

DIRECTV GROUP INC  
Form 10-Q  
August 07, 2009

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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 June 30, 2009

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 1-31945

**THE DIRECTV GROUP, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**52-1106564**  
(I.R.S. Employer Identification No.)

**2230 East Imperial Highway  
El Segundo, California**  
(Address of principal executive offices)

**90245**  
(Zip Code)

**(310) 964-5000**

(Registrant's telephone number, including area code)

N/A

(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

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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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of August 3, 2009, the registrant had 977,283,699 shares of common stock outstanding.

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Table of Contents**THE DIRECTV GROUP, INC.****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(Dollars in Millions, Except Per Share</b>			
	<b>Amounts)</b>			
Revenues	\$5,218	\$4,807	\$10,119	\$9,398
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	2,108	1,930	4,133	3,822
Subscriber service expenses	368	307	720	613
Broadcast operations expenses	83	89	167	179
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	668	573	1,377	1,156
Upgrade and retention costs	261	217	542	477
General and administrative expenses	349	333	709	612
Depreciation and amortization expense	679	557	1,345	1,081
Total operating costs and expenses	4,516	4,006	8,993	7,940
Operating profit	702	801	1,126	1,458
Interest income	6	21	16	37
Interest expense	(102)	(82)	(203)	(145)
Other, net	54	15	57	18
Income before income taxes	660	755	996	1,368
Income tax expense	(242)	(287)	(366)	(517)
Net income	418	468	630	851
Less: Net income attributable to noncontrolling interest	(11)	(13)	(22)	(25)
Net income attributable to The DIRECTV Group, Inc.	\$ 407	\$ 455	\$ 608	\$ 826
Basic and diluted earnings attributable to The DIRECTV Group, Inc. per common share	\$ 0.40	\$ 0.40	\$ 0.60	\$ 0.72
Weighted average number of common shares outstanding (in millions)				
Basic	1,006	1,140	1,012	1,144
Diluted	1,009	1,146	1,015	1,149

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The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**THE DIRECTV GROUP, INC.****CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	June 30, 2009	December 31, 2008
	(Dollars in Millions, Except Per Share Amounts)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,272	\$ 2,005
Accounts receivable, net of allowances of \$77 and \$50	1,377	1,423
Inventories	222	192
Deferred income taxes	83	68
Prepaid expenses and other	328	356
Total current assets	4,282	4,044
Satellites, net	2,388	2,476
Property and equipment, net	4,117	4,171
Goodwill	3,774	3,753
Intangible assets, net	1,014	1,172
Investments and other assets	836	923
Total assets	\$ 16,411	\$ 16,539
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,093	\$ 3,115
Unearned subscriber revenues and deferred credits	393	362
Current portion of long-term debt	183	108
Total current liabilities	3,669	3,585
Long-term debt	5,604	5,725
Deferred income taxes	543	524
Other liabilities and deferred credits	1,701	1,749
Commitments and contingencies		
Redeemable noncontrolling interest	325	325
Stockholders' equity		
Common stock and additional paid-in capital \$0.01 par value, 3,000,000,000 shares authorized; 995,551,796 shares and 1,024,182,043 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	8,100	8,318
Accumulated deficit	(3,408)	(3,559)
Accumulated other comprehensive loss	(123)	(128)
Total stockholders' equity	4,569	4,631
Total liabilities and stockholders' equity	\$ 16,411	\$ 16,539

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The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**THE DIRECTV GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>(Dollars in Millions)</b>		
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 630	\$ 851
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,345	1,081
Amortization of deferred revenues and deferred credits	(28)	(50)
Share-based compensation expense	25	23
Dividends received	69	35
Foreign currency transaction gains	(49)	
Deferred income taxes	69	124
Other	5	(2)
Change in other operating assets and liabilities:		
Accounts receivable, net	78	185
Inventories	(23)	(9)
Prepaid expenses and other	32	(27)
Accounts payable and accrued liabilities	(149)	(353)
Unearned subscriber revenue and deferred credits	27	36
Other, net	9	59
Net cash provided by operating activities	2,040	1,953
<b>Cash Flows From Investing Activities</b>		
Cash paid for property and equipment	(1,002)	(959)
Cash paid for satellites	(31)	(77)
Investment in companies	(12)	(104)
Other, net	10	36
Net cash used in investing activities	(1,035)	(1,104)
<b>Cash Flows From Financing Activities</b>		
Cash proceeds from debt issuance		2,490
Debt issuance costs		(19)
Repayment of long-term debt	(48)	(18)
Repayment of other long-term obligations	(58)	(62)
Capital contribution		160
Common shares repurchased and retired	(670)	(736)
Stock options exercised	33	82
Excess tax benefit from share-based compensation	5	8
Net cash (used in) provided by financing activities	(738)	1,905
Net increase in cash and cash equivalents	267	2,754
Cash and cash equivalents at beginning of the period	2,005	1,083

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Cash and cash equivalents at end of the period	\$ 2,272	\$ 3,837
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**Supplemental Cash Flow Information**

Cash paid for interest	\$ 201	\$ 124
Cash paid for income taxes	156	331

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The accompanying notes are an integral part of these Consolidated Financial Statements.

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**THE DIRECTV GROUP, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1: Basis of Presentation**

The DIRECTV Group, Inc., which we sometimes refer to as The DIRECTV Group, company, we or us, is a leading provider of digital television entertainment in the United States and Latin America through our DIRECTV U.S. and DIRECTV Latin America, or DTVLA, business units. DIRECTV U.S. is comprised of DIRECTV Holdings LLC and its subsidiaries. DTVLA is comprised of PanAmericana, which provides services in Venezuela, Argentina, Chile, Colombia, Puerto Rico and certain other countries in the region through our wholly-owned subsidiary, DIRECTV Latin America, LLC, or DLA LLC; our 74% owned subsidiary Sky Brasil Servicos Ltda., which we refer to as Sky Brazil; and our 41% equity method investment in Innova, S. de R.L. de C.V., or Sky Mexico.

On February 27, 2008, Liberty Media Corporation, or Liberty Media and News Corporation completed a transaction in which Liberty Media acquired News Corporation's approximately 41% interest in us. Currently, Liberty Media owns approximately 56% of our outstanding common stock, however Liberty Media has agreed generally to limit its voting rights to approximately 47.9%.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial reporting. In the opinion of management, all adjustments (consisting only of normal recurring items) that are necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on February 27, 2009, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed with the SEC on May 8, 2009 and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report.

**Note 2: Liberty Entertainment Inc. Merger Transaction**

On May 3, 2009, The DIRECTV Group, Liberty Media, Liberty Entertainment, Inc., or LEI and certain subsidiaries of The DIRECTV Group entered into an agreement and plan of merger, which we refer to as the "merger agreement", which, if consummated, will result in the creation of a new public holding company named "DIRECTV" which we refer to as "Holdings", that will own The DIRECTV Group and LEI. Holdings will be owned by the holders of The DIRECTV Group common stock and the holders of LEI common stock immediately prior to the mergers contemplated by the merger agreement.

As a necessary step to the mergers contemplated by the merger agreement, Liberty Media is planning to execute a split-off transaction that would result in the redemption of 90% of the outstanding shares of both series of its Liberty Entertainment common stock in exchange for all of the outstanding shares of two series of common stock of LEI. LEI will hold Liberty Media's entire interest in The DIRECTV Group (currently approximately 56%), 100% of Liberty Sports Holdings LLC, 65% of Game Show Network, LLC and approximately \$30 million in cash and cash equivalents, together with approximately \$2 billion of indebtedness and a related equity collar. The split-off transaction is conditioned on the approval of the holders of Liberty's Liberty Entertainment common stock.

The merger agreement provides for two mergers that would result in The DIRECTV Group and LEI becoming wholly owned subsidiaries of Holdings. In the DIRECTV merger, The DIRECTV Group common stockholders (other than direct or indirect subsidiaries of LEI) will receive one share

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**THE DIRECTV GROUP, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(Unaudited)**

of Holdings Class A common stock for each share of common stock of The DIRECTV Group that they own. In the LEI merger, holders of outstanding shares of LEI Series A common stock and LEI Series B common stock (other than LEI or Holdings) will receive a number of shares of Holdings Class A common stock equal to the LEI exchange ratio for each share of LEI common stock that they own. The LEI exchange ratio is a fixed exchange ratio equal to 1.1111 shares of Holdings common stock for each share of LEI common stock, subject to certain adjustments as provided in the merger agreement.

After completion of the split-off, John C. Malone (the Chairman of The DIRECTV Group and Liberty Media), his wife and certain trusts for the benefit of their children, collectively the "Malones", will own approximately 92% of the LEI Series B common stock. Immediately prior to the mergers, the Malones, pursuant to a voting and right of first refusal agreement, will exchange each of their shares of LEI Series B common stock for a number of shares of Holdings Class B common stock equal to the number of shares of LEI Series B common stock multiplied by the LEI exchange ratio. Holdings Class B common stock will have fifteen votes per share and certain limited consent rights and will not be publicly traded, and Holdings Class A common stock will have one vote per share and is expected to be listed on the NASDAQ National Market System. Upon completion of the mergers, the Malones will be the only holders of Holdings Class B common stock.

Holders of certain equity awards of LEI, including stock options and stock appreciation rights, or SARs, will receive equity awards of Class A common stock of Holdings based on the LEI exchange ratio.

The mergers will be accounted for using the acquisition method of accounting pursuant to Statement of Financial Accounting Standards, or SFAS, No. 141 (revised 2007), "Business Combinations", or SFAS No. 141R. The DIRECTV Group will be treated as the acquiring corporation for accounting and financial reporting purposes, accordingly it is anticipated that the historical financial statements of The DIRECTV Group will become the historical financial statements of Holdings. Under SFAS No. 141R, the acquisition date fair value of consideration paid by The DIRECTV Group for LEI (excluding its investment in The DIRECTV Group), will be allocated to LEI's other tangible and intangible assets acquired and liabilities assumed based on their estimated acquisition date fair values, with any excess being treated as goodwill. The assets, liabilities and results of operations of LEI will be consolidated into the assets, liabilities and results of operations of Holdings as of the acquisition date, the closing date of the mergers.

Costs incurred to complete the transaction, including legal, accounting, financial printing and investment banking fees, will be expensed as incurred pursuant to SFAS 141R. The exchange rate of LEI common stock to The DIRECTV Group common stock was determined in a manner such that LEI stockholders as a group will receive a premium in the form of a larger economic interest in DIRECTV than would have been otherwise determined based on the relative fair values of The DIRECTV Group and LEI. This premium, calculated as the fair value of the economic interest to be distributed to LEI stockholders in excess of the fair value of the assets and liabilities of LEI, will be expensed as a disproportionate distribution upon completion of the mergers. In addition, as part of the mergers, Holdings will grant common stock options and SARs to replace the stock based awards of LEI. Pursuant to SFAS No. 141R, any incremental fair value of the replacement awards over the fair value of the replaced LEI awards must also be expensed. Had the merger been completed on June 30, 2009, we estimate that Holdings would have recorded an expense of approximately \$275 million on that date for the costs of the transaction, the premium to LEI stockholders, and the incremental fair value

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**THE DIRECTV GROUP, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(Unaudited)**

of the stock based awards. However, we anticipate the actual amounts to be recorded will change as they will be determined based on acquisition date fair values.

Since many of the LEI replacement stock based awards are held by individuals who will remain employees of Liberty Media and not become employees of Holdings, they will be reported as a liability at fair value by Holdings in accordance with accounting standards for non-employee awards. Also, Holdings will continue to account for derivative financial instruments of the equity collar acquired as a result of the mergers as a net asset or liability at fair value. Adjustments to the fair values of the stock based awards and the equity collar each reporting period will be recorded in non-operating earnings in the consolidated statements of operations of Holdings.

The financial and other information regarding The DIRECTV Group contained in this Quarterly Report on Form 10-Q does not give effect to or make any adjustment for these transactions.

For additional information regarding the proposed merger transactions, refer to Amendment No. 1 to Holdings' Registration Statement on Form S-4 filed with the SEC on July 30, 2009, which has not been declared effective.

**Note 3: Accounting Changes**

On January 1, 2009 we adopted Statement of Financial Accounting Standards, or SFAS, No. 160 "Noncontrolling Interests in Consolidated Financial Statements - an amendment to ARB No. 51," which established standards of accounting and reporting of noncontrolling interests in subsidiaries, also known as minority interests, in consolidated financial statements, provides guidance on accounting for changes in the parent's ownership interest in a subsidiary and establishes standards of accounting for the deconsolidation of a subsidiary due to the loss of control. SFAS No. 160 requires an entity to present certain noncontrolling interests as a component of equity and to present net income and consolidated comprehensive income attributable to the parent and the noncontrolling interest separately in the consolidated financial statements. SFAS No. 160 is required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively for all periods presented. As a result of our adoption of SFAS No. 160, "Net income" in the Consolidated Statements of Operations now includes net income attributable to noncontrolling interest as compared to the previous standard, where net income attributable to the noncontrolling interest was deducted in the determination of net income. Additionally, the Consolidated Statements of Cash Flows are now presented using net income as calculated pursuant to SFAS No. 160.

On January 1, 2009 we adopted the revisions made by the SEC Observer on March 12, 2008 to Topic D-98 "Classification and Measurement of Redeemable Securities," which provides SEC registrants guidance on the financial statement classification and measurement of equity securities that are subject to mandatory redemption requirements or whose redemption is outside the control of the issuer. The revised Emerging Issues Task Force, or EITF, Topic D-98 requires that redeemable noncontrolling interests, such as Globo Comunicacoes e Participacoes S.A.'s, or Globo's, redeemable noncontrolling interest in Sky Brazil described in Note 6 of the Notes to the Consolidated Financial Statements that are redeemable at the option of the holder be recorded outside of permanent equity at fair value, and the redeemable noncontrolling interests be adjusted to their fair value at each balance sheet date. Adjustments to the carrying amount of a redeemable noncontrolling interest from the application of Topic D-98 are recorded to retained earnings (or additional paid-in-capital in the absence of retained earnings). As a result of the adoption of this standard, we have reported Globo's redeemable noncontrolling interest in Sky Brazil in "Redeemable noncontrolling interest" at fair value

Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

in the Consolidated Balance for each period presented. See Note 9 of the Notes to the Consolidated Financial Statements for additional information.

The following tables present the changes to previously reported amounts in our Consolidated Balance Sheets as a result of the adoption of Topic D-98:

December 31, 2008	As		Effect of Change
	Originally Reported	As Adjusted	
	(Dollars in Millions)		
Redeemable noncontrolling interest	\$ 103	\$ 325	\$ 222
Common stock and additional paid in capital	8,540	8,318	(222)
Total stockholders' equity	4,853	4,631	(222)

June 30, 2008	As		Effect of Change
	Originally Reported	As Adjusted	
	(Dollars in Millions)		
Redeemable noncontrolling interest	\$ 36	\$ 300	\$ 264
Common stock and additional paid in capital	9,329	9,065	(264)
Total stockholders' equity	6,578	6,314	(264)

December 31, 2007	As		Effect of Change
	Originally Reported	As Adjusted	
	(Dollars in Millions)		
Redeemable noncontrolling interest	\$ 11	\$ 300	\$ 289
Common stock and additional paid in capital	9,318	9,029	(289)
Total stockholders' equity	6,302	6,013	(289)

On January 1, 2009 we adopted SFAS No. 141R. SFAS No. 141R requires the acquiring entity to record 100% of all assets and liabilities acquired, including goodwill and any non-controlling interest, generally at their fair values for all business combinations, whether partial, full or step acquisitions. Under SFAS No. 141R certain contingent assets and liabilities, as well as contingent consideration, are also required to be recognized at fair value on the date of acquisition and acquisition related transaction and restructuring costs will be expensed. Additionally, SFAS No. 141R requires disclosures about the nature and financial effect of the business combination and also changes the accounting for certain income tax assets recorded in purchase accounting. The adoption of SFAS No. 141R as required, on January 1, 2009, changed the way we account for adjustments to deferred tax asset valuation allowances recorded in purchase accounting for prior business combinations so that adjustments to these deferred tax asset valuation allowances will no longer be recorded to goodwill but rather adjustments will be recorded in "Income tax expense" in the Consolidated Statements of Operations. Additionally, the adoption of SFAS No. 141R will change the accounting for all business combinations we consummate after January 1, 2009.

**Sky Brazil Functional Currency**

Based on cumulatively significant changes in economic facts and circumstances, we have determined that the local Brazilian currency should be the functional currency of Sky Brazil for purposes of financial statement translation beginning in the second quarter of 2009. As a result of this

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change in functional currency, on April 1, 2009 we recorded a \$165 million decrease to previously reported values for nonmonetary assets and a \$53 million increase in our related deferred income tax assets and liabilities, and an offsetting \$112 million decrease to the "Cumulative translation adjustment", a component of "Accumulated other comprehensive loss" in stockholders' equity in the Consolidated Balance Sheets. In addition, as a result of this change in functional currency, changes in exchange rates will result in gains or losses, which will be recorded in "Other, net" in the Consolidated Statements of Operations related to the revaluation of U.S. dollar denominated monetary assets and liabilities, such as cash deposits, notes payable and capital lease obligations held by Sky Brazil. During the second quarter of 2009, we recorded a net foreign currency transaction gain of \$38 million in "Other, net" in the Consolidated Statements of Operations related to U.S. dollar denominated monetary assets and liabilities held by Sky Brazil.

**Note 4: Goodwill and Intangible Assets**

The changes in the carrying amounts of goodwill at each of our segments for the six months ended June 30, 2009 were as follows:

	DIRECTV U.S.	DIRECTV Latin America	Total
	(Dollars in Millions)		
Balance as of December 31, 2008	\$ 3,189	\$ 564	\$3,753
Sky Brazil foreign currency translation adjustment		42	42
Purchase or acquisition accounting adjustments:			
New acquisitions	4		4
Adjustments to prior acquisitions	(25)		(25)
Balance as of June 30, 2009	\$ 3,168	\$ 606	\$3,774

The following table sets forth the amounts recorded for intangible assets as of the periods presented:

	Estimated Useful Lives (years)	June 30, 2009		December 31, 2008			
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
		(Dollars in Millions)					
Orbital slots	Indefinite	\$ 432		\$ 432	\$ 432		\$ 432
72.5 WL Orbital license	5	208	\$ 189	19	208	\$ 171	37
Subscriber related	5-10	1,744	1,413	331	1,697	1,255	442
Dealer network	15	130	84	46	130	79	51
Trade name and other	10-20	105	13	92	102	9	93
Distribution rights	7	334	240	94	334	217	117
Total intangible assets		\$2,953	\$ 1,939	\$ 1,014	\$2,903	\$ 1,731	\$ 1,172

Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The following table sets forth amortization expense for intangible assets for each of the periods presented:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(Dollars in Millions)</b>			
Amortization expense	\$ 104	\$ 103	\$ 207	\$ 206

Estimated amortization expense for intangible assets in each of the next five years and thereafter is as follows: \$147 million in the remainder of 2009; \$163 million in 2010; \$107 million in 2011; \$63 million in 2012; \$22 million in 2013; and \$80 million thereafter.

**Note 5: Borrowings**

The following table sets forth our outstanding borrowings:

	<b>Interest Rates at June 30, 2009</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Dollars in Millions)</b>		
8.375% senior notes due in 2013	8.375%	\$ 910	\$ 910
6.375% senior notes due in 2015	6.375%	1,000	1,000
7.625% senior notes due in 2016	7.625%	1,500	1,500
Senior secured credit facility, net of unamortized discount of \$8 million as of June 30, 2009 and \$9 million as of December 31, 2008	3.106%	2,375	2,421
Unamortized bond premium		2	2
Total debt		5,787	5,833
Less: Current portion of long-term debt		(183)	(108)
Long-term debt		\$ 5,604	\$ 5,725

All of the senior notes and the senior secured credit facility were issued by DIRECTV U.S. The senior secured credit facility is secured by substantially all of DIRECTV U.S.' assets.

All of the senior notes have been registered under the Securities Act of 1933, as amended, are unsecured and have been fully and unconditionally guaranteed, jointly and severally, by substantially all of DIRECTV U.S.' subsidiaries. Principal on the senior notes is payable upon maturity, while interest is payable semi-annually.

The fair value of our 8.375% senior notes was approximately \$915 million at June 30, 2009 and approximately \$904 million at December 31, 2008. The fair value of our 6.375% senior notes was approximately \$924 million at June 30, 2009 and approximately \$911 million at December 31, 2008. The fair value of our 7.625% senior notes was approximately \$1,466 million at June 30, 2009 and approximately \$1,451 million at December 31, 2008. We calculated the fair values based on quoted market prices of our senior notes, which is a Level 1 input under SFAS No. 157 "Fair Value Measurements" or SFAS No. 157, on those dates.

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**THE DIRECTV GROUP, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(Unaudited)**

Our notes payable and senior secured credit facility mature as follows: \$61 million in the remainder of 2009, \$308 million in 2010, \$108 million in 2011, \$20 million in 2012, \$2,796 million in 2013 and \$2,500 million thereafter. These amounts do not reflect potential prepayments that may be required under our senior secured credit facility, which could result from a computation that we are required to make at each year end under the credit agreement. We were not required to make a prepayment for the year ended December 31, 2008. The amount of interest accrued related to our outstanding debt was \$44 million at June 30, 2009 and \$45 million at December 31, 2008.

*Covenants and Restrictions.* The senior secured credit facility requires DIRECTV U.S. to comply with certain financial covenants. The senior notes and the senior secured credit facility also include covenants that restrict DIRECTV U.S.' ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) merge or consolidate with another entity, (vi) sell, assign, lease or otherwise dispose of all or substantially all of its assets, and (vii) make voluntary prepayments of certain debt, in each case subject to exceptions as provided in the credit agreement and senior notes indentures. Should DIRECTV U.S. fail to comply with these covenants, all or a portion of its borrowings under the senior notes and senior secured credit facility could become immediately payable and its revolving credit facility could be terminated. At June 30, 2009, DIRECTV U.S. was in compliance with all such covenants. The senior notes and senior secured credit facility also provide that the borrowings may be required to be prepaid if certain change-in-control events occur.

**Note 6: Commitments and Contingencies**

*Commitments*

At June 30, 2009, our minimum payments under agreements to purchase broadcast programming, and the purchase of services that we have outsourced to third parties, such as billing services, and satellite telemetry, tracking and control, satellite construction and launch contracts and broadcast center services aggregated \$9,004 million, payable as follows: \$906 million in the remainder of 2009, \$1,593 million in 2010, \$1,613 million in 2011, \$1,746 million in 2012, \$1,403 million in 2013 and \$1,743 million thereafter.

*Contingencies*

*Puerto Rico Condition*

In connection with approval by the Federal Communications Commission, or FCC, of the Liberty Media acquisition of News Corporation's ownership interest in us, the FCC imposed certain conditions related to attributable interests in two pay television operations: DIRECTV Puerto Rico and Liberty Cablevision of Puerto Rico Ltd. We refer to the FCC's requirements as the "Puerto Rico Condition". Because neither News Corporation nor Liberty Media could satisfy the Puerto Rico Condition, in connection with the close of that transaction, a special committee of independent directors of our Board of Directors approved an agreement with News Corporation and Liberty Media in which we assumed responsibility for the satisfaction, modification or waiver of the Puerto Rico Condition within the one year period specified by the FCC. As part of this agreement, during the first quarter of 2008, we received a \$160 million cash capital contribution, which we recorded as "Additional paid-in-capital" in the Consolidated Balance Sheets.

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**THE DIRECTV GROUP, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(Unaudited)**

In order to comply with terms of the FCC order, effective February 25, 2009, we placed the shares of DIRECTV Puerto Rico into a trust and appointed an independent trustee who will oversee the management and operation of DIRECTV Puerto Rico, and will have the authority, subject to certain conditions, to divest ownership of DIRECTV Puerto Rico. We continue to consolidate the results of DIRECTV Puerto Rico.

*Redeemable Noncontrolling Interest*

In connection with our acquisition of Sky Brazil in 2006, our partner, Globo, who holds the remaining 25.9% interest, was granted the right, until January 2014, to require us to purchase all or a portion (but not less than half) of its shares in Sky Brazil. Upon exercising this right, the fair value of Sky Brazil shares will be determined, by mutual agreement or by an outside valuation expert, and we have the option to elect to pay for the Sky Brazil shares in cash, shares of our common stock or a combination of both. As of June 30, 2009, we estimate that Globo's 25.9% equity interest in Sky Brazil has a fair value of approximately \$325 million to \$450 million. We determined the range of fair values using significant unobservable inputs, which are Level 3 inputs under SFAS No. 157 and further determined that \$325 million was our best estimate of fair value in that range. As a result of our adoption of the revisions to Topic D-98, discussed above in "Accounting Changes", we now account for the redeemable noncontrolling interest at fair value in the Consolidated Balance Sheets.

*Litigation*

Litigation is subject to uncertainties and the outcome of individual litigated matters is not predictable with assurance. Various legal actions, claims and proceedings are pending against us arising in the ordinary course of business. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. Some of the matters may involve compensatory, punitive, or treble damage claims, or demands that, if granted, could require us to pay damages or make other expenditures in amounts that could not be estimated at June 30, 2009. After discussion with counsel representing us in those actions, it is the opinion of management that such litigation is not expected to have a material adverse effect on our consolidated results of operations or financial position.

*Finisar Corporation.* As previously reported, we filed a notice of appeal to the Court of Appeals for the Federal Circuit on October 5, 2006 from a jury determination that The DIRECTV Group, Inc. and certain of its subsidiaries willfully infringed a patent owned by Finisar Corporation and awards of approximately \$117 million in damages and pre-judgment interest. DIRECTV was also ordered to pay into escrow \$1.60 per new set-top receiver manufactured for use with the DIRECTV system beginning June 17, 2006 and continuing until the patent expires in 2012 or was otherwise found to be invalid. On April 18, 2008, the Court of Appeals vacated (set aside) the verdict of infringement, and sent the case back to the district court for further proceedings and possible retrial on a limited number of claims. On remand, we sought and obtained summary judgment on invalidity of all remaining claims, and the case against DIRECTV was dismissed on May 19, 2009. Finisar has filed a Notice of Appeal, and a briefing schedule for the new appeal has been set.

*Satellites*

We may purchase in-orbit and launch insurance to mitigate the potential financial impact of satellite launch and in-orbit failures if the premium costs are considered economic relative to the risk of satellite failure. The insurance generally covers the unamortized book value of covered satellites. We

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**THE DIRECTV GROUP, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(Unaudited)**

do not insure against lost revenues in the event of a total or partial loss of the capacity of a satellite. We generally rely on in-orbit spare satellites and excess transponder capacity at key orbital slots to mitigate the impact a satellite failure could have on our ability to provide service. At June 30, 2009, the net book value of in-orbit satellites was \$2,065 million, all of which was uninsured.

*Subsequent Events Review*

We have evaluated subsequent events through issuance of these financial statements on August 6, 2009.

**Note 7: Related-Party Transactions**

As discussed in more detail above in Note 2 of the Notes to the Consolidated Financial Statements, in May 2009, The DIRECTV Group, Liberty Media, LEI and certain subsidiaries of The DIRECTV Group entered into an agreement and plan of merger, as amended in July 2009. In addition, in the ordinary course of our operations, we enter into transactions with related parties as discussed below.

*Liberty Media, Liberty Global and Discovery Communications*

As a result of Liberty Media's acquisition of an ownership interest in The DIRECTV Group, beginning February 27, 2008, transactions with Liberty Media and its affiliates, including its equity method investees, may be considered to be related party transactions as Liberty Media currently owns approximately 56% of our outstanding common stock. Our transactions with Liberty Media and its affiliates consist primarily of the purchase of programming.

In addition, John Malone, Chairman of the Board of Directors of The DIRECTV Group and of Liberty Media, has an approximate 31.3% voting interest in Discovery Communications, Inc., or Discovery Communications, and an approximate 38.8% voting interest in Liberty Global Inc., or Liberty Global, and serves as Chairman of Liberty Global, and certain of Liberty Media's management and directors also serve as directors of Discovery Communications or Liberty Global. As a result of this common ownership and management, transactions with Discovery Communications and Liberty Global, and their subsidiaries or equity method investees may be considered to be related party transactions. Our transactions with Discovery Communications and Liberty Global consist primarily of purchases of programming created, owned or distributed by Discovery Communications and its subsidiaries and investees.

*News Corporation and affiliates*

News Corporation and its affiliates were considered related parties until February 27, 2008, when News Corporation transferred its 41% interest in our common stock to Liberty Media. Accordingly, the following contractual arrangements with News Corporation and its affiliates were considered related party transactions and reported through February 27, 2008: purchase of programming, products and advertising; license of certain intellectual property, including patents; purchase of system access products, set-top receiver software and support services; sale of advertising space; purchase of employee services; and use of facilities.

Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

As discussed above in Note 6, during the first quarter of 2008, we received a \$160 million cash capital contribution, which we recorded as "Additional paid-in-capital" in the Consolidated Balance Sheets.

The majority of payments under contractual arrangements with Liberty Media, Discovery Communications, Liberty Global and News Corporation entities relate to multi-year programming contracts. Payments under these contracts are typically subject to annual rate increases and are based on the number of subscribers receiving the related programming.

*Other*

Other related parties include Globo, which provides programming and advertising to Sky Brazil, and companies in which we hold equity method investments, including Sky Mexico.

The following table summarizes sales to, and purchases from, related parties:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008(1)</b>	<b>2009</b>	<b>2008(1)</b>
	<b>(Dollars in Millions)</b>			
<b>Sales:</b>				
Liberty Media and affiliates	\$ 13	\$ 10	\$ 25	\$ 12
Discovery Communications, Liberty Global and affiliates	1	3	4	4
News Corporation and affiliates				2
Other	3	2	5	4
Total	\$ 17	\$ 15	\$ 34	\$ 22
<b>Purchases:</b>				
Liberty Media and affiliates	\$ 88	\$ 76	\$ 175	\$ 103
Discovery Communications, Liberty Global and affiliates	63	56	123	74
News Corporation and affiliates				167
Other	130	104	235	193
Total	\$ 281	\$ 236	\$ 533	\$ 537

(1)

Amounts disclosed represent transactions with News Corporation and affiliates from January 1, 2008 through February 27, 2008 and transactions with Liberty Media, Discovery Communications, Liberty Global and affiliates from February 27, 2008 to June 30, 2008.

The following table sets forth the amount of accounts receivable from and accounts payable to related parties as of:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Dollars in Millions)</b>	
Accounts receivable	\$ 43	\$ 29
Accounts payable	185	165

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The accounts receivable and accounts payable balances as of June 30, 2009 and December 31, 2008 are primarily related to affiliates of Liberty Media.

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**THE DIRECTV GROUP, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(Unaudited)**

**Note 8: Earnings Per Common Share**

We compute basic earnings per common share, or EPS, by dividing net income attributable to The DIRECTV Group, Inc. by the weighted average number of common shares outstanding for the period.

Diluted EPS considers the effect of common equivalent shares, which consist primarily of common stock options and restricted stock units issued to employees. In the computation of diluted EPS under the treasury stock method, the amount of assumed proceeds from nonvested stock awards and unexercised stock options includes the amount of compensation cost attributable to future services not yet recognized, proceeds from the exercise of the options, and the incremental income tax benefit or liability as if the awards were distributed during the period. We exclude common equivalent shares from the computation in loss periods as their effect would be antidilutive and we exclude common stock options from the computation of diluted EPS when their exercise price is greater than the average market price of our common stock. The following table sets forth the number of common stock options excluded from the computation of diluted EPS because the options' exercise prices were greater than the average market price of our common stock during the periods presented:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(Shares in Millions)			
Common stock options excluded	23	31	24	31

The following table sets forth comparative information regarding common shares outstanding:

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	(Shares in Millions)	
Common shares outstanding at January 1	1,024	1,148
Decrease for common shares repurchased and retired	(32)	(30)
Increase for stock options exercised and restricted stock units vested and distributed	4	7
Common shares outstanding at June 30	996	1,125
Weighted average number of common shares outstanding	1,012	1,144

Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The reconciliation of the amounts used in the basic and diluted EPS computation is as follows:

	Income	Shares	Per Share Amounts
	(Dollars and Shares in Millions, Except Per Share Amounts)		
<b>Three Months Ended June 30, 2009:</b>			
Basic EPS			
Net income attributable to The DIRECTV Group, Inc.	\$ 407	1,006	\$ 0.40
Effect of Dilutive Securities			
Dilutive effect of stock options and restricted stock units		3	
Diluted EPS			
Adjusted net income attributable to The DIRECTV Group, Inc.	\$ 407	1,009	\$ 0.40
<b>Three Months Ended June 30, 2008:</b>			
Basic EPS			
Net income attributable to The DIRECTV Group, Inc	\$ 455	1,140	\$ 0.40
Effect of Dilutive Securities			
Dilutive effect of stock options and restricted stock units		6	
Diluted EPS			
Adjusted net income attributable to The DIRECTV Group, Inc	\$ 455	1,146	\$ 0.40
<b>Six Months Ended June 30, 2009:</b>			
Basic EPS			
Net income attributable to The DIRECTV Group, Inc	\$ 608	1,012	\$ 0.60
Effect of Dilutive Securities			
Dilutive effect of stock options and restricted stock units		3	
Diluted EPS			
Adjusted net income attributable to The DIRECTV Group, Inc	\$ 608	1,015	\$ 0.60
<b>Six Months Ended June 30, 2008:</b>			
Basic EPS			
Net income attributable to The DIRECTV Group, Inc	\$ 826	1,144	\$ 0.72
Effect of Dilutive Securities			
Dilutive effect of stock options and restricted stock units		5	
Diluted EPS			
Adjusted net income attributable to The DIRECTV Group, Inc	\$ 826	1,149	\$ 0.72

**Note 9: Stockholders' Equity***Share Repurchase Program*

During 2009 and 2008 our Board of Directors approved multiple authorizations for the repurchase of our common stock, the most recent of which was in January 2009, authorizing share repurchases of \$2.0 billion. As of June 30, 2009, we had approximately \$1.3 billion remaining

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under this authorization. The authorizations allow us to repurchase our common stock from time to time through open market purchases and negotiated transactions, or otherwise. The timing, nature and amount of such

Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

transactions will depend on a variety of factors, including market conditions, and the program may be suspended, discontinued or accelerated at any time. The sources of funds for the purchases under the remaining authorization are our existing cash on hand and cash from operations. Purchases are made in the open market, through block trades and other negotiated transactions. Repurchased shares are retired but remain authorized for registration and issuance in the future.

The following table sets forth information regarding shares repurchased and retired during the periods presented:

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Amounts in Millions, Except Per Share Amounts)</b>	
Total cost of repurchased shares	\$ 724	\$ 796
Average price per share	22.46	26.52
Number of shares repurchased and retired	32	30

For the six months ended June 30, 2009, we recorded the \$724 million in repurchases as a decrease of \$267 million to "Common stock and additional paid in capital" and an increase of \$457 million to "Accumulated deficit" in the Consolidated Balance Sheets. Of the \$724 million in repurchases during the six months ended June 30, 2009, \$54 million were paid for in July 2009. Of the \$796 million in repurchases during the six months ended June 30, 2008, \$60 million were paid for in July 2008.

Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The following tables set forth a reconciliation of stockholders' equity and redeemable noncontrolling interest for each of the periods presented:

	Stockholders' Equity						
	Common Shares	Common Stock and Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss, net of taxes	Total Stockholders' Equity	Redeemable Noncontrolling Interest	Net Income
(Dollars in Millions)							
<b>Balance at January 1, 2009</b>	1,024,182,043	\$ 8,318	\$ (3,559)	\$ (128)	\$ 4,631	\$ 325	
Net income			608		608	22	\$ 630
Stock repurchased and retired	(32,350,087)	(267)	(457)		(724)		
Stock options exercised and restricted stock units vested and distributed	3,719,840	33			33		
Share-based compensation expense		25			25		
Tax benefit from stock option exercises		5			5		
Adjustment to the fair value of redeemable noncontrolling interest		2			2	(2)	
Other		(16)			(16)		
Foreign currency translation adjustment				1	1	(20)	
Unrealized gain on securities, net of tax				4	4		
<b>Balance at June 30, 2009</b>	995,551,796	\$ 8,100	\$ (3,408)	\$ (123)	\$ 4,569	\$ 325	

	Stockholders' Equity						
	Common Shares	Common Stock and Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss, net of taxes	Total Stockholders' Equity	Redeemable Noncontrolling Interest	Net Income
(Dollars in Millions)							
<b>Balance at January 1, 2008</b>	1,148,268,203	\$ 9,029	\$ (2,995)	\$ (21)	\$ 6,013	\$ 300	
Net income			826		826	25	\$ 851
Stock repurchased and retired	(29,986,918)	(247)	(549)		(796)		
Stock options exercised and restricted stock units vested and distributed	6,242,514	82			82		
Share-based compensation expense		23			23		
Tax benefit from stock option exercises		12			12		
Capital contribution		160			160		



Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)***Accumulated Other Comprehensive Loss*

	As of June 30, 2009	As of December 31, 2008
	(Dollars in Millions)	
Unamortized net amount resulting from changes in defined benefit plan experience and actuarial assumptions, net of taxes	\$ (124)	\$ (124)
Unamortized amount resulting from changes in defined benefit plan provisions, net of taxes	(4)	(4)
Accumulated unrealized gains on securities, net of taxes	5	1
Accumulated foreign currency translation adjustments		(1)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$ (123)</b>	<b>\$ (128)</b>

*Other Comprehensive Income*

Total comprehensive income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Dollars in Millions)			
Net income	\$ 418	\$ 468	\$ 630	\$ 851
Other comprehensive income (loss):				
Foreign currency translation adjustments:				
Cumulative effect of change in functional currency at Sky Brazil	(112)		(112)	
Foreign currency translation activity during the period	93		93	
Unrealized gains (losses) on securities, net of taxes	5	(3)	4	(12)
<b>Comprehensive income</b>	<b>404</b>	<b>465</b>	<b>615</b>	<b>839</b>
Comprehensive income attributable to redeemable noncontrolling interest	9	(13)	(2)	(25)
<b>Comprehensive income attributable to The DIRECTV Group, Inc.</b>	<b>\$ 413</b>	<b>\$ 452</b>	<b>\$ 613</b>	<b>\$ 814</b>

**Note 10: Acquisitions***Home Services Providers*

*180 Connect.* On July 8, 2008, we acquired 100% of 180 Connect Inc.'s outstanding common stock and exchangeable shares. Simultaneously, in a separate transaction, UniTek USA, LLC acquired 100% of 180 Connect's cable service operating unit and operations in certain of our installation services markets in exchange for satellite installation operations in certain markets and \$7 million in cash. These transactions provide us with control over a significant portion of DIRECTV U.S.' home service provider network. We paid \$91 million in cash, net of the \$7 million we received from UniTek USA, for the acquisition, including the equity purchase price, repayment of assumed debt and related transaction costs.



Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

We accounted for the 180 Connect acquisition using the purchase method of accounting, and began consolidating the results from the date of acquisition. The June 30, 2009 consolidated financial statements reflect the preliminary allocation of the \$91 million net purchase price to assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition using information currently available. The assets acquired included approximately \$5 million in cash. The excess of the purchase price over the estimated fair values of the net assets has been recorded as goodwill. We are currently determining how much of the recorded goodwill will be deductible for tax purposes.

The following table sets forth the preliminary allocation of the purchase price to the 180 Connect net assets acquired on July 8, 2008 (dollars in millions):

Total current assets	\$ 19
Property and equipment	16
Goodwill	118
Investments and other assets	30
<b>Total assets acquired</b>	<b>\$ 183</b>
Total current liabilities	\$ 84
Other liabilities	8
<b>Total liabilities assumed</b>	<b>\$ 92</b>
<b>Net assets acquired</b>	<b>\$ 91</b>

The following selected unaudited pro forma information is being provided to present a summary of the combined results of The DIRECTV Group and 180 Connect for the three and six months ended June 30, 2008 as if the acquisition had occurred as of the beginning of the period, giving effect to purchase accounting adjustments. The pro forma data is presented for informational purposes only and may not necessarily reflect the results of our operations had 180 Connect operated as part of us for the period presented, nor are they necessarily indicative of the results of future operations. The pro forma information excludes the effect of non-recurring charges.

	<b>Three Months</b>		<b>Six Month Ended</b>	
	<b>Ended</b>		<b>June 30,</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>		<b>2008</b>	
	<b>(Dollars in Millions, Except</b>			
	<b>Per Share Amounts)</b>			
Revenues	\$	4,807	\$	9,398
Net income attributable to The DIRECTV Group, Inc.		420		785
Basic earnings per common share attributable to The DIRECTV Group, Inc.		0.37		0.69
Diluted earnings per common share attributable to The DIRECTV Group, Inc.		0.37		0.68

**Note 11: Segment Reporting**

Our two business segments, DIRECTV U.S. and DIRECTV Latin America, acquire, promote, sell and distribute digital entertainment programming via satellite to residential and commercial subscribers. Corporate and Other includes the corporate office, eliminations and other entities.

Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

Selected information for our operating segments is reported as follows:

	DIRECTV U.S.	DIRECTV Latin America	Corporate and Other	Total
(Dollars in Millions)				
<b>Three Months Ended:</b>				
<b>June 30, 2009</b>				
Revenues	\$ 4,539	\$ 680	\$ (1)	\$ 5,218
Operating profit (loss)	\$ 652	\$ 73	\$ (23)	\$ 702
Add: Depreciation and amortization expense	593	87	(1)	679
Operating profit (loss) before depreciation and amortization(1)	\$ 1,245	\$ 160	\$ (24)	\$ 1,381
<b>June 30, 2008</b>				
Revenues	\$ 4,196	\$ 611	\$	\$ 4,807
Operating profit (loss)	\$ 717	\$ 102	\$ (18)	\$ 801
Add: Depreciation and amortization expense	501	59	(3)	557
Operating profit (loss) before depreciation and amortization(1)	\$ 1,218	\$ 161	\$ (21)	\$ 1,358
<b>Six Months Ended:</b>				
<b>June 30, 2009</b>				
Revenues	\$ 8,842	\$ 1,278	\$ (1)	\$ 10,119
Operating profit (loss)	\$ 1,049	\$ 114	\$ (37)	\$ 1,126
Add: Depreciation and amortization expense	1,182	165	(2)	1,345
Operating profit (loss) before depreciation and amortization(1)	\$ 2,231	\$ 279	\$ (39)	\$ 2,471
<b>June 30, 2008</b>				
Revenues	\$ 8,245	\$ 1,153	\$	\$ 9,398
Operating profit (loss)	\$ 1,310	\$ 180	\$ (32)	\$ 1,458
Add: Depreciation and amortization expense	965	119	(3)	1,081
Operating profit (loss) before depreciation and amortization(1)	\$ 2,275	\$ 299	\$ (35)	\$ 2,539

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(1)

Operating profit (loss) before depreciation and amortization, which is a financial measure that is not determined in accordance with GAAP can be calculated by adding amounts under the caption "Depreciation and amortization expense" to "Operating profit (loss)." This measure should be used in conjunction with GAAP financial measures and is not presented as an alternative measure of operating results, as determined in accordance with GAAP. Our management and Board of

Table of Contents**THE DIRECTV GROUP, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (concluded)****(Unaudited)**

Directors use operating profit (loss) before depreciation and amortization to evaluate the operating performance of our company and our business segments and to allocate resources and capital to business segments. This metric is also used as a measure of performance for incentive compensation purposes and to measure income generated from operations that could be used to fund capital expenditures, service debt or pay taxes. Depreciation and amortization expense primarily represents an allocation to current expense of the cost of historical capital expenditures and for intangible assets resulting from prior business acquisitions. To compensate for the exclusion of depreciation and amortization expense from operating profit, our management and Board of Directors separately measure and budget for capital expenditures and business acquisitions.

We believe this measure is useful to investors, along with GAAP measures (such as revenues, operating profit and net income), to compare our operating performance to other communications, entertainment and media service providers. We believe that investors use current and projected operating profit (loss) before depreciation and amortization and similar measures to estimate our current or prospective enterprise value and make investment decisions. This metric provides investors with a means to compare operating results exclusive of depreciation and amortization. Our management believes this is useful given the significant variation in depreciation and amortization expense that can result from the timing of capital expenditures, the capitalization of intangible assets, potential variations in expected useful lives when compared to other companies and periodic changes to estimated useful lives.

The following represents a reconciliation of operating profit before depreciation and amortization to reported net income on the Consolidated Statements of Operations:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(Dollars in Millions)</b>			
Operating profit before depreciation and amortization	\$ 1,381	\$ 1,358	\$ 2,471	\$ 2,539
Depreciation and amortization	679	557	1,345	1,081
Operating profit	702	801	1,126	1,458
Interest income	6	21	16	37
Interest expense	(102)	(82)	(203)	(145)
Other, net	54	15	57	18
Income before income taxes	660	755	996	1,368
Income tax expense	(242)	(287)	(366)	(517)
Net income	418	468	630	851
Less: Net income attributable to noncontrolling interest	(11)	(13)	(22)	(25)
Net income attributable to The DIRECTV Group, Inc.	\$ 407	\$ 455	\$ 608	\$ 826

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**THE DIRECTV GROUP, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following management's discussion and analysis should be read in conjunction with our management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on February 27, 2009, our Quarterly Report on Form 10-Q for the quarter ending March 31, 2009 filed with the SEC on May 8, 2009 and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report.

This Quarterly Report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, "forward-looking statements" within the meaning of various provisions of the Securities Act of 1933 and of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by use of statements that include phrases such as we "believe," "expect," "estimate," "anticipate," "intend," "plan," "foresee," "project" or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. All of these forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from historical results or from those expressed or implied by the relevant forward- looking statement. We discuss these risks and uncertainties in detail in Part I, Item 1A of our 2008 Form 10-K.

Table of Contents**THE DIRECTV GROUP, INC.****SUMMARY DATA****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>(Dollars in Millions, Except Per Share Amounts)</b>				
<b>Consolidated Statements of Operations Data:</b>				
Revenues	\$5,218	\$4,807	\$10,119	\$9,398
Total operating costs and expenses	4,516	4,006	8,993	7,940
Operating profit	702	801	1,126	1,458
Interest income	6	21	16	37
Interest expense	(102)	(82)	(203)	(145)
Other, net	54	15	57	18
Income before income taxes	660	755	996	1,368
Income tax expense	(242)	(287)	(366)	(517)
Net income	418	468	630	851
Less: Net income attributable to noncontrolling interest	(11)	(13)	(22)	(25)
Net income attributable to The DIRECTV Group, Inc.	\$ 407	\$ 455	\$ 608	\$ 826
Basic and diluted earnings per common share	\$ 0.40	\$ 0.40	\$ 0.60	\$ 0.72
Weighted average number of common shares outstanding (in millions)				
Basic	1,006	1,140	1,012	1,144
Diluted	1,009	1,146	1,015	1,149

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>(Dollars in Millions)</b>		
<b>Consolidated Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 2,272	\$ 2,005
Total current assets	4,282	4,044
Total assets	16,411	16,539
Total current liabilities	3,669	3,585
Long-term debt	5,604	5,725
Redeemable noncontrolling interest	325	325
Total stockholders' equity	4,569	4,631

Reference should be made to the Notes to the Consolidated Financial Statements.

Table of Contents**THE DIRECTV GROUP, INC.****SUMMARY DATA (continued)****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>(Dollars in Millions, Except Per Share Amounts)</b>				
<b>Other Data:</b>				
<b>Operating profit before depreciation and amortization(1)</b>				
Operating profit	\$ 702	\$ 801	\$ 1,126	\$ 1,458
Add: Depreciation and amortization expense	679	557	1,345	1,081
<b>Operating profit before depreciation and amortization</b>	<b>\$ 1,381</b>	<b>\$ 1,358</b>	<b>\$ 2,471</b>	<b>\$ 2,539</b>
Operating profit before depreciation and amortization margin(1)	26.5%	28.3%	24.4%	27.0%
<b>Cash flow information</b>				
Net cash provided by operating activities	\$ 1,044	\$ 843	\$ 2,040	\$ 1,953
Net cash used in investing activities	(493)	(539)	(1,035)	(1,104)
Net cash (used in) provided by financing activities	(384)	1,907	(738)	1,905
<b>Free cash flow(2)</b>				
Net cash provided by operating activities	\$ 1,044	\$ 843	\$ 2,040	\$ 1,953
Less: Cash paid for property and equipment	(480)	(439)	(1,002)	(959)
Less: Cash paid for satellites	(14)	(31)	(31)	(77)
<b>Free cash flow</b>	<b>\$ 550</b>	<b>\$ 373</b>	<b>\$ 1,007</b>	<b>\$ 917</b>

(1)

Operating profit before depreciation and amortization, which is a financial measure that is not determined in accordance with GAAP can be calculated by adding amounts under the caption "Depreciation and amortization expense" to "Operating profit." This measure should be used in conjunction with GAAP financial measures and is not presented as an alternative measure of operating results, as determined in accordance with GAAP. Our management and our Board of Directors use operating profit before depreciation and amortization to evaluate the operating performance of our company and our business segments and to allocate resources and capital to business segments. This metric is also used as a measure of performance for incentive compensation purposes and to measure income generated from operations that could be used to fund capital expenditures, service debt or pay taxes. Depreciation and amortization expense primarily represents an allocation to current expense of the cost of historical capital expenditures and for acquired intangible assets resulting from prior business acquisitions. To compensate for the exclusion of depreciation and amortization expense from operating profit, our management and Board of Directors separately measure and budget for capital expenditures and business acquisitions.

We believe this measure is useful to investors, along with GAAP measures (such as revenues, operating profit and net income), to compare our operating performance to other communications, entertainment and media service providers. We believe that investors use current and projected operating profit before depreciation and amortization and similar measures to estimate our current or prospective enterprise value and make investment decisions. This metric provides investors with a means to compare operating results exclusive of depreciation and amortization expense. Our management believes this is useful given the significant variation in depreciation and amortization expense that can result from the timing of capital expenditures, the capitalization of intangible

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**THE DIRECTV GROUP, INC.**

**SUMMARY DATA (continued)**

**(Unaudited)**

assets, potential variations in expected useful lives when compared to other companies and periodic changes to estimated useful lives.

Operating profit before depreciation and amortization margin is calculated by dividing operating profit before depreciation and amortization by revenues.

(2)

Free cash flow, which is a financial measure that is not determined in accordance with GAAP, can be calculated by deducting amounts under the captions "Cash paid for property and equipment" and "Cash paid for satellites" from "Net cash provided by operating activities" from the Consolidated Statements of Cash Flows. This financial measure should be used in conjunction with other GAAP financial measures and is not presented as an alternative measure of cash flows from operating activities, as determined in accordance with GAAP. Our management and our Board of Directors use free cash flow to evaluate the cash generated by our current subscriber base, net of capital expenditures, for the purpose of allocating resources to activities such as adding new subscribers, retaining and upgrading existing subscribers, for additional capital expenditures, for share repurchase programs and other capital investments or transactions and as a measure of performance for incentive compensation purposes. We believe this measure is useful to investors, along with other GAAP measures (such as cash flows from operating and investing activities), to compare our operating performance to other communications, entertainment and media companies. We believe that investors also use current and projected free cash flow to determine the ability of revenues from our current and projected subscriber base to fund required and discretionary spending and to help determine our financial value.

Table of Contents**THE DIRECTV GROUP, INC.****SUMMARY DATA (continued)****(Unaudited)****Selected Segment Data**

	DIRECTV U.S.	DIRECTV Latin America	Corporate and Other	Total
	(Dollars in Millions)			
<b>Three Months Ended:</b>				
<b>June 30, 2009</b>				
Revenues	\$ 4,539	\$ 680	\$ (1)	\$ 5,218
% of total revenue	87.0%	13.0%		100.0%
Operating profit (loss)	\$ 652	\$ 73	\$ (23)	\$ 702
Add: Depreciation and amortization expense	593	87	(1)	679
Operating profit (loss) before depreciation and amortization	\$ 1,245	\$ 160	\$ (24)	\$ 1,381
Operating profit before depreciation and amortization margin	27.4%	23.5%	N/A	26.5%
Capital expenditures	\$ 350	\$ 144	\$	\$ 494
<b>June 30, 2008</b>				
Revenues	\$ 4,196	\$ 611	\$	\$ 4,807
% of total revenue	87.3%	12.7%		100.0%
Operating profit (loss)	\$ 717	\$ 102	\$ (18)	\$ 801
Add: Depreciation and amortization expense	501	59	(3)	557
Operating profit (loss) before depreciation and amortization	\$ 1,218	\$ 161	\$ (21)	\$ 1,358
Operating profit before depreciation and amortization margin	29.0%	26.4%	N/A	28.3%
Capital expenditures	\$ 353	\$ 115	\$ 2	\$ 470

Table of Contents**THE DIRECTV GROUP, INC.****SUMMARY DATA (concluded)****(Unaudited)**

	DIRECTV U.S.	DIRECTV Latin America	Corporate and Other	Total
	(Dollars in Millions)			
<b>Six Months Ended:</b>				
<b>June 30, 2009</b>				
Revenues	\$ 8,842	\$ 1,278	\$ (1)	\$ 10,119
% of total revenue	87.4%	12.6%		100.0%
Operating profit (loss)	\$ 1,049	\$ 114	\$ (37)	\$ 1,126
Add: Depreciation and amortization expense	1,182	165	(2)	1,345
Operating profit (loss) before depreciation and amortization	\$ 2,231	\$ 279	\$ (39)	\$ 2,471
Operating profit before depreciation and amortization margin	25.2%	21.8%	N/A	24.4%
Capital expenditures	\$ 785	\$ 247	\$ 1	\$ 1,033
<b>June 30, 2008</b>				
Revenues	\$ 8,245	\$ 1,153	\$	\$ 9,398
% of total revenue	87.7%	12.3%		100.0%
Operating profit (loss)	\$ 1,310	\$ 180	\$ (32)	\$ 1,458
Add: Depreciation and amortization expense	965	119	(3)	1,081
Operating profit (loss) before depreciation and amortization	\$ 2,275	\$ 299	\$ (35)	\$ 2,539
Operating profit before depreciation and amortization margin	27.6%	25.9%	N/A	27.0%
Capital expenditures	\$ 822	\$ 212	\$ 2	\$ 1,036

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**THE DIRECTV GROUP, INC.**

**BUSINESS OVERVIEW**

The DIRECTV Group, Inc. is a leading provider of digital television entertainment in the United States and Latin America. Our two business segments, DIRECTV U.S. and DIRECTV Latin America, which are differentiated by their geographic location, acquire, promote, sell and distribute digital entertainment programming via satellite to residential and commercial subscribers.

**DIRECTV U.S.** DIRECTV Holdings LLC and its subsidiaries, or DIRECTV U.S., is the largest provider of direct-to-home, or DTH, digital television services and the second largest provider in the multi-channel video programming distribution industry in the United States. As of June 30, 2009, DIRECTV U.S. had approximately 18.3 million subscribers.

DIRECTV U.S. currently broadcasts from a fleet of eleven geosynchronous satellites, including ten owned satellites and one leased satellite. DIRECTV 12 is under construction and is expected to be ready for launch in the second half of 2009.

**DIRECTV Latin America.** DIRECTV Latin America is a leading provider of DTH digital television services throughout Latin America. DTVLA is comprised of PanAmericana, which provides services in Venezuela, Argentina, Chile, Colombia, Puerto Rico and certain other countries in the region through our wholly-owned subsidiary, DIRECTV Latin America, LLC, or DLA LLC, our 74% owned subsidiary Sky Brasil Servicos Ltda., which we refer to as Sky Brazil, and our 41% equity method investment in Innova, S. de R.L. de C.V., or Sky Mexico. As of June 30, 2009, PanAmericana had approximately 2.4 million subscribers, Sky Brazil had approximately 1.7 million subscribers and Sky Mexico had approximately 1.8 million subscribers.

**SIGNIFICANT TRANSACTIONS**

**Venezuela Exchange Controls**

We are required to obtain Venezuelan government approval to exchange Venezuelan bolivars into U.S. dollars at the official rate of 2.15 Venezuelan bolivars per U.S. dollar. Alternatively, a legal parallel exchange process exists, however the rates implied by transactions in the parallel market are significantly higher than the official rate (recently 5 to 7 bolivars per U.S. dollar). The official approval process has been delayed in recent periods and our Venezuelan subsidiary has relied on the parallel exchange process to settle U.S. dollar obligations and to repatriate accumulated cash balances during 2009. As a result, we recognized a \$48 million charge for the three months ended June 30, 2009 and a \$120 million charge for the six months ended June 30, 2009 to "General and administrative expense" in the Consolidated Statements of Operations in connection with the exchange of accumulated Venezuelan cash balances to U.S. dollars in the parallel exchange process. See "Liquidity and Capital Resources" below for additional information.

**Sky Brazil Functional Currency**

Based on cumulatively significant changes in economic facts and circumstances, we have determined that the local Brazilian currency should be the functional currency of Sky Brazil for purposes of financial statement translation beginning in the second quarter of 2009. As a result of this change in functional currency, changes in exchange rates will result in gains or losses, which will be recorded in "Other, net" in the Consolidated Statements of Operations related to the revaluation of U.S. dollar denominated monetary assets and liabilities, such as cash deposits, notes payable and capital lease obligations held by Sky Brazil. During the second quarter of 2009, we recorded a net foreign currency transaction gain of \$38 million in "Other, net" in the Consolidated Statements of Operations related to U.S. dollar denominated monetary assets and liabilities held by Sky Brazil.

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**THE DIRECTV GROUP, INC.**

**Liberty Entertainment Inc. Merger Transaction**

On May 3, 2009, The DIRECTV Group, Liberty Media Corporation, or Liberty Media, Liberty Entertainment, Inc., or LEI and certain subsidiaries of The DIRECTV Group entered into an agreement and plan of merger, which we refer to as the "merger agreement", which, if consummated, will result in the creation of a new public holding company named "DIRECTV" which we refer to as "Holdings", that will own The DIRECTV Group and LEI. Holdings will be owned by the holders of The DIRECTV Group common stock and the holders of LEI common stock immediately prior to the mergers contemplated by the merger agreement.

As a necessary step to the mergers contemplated by the merger agreement, Liberty Media is planning to execute a split-off transaction that would result in the redemption of 90% of the outstanding shares of both series of its Liberty Entertainment common stock in exchange for all of the outstanding shares of two series of common stock of LEI. LEI will hold Liberty Media's entire interest in The DIRECTV Group (currently approximately 56%), 100% of Liberty Sports Holdings LLC, 65% of Game Show Network, LLC and approximately \$30 million in cash and cash equivalents, together with approximately \$2 billion of indebtedness and a related equity collar. The split-off transaction is conditioned on the approval of the holders of Liberty's Liberty Entertainment common stock.

Costs incurred to complete the transaction, including legal, accounting, financial printing and investment banking fees, will be expensed as incurred pursuant to Statement of Financial Accounting Standards, or SFAS, No. 141 (revised 2007), "Business Combinations", or SFAS No. 141R. The exchange rate of LEI common stock to The DIRECTV Group common stock was determined in a manner such that LEI stockholders as a group will receive a premium in the form of a larger economic interest in DIRECTV than would have been otherwise determined based on the relative fair values of The DIRECTV Group and LEI. This premium, calculated as the fair value of the economic interest to be distributed to LEI stockholders in excess of the fair value of the assets and liabilities of LEI, will be expensed as a disproportionate distribution upon completion of the mergers. In addition, as part of the mergers, Holdings will grant common stock options and stock appreciation rights to replace the stock based awards of LEI. Pursuant to SFAS No. 141R, any incremental fair value of the replacement awards over the fair value of the replaced LEI awards must also be expensed. Had the merger been completed on June 30, 2009, we estimate that Holdings would have recorded an expense of approximately \$275 million on that date for the costs of the transaction, the premium to LEI stockholders, and the incremental fair value of the stock based awards. However, we anticipate the actual amounts to be recorded will change as they will be determined based on acquisition date fair values.

For additional information regarding the proposed merger transactions, see Note 2 of the Notes to the Consolidated Financial Statements above and refer to Amendment No. 1 to Holdings' Registration Statement on Form S-4 filed with the SEC on July 30, 2009, which has not been declared effective.

Table of Contents**THE DIRECTV GROUP, INC.****Lease Program**

The following table sets forth the amount of DIRECTV U.S. set-top receivers we capitalized, and depreciation expense we recorded, under the lease program implemented in March 2006 for each of the periods presented:

	<b>Three Months Ended June 30, 2009</b>		<b>Six Months Ended June 30, 2008</b>	
<b>Capitalized subscriber leased equipment:</b>				
	<b>(Dollars in Millions)</b>			
Subscriber leased equipment subscriber acquisitions	\$ 130	\$ 125	\$ 309	\$ 281
Subscriber leased equipment upgrade and retention	90	84	226	245
<b>Total subscriber leased equipment capitalized</b>	<b>\$ 220</b>	<b>\$ 209</b>	<b>\$ 535</b>	<b>\$ 526</b>
Depreciation expense subscriber leased equipment	\$ 340	\$ 261	\$ 677	\$ 502

**KEY TERMINOLOGY**

The following key terminology is used in management's discussion and analysis of financial condition and results of operations:

*Revenues.* We earn revenues mostly from monthly fees we charge subscribers for subscriptions to basic and premium channel programming, HD programming and access fees, pay-per-view programming, and seasonal and live sporting events. We also earn revenues from monthly fees that we charge subscribers with multiple non-leased set-top receivers (which we refer to as mirroring fees), monthly fees we charge subscribers for leased set-top receivers, monthly fees we charge subscribers for digital video recorder, or DVR, service, hardware revenues from subscribers who lease or purchase set-top receivers from us, our published programming guide, warranty service fees and advertising services. Revenues are reported net of customer credits and discounted promotions.

*Broadcast programming and other.* These costs primarily include license fees for subscription service programming, pay-per-view programming, live sports and other events. Other costs include expenses associated with the publication and distribution of our programming guide, continuing service fees paid to third parties for active subscribers, warranty service costs and production costs for on-air advertisements we sell to third parties.

*Subscriber service expenses.* Subscriber service expenses include the costs of customer call centers, billing, remittance processing and certain home services expenses, such as in-home repair costs.

*Broadcast operations expenses.* These expenses include broadcast center operating costs, signal transmission expenses (including costs of collecting signals for our local channel offerings), and costs of monitoring, maintaining and insuring our satellites. Also included are engineering expenses associated with deterring theft of our signal.

*Subscriber acquisition costs.* These costs include the cost of set-top receivers and other equipment, commissions we pay to national retailers, independent satellite television retailers, dealers, regional Bell operating companies, and the cost of installation, advertising, marketing and customer call center expenses associated with the acquisition of new subscribers. Set-top receivers leased to new subscribers are capitalized in "Property and equipment, net" in the Consolidated Balance Sheets and depreciated over their estimated useful lives. The amount of set-top receivers capitalized each period for subscriber acquisitions is included in "Cash paid for property and equipment" in the Consolidated Statements of Cash Flows.

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**THE DIRECTV GROUP, INC.**

*Upgrade and retention costs.* The majority of upgrade and retention costs are associated with upgrade efforts for existing subscribers that we believe will result in higher average monthly revenue per subscriber, or ARPU, and lower churn. Our upgrade efforts include subscriber equipment upgrade programs for DVR, HD and HD DVR receivers and local channels, our multiple set-top receiver offer and similar initiatives. Retention costs also include the costs of installing and providing hardware under our movers program for subscribers relocating to a new residence. Set-top receivers leased to existing subscribers under upgrade and retention programs are capitalized in "Property and equipment, net" in the Consolidated Balance Sheets and depreciated over their estimated useful lives. The amount of set-top receivers capitalized each period for upgrade and retention programs is included in "Cash paid for property and equipment" in the Consolidated Statements of Cash Flows.

*General and administrative expenses.* General and administrative expenses include departmental costs for legal, administrative services, finance, marketing and information technology. These costs also include expenses for bad debt and other operating expenses, such as legal settlements, and gains or losses from the sale or disposal of fixed assets.

*Average monthly revenue per subscriber.* We calculate ARPU by dividing average monthly revenues for the period (total revenues during the period divided by the number of months in the period) by average subscribers for the period. We calculate average subscribers for the period by adding the number of subscribers as of the beginning of the period and for each quarter end in the current year or period and dividing by the sum of the number of quarters in the period plus one.

*Average monthly subscriber churn.* Average monthly subscriber churn represents the number of subscribers whose service is disconnected, expressed as a percentage of the average total number of subscribers. We calculate average monthly subscriber churn by dividing the average monthly number of disconnected subscribers for the period (total subscribers disconnected, net of reconnects, during the period divided by the number of months in the period) by average subscribers for the period.

*Subscriber count.* The total number of subscribers represents the total number of subscribers actively subscribing to our service, including seasonal subscribers, subscribers who are in the process of relocating and commercial equivalent viewing units. In March 2008, we implemented a change in DIRECTV U.S.' commercial pricing and packaging to increase our competitiveness. As a result, during the first quarter of 2008, DIRECTV U.S. made a one-time downward adjustment to the subscriber count of approximately 71,000 subscribers related to commercial equivalent viewing units.

*SAC.* We calculate SAC, which represents total subscriber acquisition costs stated on a per subscriber basis, by dividing total subscriber acquisition costs for the period by the number of gross new subscribers acquired during the period. We calculate total subscriber acquisition costs for the period by adding together "Subscriber acquisition costs" expensed during the period and the amount of cash paid for equipment leased to new subscribers during the period.

**EXECUTIVE OUTLOOK UPDATE**

During the first half of 2009, DIRECTV U.S. continued to experience competitive and economic pressures, which led to a greater than expected decline in demand for premium and pay-per-view services. Due to these factors, we now expect ARPU growth to be 1% to 2% for the year. We previously reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, that we expected ARPU growth of about 2% to 3% for 2009.

During the first half of 2009, the costs of acquiring a higher than anticipated number of new subscribers coupled with lower than expected ARPU growth and higher than anticipated charges associated with repatriating cash from Venezuela have decreased our expected basic and diluted

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earnings per common share for 2009. In our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, we reported that we expected basic and diluted earnings per common share to increase by less than 15% during 2009. We now expect earnings per share to have a modest increase over our 2008 basic and diluted earnings per common share. Earnings per share will continue to be influenced by the degree to which we experience increased subscriber additions, slower ARPU growth and additional charges resulting from the repatriation of cash from Venezuela.

**RESULTS OF OPERATIONS****Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008***Consolidated Results of Operations*

*Revenues.* The following table presents our revenues by segment:

Revenues By Segment:	Three Months Ended		Change	
	2009	2008	\$	%
	(Dollars in Millions)			
DIRECTV U.S.	\$4,539	\$4,196	\$343	8.2%
DIRECTV Latin America	680	611	69	11.3%
Corporate and Other	(1)		(1)	N/A
Total revenues	\$5,218	\$4,807	\$411	8.6%

The increase in our total revenues was primarily due to subscriber growth at DIRECTV U.S. and DIRECTV Latin America, and ARPU growth at DIRECTV U.S. We discuss the changes for each of our segments in more detail below.

*Operating profit before depreciation and amortization.* The following table presents our operating profit (loss) before depreciation and amortization by segment:

Operating profit (loss) before depreciation and amortization:	Three Months Ended		Change	
	2009	2008	\$	%
	(Dollars in Millions)			
DIRECTV U.S.	\$1,245	\$1,218	\$27	2.2%
DIRECTV Latin America	160	161	(1)	(0.6)%
Corporate and Other	(24)	(21)	(3)	14.3%
Total operating profit before depreciation and amortization	\$1,381	\$1,358	\$23	1.7%

The increase in total operating profit before depreciation and amortization was due to higher gross profit from the increase in revenues, partially offset by higher subscriber acquisition costs and upgrade and retention costs at DIRECTV U.S. and higher general and administrative costs at DIRECTV Latin America due to currency-related transaction charges in Venezuela. We discuss the changes for each of our segments in more detail below.

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*Operating profit.* The following table presents our operating profit (loss) by segment:

Operating profit (loss):	Three Months Ended		Change	
	2009	2008	\$	%
	(Dollars in Millions)			
DIRECTV U.S.	\$652	\$717	\$(65)	(9.1)%
DIRECTV Latin America	73	102	(29)	(28.4)%
Corporate and Other	(23)	(18)	(5)	27.8%
Total operating profit	\$702	\$801	\$(99)	(12.4)%

The decrease in our operating profit was primarily due the higher depreciation and amortization expense due to the DIRECTV U.S. and DIRECTV Latin America lease programs in addition to the changes in operating profit before depreciation and amortization discussed above. We discuss the changes for each of our segments in more detail below.

*Interest income.* The decrease in interest income to \$6 million in the second quarter of 2009 from \$21 million in the second quarter of 2008 was due to lower average cash balances and lower interest rates in 2009.

*Interest expense.* The increase in interest expense to \$102 million in the second quarter of 2009 from \$82 million in the second quarter of 2008 was due to an increase in the average debt balance, partially offset by a decrease in interest rates.

*Other, net.* The increase in other, net to \$54 million in the second quarter of 2009 from \$15 million in the second quarter of 2008 was due to a \$38 million foreign currency transaction gain related to net U.S. dollar denominated liabilities held by Sky Brazil.

*Income Tax Expense.* We recognized income tax expense of \$242 million for the second quarter of 2009 compared to income tax expense of \$287 million for the second quarter of 2008. The decrease in income tax expense is primarily attributable to the decrease in income before income taxes.

Table of Contents**THE DIRECTV GROUP, INC.***DIRECTV U.S. Segment*

The following table provides operating results and a summary of key subscriber data for the DIRECTV U.S. segment:

	Three Months Ended and As of June 30,		Change	
	2009	2008	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 4,539	\$ 4,196	\$ 343	8.2%
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	1,862	1,692	170	10.0%
Subscriber service expenses	307	269	38	14.1%
Broadcast operations expenses	67	65	2	3.1%
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	597	507	90	17.8%
Upgrade and retention costs	245	209	36	17.2%
General and administrative expenses	216	236	(20)	(8.5)%
Depreciation and amortization expense	593	501	92	18.4%
<b>Total operating costs and expenses</b>	<b>3,887</b>	<b>3,479</b>	<b>408</b>	<b>11.7%</b>
<b>Operating Profit</b>	<b>\$ 652</b>	<b>\$ 717</b>	<b>\$ (65)</b>	<b>(9.1)%</b>
<b>Other Data:</b>				
Operating profit before depreciation & amortization	\$ 1,245	\$ 1,218	\$ 27	2.2%
Total number of subscribers (000's)	18,305	17,164	1,141	6.6%
ARPU	\$ 83.16	\$ 81.80	\$ 1.36	1.7%
Average monthly subscriber churn %	1.51%	1.49%		1.3%
Gross subscriber additions (000's)	1,048	894	154	17.2%
Subscriber disconnections (000's)	824	765	59	7.7%
Net subscriber additions (000's)	224	129	95	73.6%
Average subscriber acquisition costs per subscriber (SAC)	\$ 694	\$ 707	\$ (13)	(1.8)%

*Subscribers.* In the second quarter of 2009, gross subscriber additions increased compared to the second quarter of 2008 primarily due to the growth in our telecommunications companies, or telco, channel due in large part to the AT&T distribution agreement. The increase in churn was principally due to more aggressive competitor promotions, partly offset by an increase in the number of subscribers with advanced services as well as the effect of more stringent credit policies. Net subscriber additions increased due to the increase in gross subscriber additions, partially offset by a higher number of subscriber disconnections.

*Revenues.* DIRECTV U.S.' revenues increased as of result of the larger subscriber base and higher ARPU. The increase in ARPU resulted primarily from price increases on programming packages, and higher HD and DVR service fees, partially offset by more competitive promotions for both new and existing customers and decreased purchases of our premium packages.

Table of Contents**THE DIRECTV GROUP, INC.**

*Operating profit before depreciation and amortization.* The improvement of operating profit before depreciation and amortization was primarily due to the gross profit generated from the higher revenues and lower general and administrative costs, partially offset by higher subscriber acquisition and upgrade and retention costs.

Broadcast programming and other costs increased due to annual program supplier rate increases and the larger number of subscribers in the second quarter of 2009 as compared to the second quarter of 2008. Subscriber service expenses increased in the second quarter of 2009 compared to the second quarter of 2008 primarily due to the higher number of subscribers and costs associated with service quality improvement initiatives.

Subscriber acquisition costs increased due to the higher gross additions and higher marketing costs. SAC per subscriber, which includes the cost of capitalized set-top receivers, decreased due to lower set-top receiver costs and decreased national and direct sales advertising costs per subscriber addition, partially offset by higher dealer commissions.

Upgrade and retention costs increased in the second quarter of 2009 due to increases in upgrades to advanced services and increased use of the movers program.

General and administrative expenses decreased in the second quarter of 2009 primarily due to a \$14 million one time charge in the second quarter of 2008 for the write-off of accounts receivable for equipment and other costs incurred to effect the orderly transition of services from one of our Home Service Providers that ceased operations and lower stock based compensation expense as a result of the resignation of our Chief Executive Officer in the second quarter of 2009.

*Operating profit.* The decrease in operating profit was primarily due to higher operating profit before depreciation and amortization, more than offset by higher depreciation and amortization expense in the second quarter of 2009 resulting from the capitalization of set-top receivers under the lease program.

*DIRECTV Latin America Segment*

The following table provides operating results and a summary of key subscriber data for the DIRECTV Latin America segment:

	Three Months Ended and As of June 30,		Change	
	2009	2008	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 680	\$ 611	\$ 69	11.3%
Operating Profit Before Depreciation & Amortization	160	161	(1)	(0.6)%
Operating Profit	73	102	(29)	(28.4)%
Other Data:				
ARPU	\$55.28	\$57.07	\$(1.79)	(3.1)%
Average monthly subscriber churn %	1.91%	1.81%		5.5%
Total number of subscribers (000's)(1)	4,162	3,659	503	13.7%
Gross subscriber additions (000's)	362	378	(16)	(4.2)%
Net subscriber additions (000's)	128	184	(56)	(30.4)%

(1) DIRECTV Latin America subscriber data excludes subscribers of the Sky Mexico platform. Net subscriber additions as well as churn exclude the effect of the migration of approximately 6,000 subscribers from a local pay television service provider to Sky Brazil in the second quarter of 2009.

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The decrease in net subscriber additions was due to lower gross subscriber additions mainly in Brazil as a result of stricter credit policies implemented in the second half of 2008, coupled with higher churn of 1.91% in the region. The increase in churn was primarily due to the impact from continued growth in DTVLA's pre-paid business.

Revenues increased primarily due to subscriber growth in Brazil, Argentina and Venezuela. ARPU decreased mainly due to unfavorable exchange rates in the region, primarily in Brazil.

Operating profit before depreciation and amortization remained flat period to period because the gross profit generated from the higher revenues was offset by an increase in general and administrative expenses due to \$48 million charge in connection with the exchange of Venezuelan currency to U.S. dollars.

The lower operating profit was due to an increase in depreciation and amortization expense, which was primarily due to the capitalization of set-top receivers under lease programs.

*Corporate and Other*

Operating loss from Corporate and Other increased to \$23 million in the second quarter of 2009 from \$18 million in the second quarter of 2008.

**Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008***Consolidated Results of Operations*

*Revenues.* The following table presents our revenues by segment:

Revenues By Segment:	Six Months Ended June 30,		Change	
	2009	2008	\$	%
	(Dollars in Millions)			
DIRECTV U.S.	\$ 8,842	\$ 8,245	\$ 597	7.2%
DIRECTV Latin America	1,278	1,153	125	10.8%
Corporate and Other	(1)		(1)	N/A
Total revenues	\$ 10,119	\$ 9,398	\$ 721	7.7%

The increase in our total revenues was primarily due to subscriber growth at DIRECTV U.S. and DIRECTV Latin America and higher ARPU at DIRECTV U.S. We discuss the changes for each of our segments in more detail below.

*Operating profit before depreciation and amortization.* The following table presents our operating profit (loss) before depreciation and amortization by segment:

Operating profit (loss) before depreciation and amortization:	Six Months Ended June 30,		Change	
	2009	2008	\$	%
	(Dollars in Millions)			
DIRECTV U.S.	\$ 2,231	\$ 2,275	\$ (44)	(1.9)%
DIRECTV Latin America	279	299	(20)	(6.7)%
Corporate and Other	(39)	(35)	(4)	11.4%

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Total operating profit before depreciation and amortization	\$2,471	\$2,539	\$(68)	(2.7)%
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Table of Contents**THE DIRECTV GROUP, INC.**

The decrease in total operating profit before depreciation and amortization was due to higher gross profit from the increase in revenues, that was more than offset by higher subscriber acquisition and upgrade and retention in DIRECTV U.S. and general and administrative costs in DIRECTV Latin America due to currency-related transaction charges in Venezuela.

*Operating profit.* The following table presents our operating profit (loss) by segment:

Operating profit (loss):	Six Months Ended		Change	
	2009	2008	\$	%
	(Dollars in Millions)			
DIRECTV U.S.	\$ 1,049	\$ 1,310	\$(261)	(19.9)%
DIRECTV Latin America	114	180	(66)	(36.7)%
Corporate and Other	(37)	(32)	(5)	15.6%
Total operating profit	\$ 1,126	\$ 1,458	\$(332)	(22.8)%

The decrease in our operating profit was primarily due to the decrease in operating profit before depreciation and amortization, coupled with higher depreciation and amortization expense due to the DIRECTV U.S. and DIRECTV Latin America lease programs. We discuss the changes for each of our segments in more detail below.

*Interest income.* The decrease in interest income to \$16 million in the first half of 2009 from \$37 million in the first half of 2008 was due to lower interest rates and lower average cash balances in 2009.

*Interest expense.* The increase in interest expense to \$203 million in the first half of 2009 from \$145 million in the first half of 2008 was due to an increase in the average debt balance.

*Other, net.* The increase in other, net to \$57 million in the first half of 2009 from \$18 million in the first half of 2008 was due to a \$38 million foreign currency transaction gain related to net U.S. dollar denominated liabilities held by Sky Brazil.

*Income Tax Expense.* We recognized income tax expense of \$366 million for the first half of 2009 compared to income tax expense of \$517 million for the first half of 2008. The decrease in income tax expense is primarily attributable to the decrease in income before income taxes.

Table of Contents**THE DIRECTV GROUP, INC.***DIRECTV U.S. Segment*

The following table provides operating results and a summary of key subscriber data for the DIRECTV U.S. segment:

	Six Months Ended and As of June 30,		Change	
	2009	2008	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 8,842	\$ 8,245	\$ 597	7.2%
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	3,670	3,375	295	8.7%
Subscriber service expenses	608	543	65	12.0%
Broadcast operations expenses	136	126	10	7.9%
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	1,250	1,037	213	20.5%
Upgrade and retention costs	519	464	55	11.9%
General and administrative expenses	428	425	3	0.7%
Depreciation and amortization expense	1,182	965	217	22.5%
Total operating costs and expenses	7,793	6,935	858	12.4%
Operating Profit	\$ 1,049	\$ 1,310	\$ (261)	(19.9)%
Other Data:				
Operating profit before depreciation & amortization	\$ 2,231	\$ 2,275	\$ (44)	(1.9)%
Total number of subscribers (000's)(1)	18,305	17,164	1,141	6.6%
ARPU	\$ 81.86	\$ 80.79	\$ 1.07	1.3%
Average monthly subscriber churn %	1.42%	1.42%		
Gross subscriber additions (000's)	2,223	1,858	365	19.6%
Subscriber disconnections (000's)	1,539	1,454	85	5.8%
Net subscriber additions (000's)	684	404	280	69.3%
Average subscriber acquisition costs per subscriber (SAC)	\$ 701	\$ 709	\$ (8)	(1.1)%

(1)

As discussed above in "Key Terminology," during the first half of 2008, we had a one-time downward adjustment to our subscriber count of approximately 71,000 subscribers related to commercial equivalent viewing units. This adjustment did not affect our revenue, operating profit, cash flows, net subscriber additions or average monthly subscriber churn.

*Subscribers.* Gross subscriber additions increased in 2009 due to higher demand for HD and DVR services and increased sales in our direct sales and telco channels primarily due to the AT&T/DIRECTV bundle, which commenced in February 2009. Net subscriber additions increased due to the higher gross subscriber additions, partially offset by a higher number of subscriber disconnections.

*Revenues.* DIRECTV U.S.' revenues increased as a result of the larger subscriber base and higher ARPU. The increase in ARPU resulted primarily from price increases on programming packages, higher HD and DVR service fees, and an increase in lease fees due to higher average number of receivers per subscriber, partially offset by more competitive promotions for both new and existing customers and lower purchases of our premium packages and pay-per-view.



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*Operating profit before depreciation and amortization.* The decrease in operating profit before depreciation and amortization was primarily due to the gross profit generated from the higher revenues, which was more than offset by higher subscriber acquisition costs from the increased number of gross subscriber additions and higher upgrade and retention costs from the increased number of existing customers adding HD and DVR services and using the movers program.

Broadcast programming and other costs increased due to annual program supplier rate increases and the larger number of subscribers in 2009. Subscriber service expenses increased in 2009 primarily due to the increased number of subscribers and costs associated with service quality improvement initiatives.

Subscriber acquisition costs increased due to the increase in the number of gross subscriber additions and higher advertising and marketing costs. SAC per subscriber, which includes the cost of capitalized set-top receivers, decreased due to lower set-top receiver costs and lower national and direct sales advertising costs per subscriber addition.

Upgrade and retention costs increased in 2009 due to an increase in upgrades to advanced services, increased use of the movers program and higher marketing costs.

General and administrative expenses remained relatively flat in 2009 primarily due to increases in labor and benefit expense, mostly offset by a \$14 million charge in 2008 for the write-off of accounts receivable for equipment and other costs incurred to effect the orderly transition of services from one of our Home Service Providers that ceased operations.

*Operating profit.* The decrease in operating profit was primarily due to lower operating profit before depreciation and amortization, coupled with higher depreciation and amortization expense in 2009 resulting from the capitalization of set-top receivers under the lease program.

*DIRECTV Latin America Segment*

The following table provides operating results and a summary of key subscriber data for the DIRECTV Latin America segment:

	Six Months Ended and As of June 30,		Change	
	2009	2008	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$1,278	\$1,153	\$ 125	10.8%
Operating Profit Before Depreciation & Amortization	279	299	(20)	(6.7)%
Operating Profit	114	180	(66)	(36.7)%
Other Data:				
ARPU	\$52.91	\$55.36	\$(2.45)	(4.4)%
Average monthly subscriber churn %	1.88%	1.69%		11.2%
Total number of subscribers (000's)(1)	4,162	3,659	503	13.7%
Gross subscriber additions (000's)	730	737	(7)	(0.9)%
Net subscriber additions (000's)	276	384	(108)	(28.1)%

(1) DIRECTV Latin America subscriber data excludes subscribers of the Sky Mexico platform. We migrated approximately 3,000 subscribers from DIRECTV Latin America to Sky Mexico during the first half of 2009 and migrated approximately 4,000 subscribers from DIRECTV Latin America to Sky Mexico during the first half of 2008. Additionally, we migrated approximately 6,000

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**THE DIRECTV GROUP, INC.**

subscribers from a local pay television service provider in Latin America to Sky Brazil during the first half of 2009. Net subscriber additions as well as churn exclude the effect these migrations.

The decrease in net subscriber additions was primarily due to higher churn of 1.88% in the region. The increase in churn was primarily due to the impact from continued growth of DTVLA's pre-paid business.

Revenues increased primarily due to subscriber growth in Brazil, Venezuela and Argentina, partially offset by decreased ARPU. ARPU decreased mainly due to unfavorable exchange rates in the region, primarily in Brazil.

The lower operating profit before depreciation and amortization is primarily due to higher general and administrative expenses primarily due to a \$120 million charge in connection with the exchange of Venezuela currency to U.S. dollars, partially offset by the increased gross profit generated from the higher revenues.

The lower operating profit was primarily due to the decrease in operating profit before depreciation and amortization, coupled with increased depreciation and amortization, which was primarily due to the capitalization of set-top receivers under lease programs.

*Corporate and Other*

Operating loss from Corporate and Other increased to \$37 million in 2009 from \$32 million in 2008.

**LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2009, our cash and cash equivalents totaled \$2.3 billion compared with \$2.0 billion at December 31, 2008. The \$267 million increase resulted primarily from \$2.0 billion of cash provided by operating activities, partially offset by \$1.0 million of cash paid for the acquisition of satellites, property and equipment and \$670 billion in cash used for the repurchase of shares.

As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.17 at June 30, 2009 and 1.13 December 31, 2008. The increase in our current ratio during the six months ended June 30, 2009 was primarily due to the change in our cash and cash equivalents discussed above.

As of June 30, 2009, DIRECTV U.S. had the ability to borrow up to \$500 million under its existing credit facility, which is available until 2011. DIRECTV U.S. is subject to restrictive covenants under its credit facility. These covenants limit the ability of DIRECTV U.S. and its respective subsidiaries to, among other things, make restricted payments, including dividends, loans or advances to us.

During 2009 and 2008 our Board of Directors approved multiple authorizations for the repurchase of our common stock, the most recent of which was in January 2009 authorizing share repurchases of \$2.0 billion. As of June 30, 2009, we had approximately \$1.3 billion remaining under this authorization. During the six months ended June 30, 2009, we repurchased and retired 32 million shares for \$724 million, at an average price of \$22.46. Additionally, in July 2009 we repurchased and retired 18 million shares for \$437 million, at an average price of \$24.45. We may make purchases under this program in the open market, through negotiated transactions or otherwise. The timing, nature and amount of such transactions will depend on a variety of factors, including market conditions, and the program may be suspended, discontinued or accelerated at any time. The sources of funds for the purchases under the remaining authorization are our existing cash on hand and cash from operations. Once we mail our definitive proxy to our shareholders related to the proposed merger transactions described under "Liberty Entertainment Inc. Merger Transaction" above, we will suspend share

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**THE DIRECTV GROUP, INC.**

repurchases at least until the vote at the stockholder meeting takes place. A decision to recommence repurchases will depend on the circumstances at that time, including whether we have obtained requested private letter tax rulings.

We expect to fund our cash requirements and our existing business plan using our available cash balances and cash provided by operations. Additional borrowings, which may include borrowings under the \$500 million DIRECTV U.S. revolving credit facility, may be required to fund strategic investment opportunities should they arise.

As discussed above in Note 2 of the Notes to the Consolidated Financial Statements, as a part of the Liberty Entertainment merger transaction, Holdings would assume approximately \$2 billion of indebtedness with a related equity collar, which is payable at various dates through 2012. Depending on facts and circumstances at the time of the closing of the Liberty Entertainment merger transaction, Holdings may be required or may choose to repay the debt in full and settle the equity collar from available cash on hand, cash provided by operations or new borrowings.

**Borrowings**

At June 30, 2009, we had \$5,787 million in total outstanding borrowings, bearing a weighted average interest rate of 5.7%. Our outstanding borrowings primarily consist of notes payable and amounts borrowed under a senior secured credit facility as more fully described in Note 5 of the Notes to the Consolidated Financial Statements in Item 1, Part I of this Quarterly Report and in Note 8 to the Notes to the Consolidated Financial Statements in Item 8, Part II of our 2008 Form 10-K.

Our notes payable and senior secured credit facility mature as follows: \$61 million in the remainder of 2009, \$308 million in 2010, \$108 million in 2011, \$20 million in 2012, \$2,796 million in 2013 and \$2,500 million thereafter. These amounts do not reflect potential prepayments that may be required under our senior secured credit facility, which could result from a computation that we are required to make at each year end under the credit agreement. We were not required to make a prepayment for the year ended December 31, 2008.

*Covenants and Restrictions.* The senior secured credit facility requires DIRECTV U.S. to comply with certain financial covenants. The senior notes and the senior secured credit facility also include covenants that restrict DIRECTV U.S.' ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) merge or consolidate with another entity, (vi) sell, assign, lease or otherwise dispose of all or substantially all of its assets, and (vii) make voluntary prepayments of certain debt, in each case subject to exceptions as provided in the credit agreement and senior notes indentures. Should DIRECTV U.S. fail to comply with these covenants, all or a portion of its borrowings under the senior notes and senior secured credit facility could become immediately payable and its revolving credit facility could be terminated. At June 30, 2009, DIRECTV U.S. was in compliance with all such covenants.

Debt ratings by the various rating agencies reflect each agency's opinion of the ability of issuers to repay debt obligations as they come due and the expected estimated loss given a default. In general, lower ratings result in higher borrowing costs. Please refer to our 2008 Form 10-K for discussion of Moody's Investors Service and Standard & Poor's Rating Service ratings range.

Currently, The DIRECTV Group has the following security rating:

	Corporate	Outlook
Standard & Poor's	BB	Stable

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Currently, DIRECTV U.S. has the following security ratings:

	<b>Senior Secured</b>	<b>Senior Unsecured</b>	<b>Corporate</b>	<b>Outlook</b>
Standard & Poor's	BBB-	BB	BB	Stable
Moody's	Baa2	Ba2	Ba1	Stable

*Contingencies*

As discussed in Note 6 of the Notes to the Consolidated Financial Statements in Part 1, Item 1 of this Quarterly Report, Globo has the right to exchange Sky Brazil shares for cash or our common shares. If Globo exercises this right, we have the option to elect to pay the consideration in cash, shares of our common stock, or a combination of both.

We currently utilize the official exchange rate of 2.15 bolivars per U.S. dollar to translate the financial statements of our Venezuelan subsidiary. This rate has been fixed despite significant inflation in Venezuela in recent periods. We are required to obtain Venezuelan government approval to exchange Venezuelan bolivars into U.S. dollars at the official rate, or alternatively, a legal parallel exchange process exists, however the rates implied by transactions in the parallel market are significantly higher than the official rate (recently 5 to 7 bolivars per U.S. dollar). The official approval process has been delayed in recent periods and our Venezuelan subsidiary has relied on the parallel exchange process to settle U.S. dollar obligations and to repatriate accumulated cash balances during 2009. As a result we recognized a \$48 million charge during the second quarter of 2009 and a \$120 million charge during the six months ended June 30, 2009 to "General and administrative expense" in the Consolidated Statements of Operations in connection with the exchange of accumulated Venezuelan cash balances to U.S. dollars in the parallel exchange process. We currently expect to continue to repatriate cash generated in Venezuela in excess of local operating requirements, and to the extent we are unable to obtain timely approval to exchange bolivars at the official rate, we may use the legal parallel exchange process and we expect to incur additional charges in the future. Alternatively, if the Venezuelan government were to devalue the bolivar, we would realize a reduction in operating profits resulting from translation of financial results utilizing a higher exchange rate. Using the official exchange rate, our Venezuelan subsidiary had Venezuelan bolivar denominated liabilities of \$5 million in excess of Venezuelan bolivar denominated assets, including cash of \$39 million as of June 30, 2009.

Several factors may affect our ability to fund our operations and commitments that we discuss in "Contractual Obligations", "Off-Balance Sheet Arrangements" and "Contingencies" below. In addition, our future cash flows may be reduced if we experience, among other things, significantly higher subscriber additions than planned, increased subscriber churn or upgrade and retention costs, higher than planned capital expenditures for satellites and broadcast equipment, satellite anomalies or signal theft or if we are required to make a prepayment on our term loans under DIRECTV U.S.' senior secured credit facility. Additionally, DIRECTV U.S.' ability to borrow under the senior secured credit facility is contingent upon DIRECTV U.S. meeting financial and other covenants associated with its facility as more fully described above.

**Dividend Policy**

Dividends may be paid on our common stock only when, as, and if declared by our Board of Directors in its sole discretion. We have no current plans to pay any dividends on our common stock. We currently expect to use our future earnings for the development of our businesses or other corporate purposes, which may include share repurchases.

Table of Contents**THE DIRECTV GROUP, INC.****CONTRACTUAL OBLIGATIONS**

The following table sets forth our contractual obligations as of June 30, 2009, including the future periods in which payments are expected. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements in Part I, Item 1 referenced in the table below and the Notes to the Consolidated Financial Statements in Part II, Item 8 in our Form 10-K for the year ended December 31, 2008.

Contractual Obligations	Total	Payments Due By Period			2014 and thereafter
		2009	2010-2011	2012-2013	
		(Dollars in Millions)			
Long-term debt obligations (Note 5)(a)	\$ 7,680	\$ 224	\$ 1,066	\$ 3,372	\$ 3,018
Purchase obligations (Note 6)(b)	9,004	906	3,206	3,149	1,743
Operating lease obligations(c)	282	29	103	75	75
Capital lease obligations	955	44	168	159	584
Other long-term liabilities reflected on the Consolidated Balance Sheets under GAAP(d)(e)	184	44	140		
Total	\$ 18,105	\$ 1,247	\$ 4,683	\$ 6,755	\$ 5,420

- (a) Long-term debt obligations include interest calculated based on the rates in effect at June 30, 2009, however, the obligations do not reflect potential prepayments that may be required under DIRECTV U.S.' senior secured credit facility, if any, or permitted under its indentures.
- (b) Purchase obligations consist of broadcast programming commitments, satellite construction and launch contracts and service contract commitments. Broadcast programming commitments include guaranteed minimum contractual commitments that are typically based on a minimum number of required subscribers subscribing to the related programming. Actual payments may exceed the minimum payment requirements if the actual number of subscribers subscribing to the related programming exceeds the minimum amounts. Service contract commitments include minimum commitments for the purchase of services that have been outsourced to third parties, such as billing services, telemetry, tracking and control services and broadcast center services. In most cases, actual payments, which are typically based on volume, usually exceed these minimum amounts.
- (c) Certain of the operating leases contain escalation clauses and renewal or purchase options, which we do not consider in the amounts disclosed.
- (d) Other long-term liabilities consist of amounts DIRECTV U.S. owes to the National Rural Telecommunications Cooperative, or NRTC, for the purchase of distribution rights and to the NRTC members that elected the long-term payment option resulting from the NRTC acquisition transactions we consummated in 2004, and satellite contracts.
- (e) Payments due by period for other long-term liabilities reflected on the Consolidated Balance Sheet under GAAP do not include payments that could be made related to our net unrecognized tax benefits liability, which amounted to \$213 million as of June 30, 2009. The timing and amount of any future payments is not reasonably estimable, as such payments are dependent on the completion and resolution of examinations with tax authorities. We do not expect a significant payment related to these obligations within the next twelve months.

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**THE DIRECTV GROUP, INC.**

**CONTINGENCIES**

For a discussion of "Contingencies," see Part I, Item 1, Note 6 of the Notes to the Consolidated Financial Statements of this Quarterly Report, which we incorporate herein by reference.

**CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS**

For a discussion of "Certain Relationships and Related-Party Transactions," see Part I, Item 1, Note 7 of the Notes to the Consolidated Financial Statements of this Quarterly Report, which we incorporate herein by reference.

**ACCOUNTING CHANGES**

For a discussion of "Accounting Changes," see Part I, Item 1, Note 3 of the Notes to the Consolidated Financial Statements of this Quarterly Report, which we incorporate herein by reference.

\* \* \*

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in our market risk during the three months ended June 30, 2009. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Part II of our Annual Report on Form 10-K for the year ended December 31, 2008.

\* \* \*

**ITEM 4. CONTROLS AND PROCEDURES**

We carried out an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q under the supervision and with the participation of management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based on the evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2009.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our fiscal quarter ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**THE DIRECTV GROUP, INC.**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

(a) Material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we became or were a party during the quarter ended June 30, 2009 or subsequent thereto, but before the filing of this report, are summarized below:

**Intellectual Property Litigation.** We are a defendant in several unrelated lawsuits claiming infringement of various patents relating to various aspects of our businesses. In certain of these cases other industry participants are also defendants, and also in certain of these cases we expect that any potential liability would be the responsibility of our equipment vendors pursuant to applicable contractual indemnification provisions. To the extent that the allegations in these lawsuits can be analyzed by us at this stage of their proceedings, we believe the claims are without merit and intend to defend the actions vigorously. The final disposition of these claims is not expected to have a material adverse effect on our consolidated financial position, but could possibly be material to our consolidated results of operations of any one period. No assurance can be given that any adverse outcome would not be material to our consolidated financial position.

**Finisar Corporation.** As previously reported, we filed a notice of appeal to the Court of Appeals for the Federal Circuit on October 5, 2006 from a jury determination that The DIRECTV Group, Inc. and certain of its subsidiaries willfully infringed a patent owned by Finisar Corporation and awards of approximately \$117 million in damages and pre-judgment interest. DIRECTV was also ordered to pay into escrow \$1.60 per new set-top receiver manufactured for use with the DIRECTV system beginning June 17, 2006 and continuing until the patent expires in 2012 or was otherwise found to be invalid. On April 18, 2008, the Court of Appeals vacated (set aside) the verdict of infringement, and sent the case back to the district court for further proceedings and possible retrial on a limited number of claims. On remand, we sought and obtained summary judgment on invalidity of all remaining claims, and the case against DIRECTV was dismissed on May 19, 2009. Finisar has filed a Notice of Appeal, and a briefing schedule for the new appeal has been set.

**Legal Proceedings Regarding the Merger.** There are multiple purported class action complaints pending against The DIRECTV Group, Inc., Liberty Entertainment, Inc., Liberty Media Corporation and the DIRECTV board of directors in the Delaware Court of Chancery and the California State Court. Four stockholder class action complaints were brought in Delaware Chancery Court from May 12, 2009 to May 19, 2009, all of which were subsequently consolidated on May 22, 2009 (the "Delaware Action"). One stockholder class action complaint was brought in California State Court on May 29, 2009 (the "California Action"). The Delaware and California Actions are purported class actions on behalf of the public stockholders of DIRECTV. The consolidated Delaware complaint and the California complaint allege, among other things, that the members of the DIRECTV board of directors breached their fiduciary duties in approving the merger agreement. DIRECTV, the DIRECTV board of directors and the Liberty entities intend to defend vigorously against these allegations, but if the stockholder plaintiffs were to prevail in these actions, the consummation of the mergers could be delayed or prevented and/or monetary damages could become payable by the defendants.

**Other.** We are subject to other legal proceedings and claims that arise in the ordinary course of our business. The amount of ultimate liability with respect to such actions is not expected to materially affect our financial position, results of operations or liquidity.

(b) No previously reported legal proceedings were terminated during the first quarter ended June 30, 2009.

Table of Contents**THE DIRECTV GROUP, INC.****ITEM 1A. RISK FACTORS**

The risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2008 have not materially changed.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Share Repurchase Program*

In January 2009, our Board of Directors approved a \$2 billion repurchase program of our common stock. The authorization allows us to repurchase our common stock from time to time through open market purchases and negotiated transactions, subject to market conditions. The program may be suspended, discontinued or accelerated at any time. The sources of funds for the purchases under the remaining authorization are our existing cash on hand and cash from operations. Repurchased shares are retired, but remain authorized for registration and issuance in the future.

A summary of the repurchase activity for the three months ended June 30, 2009 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
(Amounts in Millions, Except Per Share Amounts)				
April 1 30, 2009	3	\$ 24.37	3	\$ 1,577
May 1 31, 2009	3	23.89	3	1,502
June 1 30, 2009	9	23.66	9	1,276
Total	15	23.83	15	1,276

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

At our annual meeting of stockholders held on June 2, 2009, the following matters were submitted to a vote of the stockholders of The DIRECTV Group, Inc.:

**The DIRECTV Group, Inc.  
Final Voting Results**

*Item No. 1*

The election of Chase Carey, Mark D. Carleton, Peter A. Lund, and Haim Saban as directors. Messrs. Carey, Carleton, Lund and Saban were standing for election for three year terms expiring on the date of the annual meeting of the company in 2012. The final voting results were:

Chase Carey	For	916,380,063
	Against	10,442,824
Mark D. Carleton	For	892,568,332

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	Against	34,254,555
Peter A. Lund	For	908,335,850
	Against	18,487,037
Haim Saban	For	923,659,208
	Against	3,163,649

Table of Contents**THE DIRECTV GROUP, INC.***Item No. 2*

Ratification of the appointment of Deloitte & Touche LLP as independent registered public accountants for us for the fiscal year ending December 31, 2009. The final voting results were:

For	910,345,460
Against	16,294,999
Abstain	182,428
No Vote	

*Item No. 3*

Stockholders proposed the adoption of principles of health care reform based upon principles reported by the Institute of Medicine. The Board of Directors recommended a vote against this item. The final voting results were:

For	13,235,735
Against	732,034,835
Abstain	146,546,096
No Vote	

*Item No. 4*

Stockholders proposed the adoption of declassification of the Board of Directors for the purpose of establishing annual elections of directors. The Board of Directors recommended a vote against this item. The final voting results were:

For	332,933,121
Against	558,316,648
Abstain	566,896
No Vote	

Matters No. 1 and 2 voted on at the annual meeting were approved. Matters No. 3 and 4 voted on at the annual meeting were defeated. In addition to the directors elected at the annual meeting, Neil R. Austrian, Charles R. Lee, Greg Maffei, John Malone and Nancy S. Newcomb continue to serve as directors.

**ITEM 6. EXHIBITS****Exhibit  
Number****Exhibit Name**

- \*2.1 Agreement and Plan of Merger, dated as of May 3, 2009, by and among Liberty Media Corporation, Liberty Entertainment, Inc., The DIRECTV Group, Inc., DIRECTV, DTVG One, Inc. and DTVG Two, Inc. (incorporated by reference to Exhibit 10.1 of the Form 8-K of The DIRECTV Group Inc. filed on May 4, 2009).
- \*2.2 Amendment No. 1 to the Agreement and Plan of Merger, dated July 29, 2009 by and among Liberty Media Corporation, Liberty Entertainment, Inc., The DIRECTV Group, Inc., DIRECTV, DTVG One, Inc. and DTVG Two, Inc. (incorporated by reference to Exhibit 10.1 of the Form 8-K of The DIRECTV Group, Inc. filed on July 30, 2009).

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**THE DIRECTV GROUP, INC.**

<b>Exhibit Number</b>	<b>Exhibit Name</b>
*4.1	Credit Agreement, dated as of May 3, 2009, between Greenlady Corp. and The DIRECTV Group, Inc. (incorporated by reference to Exhibit 10.4 of the Form 8-K of The DIRECTV Group Inc. filed on May 4, 2009).
*10.1	Voting, Standstill, Non-Competition and Non-Solicitation Agreement, dated as of May 3, 2009, by and among Liberty Media Corporation, DIRECTV, The DIRECTV Group, Inc., Liberty Entertainment, Inc., Greenlady Corporation, and Greenlady II, LLC (incorporated by reference to Exhibit 10.2 of the Form 8-K of The DIRECTV Group Inc. filed on May 4, 2009).
*10.2	Voting and Right of First Refusal Agreement, dated as of May 3, 2009, by and among Liberty Entertainment, Inc., The DIRECTV Group, Inc., DIRECTV, Dr. John C. Malone, Mrs. Leslie Malone, The Tracy L. Neal Trust A and The Evan D. Malone Trust A (incorporated by reference to Exhibit 10.3 of the Form 8-K of The DIRECTV Group Inc. filed on May 4, 2009).
*10.3	Amendment No. 1, dated as of July 29, 2009, to the Voting and Right of First Refusal Agreement, dated as of May 3, 2009, by and among Liberty Entertainment, Inc., The DIRECTV Group, Inc., DIRECTV, Dr. John C. Malone, Mrs. Leslie Malone, The Tracy L. Neal Trust A and The Evan D. Malone Trust A (incorporated by reference to Exhibit 10.2 of the Form 8-K of The DIRECTV Group, Inc. filed on July 30, 2009).
** 10.4	Employment Contract of Bruce Churchill
** 10.5	Employment Contract of Patrick T. Doyle
** 10.6	Employment Contract of Larry Hunter
** 10.7	Employment Contract of Romulo Pontual
**31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
** 101.INS	XBRL Instance Document
** 101.SCH	XBRL Taxonomy Extension Schema Document
** 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
** 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
** 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
** 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Incorporated by reference.

\*\* Filed herewith.

Management contract or compensatory plan or arrangement.

\* \* \*

