DISH Network CORP
Form 10-Q
August 06, 2014
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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# Form 10-Q

**(Mark One)**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014.**

**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)

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

**(303) 723-1000**

(Registrant s telephone number, including area code)

**Not Applicable**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 x No o

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

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

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

As of July 30, 2014, the registrant s outstanding common stock consisted of 222,219,864 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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, in particular, statements about our plans, objectives and strategies, growth opportunities in our industries and businesses, our expectations regarding future results, financial condition, liquidity and capital requirements, our estimates regarding the impact of regulatory developments and legal proceedings, and other trends and projections. Forward-looking statements are not historical facts and may be identified by words such as future, anticipate, intend, plan, goal, seek, believe, estimate, expect, predict, will, would, could, c These forward-looking statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q and represent management s current views and assumptions. Forward-looking statements are not guarantees of future performance, events or results and involve known and unknown risks, uncertainties and other factors, which may be beyond our control. Accordingly, actual performance, events or results could differ materially from those expressed or implied in the forward-looking statements due to a number of factors, including, but 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**

- 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 our 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 our subscriber churn may increase.

- 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 disrupt or harm our business.

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- We currently depend on EchoStar Corporation and its subsidiaries, or EchoStar, to design, develop and manufacture substantially all of our new set-top boxes and certain related components, to provide a majority of our transponder capacity, and to provide 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.

- 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 primary 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 satellite capacity and failures or reduced capacity could adversely affect our business.

- Our 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.

- 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 ), to acquire certain 700 MHz wireless spectrum licenses and to acquire certain H Block wireless spectrum licenses. We will need to make significant additional investments or partner with others to commercialize these licenses and assets.

- To the extent that 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.

- 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.

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- 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.

- 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.

- 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.

Other factors that could cause or contribute to such differences include, but are not limited to, those discussed under the caption Risk Factors in Part II, Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2014, and in Part I, Item 1A of our most recent Annual Report on Form 10-K (the 10-K ) filed with the SEC, those discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations herein and in the 10-K and those discussed in other documents we file with the SEC. All cautionary statements made or referred to herein should be read as being applicable to all forward-looking statements wherever they appear. Investors should consider the risks and uncertainties described or referred to herein and should not place undue reliance on any forward-looking statements. The forward-looking statements speak only as of the date made, and we expressly disclaim any obligation to update these forward-looking statements.

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.

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**Item 1. FINANCIAL STATEMENTS**

**DISH NETWORK CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except share amounts)

(Unaudited)

| | As of | | | |
|---|---|---|---|---|
| | | **June 30, 2014** | | **December 31, 2013** |
| **Assets** | | | | |
| *Current Assets:* | | | | |
| Cash and cash equivalents | $ | 4,127,359 | $ | 4,700,022 |
| Marketable investment securities | | 4,775,772 | | 5,039,382 |
| Trade accounts receivable - other, net of allowance for doubtful accounts of $17,258 and $15,981, respectively | | 953,671 | | 902,416 |
| Trade accounts receivable - EchoStar, net of allowance for doubtful accounts of zero | | 19,113 | | 55,102 |
| Inventory | | 528,336 | | 512,707 |
| Deferred tax assets | | 135,952 | | 129,864 |
| Prepaid income taxes | | 94,048 | | 118,021 |
| Current assets - discontinued operations (Note 2) | | | | 68,239 |
| Derivative financial instruments | | 292,333 | | 292,507 |
| Other current assets | | 167,083 | | 495,186 |
| Total current assets | | 11,093,667 | | 12,313,446 |
| | | | | |
| *Noncurrent Assets:* | | | | |
| Restricted cash and marketable investment securities | | 92,786 | | 94,861 |
| Property and equipment, net (Note 8) | | 3,746,741 | | 4,097,711 |
| FCC authorizations (Note 8) | | 4,968,171 | | 3,296,665 |
| Marketable and other investment securities (Note 6) | | 473,830 | | 151,273 |
| Noncurrent assets - discontinued operations (Note 2) | | | | 9,965 |
| Other noncurrent assets, net | | 393,501 | | 392,509 |
| Total noncurrent assets | | 9,675,029 | | 8,042,984 |
| Total assets | $ | 20,768,696 | $ | 20,356,430 |
| | | | | |
| **Liabilities and Stockholders Equity (Deficit)** | | | | |
| *Current Liabilities:* | | | | |
| Trade accounts payable - other | $ | 181,854 | $ | 281,932 |
| Trade accounts payable - EchoStar | | 318,351 | | 355,023 |
| Deferred revenue and other | | 878,763 | | 843,386 |
| Accrued programming | | 1,495,899 | | 1,242,129 |
| Accrued interest | | 227,953 | | 232,734 |
| Other accrued expenses | | 539,392 | | 512,081 |
| Current liabilities - discontinued operations (Note 2) | | | | 49,471 |
| Current portion of long-term debt and capital lease obligations | | 1,665,979 | | 1,034,893 |
| Total current liabilities | | 5,308,191 | | 4,551,649 |
| | | | | |
| *Long-Term Obligations, Net of Current Portion:* | | | | |

| | | | | |
|---|---|---|---|---|
| Long-term debt and capital lease obligations, net of current portion | | 11,795,566 | | 12,596,793 |
| Deferred tax liabilities | | 1,988,315 | | 1,945,690 |
| Long-term liabilities - discontinued operations (Note 2) | | | | 19,804 |
| Long-term deferred revenue, distribution and carriage payments and other long-term liabilities | | 240,693 | | 245,489 |
| Total long-term obligations, net of current portion | | 14,024,574 | | 14,807,776 |
| Total liabilities | | 19,332,765 | | 19,359,425 |
| | | | | |
| Commitments and Contingencies (Note 10) | | | | |
| | | | | |
| *Stockholders Equity (Deficit):* | | | | |
| Class A common stock, $.01 par value, 1,600,000,000 shares authorized, 278,276,024 and 275,950,537 shares issued, 222,157,764 and 219,832,277 shares outstanding, respectively | | 2,783 | | 2,760 |
| Class B common stock, $.01 par value, 800,000,000 shares authorized, 238,435,208 shares issued and outstanding | | 2,384 | | 2,384 |
| Additional paid-in capital | | 2,632,864 | | 2,588,224 |
| Accumulated other comprehensive income (loss) | | 190,129 | | 173,872 |
| Accumulated earnings (deficit) | | 168,543 | | (220,701) |
| Treasury stock, at cost | | (1,569,459) | | (1,569,459) |
| Total DISH Network stockholders equity (deficit) | | 1,427,244 | | 977,080 |
| Noncontrolling interest | | 8,687 | | 19,925 |
| Total stockholders equity (deficit) | | 1,435,931 | | 997,005 |
| Total liabilities and stockholders equity (deficit) | $ | 20,768,696 | $ | 20,356,430 |

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, 2014 | For the Three Months Ended June 30, 2013 | For the Six Months Ended June 30, 2014 | For the Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Subscriber-related revenue | $ 3,645,101 | $ 3,452,764 | $ 7,201,288 | $ 6,800,931 |
| Equipment sales and other revenue | 26,279 | 24,024 | 48,518 | 49,247 |
| Equipment sales, services and other revenue - EchoStar | 16,739 | 8,986 | 32,511 | 11,126 |
| Total revenue | 3,688,119 | 3,485,774 | 7,282,317 | 6,861,304 |
| | | | | |
| **Costs and Expenses** (exclusive of depreciation shown separately below - Note 8): | | | | |
| Subscriber-related expenses | 2,104,236 | 1,924,020 | 4,173,368 | 3,835,613 |
| Satellite and transmission expenses | 180,957 | 135,896 | 330,453 | 259,077 |
| Cost of sales - equipment, services and other | 30,165 | 21,694 | 57,958 | 43,494 |
| *Subscriber acquisition costs:* | | | | |
| Cost of sales - subscriber promotion subsidies | 68,310 | 67,745 | 131,185 | 145,232 |
| Other subscriber acquisition costs | 253,823 | 242,053 | 506,287 | 509,535 |
| Subscriber acquisition advertising | 134,329 | 124,738 | 268,136 | 243,669 |
| Total subscriber acquisition costs | 456,462 | 434,536 | 905,608 | 898,436 |
| General and administrative expenses | 189,660 | 202,200 | 392,773 | 375,469 |
| Depreciation and amortization (Note 8) | 271,895 | 304,642 | 521,115 | 534,812 |
| Impairment of long-lived assets (Note 11) | | 437,575 | | 437,575 |
| Total costs and expenses | 3,233,375 | 3,460,563 | 6,381,275 | 6,384,476 |
| | | | | |
| Operating income (loss) | 454,744 | 25,211 | 901,042 | 476,828 |
| | | | | |
| **Other Income (Expense):** | | | | |
| Interest income | 18,212 | 43,795 | 32,376 | 80,947 |
| Interest expense, net of amounts capitalized | (152,769) | (214,781) | (328,763) | (376,297) |
| Other, net | 8,834 | 96,698 | 3,645 | 108,098 |
| Total other income (expense) | (125,723) | (74,288) | (292,742) | (187,252) |
| | | | | |
| Income (loss) before income taxes | 329,021 | (49,077) | 608,300 | 289,576 |
| Income tax (provision) benefit, net | (121,892) | 40,357 | (230,354) | (86,062) |
| Income (loss) from continuing operations | 207,129 | (8,720) | 377,946 | 203,514 |
| Income (loss) from discontinued operations, net of tax | | (6,354) | | (7,912) |
| Net income (loss) | 207,129 | (15,074) | 377,946 | 195,602 |
| Less: Net income (loss) attributable to noncontrolling interest | (6,184) | (4,022) | (11,298) | (8,944) |
| Net income (loss) attributable to DISH Network | $ 213,313 | $ (11,052) | $ 389,244 | $ 204,546 |
| | | | | |
| **Weighted-average common shares outstanding - Class A and B common stock:** | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Basic | | 459,863 | | 455,452 | | 459,147 | | 454,353 |
| Diluted | | 462,607 | | 455,452 | | 461,941 | | 457,405 |
| | | | | | | | | |
| **Earnings per share - Class A and B common stock:** | | | | | | | | |
| Basic net income (loss) per share from continuing operations attributable to DISH Network | $ | 0.46 | $ | (0.01) | $ | 0.85 | $ | 0.47 |
| Basic net income (loss) per share from discontinued operations | | | | (0.01) | | | | (0.02) |
| Basic net income (loss) per share attributable to DISH Network | $ | 0.46 | $ | (0.02) | $ | 0.85 | $ | 0.45 |
| | | | | | | | | |
| Diluted net income (loss) per share from continuing operations attributable to DISH Network | $ | 0.46 | $ | (0.01) | $ | 0.84 | $ | 0.46 |
| Diluted net income (loss) per share from discontinued operations | | | | (0.01) | | | | (0.01) |
| Diluted net income (loss) per share attributable to DISH Network | $ | 0.46 | $ | (0.02) | $ | 0.84 | $ | 0.45 |
| | | | | | | | | |
| **Comprehensive Income (Loss):** | | | | | | | | |
| Net income (loss) | $ | 207,129 | $ | (15,074) | $ | 377,946 | $ | 195,602 |
| *Other comprehensive income (loss):* | | | | | | | | |
| Foreign currency translation adjustments | | | | 2,862 | | 3,878 | | 5,599 |
| Unrealized holding gains (losses) on available-for-sale securities | | 9,586 | | 19,285 | | 19,569 | | 37,068 |
| Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss) | | (555) | | (6,706) | | (62) | | (5,344) |
| Deferred income tax (expense) benefit, net | | (3,299) | | (4,597) | | (7,128) | | (11,593) |
| *Total other comprehensive income (loss), net of tax* | | 5,732 | | 10,844 | | 16,257 | | 25,730 |
| Comprehensive income (loss) | | 212,861 | | (4,230) | | 394,203 | | 221,332 |
| Less: Comprehensive income (loss) attributable to noncontrolling interest | | (6,184) | | (4,022) | | (11,298) | | (8,944) |
| Comprehensive income (loss) attributable to DISH Network | $ | 219,045 | $ | (208) | $ | 405,501 | $ | 230,276 |

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

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**DISH NETWORK CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

| | For the Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net income (loss) | $ 377,946 | $ 195,602 |
| Less: Income (loss) from discontinued operations, net of tax | | (7,912) |
| Income (loss) from continuing operations | $ 377,946 | $ 203,514 |
| *Adjustments to reconcile net income (loss) to net cash flows from operating activities:* | | |
| Depreciation and amortization | 521,115 | 534,812 |
| Impairment of long-lived assets | | 437,575 |
| Realized and unrealized losses (gains) on investments | (6,906) | (107,947) |
| Non-cash, stock-based compensation | 20,644 | 14,646 |
| Deferred tax expense (benefit) | 58,118 | (50,071) |
| Other, net | 49,358 | 98,169 |
| Changes in current assets and current liabilities | 130,881 | 139,144 |
| **Net cash flows from operating activities from continuing operations** | 1,151,156 | 1,269,842 |
| **Net cash flows from operating activities from discontinued operations, net** | (30,007) | (38,575) |
| | | |
| **Cash Flows From Investing Activities:** | | |
| Purchases of marketable investment securities | (2,679,365) | (3,590,433) |
| Sales and maturities of marketable investment securities | 2,925,112 | 1,836,573 |
| Purchases of derivative financial instruments | | (592,015) |
| Purchases of property and equipment | (600,610) | (592,552) |
| Change in restricted cash and marketable investment securities | 2,075 | 43,069 |
| Purchases of FCC authorizations - H Block wireless spectrum licenses (Note 10) | (1,343,372) | |
| Other, net | 39,473 | (173,800) |
| **Net cash flows from investing activities from continuing operations** | (1,656,687) | (3,069,158) |
| **Net cash flows from investing activities from discontinued operations, net, including $0 and $1,188 of purchases of property and equipment, respectively** | 20,847 | 10,783 |
| | | |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from issuance of long-term debt | | 2,300,000 |
| Proceeds from issuance of restricted debt | | 2,600,000 |
| Redemption of restricted debt | | (2,600,000) |
| Funding of restricted debt escrow | | (2,596,750) |
| Release of restricted debt escrow | | 2,596,771 |
| Repurchases of long-term debt | (101,208) | |
| Debt issuance costs | | (11,427) |
| Repayment of long-term debt and capital lease obligations | (15,606) | (20,378) |
| Net proceeds from Class A common stock options exercised and stock issued under the Employee Stock Purchase Plan | 29,696 | 37,071 |
| Other | 19,986 | 9,605 |
| **Net cash flows from financing activities from continuing operations** | (67,132) | 2,314,892 |
| **Net cash flows from financing activities from discontinued operations, net** | | (153) |

| | | | | |
|---|---|---|---|---|
| **Effect of exchange rates on cash and cash equivalents from discontinued operations** | | | | 51 |
| | | | | |
| **Net increase (decrease) in cash and cash equivalents from continuing operations** | | (572,663) | | 515,576 |
| Cash and cash equivalents, beginning of period from continuing operations | | 4,700,022 | | 3,573,742 |
| Cash and cash equivalents, end of period from continuing operations | $ | 4,127,359 | $ | 4,089,318 |
| | | | | |
| **Net increase (decrease) in cash and cash equivalents from discontinued operations** | | (9,160) | | (27,894) |
| Cash and cash equivalents, beginning of period from discontinued operations | | 9,160 | | 32,398 |
| Cash and cash equivalents, end of period from discontinued operations | $ | | $ | 4,504 |

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

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**DISH NETWORK CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

## 1. Organization and Business Activities

***Principal Business***

DISH Network Corporation is a holding company. Its subsidiaries (which together with DISH Network Corporation are referred to as DISH Network, the Company, we, us and/or our, unless otherwise required by the context) operate two primary business segments.

- ***DISH.*** The DISH® branded pay-TV service ( DISH ) had 14.053 million subscribers in the United States as of June 30, 2014. The DISH branded pay-TV service consists of, among other things, Federal Communications Commission ( FCC ) licenses authorizing us to use direct broadcast satellite ( DBS ) and Fixed Satellite Service ( FSS ) spectrum, our owned and leased satellites, receiver systems, third-party broadcast operations, customer service facilities, a leased fiber network, in-home service and call center operations, and certain other assets utilized in our operations. In addition, we market broadband services under the dishNET brand, which had 0.525 million subscribers in the United States as of June 30, 2014. This service utilizes advanced technology and high-powered satellites launched by Hughes Communications, Inc. ( Hughes ) and ViaSat, Inc. ( ViaSat ) to provide broadband coverage nationwide. This service primarily targets approximately 15 million rural residents that are underserved, or unserved, by wireline broadband. In addition to the dishNET branded satellite broadband service, we also offer wireline voice and broadband services under the dishNET brand as a competitive local exchange carrier to consumers living in a 14-state region in the western United States. We primarily bundle our dishNET branded services with our DISH branded pay-TV service.

- ***Wireless.*** In 2008, we paid $712 million to acquire certain 700 MHz E Block ( 700 MHz ) wireless spectrum licenses, which were granted to us by the FCC in February 2009. On March 9, 2012, we completed the acquisitions of 100% of the equity of reorganized DBSD North America, Inc. ( DBSD North America ) and substantially all of the assets of TerreStar Networks, Inc. ( TerreStar ), pursuant to which we acquired, among other things, certain satellite assets and 40 MHz of spectrum licenses held by DBSD North America (the DBSD Transaction ) and TerreStar (the TerreStar Transaction ), which licenses the FCC modified in March 2013 to add AWS-4 authority ( AWS-4 ). The total consideration to acquire the DBSD North America and TerreStar assets was approximately $2.860 billion. In addition, we paid $1.672 billion to acquire all 176 H Block wireless spectrum licenses ( H Block ) in the recent H Block auction, which were granted to us by the FCC on April 29, 2014. These wireless spectrum licenses are subject to certain interim and final build-out requirements. As we review our options for the commercialization of our wireless spectrum, we may incur significant additional expenses and may have to make significant investments related to, among other things, research and development, wireless testing and wireless network infrastructure, as well as the acquisition of additional wireless spectrum. See Note 10 for further discussion.

## 2. Summary of Significant Accounting Policies

***Basis of Presentation***

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required for complete financial statements prepared under GAAP. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Our results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013. Certain prior period amounts have been reclassified to conform to the current period presentation.

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**DISH NETWORK CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

***Principles of Consolidation***

We consolidate all majority owned subsidiaries, investments in entities in which we have controlling influence and variable interest entities where we have been determined to be the primary beneficiary. Minority interests are recorded as noncontrolling interest. Non-majority owned investments are accounted for using the equity method when we have the ability to significantly influence the operating decisions of the investee. When we do not have the ability to significantly influence the operating decisions of an investee, the cost method is used. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Discontinued Operations***

As of December 31, 2013, Blockbuster had ceased material operations. Accordingly, our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and Condensed Consolidated Statements of Cash Flows have been recast to present the operations of Blockbuster as discontinued for all periods presented and the amounts presented in the Notes to our Condensed Consolidated Financial Statements relate only to our continuing operations, unless otherwise noted. On January 14, 2014, we completed the sale of our Blockbuster operations in Mexico.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense for each reporting period. Estimates are used in accounting for, among other things, allowances for doubtful accounts, self-insurance obligations, deferred taxes and related valuation allowances, uncertain tax positions, loss contingencies, fair value of financial instruments, fair value of options granted under our stock-based compensation plans, fair value of assets and liabilities acquired in business combinations, fair value of multi-element arrangements, capital leases, asset impairments, estimates of future cash flows used to evaluate impairments, useful lives of property, equipment and intangible assets, retailer incentives, programming expenses, subscriber lives and royalty obligations. Weak economic conditions have increased the inherent uncertainty in the estimates and assumptions indicated above. Actual results may differ from previously estimated amounts, and such differences may be material to our Condensed Consolidated Financial Statements. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected prospectively in the period they occur.

***Fair Value Measurements***

We determine fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Market or observable inputs are the preferred source of values, followed by unobservable inputs or assumptions based on hypothetical transactions in the absence of market inputs. We apply the following hierarchy in determining fair value:

- Level 1, defined as observable inputs being quoted prices in active markets for identical assets, including U.S. treasury notes;

- Level 2, defined as observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and derivative financial instruments indexed to marketable investment securities; and

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**DISH NETWORK CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

• Level 3, defined as unobservable inputs for which little or no market data exists, consistent with reasonably available assumptions made by other participants therefore requiring assumptions based on the best information available.

As of June 30, 2014 and December 31, 2013, the carrying value for cash and cash equivalents, trade accounts receivable (net of allowance for doubtful accounts) and current liabilities (excluding the Current portion of long-term debt and capital lease obligations ) is equal to or approximates fair value due to their short-term nature or proximity to current market rates. See Note 6 for the fair value of our marketable investment securities and see below for the fair value of our derivative financial instruments.

Fair values for our publicly traded debt securities are based on quoted market prices, when available. The fair values of private debt are estimated based on an analysis in which we evaluate market conditions, related securities, various public and private offerings, and other publicly available information. In performing this analysis, we make various assumptions regarding, among other things, credit spreads, and the impact of these factors on the value of the debt securities. See Note 9 for the fair value of our long-term debt.

***Derivative Financial Instruments***

We may purchase and hold derivative financial instruments for, among other reasons, strategic or speculative purposes. We record all derivative financial instruments on our Condensed Consolidated Balance Sheets at fair value as either assets or liabilities. Changes in the fair values of derivative financial instruments are recognized in our results of operations and included in Other, net within Other Income (Expense) on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). We currently have not designated any derivative financial instrument for hedge accounting.

As of June 30, 2014 and December 31, 2013, we held derivative financial instruments indexed to the trading price of common equity securities with a fair value of $292 million and $293 million, respectively. The fair value of the derivative financial instruments is dependent on the trading price of the indexed common equity which may be volatile and vary depending on, among other things, the issuer s financial and operational performance and market conditions.

***New Accounting Pronouncements***

*Revenue from Contracts with Customers.* On May 28, 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2014-09 ( ASU 2014-09 ), *Revenue from Contracts with Customers*. This converged standard on revenue recognition was issued jointly with the International Accounting Standards Board ( IASB ) to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards ( IFRS ). ASU 2014-09 provides a framework for revenue recognition that replaces most existing GAAP revenue recognition guidance when it becomes effective. ASU 2014-09 will become effective for us on January 1, 2017. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

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**DISH NETWORK CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

(Unaudited)

## 3. Basic and Diluted Net Income (Loss) Per Share

We present both basic earnings per share ( EPS ) and diluted EPS. Basic EPS excludes potential dilution and is computed by dividing Net income (loss) attributable to DISH Network by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock awards were exercised. The potential dilution from stock awards was computed using the treasury stock method based on the average market value of our Class A common stock. The following table presents EPS amounts for all periods and the basic and diluted weighted-average shares outstanding used in the calculation.

| | For the Three Months Ended June 30, 2014 | For the Three Months Ended June 30, 2013 | For the Six Months Ended June 30, 2014 | For the Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | |
| Income (loss) from continuing operations | $ 207,129 | $ (8,720) | $ 377,946 | $ 203,514 |
| Less: Net income (loss) attributable to noncontrolling interest | (6,184) | (4,022) | (11,298) | (8,944) |
| Income (loss) from continuing operations attributable to DISH Network | 213,313 | (4,698) | 389,244 | 212,458 |
| Income (loss) from discontinued operations, net of tax | | (6,354) | | (7,912) |
| **Net income (loss) attributable to DISH Network** | $ 213,313 | $ (11,052) | $ 389,244 | $ 204,546 |
| **Weighted-average common shares outstanding - Class A and B common stock:** | | | | |
| Basic | 459,863 | 455,452 | 459,147 | 454,353 |
| Dilutive impact of stock awards outstanding | 2,744 | | 2,794 | 3,052 |
| Diluted | 462,607 | 455,452 | 461,941 | 457,405 |
| **Earnings per share - Class A and B common stock:** | | | | |
| Basic net income (loss) per share from continuing operations attributable to DISH Network | $ 0.46 | $ (0.01) | $ 0.85 | $ 0.47 |
| Basic net income (loss) per share from discontinued operations | | (0.01) | | (0.02) |
| **Basic net income (loss) per share attributable to DISH Network** | $ 0.46 | $ (0.02) | $ 0.85 | $ 0.45 |
| Diluted net income (loss) per share from continuing operations attributable to DISH Network | $ 0.46 | $ (0.01) | $ 0.84 | $ 0.46 |
| Diluted net income (loss) per share from discontinued operations | | (0.01) | | (0.01) |
| **Diluted net income (loss) per share attributable to DISH Network** | | | | |