity (Deficit):*

Class A common stock, \$.01 par value, 1,600,000,000 shares authorized, 273,688,726 and 270,613,262 shares issued, 217,570,466 and 214,495,002 shares outstanding, respectively	2,737	2,706
Class B common stock, \$.01 par value, 800,000,000 shares authorized, 238,435,208 shares issued and outstanding	2,384	2,384
Class C common stock, \$.01 par value, 800,000,000 shares authorized, none issued and outstanding		
Additional paid-in capital	2,517,367	2,440,626
Accumulated other comprehensive income (loss)	214,533	188,803
Accumulated earnings (deficit)	(823,647)	(1,028,193)
Treasury stock, at cost	(1,569,459)	(1,569,459)
Total DISH Network stockholders' equity (deficit)	343,915	36,867
Noncontrolling interest	25,773	34,761
Total stockholders' equity (deficit)	369,688	71,628
Total liabilities and stockholders' equity (deficit)	\$ 20,065,801	\$ 17,379,608

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**DISH NETWORK CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS)**

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenue:</b>				
Subscriber-related revenue	\$ 3,456,536	\$ 3,295,831	\$ 6,809,086	\$ 6,520,296
Equipment and merchandise sales, rental and other revenue	140,611	270,257	341,145	620,994
Equipment sales, services and other revenue - EchoStar	8,986	5,678	11,126	12,345
Total revenue	3,606,133	3,571,766	7,161,357	7,153,635
<b>Costs and Expenses</b> (exclusive of depreciation shown separately below - Note 7):				
Subscriber-related expenses	1,924,020	1,823,665	3,835,613	3,584,917
Satellite and transmission expenses:				
EchoStar	125,706	107,082	238,639	216,936
Other	10,190	9,178	20,438	20,857
Cost of sales - equipment, merchandise, services, rental and other	76,783	130,061	176,309	272,323
<i>Subscriber acquisition costs:</i>				
Cost of sales - subscriber promotion subsidies	67,745	51,500	145,232	136,269
Other subscriber acquisition costs	366,791	355,142	753,204	669,911
Total subscriber acquisition costs	434,536	406,642	898,436	806,180
General and administrative expenses - EchoStar	26,297	14,790	45,177	26,872
General and administrative expenses	249,879	312,877	501,443	676,970
Depreciation and amortization (Note 7)	300,474	299,119	534,801	507,817
Impairment of long-lived assets (Note 7)	437,575		437,575	
Total costs and expenses	3,585,460	3,103,414	6,688,431	6,112,872
Operating income (loss)	20,673	468,352	472,926	1,040,763
<b>Other Income (Expense):</b>				
Interest income	43,843	20,204	81,337	27,293
Interest expense, net of amounts capitalized	(214,870)	(109,301)	(376,256)	(247,314)
Other, net	97,241	(7,448)	106,981	102,834
Total other income (expense)	(73,786)	(96,545)	(187,938)	(117,187)