

DISH Network CORP
Form 10-Q
May 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012.

OR

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

Commission File Number: 0-26176

DISH Network Corporation

(Exact name of registrant as specified in its charter)

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Nevada
(State or other jurisdiction of incorporation or organization)

88-0336997
(I.R.S. Employer Identification No.)

9601 South Meridian Boulevard
Englewood, Colorado
(Address of principal executive offices)

80112
(Zip code)

(303) 723-1000

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 30, 2012, the registrant's outstanding common stock consisted of 211,376,861 shares of Class A common stock and 238,435,208 shares of Class B common stock.

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PART I FINANCIAL INFORMATION

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

Competition and Economic Risks Affecting our Business

- We face intense and increasing competition from satellite television providers, cable companies and telecommunications companies, especially as the pay-TV industry matures, 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 less services from us or to cancel our services altogether, resulting in less revenue to us.
- Economic weakness, including higher 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 foreign language programming that may limit our ability to maintain our foreign language programming subscriber base.

Operational and Service Delivery Risks Affecting our Business

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

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- 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 DISH services that represent a significant percentage of our total gross new subscriber activations.

- Our local programming strategy faces uncertainty because we may not be able to obtain necessary retransmission consent agreements at acceptable rates from local network stations.

- We have limited owned and leased satellite capacity and failures or reduced capacity could adversely affect our business.

- Our owned and leased satellites are subject to construction, launch, operational and environmental risks that could limit our ability to utilize these satellites.

- We generally do not have commercial insurance coverage on the satellites we use and could face significant impairment charges if one of our satellites fails.

- We may have potential conflicts of interest with EchoStar due to our common ownership and management.

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

Acquisition and Capital Structure Risks Affecting our Business

- We made a substantial investment to acquire certain wireless spectrum licenses and other assets from DBSD North America and TerreStar. We will be required to make significant additional investments or partner with others to commercialize these assets.
- We made a substantial investment to acquire certain 700 MHz wireless spectrum licenses and will be required to make significant additional investments or partner with others to commercialize these licenses.
- Our Blockbuster business, and retail stores in particular, face risks, including, among other things, operational challenges and increasing competition from video rental kiosk, streaming and mail order businesses that may negatively impact the business, financial condition or results of operations of Blockbuster.
- We may pursue acquisitions and other strategic transactions to complement or expand our business 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 business 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.
- 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

- If Voom prevails in its breach of contract suit against us, we could be required to pay substantial damages, which would have a material adverse affect on our financial position and results of operations.

- 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.

- Increased distribution of video content via the Internet could expose us to regulatory risk.

- We depend on the Cable Act for access to programming from cable-affiliate 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 Federal Communications Commission, or FCC, licenses that can expire or be revoked or modified and applications for FCC licenses that may not be granted.

- We are subject to digital high-definition (HD) carry-one, carry-all requirements that cause capacity constraints.

- There can be no assurance that there will not be deficiencies leading to material weaknesses in our internal control over financial reporting.

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

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

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

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DISH NETWORK CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	March 31, 2012	As of	December 31, 2011
Assets			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 1,358,668	\$	609,108
Marketable investment securities (Note 5)	1,334,546		1,431,745
Trade accounts receivable - other, net of allowance for doubtful accounts of \$11,679 and \$12,350, respectively	757,565		778,443
Trade accounts receivable - EchoStar, net of allowance for doubtful accounts of zero	19,002		16,374
Inventory	670,008		707,151
Deferred tax assets	73,014		73,014
Other current assets	136,674		131,988
Total current assets	4,349,477		3,747,823
<i>Noncurrent Assets:</i>			
Restricted cash and marketable investment securities (Note 5)	133,872		132,435
Property and equipment, net of accumulated depreciation of \$2,919,747 and \$2,862,626, respectively (Note 7 and 8)	4,313,678		3,169,891
FCC authorizations (Note 7 and 8)	3,340,441		1,391,441
Marketable and other investment securities (Note 5)	121,349		112,132
Investment in DBSD North America (Note 8)			1,297,614
TerreStar Transaction (Note 8)			1,345,000
Other noncurrent assets, net	150,695		273,895
Total noncurrent assets	8,060,035		7,722,408
Total assets	\$ 12,409,512	\$	11,470,231
Liabilities and Stockholders Equity (Deficit)			
<i>Current Liabilities:</i>			
Trade accounts payable - other	\$ 239,358	\$	225,556
Trade accounts payable - EchoStar	284,407		229,852
Deferred revenue and other	832,676		832,390
Accrued programming			