

DISH Network CORP
Form 10-K
February 23, 2015
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 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

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(Exact name of registrant as specified in its charter)

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)

Registrant's telephone number, including area code: **(303) 723-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Class A common stock, \$0.01 par value

Name of each exchange on which registered
The Nasdaq Stock Market L.L.C.

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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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 Act). Yes No

As of June 30, 2014, the aggregate market value of Class A common stock held by non-affiliates of the registrant was \$14.0 billion based upon the closing price of the Class A common stock as reported on the Nasdaq Global Select Market as of the close of business on the last trading day of the month.

As of February 13, 2015, the registrant's outstanding common stock consisted of 223,394,481 shares of Class A common stock and 238,435,208 shares of Class B common stock, each \$0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated into this Form 10-K by reference:

Portions of the registrant's definitive Proxy Statement to be filed in connection with its 2015 Annual Meeting of Shareholders are incorporated by reference in Part III.

Table of Contents

TABLE OF CONTENTS

PART I

	<u>Disclosure Regarding Forward-Looking Statements</u>	i
<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	26
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	52
<u>Item 2.</u>	<u>Properties</u>	52
<u>Item 3.</u>	<u>Legal Proceedings</u>	52
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	52

PART II

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	53
<u>Item 6.</u>	<u>Selected Financial Data</u>	55
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	56
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	83
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	84
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	84
<u>Item 9A.</u>	<u>Controls and Procedures</u>	85
<u>Item 9B.</u>	<u>Other Information</u>	85

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	86
<u>Item 11.</u>	<u>Executive Compensation</u>	86
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	86
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	86
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	86

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	86
	<u>Signatures</u>	95
	<u>Index to Consolidated Financial Statements</u>	F-1

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 further 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.
- Economic weakness and uncertainty 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.
- As a new service offering, our over-the-top or OTT Internet-based services face certain risks, including, among others, significant competition.
- 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 and communications systems could disrupt or harm our business.

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Table of Contents

- 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 vast majority of our transponder capacity, to provide digital broadcast operations and other services to us, and to provide the IPTV streaming technology for our OTT services. 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 owned and leased satellites are subject to construction, launch, operational and environmental risks that could limit our ability to utilize these satellites.

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- 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 any of our owned satellites fail.
- 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 have made substantial investments to acquire certain wireless spectrum licenses and other related assets. In addition, we have made substantial non-controlling investments in the Northstar Entities and the SNR Entities related to the AWS-3 Auction.
- 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 face certain risks related to our non-controlling investments in the Northstar Entities and the SNR Entities, which may have a material adverse effect on our business, results of operations and financial condition.
- 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.
- From time to time a portion of our investment portfolio may be invested in securities that have limited 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.

Table of Contents

- 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.

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, including our OTT services, 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 nondiscriminatory 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.

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- We are subject to digital high-definition (HD) carry-one, carry-all requirements that cause capacity constraints.
- Our business, investor confidence in our financial results and stock price may be adversely affected if our internal controls are not effective.
- 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 I, Item 1A of this Annual Report on Form 10-K, those discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations herein 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.

Table of Contents

PART I

Item 1. BUSINESS

OVERVIEW

DISH Network Corporation was organized in 1995 as a corporation under the laws of the State of Nevada. We started offering the DISH® branded pay-TV service in March 1996 and are the nation's third largest pay-TV provider. Our common stock is publicly traded on the Nasdaq Global Select Market under the symbol DISH. Our principal executive offices are located at 9601 South Meridian Boulevard, Englewood, Colorado 80112 and our telephone number is (303) 723-1000.

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 13.978 million subscribers in the United States as of December 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 optic 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 0.577 million subscribers in the United States as of December 31, 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 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**

- **DISH Spectrum.** We have invested over \$5.0 billion since 2008 to acquire certain wireless spectrum licenses and related assets. 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.

- **AWS-3 Auction.** On February 13, 2015, Northstar Wireless, LLC (Northstar Wireless) and SNR Wireless LicenseCo, LLC (SNR Wireless) each filed applications with the Federal Communications Commission (FCC) to acquire certain AWS-3 wireless spectrum licenses (the AWS-3 Licenses) that were made available in the auction designated by the FCC as Auction 97 (the AWS-3 Auction) for which it was

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named as winning bidder and had made the required down payments. Issuance of any AWS-3 licenses to Northstar Wireless or SNR Wireless depends, among other things, upon the FCC's review and approval of the applications filed by Northstar Wireless and SNR Wireless. We cannot predict the timing or the outcome of the FCC's review of those applications. We own an 85% non-controlling interest in each of Northstar Spectrum, LLC (Northstar Spectrum) and SNR Wireless Holdco, LLC (SNR Holdco), the parent companies of Northstar Wireless and SNR Wireless, respectively. After Northstar Wireless and SNR Wireless have made the final payments to the FCC for the AWS-3 Licenses, our total non-controlling equity and debt investments in these entities and their parent companies, respectively, will be approximately \$9.778 billion. As of December 31, 2014, Northstar Wireless and SNR Wireless had made aggregate refundable upfront payments to the FCC of approximately \$920 million for

Table of Contents

the AWS-3 Auction, at which time our total non-controlling equity and debt investments in these entities and their parent companies, respectively, was approximately \$899 million. Under the applicable accounting guidance in Accounting Standards Codification 810, Consolidation (ASC 810), Northstar Spectrum and SNR Holdco are considered variable interest entities and, based on the characteristics of the structure of these entities and in accordance with the applicable accounting guidance, we have consolidated these entities into our financial statements beginning in the fourth quarter 2014.

In the event that the FCC grants the Northstar Licenses and the SNR Licenses, we may need to make significant additional loans to the Northstar Entities and the SNR Entities, or they may need to partner with others, so that the Northstar Entities and the SNR Entities may commercialize, build-out and integrate the Northstar Licenses and the SNR Licenses, and comply with regulations applicable to the Northstar Licenses and the SNR Licenses. Depending upon the nature and scope of such commercialization, build-out, integration efforts, and regulatory compliance, any such loans or partnerships could vary significantly. There can be no assurance that we will be able to obtain a profitable return on our non-controlling investments in the Northstar Entities and the SNR Entities.

See Note 16 in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K for further discussion.

Business Strategy

Our business strategy is to be the best provider of video services in the United States by providing products with the best technology, outstanding customer service, and great value. We promote DISH branded programming packages as providing our subscribers with a better price-to-value relationship than those available from other subscription television service providers. We believe that there continues to be unsatisfied demand for high-quality, reasonably priced subscription television services.

- *Products with the Best Technology.* We offer a wide selection of local and national high-definition (HD) programming and are a technology leader in our industry, offering award-winning DVRs (including our Hopper® whole-home HD DVR), multiple tuner receivers, 1080p video on demand, and external hard drives. In addition, on February 9, 2015, we launched Sling TV, a live, over-the-top (OTT) Internet-based television service.
- *Outstanding Customer Service.* We strive to provide outstanding customer service by improving the quality of the initial installation of subscriber equipment, improving the reliability of our equipment, better educating our customers about our products and services, and resolving customer problems promptly and effectively when they arise.
- *Great Value.* We have historically been viewed as the low-cost provider in the pay-TV industry in the U.S. because we seek to offer the lowest everyday prices available to consumers after introductory promotions expire.

DISH Products and Services

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Pay-TV Programming. We offer a wide selection of video services under the DISH brand, with access to hundreds of channels depending on the level of subscription. Our standard programming packages generally include programming provided by national broadcast networks, local broadcast networks and national and regional cable networks. We also offer programming packages that include regional and specialty sports channels, premium movie channels and Latino and international programming. Our Latino and international programming packages allow subscribers to choose from over 250 channels in 28 languages.

In addition, we offer our DISH subscribers streaming access through Blockbuster @Home™ to more than 10,000 movies and TV shows via their TV or Internet-connected tablets, smartphones and computers.

Table of Contents

Our subscribers also have the ability to use dishanywhere.com and our mobile applications for smartphones and tablets to view authorized content, search program listings and remotely control certain features of their DVRs. Dishanywhere.com and our mobile applications provide access to more than 80,000 movies, television shows, clips and trailers.

Technology. Our subscribers receive programming via equipment that includes a small satellite dish, digital set-top receivers, and remote controls. To differentiate ourselves from our competitors, we introduced the Hopper whole-home DVR during 2012 and have continued to add functionality and simplicity for a more intuitive user experience. Our current generation Hopper and Joey® whole-home DVR promotes a suite of integrated features and functionality designed to maximize the convenience and ease of watching TV anytime and anywhere. It also has several innovative features that a consumer can use, at his or her option, to watch and record television programming, including recording up to eight shows at a time, through Internet-connected tablets, smartphones and computers. During January 2015, we announced certain upcoming technological advancements including 4K Ultra HD capable receivers, a new remote control and user interface with advanced voice command capability, and more mobile applications.

We rely on EchoStar Corporation (EchoStar) to design and manufacture substantially all of our new receivers and certain related components. See *Item 1A Risk Factors*.

Broadband. In addition to our wide selection of pay-TV programming and award-winning technology, we market a satellite broadband service under the dishNET brand. This service leverages advanced technology and high-powered satellites launched by Hughes and ViaSat to provide broadband coverage nationwide. This service primarily targets rural residents that are underserved, or unserved, by wireline broadband, and provides download speeds of up to 15 megabits of data per second (Mbps). We lease the customer premise equipment to subscribers and generally pay Hughes and ViaSat a wholesale rate per subscriber on a monthly basis. Currently, we generally utilize our existing DISH distribution channels, including our DISH direct sales channels, under similar incentive arrangements as our DISH branded pay-TV business to acquire new broadband subscribers.

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 (Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming). Our dishNET branded wireline broadband service provides download speeds of up to 20 Mbps.

We primarily bundle our dishNET branded services with our DISH branded pay-TV service, to offer customers a single bill, payment and customer service option, which includes a discount for bundled services. In addition, we market and sell our dishNET branded services on a stand-alone basis.

New Business Opportunities

From time to time we evaluate opportunities for strategic investments or acquisitions that may complement our current services and products, enhance our technical capabilities, improve or sustain our competitive position, or otherwise offer growth opportunities.

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Over-the-top television. On February 9, 2015, we launched Sling TV, a live, linear streaming OTT service. At launch, the core package consisted of over 14 channels offered for a \$20 monthly subscription. In addition to the core programming package, Sling TV offers additional tiers of programming, including news and children's programming, each for an additional monthly fee, as well as a video on-demand programming library. We expect to expand the programming content offered by Sling TV during 2015. Sling TV requires an Internet connection and is available through certain streaming-capable devices.

Prior to the launch of Sling TV, we offered, and continue to offer, an international video programming OTT service to a small number of Pay-TV subscribers under the DishWorld brand. As of December 31, 2014, our DishWorld subscribers are included in our Pay-TV subscriber count and represent a small percentage of our customers. We market our OTT services primarily to consumers who do not subscribe to traditional satellite and cable pay-TV services.

Table of Contents

Content Delivery

Digital Broadcast Operations Centers. The principal digital broadcast operations facilities that we use are EchoStar's facilities located in Cheyenne, Wyoming and Gilbert, Arizona. We also use seven regional digital broadcast operations facilities owned and operated by EchoStar that allow us to maximize the use of the spot beam capabilities of certain satellites. Programming content is delivered to these facilities by fiber or satellite and processed, compressed, encrypted and then uplinked to satellites for delivery to consumers. EchoStar provides certain broadcast services to us, including teleport services such as transmission and downlinking, channel origination services, and channel management services pursuant to a broadcast agreement that expires on December 31, 2016. See Note 20 in the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K for further discussion of our Related Party Transactions with EchoStar.

Satellites. Our DISH branded programming is primarily delivered to customers using satellites that operate in the Ku band portion of the microwave radio spectrum. The Ku-band is divided into two spectrum segments. The portion of the Ku-band that allows the use of higher power satellites (12.2 to 12.7 GHz over the United States) is known as the Broadcast Satellite Service band, which is also referred to as the DBS band. The portion of the Ku-band that utilizes lower power satellites (11.7 to 12.2 GHz over the United States) is known as the FSS band.

Most of our programming is currently delivered using DBS satellites. To accommodate more bandwidth-intensive HD programming and other needs, we continue to explore opportunities to expand our satellite capacity through the acquisition of additional spectrum, the launching of more technologically advanced satellites, and the more efficient use of existing spectrum via, among other things, better modulation and compression technologies.

We own or lease capacity on 14 DBS satellites in geostationary orbit approximately 22,300 miles above the equator. For further information concerning these satellites and satellite anomalies, please see the table and discussion under *Satellites* below.

Conditional Access System. Our conditional access system secures our programming content using encryption so that only authorized customers can access our programming. We use microchips embedded in credit card-sized access cards, called smart cards, or security chips in our receiver systems to control access to authorized programming content (Security Access Devices).

Our signal encryption has been compromised in the past and may be compromised in the future even though we continue to respond with significant investment in security measures, such as Security Access Device replacement programs and updates in security software, that are intended to make signal theft more difficult. It has been our prior experience that security measures may only be effective for short periods of time or not at all and that we remain susceptible to additional signal theft. We expect that future replacements of our Security Access Devices will be necessary to keep our system secure. We cannot ensure that we will be successful in reducing or controlling theft of our programming content and we may incur additional costs in the future if our system's security is compromised.

Distribution Channels

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While we offer receiver systems and programming through direct sales channels, a significant percentage of our gross new subscriber activations are generated through independent third parties such as small satellite retailers, direct marketing groups, local and regional consumer electronics stores, nationwide retailers, and telecommunications companies. In general, we pay these independent third parties a mix of upfront and monthly incentives to solicit orders for our services and provide customer service. In addition, we partner with certain telecommunications companies to bundle DISH branded programming with broadband and/or voice services on a single bill.

Competition

As of December 31, 2014, we had 13.978 million pay-TV subscribers, representing approximately 14% of pay-TV subscribers in the United States, and 0.577 million broadband subscribers. We face substantial competition from

Table of Contents

established pay-TV providers and broadband service providers and increasing competition from companies providing/facilitating the delivery of video content via the Internet to computers, televisions, and mobile devices. As of September 30, 2014, roughly 100 million U.S. households subscribe to a pay-TV service.

- *Other Direct Broadcast Satellite Operators.* We compete directly with DirecTV, the largest satellite TV provider in the U.S. which had 20.2 million subscribers as of September 30, 2014, representing approximately 20% of pay-TV subscribers. During May 2014, AT&T Inc. (AT&T) announced its pending acquisition of DirecTV, which is currently undergoing regulatory review and has not been completed. We filed a petition to impose conditions on the transaction with the FCC, to remedy potential threats to consumers and competition in the video and broadband markets. If DirecTV ultimately is acquired by AT&T, DirecTV will, among other things, have increased access to capital, access to AT&T's nationwide platform for wireless mobile video, and the ability to more seamlessly bundle its video services with AT&T's broadband Internet access and voice services. The combined company would also be able to, among other things, pressure third-party content owners and programmers to withhold online rights from us; utilize its increased leverage over third-party content owners and programmers to reduce the price it pays for programming at the expense of other multichannel video programming distributors (MVPDs), including us; thwart our entry into the wireless market, by, among other things, refusing to enter into data roaming agreements with us; underutilize key orbital spectrum resources that could be more efficiently used by us; foreclose or degrade our online video offerings at various points in the broadband pipe; and impose anti-competitive data caps on consumers who access our online video offerings.

- *Cable Television Companies.* We encounter substantial competition in the pay-TV industry from numerous cable television companies that operate via franchise licenses across the U.S. As of September 30, 2014, cable television companies have more than 54.0 million subscribers, representing approximately 54% of pay-TV subscribers. Cable companies are typically able to bundle their video services with broadband Internet access and voice services and many have significant investments in companies that provide programming content. During February 2014, Comcast Corporation (Comcast) announced its pending acquisition of Time Warner Cable Inc. (Time Warner Cable), which would combine the largest and second largest cable television providers in the U.S. This acquisition is currently undergoing regulatory review and has not been completed. We filed a petition to deny the transaction with the FCC, in which we stated, among other things, that the proposed transaction poses serious harm to competition and consumers and runs counter to U.S. antitrust and communications laws, that no set of conditions can alleviate these harms, and that the FCC and Department of Justice should reject the transaction. If Time Warner Cable ultimately is acquired by Comcast, the combined company would be able to, among other things, foreclose or degrade our online video offerings at various points in the broadband pipe; impose anti-competitive data caps on consumers who access our online video offerings; foreclose access to, or raise the prices of, its own affiliated programming to us; pressure third-party content owners and programmers to withhold online rights from us; and utilize its increased leverage over third-party content owners and programmers to reduce the price it pays for programming at the expense of other MVPDs, including us.

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