DISH Network CORP
Form 10-Q
May 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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 **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 £ (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of May 1, 2014, the registrant s outstanding common stock consisted of 220,575,229 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.

- 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, to provide a majority of our transponder capacity, and to provide digital broadcast operations and other services to us. Our business

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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 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 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 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.

- 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.

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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 this Quarterly Report on Form 10-Q 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	
	March 31, 2014	**December 31, 2013**
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,168,687	$ 4,700,022
Marketable investment securities	4,792,792	5,039,382
Trade accounts receivable - other, net of allowance for doubtful accounts of $12,025 and $15,981, respectively	856,426	902,416
Trade accounts receivable - EchoStar, net of allowance for doubtful accounts of zero	83,387	55,102
Inventory	522,890	512,707
Deferred tax assets	135,952	129,864
Prepaid income taxes	42,546	118,021
Current assets - discontinued operations (Note 2)		68,239
Derivative financial instruments	287,202	292,507
H Block FCC license deposit (Note 10)	1,564,000	328,134
Other current assets	134,897	167,052
Total current assets	12,588,779	12,313,446
Noncurrent Assets:		
Restricted cash and marketable investment securities	94,096	94,861
Property and equipment, net (Note 8)	3,703,846	4,097,711
FCC authorizations	3,296,665	3,296,665
Marketable and other investment securities (Note 6)	471,103	151,273
Noncurrent assets - discontinued operations (Note 2)		9,965
Other noncurrent assets, net	396,297	411,707
Total noncurrent assets	7,962,007	8,062,182
Total assets	$ 20,550,786	$ 20,375,628
Liabilities and Stockholders Equity (Deficit)		
Current Liabilities:		
Trade accounts payable - other	$ 164,346	$ 281,932
Trade accounts payable - EchoStar	379,467	355,023
Deferred revenue and other	876,026	843,386
Accrued programming	1,369,847	1,242,129
Accrued interest	210,565	232,734
Other accrued expenses	606,117	512,081
Current liabilities - discontinued operations (Note 2)		49,471
Current portion of long-term debt and capital lease obligations	1,030,253	1,034,893
Total current liabilities	4,636,621	4,551,649

Long-Term Obligations, Net of Current Portion:				
Long-term debt and capital lease obligations, net of current portion		12,570,232		12,615,991
Deferred tax liabilities		1,951,987		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		247,263		245,489
Total long-term obligations, net of current portion		14,769,482		14,826,974
Total liabilities		19,406,103		19,378,623
Commitments and Contingencies (Note 10)				
Stockholders Equity (Deficit):				
Class A common stock, $.01 par value, 1,600,000,000 shares authorized, 276,222,287 and 275,950,537 shares issued, 220,104,027 and 219,832,277 shares outstanding, respectively		2,762		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		2,554,526		2,588,224
Accumulated other comprehensive income (loss)		184,397		173,872
Accumulated earnings (deficit)		(44,770)		(220,701)
Treasury stock, at cost		(1,569,459)		(1,569,459)
Total DISH Network stockholders equity (deficit)		1,129,840		977,080
Noncontrolling interest		14,843		19,925
Total stockholders equity (deficit)		1,144,683		997,005
Total liabilities and stockholders equity (deficit)	$	20,550,786	$	20,375,628

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 March 31, 2014	For the Three Months Ended March 31, 2013
Revenue:		
Subscriber-related revenue	$ 3,556,187	$ 3,348,167
Equipment sales and other revenue	22,239	25,223
Equipment sales, services and other revenue - EchoStar	15,772	2,140
Total revenue	3,594,198	3,375,530
Costs and Expenses (exclusive of depreciation shown separately below - Note 8):		
Subscriber-related expenses	2,069,132	1,911,593
Satellite and transmission expenses:		
EchoStar	138,891	112,933
Other	10,605	10,248
Cost of sales - equipment, services and other	27,793	21,800
Subscriber acquisition costs:		
Cost of sales - subscriber promotion subsidies	62,875	77,487
Other subscriber acquisition costs	252,464	267,482
Subscriber acquisition advertising	133,807	118,931
Total subscriber acquisition costs	449,146	463,900
General and administrative expenses - EchoStar	24,800	18,422
General and administrative expenses	178,313	154,847
Depreciation and amortization (Note 8)	249,220	230,170
Total costs and expenses	3,147,900	2,923,913
Operating income (loss)	446,298	451,617
Other Income (Expense):		
Interest income	14,164	37,152
Interest expense, net of amounts capitalized	(175,994)	(161,516)
Other, net	(5,189)	11,400
Total other income (expense)	(167,019)	(112,964)
Income (loss) before income taxes	279,279	338,653
Income tax (provision) benefit, net	(108,462)	(126,419)
Income (loss) from continuing operations	170,817	212,234
Income (loss) from discontinued operations, net of tax		(1,558)
Net income (loss)	170,817	210,676
Less: Net income (loss) attributable to noncontrolling interest	(5,114)	(4,922)
Net income (loss) attributable to DISH Network	$ 175,931	$ 215,598
Weighted-average common shares outstanding - Class A and B common stock:		
Basic	458,422	453,242
Diluted	461,361	456,192

Earnings per share - Class A and B common stock:				
Basic net income (loss) per share from continuing operations attributable to DISH Network	$	0.38	$	0.48
Basic net income (loss) per share from discontinued operations				
Basic net income (loss) per share attributable to DISH Network	$	0.38	$	0.48
Diluted net income (loss) per share from continuing operations attributable to DISH Network	$	0.38	$	0.48
Diluted net income (loss) per share from discontinued operations				(0.01)
Diluted net income (loss) per share attributable to DISH Network	$	0.38	$	0.47
Comprehensive Income (Loss):				
Net income (loss)	$	170,817	$	210,676
Other comprehensive income (loss):				
Foreign currency translation adjustments		3,878		2,737
Unrealized holding gains (losses) on available-for-sale securities		9,983		17,783
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income (loss)		493		1,362
Deferred income tax (expense) benefit, net		(3,829)		(6,996)
Total other comprehensive income (loss), net of tax		10,525		14,886
Comprehensive income (loss)		181,342		225,562
Less: Comprehensive income (loss) attributable to noncontrolling interest		(5,114)		(4,922)
Comprehensive income (loss) attributable to DISH Network	$	186,456	$	230,484

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 Three Months Ended March 31, 2014	2013
Cash Flows From Operating Activities:		
Net income (loss)	$ 170,817	$ 210,676
Less: Income (loss) from discontinued operations, net of tax		(1,558)
Income (loss) from continuing operations	$ 170,817	$ 212,234
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	249,220	230,170
Realized and unrealized losses (gains) on investments	1,521	(11,262)
Non-cash, stock-based compensation	9,863	10,758
Deferred tax expense (benefit)	25,088	46,568
Other, net	39,709	60,783
Changes in current assets and current liabilities	174,487	159,130
Net cash flows from operating activities from continuing operations	670,705	708,381
Net cash flows from operating activities from discontinued operations, net	(30,007)	(21,919)
Cash Flows From Investing Activities:		
Purchases of marketable investment securities	(1,290,940)	(1,316,229)
Sales and maturities of marketable investment securities	1,575,374	817,230
Purchases of derivative financial instruments (Note 2)		(550,000)
Purchases of property and equipment	(287,645)	(310,933)
Change in restricted cash and marketable investment securities	765	42,956
H Block FCC license deposit (Note 10)	(1,235,866)	
Other, net	36,067	(41,688)
Net cash flows from investing activities from continuing operations	(1,202,245)	(1,358,664)
Net cash flows from investing activities from discontinued operations, net, including $0 and $594 of purchases of property and equipment, respectively	20,847	(6,072)
Cash Flows From Financing Activities:		
Repayment of long-term debt and capital lease obligations	(7,724)	(8,479)
Net proceeds from Class A common stock options exercised and stock issued under the Employee Stock Purchase Plan	6,014	10,887
Other	1,915	388
Net cash flows from financing activities from continuing operations	205	2,796
Net cash flows from financing activities from discontinued operations, net		(48)
Effect of exchange rates on cash and cash equivalents from discontinued operations		228
Net increase (decrease) in cash and cash equivalents from continuing operations	(531,335)	(647,487)
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	$ 4,168,687	$ 2,926,255
Net increase (decrease) in cash and cash equivalents from discontinued operations	(9,160)	(27,811)
Cash and cash equivalents, beginning of period from discontinued operations	9,160	32,398

Cash and cash equivalents, end of period from discontinued operations	$		$	4,587

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 14.097 million subscribers in the United States as of March 31, 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. 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 wireless spectrum licenses, which were granted to us by the FCC in February 2009 subject to certain interim and final build-out requirements. 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, 40 MHz of AWS-4 wireless spectrum licenses held by DBSD North America (the DBSD Transaction) and TerreStar (the TerreStar Transaction). The total consideration to acquire the DBSD North America and TerreStar assets was approximately $2.860 billion. In addition, we were the winning bidder for all 176 wireless spectrum licenses in the recent H Block auction with an aggregate bid of $1.564 billion. On April 29, 2014, the FCC issued an order granting our application to acquire these H Block spectrum licenses. 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.

Recent Developments

Satellite and Tracking Stock Transaction with EchoStar. To improve our position in the growing consumer satellite broadband market, among other reasons, on February 20, 2014, we entered into agreements with EchoStar Corporation (EchoStar) to implement a transaction pursuant to which, among other things: (i) on March 1, 2014, we transferred to EchoStar and Hughes Satellite Systems Corporation (HSSC), a wholly-owned subsidiary of EchoStar, five satellites (EchoStar I, EchoStar VII, EchoStar X, EchoStar XI and EchoStar XIV (collectively the Transferred Satellites), including related in-orbit incentive obligations and cash interest payments of approximately $59 million), and approximately $11 million in cash in exchange for an aggregate of 6,290,499 shares of a series of preferred tracking stock issued by EchoStar and an aggregate of 81.128 shares of a series of preferred tracking stock issued by HSSC (collectively, the Tracking Stock); and (ii) beginning on March 1, 2014, we lease back certain satellite capacity on the Transferred Satellites (collectively, the Satellite and Tracking Stock Transaction). The Tracking Stock generally tracks the residential retail satellite broadband business of Hughes Network Systems, LLC (HNS), a wholly-owned subsidiary of HSSC, including without limitation the operations, assets and liabilities attributed to the Hughes residential retail satellite broadband business (collectively, the Hughes

DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Retail Group). The shares of the Tracking Stock issued to us represent an aggregate 80% economic interest in the Hughes Retail Group. Although our investment in the Tracking Stock represents an aggregate 80% economic interest in the Hughes Retail Group, we have no operational control or significant influence over the Hughes Retail Group business, and currently there is no public market for the Tracking Stock.

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.

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.

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DISH NETWORK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

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

- 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 March 31, 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 March 31, 2014 and December 31, 2013, we held derivative financial instruments indexed to the trading price of common equity securities with a fair value of $287 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.

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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 March 31, 2014	2013
	(In thousands, except per share amounts)	
Income (loss) from continuing operations	$ 170,817	$ 212,234
Less: Net income (loss) attributable to noncontrolling interest	(5,114)	(4,922)
Income (loss) from continuing operations attributable to DISH Network	175,931	217,156
Income (loss) from discontinued operations, net of tax		(1,558)
Net income (loss) attributable to DISH Network	$ 175,931	$ 215,598
Weighted-average common shares outstanding - Class A and B common stock:		
Basic	458,422	453,242
Dilutive impact of stock awards outstanding	2,939	2,950
Diluted	461,361	456,192
Earnings per share - Class A and B common stock:		
Basic net income (loss) per share from continuing operations attributable to DISH Network	$ 0.38	$ 0.48
Basic net income (loss) per share from discontinued operations		
Basic net income (loss) per share attributable to DISH Network	$ 0.38	$ 0.48
Diluted net income (loss) per share from continuing operations attributable to DISH Network	$ 0.38	$ 0.48
Diluted net income (loss) per share from discontinued operations		(0.01)
Diluted net income (loss) per share attributable to DISH Network	$ 0.38	$ 0.47

As of March 31, 2014 and 2013, there were stock awards to purchase 0.1 million and 1.9 million shares, respectively, of Class A common stock outstanding, not included in the weighted-average common shares outstanding above, as their effect is anti-dilutive.

Vesting of options and rights to acquire shares of our Class A common stock granted pursuant to our performance-based stock incentive plans (Restricted Performance Units) is contingent upon meeting certain goals, some of which are not yet probable of being achieved. As a consequence, the following are also not included in the diluted EPS calculation.

	As of March 31,	
	2014	2013
	(In thousands)	
Performance based options	7,766	9,791
Restricted Performance Units	1,866	2,118
Total	9,632	11,909

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4. Supplemental Data Statements of Cash Flows

The following table presents our supplemental cash flow and other non-cash data.

	For the Three Months Ended March 31, 2014	2013
	(In thousands)	
Cash paid for interest (including capitalized interest)	$ 230,312	$ 219,959
Cash received for interest	33,273	15,292
Cash paid for income taxes	9,427	2,025
Capitalized interest	36,281	35,290
Satellite and Tracking Stock Transaction with EchoStar:		
Transfer of property and equipment, net	432,080	
Investment in EchoStar and HSSC preferred tracking stock - cost method	316,204	
Transfer of liabilities and other	44,540	
Capital distribution to EchoStar, net of deferred taxes of $31,274	51,466	

5. Other Comprehensive Income (Loss)

The following table presents the tax effects on each component of Other comprehensive income (loss).

	2014 Before Tax Amount	2014 Tax (Expense) Benefit	2014 Net of Tax Amount	2013 Before Tax Amount	2013 Tax (Expense) Benefit	2013 Net of Tax Amount
	For the Three Months Ended March 31, (In thousands)					
Foreign currency translation adjustments	$ 3,878	$	$ 3,878	$ 2,737	$	$ 2,737
Unrealized holding gains (losses) on available-for-sale securities	9,983	(3,649)	6,334	17,783	(6,498)	11,285
Recognition of previously unrealized (gains) losses on available-for-sale securities included in net income	493	(180)	313	1,362	(498)	864

(loss)												
Other comprehensive income (loss)	$	14,354	$	(3,829)	$	10,525	$	21,882	$	(6,996)	$	14,886

The Accumulated other comprehensive income (loss) is detailed in the following table.

Accumulated Other Comprehensive Income (Loss)		**Foreign Currency Translation Adjustment**		**Unrealized / Recognized Gains (Losses) (1)**		**Total**
				(In thousands)		
Balance as of December 31, 2013	$	(3,878)	$	177,750	$	173,872
Other comprehensive income (loss) before reclassification				6,334		6,334
Amounts reclassified from accumulated other comprehensive income(loss)		3,878		313		4,191
Balance as of March 31, 2014	$		$	184,397	$	184,397

(1) All amounts are net of tax.

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6. Marketable Investment Securities, Restricted Cash and Cash Equivalents, and Other Investment Securities

Our marketable investment securities, restricted cash and cash equivalents, and other investment securities consisted of the following:

	As of	
	March 31, 2014	**December 31, 2013**
	(In thousands)	
Marketable investment securities:		
Current marketable investment securities - VRDNs	$ 113,970	$ 116,570
Current marketable investment securities - strategic	531,614	534,449
Current marketable investment securities - other	4,147,208	4,388,363
Total current marketable investment securities	4,792,792	5,039,382
Restricted marketable investment securities (1)	73,446	81,371
Noncurrent marketable investment securities - ARS and other (2)	137,278	133,652
Total marketable investment securities	5,003,516	5,254,405
Restricted cash and cash equivalents (1)	20,650	13,490
Other investment securities:		
Investment in EchoStar preferred tracking stock - cost method (2)	228,795	
Investment in HSSC preferred tracking stock - cost method (2)	87,409	
Other investment securities - cost method (2)	17,621	17,621
Total other investment securities	333,825	17,621
Total marketable investment securities, restricted cash and cash equivalents, and other investment securities	$ 5,357,991	$ 5,285,516

(1) Restricted marketable investment securities and restricted cash and cash equivalents are included in Restricted cash and marketable investment securities on our Condensed Consolidated Balance Sheets.

(2) Noncurrent marketable investment securities auction rate securities (ARS) and other investment securities are included in Marketable and other investment securities on our Condensed Consolidated Balance Sheets.

Marketable Investment Securities

Our marketable investment securities portfolio consists of various debt and equity instruments, all of which are classified as available-for-sale, except as specified below.

Current Marketable Investment Securities - VRDNs

Variable rate demand notes (VRDNs) are long-term floating rate municipal bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. Our VRDN portfolio is comprised mainly of investments in municipalities, which are backed by financial institutions or other highly rated obligors that serve as the pledged liquidity source. While they are classified as marketable investment securities, the put option allows VRDNs to be liquidated generally on a same day or on a five business day settlement basis.

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Current Marketable Investment Securities - Strategic

Our current strategic marketable investment securities include strategic and financial debt and equity investments in public companies that are highly speculative and have experienced and continue to experience volatility. As of March 31, 2014, our strategic investment portfolio consisted of securities of a small number of issuers, and as a result the value of that portfolio depends, among other things, on the performance of those issuers. The fair value of certain of the debt and equity securities in our investment portfolio can be adversely impacted by, among other things, the issuers respective performance and ability to obtain any necessary additional financing on acceptable terms, or at all.

Current Marketable Investment Securities - Other

Our current marketable investment securities portfolio includes investments in various debt instruments including corporate and government bonds.

Restricted Cash and Marketable Investment Securities

As of March 31, 2014 and December 31, 2013, our restricted marketable investment securities, together with our restricted cash, included amounts required as collateral for our letters of credit or surety bonds and for litigation. During the first quarter 2013, we released $42 million of restricted cash related to litigation. See Note 10 for further information.

Noncurrent Marketable Investment Securities ARS and Other Investment Securities

We have investments in ARS and other investment securities which are either classified as available-for-sale securities or are accounted for under the fair value method. Previous events in the credit markets reduced or eliminated current liquidity for certain of our ARS and other investment securities. As a result, we classify these investments as noncurrent assets, as we intend to hold these investments until they recover or mature.

The valuation of our ARS and other investment securities investments portfolio is subject to uncertainties that are difficult to estimate. Due to the lack of observable market quotes for identical assets, we utilize analyses that rely on Level 2 and/or Level 3 inputs, as defined in Fair Value

Measurements. These inputs include, among other things, observed prices on similar assets as well as our assumptions and estimates related to the counterparty credit quality, default risk underlying the security and overall capital market liquidity. These securities were also compared, when possible, to other observable market data for financial instruments with similar characteristics.

Fair Value Election. As of March 31, 2014, our ARS and other noncurrent marketable investment securities portfolio of $137 million included $93 million of securities accounted for under the fair value method.

Other Investment Securities

We have strategic investments in certain debt and equity securities that are included in noncurrent Marketable and other investment securities on our Condensed Consolidated Balance Sheets and accounted for using the cost, equity and/or fair value methods of accounting.

Our ability to realize value from our strategic investments in securities that are not publicly traded depends on the success of the issuers businesses and their ability to obtain sufficient capital, on acceptable terms or at all, and to execute their business plans. Because private markets are not as liquid as public markets, there is also increased risk that we will not be able to sell these investments, or that when we desire to sell them we will not be able to obtain fair value for them.

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Investment in Tracking Stock

During the first quarter 2014, as part of the Satellite and Tracking Stock Transaction with EchoStar, we received an aggregate of 6,290,499 shares of preferred tracking stock issued by EchoStar and an aggregate of 81.128 shares of preferred tracking stock issued by HSSC (collectively, the Tracking Stock). The Tracking Stock generally tracks the Hughes Retail Group. The shares of the Tracking Stock issued to us represent an aggregate 80% economic interest in the Hughes Retail Group. Since the Satellite and Tracking Stock Transaction is among entities under common control, we recorded the Tracking Stock at EchoStar and HSSC s historical cost basis for these instruments of $229 million and $87 million, respectively. The difference between the historical cost basis of the Tracking Stock received and the net carrying value of the Transferred Satellites of $356 million (including debt obligations, net of deferred taxes), plus the $11 million in cash, resulted in a $51 million capital transaction recorded in Additional paid-in capital on our Condensed Consolidated Balance Sheet. Although our investment in the Tracking Stock represents an aggregate 80% economic interest in the Hughes Retail Group, we have no operational control or significant influence over the Hughes Retail Group business, and currently there is no public market for the Tracking Stock. As such, the Tracking Stock is accounted for on a cost basis.

On February 20, 2014, DISH Operating L.L.C. (DOLLC) and DISH Network L.L.C. (DNLLC), each indirect wholly-owned subsidiaries of us, entered into an Investor Rights Agreement with EchoStar and HSSC with respect to the Tracking Stock (the Investor Rights Agreement). The Investor Rights Agreement provides, among other things, certain information and consultation rights for us; certain transfer restrictions on the Tracking Stock and certain rights and obligations to offer and sell under certain circumstances (including a prohibition on transfers of the Tracking Stock for one year, with continuing transfer restrictions (including a right of first offer in favor of EchoStar) thereafter, an obligation to sell the Tracking Stock to EchoStar in connection with a change of control of us and a right to require EchoStar to repurchase the Tracking Stock in connection with a change of control of EchoStar, in each case subject to certain terms and conditions); certain registration rights; certain obligations to provide conversion and exchange rights of the Tracking Stock under certain circumstances; and certain protective covenants afforded to holders of the Tracking Stock. The Investor Rights Agreement generally will terminate with respect to our interest should we no longer hold any shares of the HSSC-issued Tracking Stock and any registrable securities under the Investor Rights Agreement.

Unrealized Gains (Losses) on Marketable Investment Securities

As of March 31, 2014 and December 31, 2013, we had accumulated net unrealized gains of $192 million and $181 million, respectively. These amounts, net of related tax effect, were $184 million and $178 million, respectively. All of these amounts are included in Accumulated other comprehensive income (loss) within Total stockholders equity (deficit). The components of our available-for-sale investments are summarized in the table below.

Debt securities:								
VRDNs	$ 113,970	$	$	$	$ 116,570	$	$	$
ARS and other	44,379	1,859	(3,189)	(1,330)	45,030	1,188	(5,138)	(3,950)
ARS fair value election	92,899				88,622			
Other (including restricted)	4,416,343	86,522	(901)	85,621	4,668,532	83,363	(4,741)	78,622
Equity securities	335,925	107,542		107,542	335,651	106,684		106,684
Total	$ 5,003,516	$ 195,923	$ (4,090)	$ 191,833	$ 5,254,405	$ 191,235	$ (9,879)	$ 181,356

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As of March 31, 2014, restricted and non-restricted marketable investment securities include debt securities of $3.822 billion with contractual maturities within one year, $625 million with contractual maturities extending longer than one year through and including five years, $1 million with contractual maturities extending longer than five years through and including ten years and $220 million with contractual maturities longer than ten years. Actual maturities may differ from contractual maturities as a result of our ability to sell these securities prior to maturity.

Marketable Investment Securities in a Loss Position

The following table reflects the length of time that the individual securities, accounted for as available-for-sale, have been in an unrealized loss position, aggregated by investment category. As of March 31, 2014, the unrealized losses on our investments in debt securities primarily represent investments in ARS and corporate bonds. We have the ability to hold and do not intend to sell our investments in these debt securities before they recover or mature, and it is more likely than not that we will hold these investments until that time. In addition, we are not aware of any specific factors indicating that the underlying issuers of these debt securities would not be able to pay interest as it becomes due or repay the principal at maturity. Therefore, we believe that these changes in the estimated fair values of these marketable investment securities are related to temporary market fluctuations.

	As of March 31, 2014		As of December 31, 2013	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)			
Debt Securities:				
Less than 12 months	$ 1,382,273	$ (834)	$ 2,208,930	$ (3,106)
12 months or more	68,563	(3,256)	84,915	(6,773)
Total	$ 1,450,836	$ (4,090)	$ 2,293,845	$ (9,879)

Fair Value Measurements

Our investments measured at fair value on a recurring basis were as follows:

	As of March 31, 2014				As of December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(In thousands)							
Cash Equivalents (including restricted)	$ 3,997,451	$ 51,718	$ 3,945,733	$	$ 4,387,252	$ 323,638	$ 4,063,614	$

Debt securities:								
VRDNs	$ 113,970	$	$ 113,970	$	$ 116,570	$	$ 116,570	$
ARS and other	137,278		459	136,819	133,652		678	132,974
Other (including restricted)	4,416,343	11,465	4,396,968	7,910	4,668,532	11,015	4,644,471	13,046
Equity securities	335,925	335,925			335,651	335,651		
Subtotal	$ 5,003,516	$ 347,390	$ 4,511,397	$ 144,729	$ 5,254,405	$ 346,666	$ 4,761,719	$ 146,020
Derivative financial instruments	287,202		287,202		292,507		292,507	
Total	$ 5,290,718	$ 347,390	$ 4,798,599	$ 144,729	$ 5,546,912	$ 346,666	$ 5,054,226	$ 146,020

As of March 31, 2014 and December 31, 2013, our Level 3 investments consisted predominately of ARS and other investment securities. On a quarterly basis we evaluate the reasonableness of significant unobservable inputs used in those measurements. The valuation models used for some of our ARS investments require an evaluation of the

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underlying instruments held by the trusts that issue these securities. For our other ARS and other investment securities, our evaluation uses, among other things, the terms of the underlying instruments, the credit ratings of the issuers, current market conditions, and other relevant factors. Based on these factors, we assess the risk of realizing expected cash flows and we apply an observable discount rate that reflects this risk. We may also reduce our valuations to reflect a liquidity discount based on the lack of an active market for these securities.

Changes in Level 3 instruments were as follows:

		Level 3 Investment Securities (In thousands)
Balance as of December 31, 2013	$	146,020
Net realized and unrealized gains (losses) included in earnings		(1,815)
Net realized and unrealized gains (losses) included in other comprehensive income (loss)		3,681
Purchases		
Settlements		(3,157)
Issuances		
Transfers into or out of Level 3		
Balance as of March 31, 2014	$	144,729

During the three months ended March 31, 2014, we had no transfers in or out of Level 1 and Level 2 fair value measurements.

Gains and Losses on Sales and Changes in Carrying Values of Investments

Other, net within Other Income (Expense) included on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) is as follows:

Other Income (Expense):		**For the Three Months Ended March 31, 2014**		**2013**
		(In thousands)		
Marketable investment securities - gains (losses) on sales/exchanges	$	5,637	$	557
Marketable investment securities - unrealized gains (losses) on investments accounted for at fair value		4,276		4,266
Derivative financial instruments - net unrealized gains (losses)		(5,304)		8,358

Marketable investment securities - other-than-temporary impairments		(6,130)		(1,919)
Other		(3,668)		138
Total	$	(5,189)	$	11,400

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7. Inventory

Inventory consisted of the following:

	As of March 31, 2014	As of December 31, 2013
	(In thousands)	
Finished goods	$ 282,678	$ 299,975
Raw materials	130,113	102,563
Work-in-process	110,099	110,169
Total	$ 522,890	$ 512,707

8. Property and Equipment

Property and equipment consisted of the following:

	Depreciable Life (In Years)	As of March 31, 2014	As of December 31, 2013