

DIRECTV
Form 10-Q
November 07, 2014

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**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 September 30, 2014

OR

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

**For the transition period from _____ to
Commission file number 1-34554**

DIRECTV

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

26-4772533

(I.R.S. Employer Identification No.)

**2260 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

Edgar Filing: DIRECTV - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 November 3, 2014, the registrant had outstanding 502,236,708 shares of common stock.

Table of Contents

DIRECTV

TABLE OF CONTENTS

	Page No.
<u>Part I. Financial Information (Unaudited)</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>3</u>
<u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	<u>5</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>48</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>78</u>
<u>Item 4. Controls and Procedures</u>	<u>78</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>80</u>
<u>Item 1A. Risk Factors</u>	<u>81</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>81</u>
<u>Item 6. Exhibits</u>	<u>82</u>
<u>Signatures</u>	<u>83</u>

Table of Contents**DIRECTV****PART I FINANCIAL INFORMATION (UNAUDITED)****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in Millions, Except Per Share Amounts)			
Revenues	\$ 8,374	\$ 7,880	\$ 24,338	\$ 23,160
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	3,732	3,441	10,613	9,912
Subscriber service expenses	608	583	1,733	1,674
Broadcast operations expenses	108	98	312	305
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	980	941	2,705	2,564
Upgrade and retention costs	398	411	1,081	1,153
General and administrative expenses	571	473	1,542	1,452
Venezuelan currency devaluation charge			281	166
Depreciation and amortization expense	755	708	2,198	2,117
Total operating costs and expenses	7,152	6,655	20,465	19,343
Operating profit	1,222	1,225	3,873	3,817
Interest income	18	15	43	56
Interest expense	(215)	(182)	(677)	(618)
Other, net	1	43	93	6
Income before income taxes	1,026	1,101	3,332	3,261
Income tax expense	(411)	(391)	(1,338)	(1,192)
Net income	615	710	1,994	2,069
Less: Net income attributable to noncontrolling interest	(4)	(11)	(16)	(20)
Net income attributable to DIRECTV	\$ 611	\$ 699	\$ 1,978	\$ 2,049

Edgar Filing: DIRECTV - Form 10-Q

Basic earnings attributable to DIRECTV per common share	\$	1.22	\$	1.29	\$	3.92	\$	3.68
Diluted earnings attributable to DIRECTV per common share	\$	1.21	\$	1.28	\$	3.88	\$	3.65
Weighted average number of common shares outstanding (in millions):								
Basic		502		541		505		557
Diluted		507		545		510		562

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

Table of Contents**DIRECTV****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in Millions)			
Net income	\$ 615	\$ 710	\$ 1,994	\$ 2,069
Other comprehensive income (loss), net of taxes:				
Defined benefit plans:				
Gains (losses) related to changes in plan experience and actuarial assumptions arising during the period	7	(1)	7	(1)
Amortization of amounts resulting from changes in plan experience and actuarial assumptions recognized as periodic benefit cost	8	12	8	12
Amortization of amounts resulting from changes in plan provisions recognized as periodic benefit cost		1		1
Cash flows hedges:				
Unrealized gains (losses) arising during the period	(49)	78	(50)	51
Reclassification adjustments included in net income	94	(61)	58	(13)
Foreign currency translation adjustments	(106)	(3)	(35)	(51)
Available for sale securities:				
Reclassification adjustment for net losses recognized during the period				1
Other comprehensive income (loss)	(46)	26	(12)	
Comprehensive income	569	736	1,982	2,069
Less: Comprehensive (income) loss attributable to noncontrolling interest	6	(11)	(13)	(6)
Comprehensive income attributable to DIRECTV	\$ 575	\$ 725	\$ 1,969	\$ 2,063

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

Table of Contents**DIRECTV****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	September 30, 2014	December 31, 2013
	(Dollars in Millions, Except Share Data)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,898	\$ 2,180
Accounts receivable, net of allowances of \$118 and \$95	2,485	2,547
Inventories	269	283
Deferred income taxes	115	140
Prepaid expenses and other	748	803
Total current assets	6,515	5,953
Satellites, net	2,485	2,467
Property and equipment, net	6,785	6,650
Goodwill	3,955	3,970
Intangible assets, net	883	920
Investments and other assets	1,971	1,945
Total assets	\$ 22,594	\$ 21,905
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,268	\$ 4,685
Unearned subscriber revenues and deferred credits	765	589
Current debt	1,439	1,256
Total current liabilities	6,472	6,530
Long-term debt	18,311	18,284
Deferred income taxes	1,759	1,804
Other liabilities and deferred credits	1,609	1,456
Commitments and contingencies		
Redeemable noncontrolling interest		375
Stockholders' deficit		
Common stock and additional paid-in capital \$0.01 par value, 3,950,000,000 shares authorized, 502,236,561 and 519,306,232 shares issued and outstanding of common stock at September 30, 2014 and December 31, 2013, respectively	3,569	3,652
Accumulated deficit	(9,180)	(9,874)
Accumulated other comprehensive loss	(334)	(322)

Edgar Filing: DIRECTV - Form 10-Q

Total DIRECTV stockholders' deficit	(5,945)	(6,544)
Noncontrolling interest	388	
Total stockholders' deficit	(5,557)	(6,544)
Total liabilities and stockholders' deficit	\$ 22,594	\$ 21,905

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

Table of Contents**DIRECTV****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in Millions)	
Cash Flows From Operating Activities		
Net income	\$ 1,994	\$ 2,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	2,198	2,117
Venezuelan currency devaluation charge	281	166
DSN Northwest deconsolidation charge		59
Amortization of deferred revenues and deferred credits	(37)	(40)
Share-based compensation expense	70	79
Equity in earnings from unconsolidated affiliates	(99)	(86)
Net foreign currency exchange and transaction losses	73	42
Dividends received	2	38
Net gains from sale of investments	(18)	(8)
Deferred income taxes	116	(19)
Excess tax benefit from share-based compensation	(23)	(24)
Other	56	(91)
Change in other operating assets and liabilities:		
Accounts receivable	129	200
Inventories	14	53
Prepaid expenses and other	40	9
Accounts payable and accrued liabilities	(399)	(477)
Unearned subscriber revenue and deferred credits	176	152
Other, net	153	116
Net cash provided by operating activities	4,726	4,355
Cash Flows From Investing Activities		
Cash paid for property and equipment	(2,207)	(2,471)
Cash paid for satellites	(189)	(276)
Investment in companies, net of cash acquired	(14)	(47)
Proceeds from sale of investments	30	140
Other, net	(4)	(158)
Net cash used in investing activities	(2,384)	(2,812)
Cash Flows From Financing Activities		
Issuance of commercial paper (maturity 90 days or less), net		90
Proceeds from short-term borrowings	300	441
Repayment of short-term borrowings	(371)	(327)
Proceeds from borrowings under revolving credit facility		10
Repayment of borrowings under revolving credit facility		(10)
Proceeds from long-term debt	1,406	1,484

Edgar Filing: DIRECTV - Form 10-Q

Debt issuance costs	(7)	(8)
Repayment of long-term debt	(1,044)	(9)
Repayment of other long-term obligations	(50)	(48)
Common shares repurchased and retired	(1,386)	(3,228)
Stock options exercised	10	
Taxes paid in lieu of shares issued for share-based compensation	(58)	(61)
Excess tax benefit from share-based compensation	23	24
Other, net	(64)	6

Net cash used in financing activities	(1,241)	(1,636)
---------------------------------------	---------	---------

Effect of exchange rate changes on Venezuelan cash and cash equivalents	(383)	(187)
---	-------	-------

Net increase (decrease) in cash and cash equivalents	718	(280)
Cash and cash equivalents at beginning of the period	2,180	1,902

Cash and cash equivalents at end of the period	\$ 2,898	\$ 1,622
--	----------	----------

Supplemental Cash Flow Information

Cash paid for interest	\$ 786	\$ 784
Cash paid for income taxes	1,134	1,035

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

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Description of Business and Basis of Presentation

DIRECTV, which we also refer to as the Company, we, or us, is a leading provider of digital television entertainment in the United States and Latin America. We operate two direct-to-home, or DTH, business units: DIRECTV U.S. and DIRECTV Latin America, which are differentiated by their geographic locations and are engaged in acquiring, promoting, selling and distributing digital entertainment programming primarily via satellite to residential and commercial subscribers. In addition, we own and operate two regional sports networks, hold a minority ownership interest in ROOT SPORTS Northwest and own a 42% interest in Game Show Network LLC, or GSN, a television network dedicated to game-related programming and Internet interactive game playing. We account for our investments in ROOT SPORTS Northwest and GSN using the equity method of accounting.

DIRECTV U.S. DIRECTV Holdings LLC and its subsidiaries, which we refer to as DIRECTV U.S., is the largest provider of DTH digital television services and the second largest provider in the multi-channel video programming distribution, or MVPD, industry in the United States.

DIRECTV Latin America. DIRECTV Latin America Holdings, Inc. and its subsidiaries, or DIRECTV Latin America, is a leading provider of DTH digital television services throughout Latin America. DIRECTV Latin America is comprised of: PanAmericana, which provides services in Argentina, Chile, Colombia, Ecuador, Peru, Puerto Rico, Venezuela and certain other countries in the region, and Sky Brasil Servicos Ltda., or Sky Brasil, which is a 93% owned subsidiary. DIRECTV Latin America also includes our 41% equity method investment in Innova, S. de R.L. de C.V., or Sky Mexico, which we include in the PanAmericana and Other segment.

DIRECTV Sports Networks. DIRECTV Sports Networks LLC and its subsidiaries, or DSN, is comprised primarily of two wholly owned regional sports networks based in Denver, Colorado and Pittsburgh, Pennsylvania, and a regional sports network based in Seattle, Washington in which DSN retains a noncontrolling interest, each of which operates under the brand name ROOT SPORTS. On April 16, 2013, DSN transferred 100% of its interest in the regional sports network based in Seattle, Washington, or DSN Northwest, to NW Sports Net LLC. The Seattle Mariners have a majority interest in NW Sports Net LLC and DSN retains a noncontrolling interest, which we account for using the equity method of accounting. The operating results of DSN are reported as part of the "Sports Networks, Eliminations and Other" reporting segment.

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/A for the year ended December 31, 2013 filed with the SEC on June 30, 2014, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the SEC on May 12, 2014, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 filed with the SEC on August 1, 2014, and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after August 1, 2014 and through the date of this report.

We prepare our consolidated financial statements in conformity with GAAP, which requires us to make estimates and assumptions that affect amounts reported herein. We base our estimates and

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, our actual results reported in future periods may be affected by changes in those estimates.

Proposed AT&T Merger Transaction

On May 18, 2014, DIRECTV and AT&T Inc., or AT&T, announced that they entered into a definitive agreement under which DIRECTV will combine with AT&T in a stock and cash transaction. The Agreement and Plan of Merger, which was included as Exhibit 2.1 to the Form 8-K filed with the SEC on May 19, 2014, or the Merger Agreement, was approved unanimously by the Board of Directors of each company and was approved by our stockholders at a special meeting held on September 25, 2014.

Subject to the conditions in the Merger Agreement, at the effective time of the merger, our shareholders will receive \$95.00 per share, subject to adjustments as described below under the terms of the merger, comprised of \$28.50 per share in cash and \$66.50 per share in AT&T stock. The stock portion will be subject to a collar such that our shareholders will receive 1.905 AT&T shares if AT&T stock price is below \$34.90 at closing and 1.724 AT&T shares if AT&T stock price is above \$38.58 at closing. If AT&T stock price at closing is between \$34.90 and \$38.58, our shareholders will receive a number of shares between 1.724 and 1.905, equal to \$66.50 in value based on a volume-weighted average as provided in the Merger Agreement. The value of the shares may differ on the date of exchange. The transaction is subject to review by the U.S. Department of Justice and the Federal Communications Commission. The transaction has been reviewed and approved by Brazil telecommunications and antitrust authorities and is under review by Mexican antitrust authorities. The transaction is expected to close in the first half of 2015.

In connection with the proposed combination, we have made certain representations, warranties and covenants in the Merger Agreement, including, among other things, covenants by DIRECTV to conduct its business in the ordinary course during the interim period between the execution of the Merger Agreement and consummation of the merger and not to take certain actions prior to the closing of the merger without the prior approval of AT&T.

Also, during the third quarter of 2014, we entered into an agreement with the National Football League, or NFL, to renew and extend our rights to exclusively distribute the NFL Sunday Ticket service, or the NFL Agreement. Pursuant to the Merger Agreement, AT&T had the right to terminate the Merger Agreement or not consummate the merger if we failed to enter into a contract with the NFL providing for exclusive distribution rights for "NFL Sunday Ticket" service. AT&T has confirmed to us that the NFL Agreement satisfies the requirements of the Merger Agreement.

In connection with the proposed combination, we recognized costs of \$19 million for the three months ended September 30, 2014 and \$39 million for the nine months ended September 30, 2014 in "General and administrative expenses" in the Consolidated Statements of Operations, primarily related to professional services fees.

Note 2: New Accounting Standard

Revenue Recognition. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification (ASC) Topic 606. This is a comprehensive new revenue recognition standard which will supersede existing revenue recognition guidance. The standard creates a

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2016 and allows for either a full retrospective or modified retrospective adoption. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Note 3: Acquisition and Divestiture*Houston Regional Sports Networks*

In October 2014, the Bankruptcy Court approved the proposed restructuring plan of the Houston Regional Sports Network, L.P., or HRSN, a regional sports network which broadcasts games for Major League Baseball's Houston Astros and the National Basketball Association's Houston Rockets. Under the restructuring plan, we will acquire a 60% equity interest of the regional sports network and AT&T will acquire the remaining 40% equity interest. Following the close of the transaction, we will contribute \$30 million in cash to be used for the operations of the regional sports network. Due to certain governance arrangements which limit our ability to control HRSN, we will account for our investment in HRSN as an equity method investment. The transaction is expected to close during the fourth quarter 2014.

DSN Northwest Transaction

On April 16, 2013, DSN transferred 100% of its interest in DSN Northwest to NW Sports Net LLC. Upon completion of the transaction, the Seattle Mariners have a majority interest in NW Sports Net LLC and DSN retains a noncontrolling interest, which we account for using the equity method of accounting. Additionally, DSN provides management oversight and programming services to NW Sports Net LLC through management service agreements. As a result of this transaction, we deconsolidated DSN Northwest and recorded a non-cash, pre-tax charge of approximately \$59 million (\$56 million after tax) in "Other, net" in the Consolidated Statements of Operations for the nine months ended September 30, 2013.

Note 4: Goodwill

The following table sets forth changes in the carrying amounts of "Goodwill" in the Consolidated Balance Sheets by reportable segment for the nine months ended September 30, 2014:

	DIRECTV U.S.	DIRECTV Latin America Sky Brasil	PanAmericana and Other	Sports Networks, Eliminations and Other	Total
	(Dollars in Millions)				
Balance as of January 1, 2014	\$ 3,191	\$ 346	\$ 211	\$ 222	\$ 3,970
Sky Brasil foreign currency translation adjustment		(15)			(15)
Balance as of September 30, 2014	\$ 3,191	\$ 331	\$ 211	\$ 222	\$ 3,955

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 5: Debt**

The following table sets forth our outstanding debt as of:

	September 30, 2014	December 31, 2013
	(Dollars in Millions)	
Current debt		
Commercial paper	\$ 129	\$ 200
Current portion of long-term debt	1,200	1,000
Current portion of borrowings under BNDES financing facility	110	56
Long-term debt		
Senior notes	18,167	18,203
Borrowings under BNDES financing facility	124	81
Borrowings under Desenvolve SP financing facility	20	
Total debt	\$ 19,750	\$ 19,540

The amount of interest accrued related to our outstanding debt was \$150 million at September 30, 2014 and \$271 million at December 31, 2013.

*Senior Notes**Nine Months Ended September 30, 2014 Financing Transactions*

On March 17, 2014, DIRECTV U.S. issued, pursuant to a registration statement, \$1,250 million in aggregate principal of 4.450% senior notes due in 2024 with proceeds, net of an original issue discount, of \$1,245 million. We incurred \$7 million of debt issuance costs in connection with this transaction.

On March 20, 2014, DIRECTV U.S. exercised its early redemption right under the indenture of the 4.750% senior notes due in 2014 ("the 2014 Notes") effective April 24, 2014. The redemption price was based on the remaining scheduled payments of principal and interest using a discount rate equal to the Treasury Rate (as defined in the indenture governing the 2014 Notes) plus 40 basis points, together with accrued and unpaid interest as of April 24, 2014. The aggregate principal amount of the 2014 Notes outstanding on March 20, 2014 was \$1,000 million and we made a cash payment of \$1,022 million to redeem such Notes.

Nine Months Ended September 30, 2013 Financing Transactions

On January 10, 2013, DIRECTV U.S. issued, pursuant to a registration statement, \$750 million in aggregate principal of 1.750% senior notes due in 2018 with proceeds, net of an original issue discount, of \$743 million. We incurred \$4 million of debt issuance costs in connection with this transaction.

On May 13, 2013, DIRECTV U.S. issued, pursuant to a U.S. registration statement, €500 million (\$650 million) in aggregate principal of 2.750% senior notes due in 2023 resulting in proceeds, net of an original issue discount, of €497 million (\$646 million). The U.S. dollar amounts reflect the conversion of the €500 million aggregate principal and the €497 million proceeds, net of discount, to U.S. dollars based on the exchange

Edgar Filing: DIRECTV - Form 10-Q

rate of €1.00/ \$1.30 at May 13, 2013. In connection with the issuance of these senior notes, DIRECTV U.S. entered into cross-currency swaps to effectively convert its fixed-rate euro denominated debt, including annual interest payments and the payment of principal

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

at maturity, to fixed-rate U.S. dollar denominated debt, as further discussed in Note 6. We incurred \$4 million of debt issuance costs in connection with this transaction.

The following table sets forth our outstanding senior notes:

	Carrying value, net of unamortized original issue discounts		
	Principal amount September 30, 2014	September 30, 2014	December 31, 2013
(Dollars in Millions)			
4.750% senior notes due in 2014	\$	\$	\$ 1,000
3.550% senior notes due in 2015		1,200	1,200
3.125% senior notes due in 2016		750	750
3.500% senior notes due in 2016		1,500	1,499
2.400% senior notes due in 2017		1,250	1,249
1.750% senior notes due in 2018		750	744
5.875% senior notes due in 2019		1,000	996
5.200% senior notes due in 2020		1,300	1,299
4.600% senior notes due in 2021		1,000	999
5.000% senior notes due in 2021(1)		1,500	1,494
3.800% senior notes due in 2022(1)		1,500	1,501
2.750% senior notes due in 2023(2)		632	629
4.450% senior notes due in 2024(1)		1,250	1,252
4.375% senior notes due in 2029(2)		1,216	1,204
5.200% senior notes due in 2033(2)		567	565
6.350% senior notes due in 2040		500	500
6.000% senior notes due in 2040		1,250	1,235
6.375% senior notes due in 2041		1,000	1,000
5.150% senior notes due in 2042		1,250	1,248
 Total senior notes	 \$	 19,415	 \$ 19,367
			 \$ 19,203

- (1) The carrying values as of September 30, 2014 include the following fair value adjustments: a decrease of \$1 million for the 5.000% senior notes due in 2021, an increase of \$2 million for the 3.800% senior notes due in 2022 and an increase of \$7 million for the 4.450% senior notes due in 2024.
- (2) These amounts reflect the remeasurement of the aggregate principal and carrying value of our foreign currency denominated senior notes to U.S. dollars based on the exchange rates in effect at each of the dates presented.

The fair value of our senior notes was approximately \$20,765 million at September 30, 2014 and \$19,424 million at December 31, 2013. We calculated the fair values based on quoted market prices of our senior notes, which is a Level 1 input under accounting guidance for fair

value measurements of assets and liabilities.

All of our senior notes were issued by DIRECTV Holdings LLC and DIRECTV Financing Co., Inc., or the Co-Issuers, and have been registered under the Securities Act of 1933, as amended.

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The principal amount of our senior notes mature as follows: \$1,200 million in 2015, \$2,250 million in 2016, \$1,250 million in 2017, \$750 million in 2018 and \$13,965 million thereafter.

Commercial Paper

DIRECTV U.S. has a commercial paper program backed by its revolving credit facilities, which provides for the issuance of short-term commercial paper in the United States up to a maximum aggregate principal of \$2.5 billion. As of September 30, 2014, we had \$129 million of short-term commercial paper outstanding, with a weighted average remaining maturity of 43 days, at a weighted average yield of 0.42%, which may be refinanced on a periodic basis as borrowings mature. Aggregate amounts outstanding under the revolving credit facilities described below and the commercial paper program are limited to \$2.5 billion.

Revolving Credit Facilities

DIRECTV U.S. has a \$1.0 billion revolving credit facility, which expires in February 2016, and a \$1.5 billion revolving credit facility, which expires in September 2017. We pay a commitment fee of 0.15% per year for the unused commitment under the revolving credit facilities. Borrowings currently bear interest at a rate equal to the London Interbank Offer Rate (LIBOR) plus 1.25%. Both the commitment fee and the annual interest rate may increase or decrease under certain conditions due to changes in DIRECTV U.S.' long-term, unsecured debt ratings. Under certain conditions, DIRECTV U.S. may increase the borrowing capacity of the revolving credit facilities by an aggregate amount of up to \$500 million. Aggregate amounts outstanding under the revolving credit facilities and the commercial paper program are limited to \$2.5 billion. As of September 30, 2014, there were no borrowings outstanding under the revolving credit facilities.

Borrowings under the revolving credit facilities are unsecured senior obligations of DIRECTV U.S. and rank equally in right of payment with all of DIRECTV U.S.' existing and future senior debt and rank senior in right of payment to all of DIRECTV U.S.' future subordinated debt, if any.

Covenants and Restrictions

The revolving credit facilities require DIRECTV U.S. to maintain at the end of each fiscal quarter a specified ratio of indebtedness to earnings before interest, taxes and depreciation and amortization. The revolving credit facilities also include covenants that limit DIRECTV U.S.' ability to, among other things, (i) incur additional subsidiary indebtedness, (ii) incur liens, (iii) enter into certain transactions with affiliates, (iv) merge or consolidate with another entity, (v) sell, assign, lease or otherwise dispose of all or substantially all of its assets, and (vi) change its lines of business. Additionally, the senior notes contain covenants that are similar. If DIRECTV U.S. fails to comply with these covenants, all or a portion of its borrowings under the senior notes could become immediately payable and its revolving credit facilities could be terminated. The senior notes provide that the borrowings may be required to be prepaid if certain change-in-control events, coupled with a ratings decline, occur. The revolving credit facilities provide that the borrowings may be required to be prepaid if certain change-in-control events occur.

DIRECTV Guarantors. DIRECTV guarantees all of the senior notes outstanding, jointly and severally with DIRECTV Holdings LLC's material domestic subsidiaries. DIRECTV unconditionally guarantees that the principal and interest on the respective senior notes will be paid in full when due and that the obligations of the Co-Issuers to the holders of the outstanding senior notes will be

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

performed. The revolving credit facilities and the commercial paper program are also similarly fully guaranteed by DIRECTV.

As a result of the guarantees, holders of the senior notes, the revolving credit debt and the commercial paper have the benefit of DIRECTV's interests in the assets and related earnings of our operations that are not held through DIRECTV Holdings LLC and its subsidiaries. Those operations are primarily our DTH digital television services throughout Latin America which are held by DIRECTV Latin America and our regional sports networks which are held by DSN. However, the subsidiaries that own and operate the DIRECTV Latin America business and the regional sports networks have not guaranteed the senior notes, the revolving credit facilities and the commercial paper program.

The guarantees are unsecured senior obligations of DIRECTV and rank equally in right of payment with all of DIRECTV's existing and future senior debt and rank senior in right of payment to all of DIRECTV's future subordinated debt, if any. The guarantees are effectively subordinated to all existing and future secured obligations, if any, of DIRECTV to the extent of the value of the assets securing the obligations. DIRECTV is not subject to the covenants contained in each indenture of the senior notes and our guarantees will terminate and be released on the terms set forth in each of the indentures.

Desenvolve SP Financing Facility

In the second quarter of 2014, Sky Brasil entered into a Brazilian Real denominated financing facility with Desenvolve SP, an agency created by the Sao Paulo State Government for economic development, under which Sky Brasil may borrow funds for the construction of a satellite and broadcast facility. Each borrowing under the facility, including accrued interest, will be repaid in a single installment five years from the date of such borrowing. The financing facility is secured by a third party bank guarantee. As of September 30, 2014, Sky Brasil had borrowings of R\$48 million (\$20 million) under the facility bearing interest of 2.5% per year, with a maturity of 2019. The U.S. dollar amounts reflect the conversion of the Brazilian Real denominated amounts into U.S. dollars based on the exchange rate of R\$2.45 / \$1.00 at September 30, 2014.

BNDES Financing Facility

In March 2013, Sky Brasil entered into a Brazilian Real denominated financing facility with Banco Nacional de Desenvolvimento Econômico e Social, or BNDES, a government owned bank in Brazil, under which Sky Brasil may borrow funds for the purchase of set-top receivers. As of September 30, 2014, Sky Brasil had borrowings of R\$573 million (\$234 million) outstanding under the BNDES facility bearing interest at a weighted-average rate of 4.75% per year. As of December 31, 2013, Sky Brasil had borrowings of R\$320 million (\$137 million) outstanding under the BNDES facility bearing interest at a weighted-average rate of 3.07% per year. Borrowings under the facility are required to be repaid in 30 monthly installments. The U.S. dollar amounts reflect the conversion of the Brazilian Real denominated amounts into U.S. dollars based on the exchange rates of R\$2.45 / \$1.00 and R\$2.34 / \$1.00 as of September 30, 2014 and December 31, 2013, respectively.

Borrowings under the BNDES facility mature as follows: R\$56 million (\$23 million) in 2014, R\$277 million (\$113 million) in 2015, R\$196 million (\$80 million) in 2016 and R\$44 million (\$18 million) in 2017. The financing facility is collateralized by the financed set-top receivers with an original purchase price of approximately R\$800 million (\$326 million) based on the exchange rate of R\$2.45 / \$1.00 as of September 30, 2014.

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)***Restricted Cash*

Restricted cash of \$10 million as of September 30, 2014 and \$7 million as of December 31, 2013 was included as part of "Prepaid expenses and other" in our Consolidated Balance Sheets. These amounts secure certain of our letters of credit obligations and restrictions on the cash will be removed as the letters of credit expire.

Note 6: Derivative Financial Instruments

We use derivative financial instruments primarily to manage the risks associated with fluctuations in foreign currency exchange rates and interest rates. We do not use derivatives for trading or speculative purposes. We record derivative financial instruments in the Consolidated Balance Sheets as either assets or liabilities at fair value. We calculate the fair value of derivative contracts using an income-approach model (discounted cash flow analysis), the use of which is considered a Level 2 valuation technique, using observable inputs, such as yield curves, foreign currency exchange rates, and incorporating counterparty credit risk, as applicable. For derivative financial instruments designated as fair value hedges, the change in the fair value of both the derivative instrument and the hedged item are recognized in earnings in the current period. For derivative financial instruments designated as cash flow hedges, the effective portion of the unrealized gains or losses on the derivative financial instruments are initially reported in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets, and subsequently reclassified to earnings in the same periods during which the hedged item affects earnings. The ineffective portion of the unrealized gains and losses on these derivative financial instruments, if any, is recorded immediately in earnings. We evaluate the effectiveness of our derivative financial instruments at inception and on a quarterly basis.

The following table sets forth the fair values of assets and liabilities associated with the derivative financial instruments as of:

	Assets		Liabilities	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
	(Dollars in millions)			
Cash flow hedges:				
Cross-currency swap contracts	\$ 61	\$ 112	\$ 11	\$
Interest rate swap contracts		3		1
Fair value hedges:				
Interest rate swap contracts	8		15	
Total fair value of derivative financial instruments	\$ 69	\$ 115	\$ 26	\$ 1

The fair values of the assets associated with derivative financial instruments are recorded in "Investments and other assets" in the Consolidated Balance Sheets and the fair value of the liabilities associated with derivative financial instruments are recorded in "Other liabilities and deferred credits" in the Consolidated Balance Sheets.

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The following table sets forth the notional amounts of outstanding derivative financial instruments as of:

	September 30, 2014	December 31, 2013
(Dollars in millions)		
Cash flow hedges:		
Cross-currency swap contracts	\$ 2,418	\$ 2,418
Interest rate swap contracts		500
Fair value hedges:		
Interest rate swap contracts	3,000	
Total notional amount of derivative financial instruments	\$ 5,418	\$ 2,918

Collateral Arrangements. We have agreements with our derivative instrument counterparties that include collateral provisions which require a party with an unrealized loss position in excess of certain thresholds to post cash collateral for the amount in excess of the threshold. The threshold levels in our collateral agreements are based on each party's credit ratings. We held no cash collateral from counterparties as of September 30, 2014 and held \$10 million of cash collateral from counterparties as of December 31, 2013. We did not have any cash collateral posted with counterparties as of September 30, 2014 and December 31, 2013. We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

Cross-Currency Swap Contracts

On September 11, 2012, DIRECTV U.S. issued, pursuant to a U.S. registration statement, £750 million in aggregate principal of 4.375% senior notes due in 2029. On May 13, 2013, DIRECTV U.S. issued, pursuant to a U.S. registration statement, €500 million in aggregate principal of 2.750% senior notes due in 2023. On November 13, 2013, DIRECTV U.S. issued, pursuant to a U.S. registration statement, £350 million in aggregate principal of 5.200% senior notes due in 2033. In connection with the issuance of these senior notes, DIRECTV U.S. entered into cross-currency swap contracts to manage the related foreign exchange risk by effectively converting all of the fixed-rate British pound sterling and fixed-rate euro denominated debt, including annual interest payments and the payment of principal at maturity, to fixed-rate U.S. dollar denominated debt. These cross-currency swaps are designated and qualify as cash flow hedges. The terms of the cross-currency swap contracts correspond to the related hedged senior notes and have maturities ranging from May 2023 to November 2033.

We calculate the fair value of the cross-currency swap contracts using an income-approach model (discounted cash flow analysis), the use of which is considered a Level 2 valuation technique, using observable inputs, such as foreign currency exchange rates, swap rates, cross-currency basis swap spreads and incorporating counterparty credit risk.

During the nine months ended September 30, 2014, DIRECTV U.S. recorded net remeasurement gains of \$92 million in "Other, net" in the Consolidated Statements of Operations related to the remeasurement of the hedged senior notes. To offset these remeasurement gains, we reclassified \$92 million (\$58 million after tax) from "Accumulated other comprehensive loss" in the Consolidated Balance Sheets to "Other, net" in the Consolidated Statements of Operations. During the nine months

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

ended September 30, 2013, DIRECTV U.S. recorded net remeasurement losses of \$22 million in "Other, net" in the Consolidated Statements of Operations related to the remeasurement of the hedged senior notes. To offset these remeasurement losses, we reclassified \$22 million (\$13 million after tax) from "Accumulated other comprehensive loss" in the Consolidated Balance Sheets to "Other, net" in the Consolidated Statements of Operations. These reclassifications eliminate the impact of the remeasurement of the hedged senior notes from our results of operations. We measured no ineffectiveness for the nine months ended September 30, 2014 and September 30, 2013 related to these cross-currency swap contracts.

Forward-Starting Interest Rate Swap Contracts

On March 17, 2014, DIRECTV U.S. issued \$1,250 million in aggregate principal of 4.450% senior notes due in 2024. In connection with this transaction, DIRECTV U.S. settled all then-outstanding forward-starting interest rate swaps, which were previously entered into to protect against unfavorable interest rate changes related to the forecasted issuance of debt. These interest rate swaps were designated and qualified as cash flow hedges. As a result of settling these forward-starting interest rate swaps, we recognized \$1 million of ineffectiveness in earnings during 2014. As of September 30, 2014, we had recorded \$9 million in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets related to these forward-starting interest rate swaps that is being recognized as interest expense over the term of the 4.450% senior notes due in 2024.

Fixed-to-Floating Interest Rate Swap Contracts

During the second quarter of 2014, DIRECTV U.S. entered into interest rate swap contracts with a total notional amount of \$3,000 million, converting a portion of the total aggregate principal amounts of the 5.000% senior notes due in 2021, the 3.800% senior notes due in 2022 and the 4.450% senior notes due in 2024 from a fixed to floating interest rate in order to manage our interest rate exposure by adjusting our mix of fixed rate and floating rate debt.

During the third quarter of 2014, DIRECTV U.S. terminated \$1,000 million notional amount of fixed-to-floating interest rate swap contracts for each of the fixed-to-floating interest rate swap contracts for the 5.000% senior notes due in 2021 and the 3.800% senior notes due in 2022 and received cash proceeds in the aggregate of \$20 million, which included \$7 million of interest receivable from the swap counterparties. As of the date of termination, there was an increase in the carrying value of the 5.000% senior notes due in 2021 and the 3.800% senior notes due in 2022 of \$14 million, which will be amortized to "Interest expense" in the Consolidated Statements of Operations over the remaining term of the senior notes. In connection with the termination of the fixed-to-floating interest rate swap contracts, we recognized a \$3 million loss in "Other, net" in the Consolidated Statements of Operations. The cash proceeds received upon termination of the fixed-to-floating interest rate swap contracts are included in "Net cash provided by operations" in the Consolidated Statements of Cash Flows. Subsequently, DIRECTV U.S. entered into new fixed-to-floating interest rate swap contracts for \$1,000 million notional for each of the 5.00% senior notes due in 2021 and the 3.800% senior notes due in 2022. The total notional amount of our interest rate swaps was \$3,000 million as of September 30, 2014. These interest rate swaps are designated and qualify as fair value hedges. The terms of the interest rate swap contracts correspond to the related hedged senior notes and have maturities ranging from March 2021 to April 2024.

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

We calculate the fair value of the interest rate swap contracts using an income-approach model (discounted cash flow analysis), the use of which is considered a Level 2 valuation technique, using observable inputs, such as yield curves. The difference between the change in the fair value of these interest rate swap contracts and the fair value of the related senior notes as a result of changes in the benchmark interest rate was a \$2 million loss for the three months ended September 30, 2014 and a \$0.4 million gain for the nine months ended September 30, 2014, which was recognized in "Other, net" in the Consolidated Statements of Operations. The periodic interest settlements for the interest rate swap contracts are recorded in "Interest expense" in the Consolidated Statements of Operations.

Note 7: Commitments and Contingencies*Commitments*

At September 30, 2014, 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 \$16,666 million, payable as follows: \$582 million in the remainder of 2014, \$2,130 million in 2015, \$1,983 million in 2016, \$1,797 million in 2017, \$1,694 million in 2018 and \$8,480 million thereafter.

Venezuela Devaluation and Foreign Currency Exchange Controls

Venezuela Devaluation and Foreign Currency Exchange Controls. Companies operating in Venezuela are required to obtain Venezuelan government approval to exchange Venezuelan bolivars into U.S. dollars and such approval has not consistently been granted for several years. Consequently, our ability to pay U.S. dollar denominated obligations and repatriate cash generated in Venezuela in excess of local operating requirements is limited, which has resulted in increases in the cash balance at our Venezuelan subsidiary. In February 2013, the Venezuelan government announced a devaluation of the Venezuelan bolivar from the official exchange rate of 4.3 Venezuelan bolivars per U.S. dollar to an official rate of 6.3 Venezuelan bolivars per U.S. dollar. As a result of the devaluation, we recorded a pre-tax charge in "Venezuelan currency devaluation charge" in the Consolidated Statements of Operations of \$166 million (\$136 million after tax) in the first quarter of 2013, related to the remeasurement of the bolivar denominated net monetary assets of our Venezuelan subsidiary as of the date of the devaluation.

In the first quarter of 2013, the Venezuelan government announced a new currency exchange system, the Sistema Complementario de Administración de Divisas, or SICAD 1, which is intended to function as an auction system for participants to exchange Venezuelan bolivars for U.S. dollars. The volume of amounts exchanged through such SICAD 1 system and the resulting exchange rate are published by the Venezuelan Central Bank. Effective January 24, 2014, the Venezuelan government announced that dividends and royalties would be subject to the SICAD 1 program. The SICAD 1 exchange rate, which was 12.0 Venezuelan bolivars per U.S. dollar as of September 30, 2014, is determined by periodic auctions. Additionally, in February 2014, the Venezuelan government announced SICAD 2, which is an exchange mechanism that became available on March 24, 2014. The exchange rate for SICAD 2 was 49.99 Venezuelan bolivars per U.S. dollar as of September 30, 2014.

We currently believe the SICAD 1 rate is the most representative rate to use for remeasurement, as the official rate of 6.3 Venezuelan bolivars per U.S. dollar will likely be reserved only for the settlement of U.S. dollar denominated obligations related to purchases of "essential goods and

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

services," and the equity of our Venezuelan subsidiary would be realized, if at all, through permitted dividends paid at the SICAD 1 rate. Therefore, as of September 30, 2014, we are continuing to remeasure our Venezuelan subsidiary's financial statements in U.S. dollars using the exchange rate determined by periodic auctions under SICAD 1, which was 12.0 Venezuelan bolivars per U.S. dollar. Prior to March 31, 2014, we used the official exchange rate of 6.3 Venezuelan bolivars per U.S. dollar. As a result of the devaluation, we recorded a pre-tax charge in "Venezuelan currency devaluation charge" in the Consolidated Statements of Operations of \$281 million in the first quarter of 2014, related to the remeasurement of the bolivar denominated net monetary assets of our Venezuelan subsidiary on March 31, 2014.

As of September 30, 2014, our Venezuelan subsidiary had Venezuelan bolivar denominated net monetary assets of \$494 million, including cash of \$547 million, based on the SICAD 1 exchange rate of 12.0 Venezuelan bolivars per U.S. dollar. The exchange rate used to report net monetary assets and operating results of our Venezuelan subsidiary is currently based on the results of periodic SICAD 1 auctions, which is expected to result in fluctuations in reported amounts that could be material to the results of operations in Venezuela in future periods and could materially affect the comparability of results for our Venezuelan subsidiary between periods. The comparability of our results of operations and financial position in Venezuela will also be affected in the event of additional changes to the exchange rate system and further devaluations of the Venezuelan bolivar.

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 September 30, 2014. 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 effect on our consolidated financial statements. We expense legal costs as incurred.

DIRECTV Shareholder Litigation Proposed DIRECTV and AT&T Merger. As previously reported, beginning on May 21, 2014, and following the May 18, 2014 announcement that DIRECTV had entered into a definitive agreement to combine with AT&T Inc., several shareholder putative class action lawsuits were filed, six in Delaware Chancery Court, or the Delaware Actions, and one in California Superior Court, or the California Action, against DIRECTV, its directors and AT&T Inc., alleging breach of fiduciary duties in connection with the proposed transaction. The complaints generally and collectively asserted that defendants failed to maximize the value of DIRECTV, and sought to enjoin the proposed transaction as well as unspecified damages, costs and fees. An Order consolidating the Delaware Actions and appointing Lead Plaintiff and Lead Counsel was entered on July 21, 2014 and discovery in the Delaware Actions was stayed pending the filing of a Consolidated Complaint. Subsequently, Lead Counsel in the Delaware Actions filed a motion to voluntarily dismiss the Delaware Actions against all defendants and that motion was granted by order entered by the Chancery Court on October 28, 2014. The California Action has been stayed (including discovery) by stipulation dated September 30, 2014 subject to the court's order approving the stipulation and remains pending at this time.

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Federal Lawsuit Companion Case to International Trade Commission Proceedings. As previously reported, on April 17, 2014, ViXS Systems, Inc., or ViXS, submitted to the International Trade Commission, or ITC, a request to commence an investigation alleging that certain patents owned by ViXS are infringed by components supplied by Entropic Communications, Inc., or Entropic, or by devices that contain those components, including set-top boxes and other devices used in the DIRECTV service. DIRECTV, among others, was identified as a respondent. The request sought an order excluding the accused devices from entry into the United States. Also on April 17, 2014, ViXS filed in United States District Court a companion lawsuit alleging infringement of the same patents by the same products and sought an injunction and monetary damages. ViXS and Entropic have since finalized a settlement agreement, as a result of which the District Court action against DIRECTV was dismissed with prejudice on September 15, 2014, and the ITC investigation was terminated on October 30, 2014.

Other 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 at least some potential liability would be the responsibility of our equipment vendors pursuant to applicable contractual indemnification provisions. Further, in certain of these cases, suppliers of equipment to DIRECTV are also defendants, and DIRECTV has contractual obligations to indemnify and hold harmless certain suppliers in those cases. 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. We have determined that the likelihood of a material liability in such matters is remote or have made appropriate accruals. The final disposition of these claims is not expected to have a material effect on our consolidated financial position or results of operations. However, if an adverse ruling is made in a lawsuit involving key intellectual property, such ruling could result in a loss that would 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.

Early Cancellation Fees. As previously reported, in 2008, a number of plaintiffs filed putative class action lawsuits in state and federal courts challenging the early cancellation fees we assess our customers when they do not fulfill their programming commitments. We have reached a settlement in principle with the individual plaintiffs in the federal cases and are finalizing the settlement agreements. In the California state court action, the denial of our motion to compel arbitration is currently on appeal. We believe that our early cancellation fees are adequately disclosed, and represent reasonable estimates of the costs we incur when customers cancel service before fulfilling their programming commitments.

State and Federal Inquiries. From time to time, we receive investigative inquiries or subpoenas from state and federal authorities with respect to alleged violations of state and federal statutes. These inquiries may lead to legal proceedings in some cases. As reported previously, DIRECTV U.S. received a request for information from the Federal Trade Commission, or FTC, on issues similar to those resolved in 2011 with a multistate group of state attorneys general. We have been cooperating with the FTC by providing information about our sales and marketing practices and customer complaints and have engaged in ongoing negotiations with FTC staff concerning these issues. The FTC staff has advised that they will refer this matter to the Commissioners to obtain authority to file suit if we are unable to agree upon a resolution of these issues.

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)***Income Tax Matters*

We have received tax assessments from certain foreign jurisdictions and have agreed to indemnify previously divested businesses for certain tax assessments relating to periods prior to their respective divestitures. These assessments are in various stages of the administrative process or litigation. While the outcome of these assessments and other tax issues cannot be predicted with certainty, we believe that the ultimate outcome will not have a material effect on our consolidated financial position or results of operations.

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 a portion of the unamortized book value of covered satellites. We 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 September 30, 2014, the net book value of in-orbit satellites was \$1,218 million, all of which was uninsured.

Other

As of September 30, 2014, we were contingently liable under standby letters of credit and bonds in the aggregate amount of \$313 million primarily related to judicial deposit and payment guarantees in Latin America and insurance deductibles.

Note 8: Related Party Transactions

In the ordinary course of our operations, we enter into transactions with related parties as discussed below. Related parties include Globo, which provides programming and advertising to Sky Brasil, and companies in which we hold equity method investments, including Sky Mexico, GSN and NW Sports Net LLC.

The majority of payments under contractual arrangements with related parties are pursuant 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.

The following table summarizes revenues and expenses with related parties:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in Millions)			
Revenues	\$ 3	\$ 2	\$ 7	\$ 5
Expenses	281	235	822	717

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

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

	September 30, 2014	December 31, 2013
	(Dollars in Millions)	
Accounts receivable	\$ 5	\$ 18
Accounts payable	152	100
Long-term liability	116	69

Note 9: Stockholders' Deficit and Noncontrolling Interest*Capital Stock and Additional Paid-In Capital*

Our certificate of incorporation authorizes the following capital stock: 3,950,000,000 shares of common stock, par value \$0.01 per share, and 50,000,000 shares of preferred stock, par value \$0.01 per share. As of September 30, 2014 and December 31, 2013, there were no outstanding shares of preferred stock.

Share Repurchase Program

Since 2006 our Board of Directors has approved multiple authorizations for the repurchase of our common stock. In February 2014 our Board of Directors approved a new authorization for up to \$3.5 billion for repurchases of our common stock. On May 18, 2014 DIRECTV and AT&T entered into a definitive agreement, under which AT&T would combine with DIRECTV in a stock and cash transaction. As a result, we have suspended the share repurchase program and agreed to not purchase, repurchase, redeem or otherwise acquire any shares of our capital stock during the pendency of the proposed transaction and without AT&T's consent.

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

	Nine Months Ended September 30, 2014		2013	
	(Amounts in Millions, Except Per Share Amounts)			
Total cost of repurchased shares(1)	\$	1,386	\$	3,273
Average price per share	\$	73.82	\$	56.46
Number of shares repurchased and retired		19		58

(1)

Of the \$3,273 million in repurchases during the nine months ended September 30, 2013, \$45 million were paid for in October 2013. Amounts repurchased but settled subsequent to the end of such period are considered non-cash financing activities and excluded from the Consolidated Statements of Cash Flows.

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)***Noncontrolling Interest*

In connection with our acquisition of Sky Brasil in 2006, our partner who holds the remaining 7% interest, Globo Comunicações e Participações S.A., or Globo, was granted the right, until January 2014, to require us to purchase all, but not less than all, of its shares in Sky Brasil. Globo did not exercise its right to require us to purchase its shares in Sky Brasil. That right has now expired and the noncontrolling interest is no longer redeemable. In accordance with Accounting Standards Codification 480, *Distinguishing Liabilities from Equity*, during the first quarter of 2014, we reclassified \$375 million, which was the fair value of Globo's remaining 7% interest, from "Redeemable noncontrolling interest" to "Noncontrolling interest," a component of stockholders' deficit in the Consolidated Balance Sheets. During the first quarter of 2014, we discontinued fair value accounting for this equity instrument.

The following table sets forth a reconciliation of stockholders' deficit for the nine months ended September 30, 2014:

	Stockholders' Deficit							
	DIRECTV Common Shares	Common Stock and Additional Paid-In Capital	Accumulated		Total DIRECTV Stockholders' Deficit	Noncontrolling Interest	Total Stockholders' Deficit	Redeemable Noncontrolling Interest
			Deficit	Comprehensive Loss				
(Amounts in Millions, Except Share Data)								
Balance as of January 1, 2014	519,306,232	\$ 3,652	\$ (9,874)	\$ (322)	\$ (6,544)	\$	\$ (6,544)	\$ 375
Net income			1,978		1,978	16	1,994	
Stock repurchased and retired	(18,774,194)	(130)	(1,256)		(1,386)		(1,386)	
Stock options exercised and restricted stock units vested and distributed	1,704,523	(46)			(46)		(46)	
Share-based compensation expense		70			70		70	
Tax benefit from share-based compensation		23			23		23	
Other			(28)		(28)		(28)	
Other comprehensive loss				(12)	(12)		(12)	
CTA adjustment allocated to noncontrolling interest						(3)	(3)	
Noncontrolling interest						375	375	(375)
Balance as of September 30, 2014	502,236,561	\$ 3,569	\$ (9,180)	\$ (334)	\$ (5,945)	\$ 388	\$ (5,557)	\$

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The following table sets forth a reconciliation of stockholders' deficit and redeemable noncontrolling interest for the nine months ended September 30, 2013:

	DIRECTV Common Shares	Common Stock and Additional Paid-In Capital	Stockholders' Deficit			Redeemable Noncontrolling Interest	Net Income
			Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit		
(Amounts in Millions, Except Share Data)							
Balance as of January 1, 2013	586,839,817	\$ 4,021	\$ (9,210)	\$ (242)	\$ (5,431)	\$ 400	
Net income			2,049		2,049	20	\$ 2,069
Stock repurchased and retired	(57,961,428)	(397)	(2,876)		(3,273)		
Stock options exercised and restricted stock units vested and distributed	1,974,496	(61)			(61)		
Share-based compensation expense		79			79		
Tax benefit from share-based compensation		24			24		
Adjustment to the fair value of redeemable noncontrolling interest		6			6	(6)	
Other		(1)			(1)		
Other comprehensive loss							(14)
Balance as of September 30, 2013	530,852,885	\$ 3,671	\$ (10,037)	\$ (242)	\$ (6,608)	\$ 400	

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)***Other Comprehensive Income (Loss)*

The following represents the components of other comprehensive income (loss) for each of the periods presented:

	Three Months Ended September 30,					
	2014 Pre-Tax	2014 Tax Benefit (Expense)	Net of Tax	2013 Pre-Tax	2013 Tax Benefit (Expense)	Net of Tax
(Dollars in Millions)						
Defined benefit plans:						
Gains (losses) related to changes in plan experience and actuarial assumptions arising during the period	\$ 11	\$ (4)	\$ 7	\$ (2)	\$ 1	\$ (1)
Amortization of amounts resulting from changes in plan experience and actuarial assumptions recognized as periodic benefit cost	13	(5)	8	19	(7)	12
Amortization of amounts resulting from changes in plan provisions recognized as periodic benefit cost				2	(1)	1
Cash flows hedges:						
Unrealized gains (losses) arising during the period	(78)	29	(49)	125	(47)	78
Reclassification adjustments included in "Other, net"	150	(56)	94	(99)	38	(61)
Foreign currency translation adjustments	(158)	52	(106)	(5)	2	(3)
Other comprehensive income (loss)	\$ (62)	\$ 16	\$ (46)	\$ 40	\$ (14)	\$ 26

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

	Nine Months Ended September 30,					
	Pre-Tax	2014 Tax Benefit (Expense)	Net of Tax	Pre-Tax	2013 Tax Benefit (Expense)	Net of Tax
(Dollars in Millions)						
Defined benefit plans:						
Gains (losses) related to changes in plan experience and actuarial assumptions arising during the period	\$ 11	\$ (4)	\$ 7	\$ (2)	\$ 1	\$ (1)
Amortization of amounts resulting from changes in plan experience and actuarial assumptions recognized as periodic benefit cost	13	(5)	8	19	(7)	12
Amortization of amounts resulting from changes in plan provisions recognized as periodic benefit cost				2	(1)	1
Cash flows hedges:						
Unrealized gains (losses) arising during the period	(80)	30	(50)	83	(32)	51
Reclassification adjustments included in "Other, net"	92	(34)	58	(22)	9	(13)
Foreign currency translation adjustments	(37)	2	(35)	(81)	30	(51)
Available for sale securities:						
Reclassification adjustment for net losses recognized during the period, included in "Other, net"				2	(1)	1
Other comprehensive income (loss)	\$ (1)	\$ (11)	\$ (12)	\$ 1	\$ (1)	\$

Accumulated Other Comprehensive Loss

The following represents the changes in the components of accumulated other comprehensive loss for each of the periods presented:

	Defined Benefit Plan Items	Gains (Losses) on Cash Flow Hedges	Foreign Currency Items	Accumulated Other Comprehensive Loss
(Dollars in Millions)				
Balance as of January 1, 2014	\$ (123)	\$ 14	\$ (213)	\$ (322)
Other comprehensive income (loss)	15	8	(35)	(12)
Balance as of September 30, 2014	\$ (108)	\$ 22	\$ (248)	\$ (334)

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

	Defined Benefit Plan Items	Gains (Losses) on Cash Flow Hedges	Foreign Currency Items	Unrealized Gains (Losses) on Available for Sale Securities	Accumulated Other Comprehensive Loss
(Dollars in Millions)					
Balance as of January 1, 2013	\$ (184)	\$ (17)	\$ (40)	\$ (1)	\$ (242)
Other comprehensive income (loss)	12	38	(51)	1	
Balance as of September 30, 2013	\$ (172)	\$ 21	\$ (91)	\$	\$ (242)

Note 10: Earnings Per Common Share

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

Diluted EPS considers the effect of common equivalent shares, which consist entirely of common stock options and restricted stock units issued to employees. During the three and nine months ended September 30, 2014 we excluded 0.2 million common stock awards from the computation of diluted EPS, because the inclusion of the potential common shares would have had an antidilutive effect. During the nine months ended September 30, 2013, we excluded 0.9 million common stock awards from the computation of diluted EPS because the inclusion of the potential common shares would have had an antidilutive effect. We did not exclude any common stock options from the computation of diluted EPS during the three months ended September 30, 2013.

Table of Contents**DIRECTV****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)			
Three Months Ended				
<u>September 30, 2014</u>				
Basic EPS				
Net income attributable to DIRECTV	\$ 611	502	\$	1.22
Effect of dilutive securities				
Dilutive effect of stock options and restricted stock units		5		(0.01)
Diluted EPS				
Adjusted net income attributable to DIRECTV	\$ 611	507	\$	1.21
<u>September 30, 2013</u>				
Basic EPS				
Net income attributable to DIRECTV	\$ 699	541	\$	1.29
Effect of dilutive securities				
Dilutive effect of stock options and restricted stock units		4		(0.01)
Diluted EPS				
Adjusted net income attributable to DIRECTV	\$ 699	545	\$	1.28

	Income	Shares	Per Share Amounts	
	(Dollars and Shares in Millions, Except Per Share Amounts)			
Nine Months Ended				
<u>September 30, 2014</u>				
Basic EPS				
Net income attributable to DIRECTV	\$ 1,978	505	\$	3.92
Effect of dilutive securities				
Dilutive effect of stock options and restricted stock units		5		(0.04)

Edgar Filing: DIRECTV - Form 10-Q

Diluted EPS

Adjusted net income attributable to DIRECTV	\$	1,978	510	\$	3.88
---	----	-------	-----	----	------

September 30, 2013

Basic EPS

Net income attributable to DIRECTV	\$	2,049	557	\$	3.68
Effect of dilutive securities					
Dilutive effect of stock options and restricted stock units			5		(0.03)

Diluted EPS

Adjusted net income attributable to DIRECTV	\$	2,049	562	\$	3.65
---	----	-------	-----	----	------

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 11: Segment Reporting**

Our reportable segments, which are differentiated by their products and services as well as geographic location, are DIRECTV U.S., Sky Brasil and PanAmericana and Other, which are engaged in acquiring, promoting, selling and distributing digital entertainment programming primarily via satellite to residential and commercial subscribers, and the Sports Networks, Eliminations and Other segment, which includes our regional sports networks that provide programming devoted to local professional sports teams and college sporting events and locally produce their own programming. Sports Networks, Eliminations and Other also includes the corporate office, eliminations and other entities.

Selected information for our operating segments is reported as follows:

	External Revenues	Intersegment Revenues	Total Revenues	Operating Profit (Loss)	Depreciation and Amortization Expense	Operating Profit (Loss) Before Depreciation and Amortization(1)
Three Months Ended						
<u>September 30, 2014</u>						
DIRECTV U.S.	\$ 6,504	\$ 2	\$ 6,506	\$ 1,113	\$ 435	\$ 1,548
Sky Brasil	1,014		1,014	118	189	307
PanAmericana and Other	806		806	19	127	146
(Dollars in Millions)						
DIRECTV Latin America	1,820		1,820	137	316	453
Sports Networks, Eliminations and Other	50	(2)	48	(28)	4	(24)
Total	\$ 8,374	\$	\$ 8,374	\$ 1,222	\$ 755	\$ 1,977
<u>September 30, 2013</u>						
DIRECTV U.S.	\$ 6,168	\$ 2	\$ 6,170	\$ 987	\$ 409	\$ 1,396
Sky Brasil	883		883	169	184	353
PanAmericana and Other	779		779	93	112	205
DIRECTV Latin America	1,662		1,662	262	296	558
Sports Networks, Eliminations and Other	50	(2)	48	(24)	3	(21)
Total	\$ 7,880	\$	\$ 7,880	\$ 1,225	\$ 708	\$ 1,933

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

	External Revenues	Intersegment Revenues	Total Revenues	Operating Profit (Loss)	Depreciation and Amortization Expense	Operating Profit (Loss) Before Depreciation and Amortization ⁽¹⁾
(Dollars in Millions)						
Nine Months Ended						
<u>September 30, 2014</u>						
DIRECTV U.S.	\$ 18,859	\$ 6	\$ 18,865	\$ 3,675	\$ 1,290	\$ 4,965
Sky Brasil	2,964		2,964	380	527	907
PanAmericana	2,366		2,366	(127)	370	243
DIRECTV Latin America	5,330		5,330	253	897	1,150
Sports Networks, Eliminations and Other	149	(6)	143	(55)	11	(44)
Total	\$ 24,338	\$	\$ 24,338	\$ 3,873	\$ 2,198	\$ 6,071
<u>September 30, 2013</u>						
DIRECTV U.S.	\$ 17,897	\$ 6	\$ 17,903	\$ 3,343	\$ 1,225	\$ 4,568
Sky Brasil	2,790		2,790	379	547	926
PanAmericana	2,286		2,286	139	328	467
DIRECTV Latin America	5,076		5,076	518	875	1,393
Sports Networks, Eliminations and Other	187	(6)	181	(44)	17	(27)
Total	\$ 23,160	\$	\$ 23,160	\$ 3,817	\$ 2,117	\$ 5,934

⁽¹⁾

Edgar Filing: DIRECTV - Form 10-Q

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 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 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

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in Millions)			
Operating profit before depreciation and amortization	\$ 1,977	\$ 1,933	\$ 6,071	\$ 5,934
Depreciation and amortization expense	(755)	(708)	(2,198)	(2,117)
Operating profit	1,222	1,225	3,873	3,817
Interest income	18	15	43	56
Interest expense	(215)	(182)	(677)	(618)
Other, net	1	43	93	6
Income before income taxes	1,026	1,101	3,332	3,261
Income tax expense	(411)	(391)	(1,338)	(1,192)
Net income	615	710	1,994	2,069
Less: Net income attributable to noncontrolling interest	(4)	(11)	(16)	(20)
Net income attributable to DIRECTV	\$ 611	\$ 699	\$ 1,978	\$ 2,049

Note 12: Condensed Consolidating Financial Statements

As discussed in Note 5, DIRECTV has provided a guarantee of all the outstanding senior notes of DIRECTV Holdings LLC and DIRECTV Financing Co., Inc., or the Co-issuers.

The following condensed consolidating financial statements of DIRECTV and subsidiaries have been prepared pursuant to rules regarding the preparation of consolidating financial statements of Regulation S-X. Also, restricted net assets of our Venezuelan subsidiary, which is included within Non-Guarantor subsidiaries, exceeded 25% of total consolidated net assets and as such, the required condensed parent company information is included as part of the condensed consolidating financial statements below. For additional information regarding the Venezuelan restricted net assets see Note 7.

Edgar Filing: DIRECTV - Form 10-Q

These condensed consolidating financial statements present the condensed consolidating statements of operations and condensed consolidating statements of comprehensive income for the three and nine months ended September 30, 2014 and 2013, the condensed consolidating statements of cash flows for the nine months ended September 30, 2014 and 2013, and the condensed consolidating balance sheets as of September 30, 2014 and December 31, 2013.

The condensed consolidating financial statements are comprised of DIRECTV, or the Parent Guarantor, its indirect 100% owned subsidiaries, DIRECTV Holdings, DIRECTV Financing and each of DIRECTV Holdings' material subsidiaries (other than DIRECTV Financing), or the Guarantor

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Subsidiaries, as well as other subsidiaries who are not guarantors of the senior notes, or the Non-Guarantor Subsidiaries, and the eliminations necessary to present DIRECTV's financial statements on a consolidated basis. The Non-Guarantor Subsidiaries consist primarily of DIRECTV's DTH digital television services throughout Latin America which are held by DIRECTV Latin America Holdings, Inc. and its subsidiaries, and our regional sports networks which are held by DIRECTV Sports Networks LLC and its subsidiaries. In addition, the Non-Guarantor Subsidiaries include the entity that is the parent of DIRECTV Holdings.

The accompanying condensed consolidating financial statements are presented based on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for the subsidiaries' cumulative results of operations, capital contributions and distributions, and other changes in equity.

Elimination entries include consolidating and eliminating entries for investments in subsidiaries, intercompany activity and balances, and income taxes.

Management identified certain corrections that were needed in the presentation of the condensed consolidating financial statements and related eliminations in the second quarter of 2014. These corrections only impact the condensed consolidating financial statements for the three and nine months ended September 30, 2013 and do not affect our consolidated results of operations, balance sheets or cash flows. Management believes these changes are not material.

In the Condensed Consolidating Statement of Operations, we now present the equity earnings of DIRECTV Holdings, which is a subsidiary of DIRECTV Group, an entity included in Non-Guarantor Subsidiaries, in "Equity in income of consolidated subsidiaries" for the Non-Guarantor Subsidiaries. We also recorded an adjustment to the tax allocation from the Guarantor Subsidiaries to the Parent Guarantor, the Co-Issuers and the Non-Guarantor Subsidiaries for the the three and nine months ended September 30, 2013.

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The following is a reconciliation of the amounts previously reported to the "As Revised" amounts as stated in the following components of the Condensed Consolidating Statement of Operations for the three and nine months ended September 30, 2013:

Parent Guarantor for the three months ended September 30, 2013	As Previously Reported	Adjustments	As Revised
(Dollars in Millions)			
Equity in income of consolidated subsidiaries	\$ 706	\$ (1)	\$ 705
Income before income tax	697	(1)	696
Income tax benefit	2	1	3
Net income	699		699
Net income attributable to DIRECTV	699		699

Co-Issuers for the three months ended September 30, 2013

Equity in income of consolidated subsidiaries	\$ 820	\$ (282)	\$ 538
Income before income tax	614	(282)	332
Income tax benefit	38	54	92
Net income	652	(228)	424
Net income attributable to DIRECTV	652	(228)	424

Guarantor Subsidiaries for the three months ended September 30, 2013

Income tax expense	\$ (173)	\$ (282)	\$ (455)
Net income	820	(282)	538
Net income attributable to DIRECTV	820	(282)	538

Non-Guarantor Subsidiaries for the three months ended September 30, 2013

Equity in income of consolidated subsidiaries	\$	\$ 424	\$ 424
Income before income tax	323	424	747
Income tax expense	(258)	227	(31)
Net income	65	651	716
Net income attributable to DIRECTV	54	651	705

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

Parent Guarantor for the nine months ended September 30, 2013	As Previously Reported	Adjustments	As Revised
(Dollars in Millions)			
Equity in income of consolidated subsidiaries	\$ 2,082	\$ (4)	\$ 2,078
Income before income tax	2,037	(4)	2,033
Income tax benefit	12	4	16
Net income	2,049		2,049
Net income attributable to DIRECTV	2,049		2,049

Co-Issuers for the nine months ended September 30, 2013

Equity in income of consolidated subsidiaries	\$ 2,530	\$ (452)	\$ 2,078
Income before income tax	1,917	(452)	1,465
Income tax benefit	152	83	235
Net income	2,069	(369)	1,700
Net income attributable to DIRECTV	2,069	(369)	1,700

Guarantor Subsidiaries for the nine months ended September 30, 2013

Income tax expense	\$ (835)	\$ (452)	\$ (1,287)
Net income	2,530	(452)	2,078
Net income attributable to DIRECTV	2,530	(452)	2,078

Non-Guarantor Subsidiaries for the nine months ended September 30, 2013

Equity in income of consolidated subsidiaries	\$	\$ 1,700	\$ 1,700
Income before income tax		554	1,700
Income tax expense		(521)	365
Net income		33	2,065
Net income attributable to DIRECTV		13	2,065

In the Condensed Consolidating Statement of Comprehensive Income, we changed our presentation such that the comprehensive income of a subsidiary is included in the comprehensive income of its parent. Comprehensive income is also impacted by the adjustments to net income noted above.

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

The following is a reconciliation of the amounts previously reported to the "As Revised" amounts as stated in the following components of the Condensed Consolidating Statement of Comprehensive Income for the three and nine months ended September 30, 2013:

Parent Guarantor for the three months ended September 30, 2013	As Previously		
	Reported	Adjustments	As Revised
	(Dollars in Millions)		
Cash flows hedges:			
Unrealized gains arising during the period	\$	\$ 78	\$ 78
Reclassification adjustments included in net income		(61)	(61)
Foreign currency translation adjustment		(3)	(3)
Other comprehensive income	12	14	26
Comprehensive income	711	14	725
Comprehensive income attributable to DIRECTV	711	14	725
Co-Issuers for the three months ended September 30, 2013			
Net income	\$ 652	\$ (228)	\$ 424
Comprehensive income	669	(228)	441
Comprehensive income attributable to DIRECTV	669	(228)	441
Guarantor Subsidiaries for the three months ended September 30, 2013			
Net income	\$ 820	\$ (282)	\$ 538
Comprehensive income	820	(282)	538
Comprehensive income attributable to DIRECTV	820	(282)	538
Non-Guarantor Subsidiaries for the three months ended September 30, 2013			
Net income	\$ 65	\$ 651	\$ 716
Cash flows hedges:			
Unrealized gains arising during the period		78	78
Reclassification adjustments included in net income		(61)	(61)
Other comprehensive income (loss)		(3)	17
Comprehensive income		62	668
Comprehensive income attributable to DIRECTV		51	668

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)**

Parent Guarantor for the nine months ended September 30, 2013	As Previously Reported	Adjustments	As Revised
	(Dollars in Millions)		
Cash flows hedges:			
Unrealized gains arising during the period	\$	\$ 51	\$ 51
Reclassification adjustments included in net income		(13)	(13)
Foreign currency translation adjustments		(37)	(37)
Reclassification adjustment for net losses on securities recognized during the period		1	1
Other comprehensive income	12	2	14
Comprehensive income	2,061	2	2,063
Comprehensive income attributable to DIRECTV	2,061	2	2,063

Co-Issuers for the nine months ended September 30, 2013

Net income	\$ 2,069	\$ (369)	\$ 1,700
Comprehensive income	2,107	(369)	1,738
Comprehensive income attributable to DIRECTV	2,107	(369)	1,738

Guarantor Subsidiaries for the nine months ended September 30, 2013

Net income	\$ 2,530	\$ (452)	\$ 2,078
Comprehensive income	2,530	(452)	2,078
Comprehensive income attributable to DIRECTV	2,530	(452)	2,078

Non-Guarantor Subsidiaries for the nine months ended September 30, 2013

Net income	\$ 33	\$ 2,065	\$ 2,098
Cash flows hedges:			
Unrealized gains arising during the period		51	51
Reclassification adjustments included in net income		(13)	(13)
Other comprehensive loss	(50)	38	(12)
Comprehensive income (loss)	(17)	2,103	2,086
Comprehensive income (loss) attributable to DIRECTV	(23)	2,103	2,080

In the Condensed Consolidating Statement of Cash Flows, we present changes in receivable balances of affiliates as investing activities and changes in payable balances of affiliates as financing activities because these changes are a result of a subsidiary's deposit in or withdrawal from its parent's cash account under a centralized cash management arrangement. We previously presented all changes from receivable and payable balances of affiliates as operating or financing activities.

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following is a reconciliation of the amounts previously reported to the "As Revised" amounts as stated in the following components of the Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2013:

Parent Guarantor for the nine months ended September 30, 2013	As Previously Reported	Adjustments	As Revised
(Dollars in Millions)			
Net cash provided by operating activities	\$ 1,096	\$ 529	\$ 1,625
Cash flows from investing activities			
Proceeds from sale of investments	117	(117)	
Intercompany funding		(190)	(190)
Net cash provided by investing activities	1,684	(307)	1,377
Cash flows from financing activities			
Taxes paid in lieu of shares issued for share-based compensation		(61)	(61)
Excess tax benefit from share-based compensation		24	24
Intercompany payments	265	(185)	80
Net cash used in financing activities	(2,963)	(222)	(3,185)
Co-Issuers for the nine months ended September 30, 2013			
Net cash provided by (used in) operating activities	\$ 1,568	\$ (3,092)	\$ (1,524)
Cash flows from investing activities			
Intercompany funding		(904)	(904)
Net cash used in investing activities		(904)	(904)
Cash flows from financing activities			
Intercompany payments		3,996	3,996
Net cash provided by (used in) financing activities	(1,608)	3,996	2,388
Guarantor Subsidiaries for the nine months ended September 30, 2013			
Net cash provided by operating activities	\$ 1,623	\$ 3,035	\$ 4,658
Cash flows from investing activities			
Intercompany funding		(3,996)	(3,996)
Net cash used in investing activities	(1,574)	(3,996)	(5,570)
Cash flows from financing activities			
Intercompany payments	3	961	964
Net cash provided by (used in) financing activities	(46)	961	915
Non-Guarantor Subsidiaries for the nine months ended September 30, 2013			
Net cash provided by operating activities	\$ 1,701	\$ (435)	\$ 1,266
Cash flows from investing activities			
Proceeds from sale of investments	11	117	128
Intercompany funding		(89)	(89)
Net cash used in investing activities	(1,355)	28	(1,327)
Cash flows from financing activities			
Intercompany payments (funding)	(268)	407	139
Net cash provided by (used in) financing activities	(219)	407	188

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Operations
For the Three Months Ended September 30, 2014**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
(Dollars in Millions)						
Revenues	\$	\$	\$ 6,506	\$ 1,911	\$ (43)	\$ 8,374
Operating costs and expenses						
Costs of revenues, exclusive of depreciation and amortization expense						
Broadcast programming and other			3,057	714	(39)	3,732
Subscriber service expenses			397	211		608
Broadcast operations expenses			74	35	(1)	108
Selling, general and administrative expenses, exclusive of depreciation and amortization expense						
Subscriber acquisition costs			776	205	(1)	980
Upgrade and retention costs			347	52	(1)	398
General and administrative expenses	24	1	306	241	(1)	571
Depreciation and amortization expense			435	320		755
Total operating costs and expenses	24	1	5,392	1,778	(43)	7,152
Operating profit (loss)	(24)	(1)	1,114	133		1,222
Equity in income of consolidated subsidiaries	626	696		567	(1,889)	
Interest income		1		17		18
Interest expense		(204)		(11)		(215)
Other, net		(2)	7	(4)		1
Income before income taxes	602	490	1,121	702	(1,889)	1,026
Income tax benefit (expense)	9	77	(425)	(72)		(411)
Net income	611	567	696	630	(1,889)	615
Less: Net income attributable to noncontrolling interest				(4)		(4)
Net income attributable to DIRECTV	\$ 611	\$ 567	\$ 696	\$ 626	\$ (1,889)	\$ 611

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Operations-As Revised
For the Three Months Ended September 30, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Revenues	\$	\$	\$ 6,170	\$ 1,723	\$ (13)	\$ 7,880
Operating costs and expenses						
Costs of revenues, exclusive of depreciation and amortization expense						
Broadcast programming and other			2,904	548	(11)	3,441
Subscriber service expenses			391	192		583
Broadcast operations expenses			68	32	(2)	98
Selling, general and administrative expenses, exclusive of depreciation and amortization expense						
Subscriber acquisition costs			756	185		941
Upgrade and retention costs			359	52		411
General and administrative expenses	12		296	165		473
Depreciation and amortization expense			409	299		708
Total operating costs and expenses	12		5,183	1,473	(13)	6,655
Operating profit (loss)	(12)		987	250		1,225
Equity in income of consolidated subsidiaries	705	538		424	(1,667)	
Interest income	3		1	13	(2)	15
Interest expense		(206)	(1)	23	2	(182)
Other, net			6	37		43
Income before income taxes	696	332	993	747	(1,667)	1,101
Income tax benefit (expense)	3	92	(455)	(31)		(391)
Net income	699	424	538	716	(1,667)	710
Less: Net income attributable to noncontrolling interest				(11)		(11)
Net income attributable to DIRECTV	\$ 699	\$ 424	\$ 538	\$ 705	\$ (1,667)	\$ 699

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Operations
For the Nine Months Ended September 30, 2014**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
(Dollars in Millions)						
Revenues	\$	\$	\$ 18,865	\$ 5,588	\$ (115)	\$ 24,338
Operating costs and expenses						
Costs of revenues, exclusive of depreciation and amortization expense						
Broadcast programming and other			8,625	2,091	(103)	10,613
Subscriber service expenses			1,130	604	(1)	1,733
Broadcast operations expenses			221	96	(5)	312
Selling, general and administrative expenses, exclusive of depreciation and amortization expense						
Subscriber acquisition costs			2,085	622	(2)	2,705
Upgrade and retention costs			942	141	(2)	1,081
General and administrative expenses	63	1	896	584	(2)	1,542
Venezuelan currency devaluation charge				281		281
Depreciation and amortization expense			1,290	908		2,198
Total operating costs and expenses	63	1	15,189	5,327	(115)	20,465
Operating profit (loss)	(63)	(1)	3,676	261		3,873
Equity in income of consolidated subsidiaries	2,020	2,296		1,882	(6,198)	
Interest income		1	1	41		43
Interest expense	(1)	(646)	(4)	(26)		(677)
Other, net	(3)	(20)	25	91		93
Income before income taxes	1,953	1,630	3,698	2,249	(6,198)	3,332
Income tax benefit (expense)	25	252	(1,402)	(213)		(1,338)
Net income	1,978	1,882	2,296	2,036	(6,198)	1,994
Less: Net income attributable to noncontrolling interest				(16)		(16)
Net income attributable to DIRECTV	\$ 1,978	\$ 1,882	\$ 2,296	\$ 2,020	\$ (6,198)	\$ 1,978

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Operations-As Revised
For the Nine Months Ended September 30, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
(Dollars in Millions)						
Revenues	\$	\$	\$ 17,903	\$ 5,306	\$ (49)	\$ 23,160
Operating costs and expenses						
Costs of revenues, exclusive of depreciation and amortization expense						
Broadcast programming and other			8,147	1,808	(43)	9,912
Subscriber service expenses			1,102	572		1,674
Broadcast operations expenses			220	91	(6)	305
Selling, general and administrative expenses, exclusive of depreciation and amortization expense						
Subscriber acquisition costs			1,979	585		2,564
Upgrade and retention costs			1,002	151		1,153
General and administrative expenses	53		885	514		1,452
Venezuelan currency devaluation charge				166		166
Depreciation and amortization expense			1,225	892		2,117
Total operating costs and expenses	53		14,560	4,779	(49)	19,343
Operating profit (loss)	(53)		3,343	527		3,817
Equity in income of consolidated subsidiaries	2,078	2,078		1,700	(5,856)	
Interest income	13		2	49	(8)	56
Interest expense	(1)	(613)	(2)	(10)	8	(618)
Other, net	(4)		22	(12)		6
Income before income taxes	2,033	1,465	3,365	2,254	(5,856)	3,261
Income tax benefit (expense)	16	235	(1,287)	(156)		(1,192)
Net income	2,049	1,700	2,078	2,098	(5,856)	2,069
Less: Net income attributable to noncontrolling interest				(20)		(20)
Net income attributable to DIRECTV	\$ 2,049	\$ 1,700	\$ 2,078	\$ 2,078	\$ (5,856)	\$ 2,049

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Comprehensive Income
For the Three Months Ended September 30, 2014**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Net income	\$ 611	\$ 567	\$ 696	\$ 630	\$ (1,889)	\$ 615
Other comprehensive income (loss), net of taxes:						
Defined benefit plans:						
Gains related to changes in plan experience and actuarial assumptions arising during the period	7					7
Amortization of amounts resulting from changes in plan experience and actuarial assumptions recognized as periodic benefit cost	8					8
Cash flows hedges:						
Unrealized losses arising during the period	(49)	(49)		(49)	98	(49)
Reclassification adjustments included in net income	94	94		94	(188)	94
Foreign currency translation adjustments	(96)			(106)	96	(106)
Other comprehensive income (loss)	(36)	45		(61)	6	(46)
Comprehensive income	575	612	696	569	(1,883)	569
Less: Comprehensive loss attributable to noncontrolling interest				6		6
Comprehensive income attributable to DIRECTV	\$ 575	\$ 612	\$ 696	\$ 575	\$ (1,883)	\$ 575

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Comprehensive Income-As Revised
For the Three Months Ended September 30, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Net income	\$ 699	\$ 424	\$ 538	\$ 716	\$ (1,667)	\$ 710
Other comprehensive income (loss), net of taxes:						
Defined benefit plans:						
Loss related to changes in plan experience and actuarial assumptions arising during the period		(1)				(1)
Amortization of amounts resulting from changes in plan experience and actuarial assumptions recognized as periodic benefit cost	12					12
Amortization of amounts resulting from changes in plan provisions recognized as periodic benefit cost	1					1
Cash flows hedges:						
Unrealized gains arising during the period	78	78		78	(156)	78
Reclassification adjustments included in net income	(61)	(61)		(61)	122	(61)
Foreign currency translation adjustments	(3)			(3)	3	(3)
Other comprehensive income	26	17		14	(31)	26
Comprehensive income	725	441	538	730	(1,698)	736
Less: Comprehensive income attributable to noncontrolling interest				(11)		(11)
Comprehensive income attributable to DIRECTV	\$ 725	\$ 441	\$ 538	\$ 719	\$ (1,698)	\$ 725

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Comprehensive Income
For the Nine Months Ended September 30, 2014**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Net income	\$ 1,978	\$ 1,882	\$ 2,296	\$ 2,036	\$ (6,198)	\$ 1,994
Other comprehensive income (loss), net of taxes:						
Defined benefit plans:						
Gains related to changes in plan experience and actuarial assumptions arising during the period	7					7
Amortization of amounts resulting from changes in plan experience and actuarial assumptions recognized as periodic benefit cost	8					8
Cash flows hedges:						
Unrealized losses arising during the period	(50)	(50)		(50)	100	(50)
Reclassification adjustments included in net income	58	58		58	(116)	58
Foreign currency translation adjustments	(32)			(35)	32	(35)
Other comprehensive income (loss)	(9)	8		(27)	16	(12)
Comprehensive income	1,969	1,890	2,296	2,009	(6,182)	1,982
Less: Comprehensive income attributable to noncontrolling interest				(13)		(13)
Comprehensive income attributable to DIRECTV	\$ 1,969	\$ 1,890	\$ 2,296	\$ 1,996	\$ (6,182)	\$ 1,969

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Comprehensive Income-As Revised
For the Nine Months Ended September 30, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Net income	\$ 2,049	\$ 1,700	\$ 2,078	\$ 2,098	\$ (5,856)	\$ 2,069
Other comprehensive income (loss), net of taxes:						
Defined benefit plans:						
Loss related to changes in plan experience and actuarial assumptions arising during the period		(1)				(1)
Amortization of amounts resulting from changes in plan experience and actuarial assumptions recognized as periodic benefit cost	12					12
Amortization of amounts resulting from changes in plan provisions recognized as periodic benefit cost	1					1
Cash flows hedges:						
Unrealized gains arising during the period	51	51		51	(102)	51
Reclassification adjustments included in net income	(13)	(13)		(13)	26	(13)
Foreign currency translation adjustments	(37)			(51)	37	(51)
Available for sale securities:						
Reclassification adjustment for net losses recognized during the period	1			1	(1)	1
Other comprehensive income (loss)	14	38		(12)	(40)	
Comprehensive income	2,063	1,738	2,078	2,086	(5,896)	2,069
Less: Comprehensive income attributable to noncontrolling interest				(6)		(6)
Comprehensive income attributable to DIRECTV	\$ 2,063	\$ 1,738	\$ 2,078	\$ 2,080	\$ (5,896)	\$ 2,063

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Balance Sheet
As of September 30, 2014**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
ASSETS						
(Dollars in Millions)						
Total current assets	\$ 1,073	\$ 1,598	\$ 2,513	\$ 1,710	\$ (379)	\$ 6,515
Satellites, net			1,747	738		2,485
Property and equipment, net			3,833	2,952		6,785
Goodwill		1,828	1,363	764		3,955
Intangible assets, net			514	377	(8)	883
Intercompany receivables	4,882	11,233	26,698	1,556	(44,369)	
Investment in subsidiaries	(9,682)	20,181		(11,780)	1,281	
Investments and other assets	94	145	353	1,473	(94)	1,971
Total assets	\$ (3,633)	\$ 34,985	\$ 37,021	\$ (2,210)	\$ (43,569)	\$ 22,594
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Total current liabilities	\$ 298	\$ 1,465	\$ 3,694	\$ 1,394	\$ (379)	\$ 6,472
Long-term debt		18,167		144		18,311
Deferred income taxes		20	1,577	256	(94)	1,759
Intercompany liabilities	1,625	26,676	11,233	4,835	(44,369)	
Other liabilities and deferred credits	389	437	336	455	(8)	1,609
Stockholders' equity (deficit)						
Common stock and additional paid-in capital	3,569	34	5,004	3,606	(8,644)	3,569
Retained earnings (accumulated deficit)	(9,180)	(11,837)	15,177	(13,063)	9,723	(9,180)
Accumulated other comprehensive income (loss)	(334)	23		(225)	202	(334)
Total DIRECTV stockholders' equity (deficit)	(5,945)	(11,780)	20,181	(9,682)	1,281	(5,945)
Noncontrolling interest				388		388
Total stockholders' equity (deficit)	(5,945)	(11,780)	20,181	(9,294)	1,281	(5,557)
Total liabilities and stockholders' equity (deficit)	\$ (3,633)	\$ 34,985	\$ 37,021	\$ (2,210)	\$ (43,569)	\$ 22,594

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Balance Sheet
As of December 31, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
(Dollars in Millions)						
ASSETS						
Total current assets	\$ 979	\$ 1,133	\$ 2,577	\$ 1,775	\$ (511)	\$ 5,953
Satellites, net			1,810	657		2,467
Property and equipment, net			3,724	2,926		6,650
Goodwill		1,828	1,363	779		3,970
Intangible assets, net			527	401	(8)	920
Intercompany receivables	4,799	7,820	20,988	1,386	(34,993)	
Investment in subsidiaries	(10,177)	17,812		(12,247)	4,612	
Investments and other assets	92	190	361	1,416	(114)	1,945
Total assets	\$ (4,307)	\$ 28,783	\$ 31,350	\$ (2,907)	\$ (31,014)	\$ 21,905
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Total current liabilities	\$ 448	\$ 1,478	\$ 3,812	\$ 1,303	\$ (511)	\$ 6,530
Long-term debt		18,203		81		18,284
Deferred income taxes		9	1,632	277	(114)	1,804
Intercompany liabilities	1,390	21,019	7,820	4,764	(34,993)	
Other liabilities and deferred credits	399	321	274	470	(8)	1,456
Redeemable noncontrolling interest				375		375
Stockholders' equity (deficit)						
Common stock and additional paid-in capital	3,652	25	4,930	3,671	(8,626)	3,652
Retained earnings (accumulated deficit)	(9,874)	(12,286)	12,882	(13,620)	13,024	(9,874)
Accumulated other comprehensive income (loss)	(322)	14		(228)	214	(322)
Total stockholders' equity (deficit)	(6,544)	(12,247)	17,812	(10,177)	4,612	(6,544)
Total liabilities and stockholders' equity (deficit)	\$ (4,307)	\$ 28,783	\$ 31,350	\$ (2,907)	\$ (31,014)	\$ 21,905

Table of Contents

DIRECTV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2014

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
(Dollars in Millions)						
Cash flows from operating activities						
Net cash provided by (used in) operating activities	\$ 1,005	\$ (1,686)	\$ 4,906	\$ 1,611	\$ (1,110)	\$ 4,726
Cash flows from investing activities						
Cash paid for property and equipment			(1,237)	(970)		(2,207)
Cash paid for satellites			(52)	(137)		(189)
Investment in companies, net of cash acquired			(1)	(13)		(14)
Proceeds from sale of investments			16	14		30
Return of capital from subsidiary	425				(425)	
Intercompany payments (funding)	256	(945)	(4,554)	109	5,134	
Other, net				(4)		(4)
Net cash provided by (used in) investing activities	681	(945)	(5,828)	(1,001)	4,709	(2,384)
Cash flows from financing activities						
Proceeds from short-term borrowings		300				300
Repayment of short-term borrowings		(371)				(371)
Proceeds from long-term debt		1,245		161		1,406
Debt issuance costs		(7)				(7)
Repayment of long-term debt		(1,000)		(44)		(1,044)
Repayment of other long-term obligations			(21)	(29)		(50)
Common shares repurchased and retired	(1,386)					(1,386)
Stock options exercised	10					10
Taxes paid in lieu of shares issued for share-based compensation	(58)		(48)	(10)	58	(58)
Excess tax benefit from share-based compensation	23		18	5	(23)	23
Intercompany payments (funding)	(107)	4,542	989	(290)	5,134	
Cash dividend to Parent		(1,500)			1,500	
Other, net		(26)		(38)		(64)
Net cash provided by (used in) financing activities	(1,518)	3,183	938	(245)	3,599	(1,241)

Edgar Filing: DIRECTV - Form 10-Q

Effect of exchange rate changes on Venezuelan cash and cash equivalents				(383)	(383)
Net increase (decrease) in cash and cash equivalents	168	552	16	(18)	718
Cash and cash equivalents at beginning of the period	498	791	6	885	2,180
Cash and cash equivalents at end of the period	\$ 666	\$ 1,343	\$ 22	\$ 867	\$ 2,898

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Cash Flows-As Revised
For the Nine Months Ended September 30, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Cash flows from operating activities						
Net cash provided by (used in) operating activities	\$ 1,625	\$ (1,524)	\$ 4,658	\$ 1,266	\$ (1,670)	\$ 4,355
Cash flows from investing activities						
Cash paid for property and equipment			(1,327)	(1,144)		(2,471)
Cash paid for satellites			(154)	(122)		(276)
Investment in companies, net of cash acquired			(38)	(9)		(47)
Proceeds from sale of investments			12	128		140
Return of capital from subsidiary	1,567				(1,567)	
Intercompany funding	(190)	(904)	(3,996)	(89)	5,179	
Other, net			(67)	(91)		(158)
Net cash provided by (used in) investing activities	1,377	(904)	(5,570)	(1,327)	3,612	(2,812)
Cash flows from financing activities						
Issuance of commercial paper (maturity 90 days or less), net		90				90
Proceeds from short-term borrowings		441				441
Repayment of short-term borrowings		(327)				(327)
Proceeds from borrowings under revolving credit facility		10				10
Repayment of borrowings under revolving credit facility		(10)				(10)
Proceeds from long-term debt		1,390		94		1,484
Debt issuance costs		(8)				(8)
Repayment of long-term debt				(9)		(9)
Repayment of other long-term obligations			(18)	(30)		(48)
Common shares repurchased and retired	(3,228)					(3,228)
Taxes paid in lieu of shares issued for share-based compensation	(61)		(51)	(10)	61	(61)
Excess tax benefit from share-based compensation	24		20	4	(24)	24
Intercompany payments	80	3,996	964	139	(5,179)	
Cash dividend to Parent		(3,200)			3,200	
Other, net		6				6

Edgar Filing: DIRECTV - Form 10-Q

Net cash provided by (used in) financing activities	(3,185)	2,388	915	188	(1,942)	(1,636)
Effect of exchange rate changes on Venezuelan cash and cash equivalents				(187)		(187)
Net increase (decrease) in cash and cash equivalents	(183)	(40)	3	(60)		(280)
Cash and cash equivalents at beginning of the period	408	728	11	755		1,902
Cash and cash equivalents at end of the period	\$ 225	\$ 688	\$ 14	\$ 695	\$	1,622

Table of Contents

DIRECTV

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/A for the year ended December 31, 2013 filed with the SEC on June 30, 2014, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the SEC on May 12, 2014, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 filed with the SEC on August 1, 2014, and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after August 1, 2014 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 the use of statements that include phrases such as we "believe", "expect", "anticipate", "intend", "plan", "foresee", "project" or other similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements we make regarding our outlook for 2014 financial results, liquidity and capital resources.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include economic, business, competitive, national or global political, market and regulatory conditions and the following, each of which is described in more detail in our Annual Report on Form 10-K/A for the year ended December 31, 2013:

Levels of competition are increasing.

We depend on others to produce programming and programming costs are increasing.

Increased subscriber churn or subscriber upgrade and retention costs could materially adversely affect our financial performance.

Our subscriber acquisition costs could materially increase.

DIRECTV Latin America is subject to various additional risks associated with doing business internationally, which include political and economic instability and foreign currency exchange rate volatility and controls.

Our ability to keep pace with technological developments is uncertain.

Our business relies on intellectual property, some of which is owned by third parties, and we may inadvertently infringe patents and proprietary rights of others.

Construction or launch delays on satellites could materially adversely affect our revenues and earnings.

Edgar Filing: DIRECTV - Form 10-Q

Our satellites are subject to significant launch and operational risks.

The loss of one or more satellites, none of which is currently insured, could materially adversely affect our business and earnings.

Table of Contents

DIRECTV

Satellite programming signals have been stolen and may be stolen in the future, which could result in lost revenues and would cause us to incur incremental operating costs that do not result in subscriber acquisition.

The ability to maintain FCC licenses and other regulatory approvals is critical to our business.

We may have an indemnity obligation to Liberty Media, which is not limited in amount or subject to any cap, that could be triggered if parts of the 2009 transaction between us and Liberty Media or Liberty Media's 2008 transaction with News Corporation are treated as a taxable transaction.

We rely on network and information systems and other technology and a disruption or failure of such networks, systems or technology as a result of misappropriation of data or other malfeasance, as well as outages, natural disasters, accidental releases of information or similar events, may disrupt our business.

We face risks arising from the outcome of various legal proceedings.

Our strategic initiatives may not be successfully implemented, may not elicit the expected customer response in the market and may result in competitive reactions.

Those and the other factors that are described in more detail in our Annual Report on Form 10-K/A for the year ended December 31, 2013.

In addition, below are risk factors relating to the proposed AT&T merger transaction:

The value of the stock portion of the merger consideration is subject to changes based on fluctuations in the value of AT&T common stock, and DIRECTV stockholders may receive stock consideration with a value that, at the time received, is less than \$66.50 per share of DIRECTV common stock.

AT&T and DIRECTV may have difficulty attracting, motivating and retaining executives and other key employees in light of the merger.

Completion of the merger is subject to conditions and if these conditions are not satisfied or waived, the merger will not be completed.

In order to complete the merger, AT&T and DIRECTV must make certain governmental filings and obtain certain governmental authorizations, and if such filings and authorizations are not made or granted or are granted with conditions, completion of the merger may be jeopardized or the anticipated benefits of the merger could be reduced.

AT&T's and DIRECTV's business relationships may be subject to disruption due to uncertainty associated with the merger.

The Merger Agreement limits DIRECTV's ability to pursue alternatives to the merger and may discourage other companies from trying to acquire DIRECTV for greater consideration than what AT&T has agreed to pay.

Failure to complete the merger could negatively impact the stock price and the future business and financial results of AT&T and DIRECTV.

The shares of AT&T common stock to be received by DIRECTV stockholders as a result of the merger will have rights different from the shares of DIRECTV common stock.

Table of Contents

DIRECTV

After the merger, DIRECTV stockholders will have a significantly lower ownership and voting interest in AT&T than they currently have in DIRECTV and will exercise less influence over management.

Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may occur and it is not possible for us to predict them all. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future development or otherwise, except as required by law.

CONTENTS

The following is a discussion of our results of operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Quarterly Report. Information in this section is organized as follows:

Summary Data

Business Overview

Significant Events Affecting the Comparability of the Results of Operations

Key Terminology

Executive Outlook

Results of Operations

Liquidity and Capital Resources

Contractual Obligations

Contingencies

Certain Relationships and Related-Party Transactions

Critical Accounting Estimates

Table of Contents

DIRECTV
SUMMARY DATA
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
(Dollars in Millions, Except Per Share Amounts)				
Consolidated Statements of Operations Data:				
Revenues	\$ 8,374	\$ 7,880	\$ 24,338	\$ 23,160
Total operating costs and expenses	7,152	6,655	20,465	19,343
Operating profit	1,222	1,225	3,873	3,817
Interest income	18	15	43	56
Interest expense	(215)	(182)	(677)	(618)
Other, net	1	43	93	6
Income before income taxes	1,026	1,101	3,332	3,261
Income tax expense	(411)	(391)	(1,338)	(1,192)
Net income	615	710	1,994	2,069
Less: Net income attributable to noncontrolling interest	(4)	(11)	(16)	(20)
Net income attributable to DIRECTV	\$ 611	\$ 699	\$ 1,978	\$ 2,049
Basic earnings attributable to DIRECTV per common share	\$ 1.22	\$ 1.29	\$ 3.92	\$ 3.68
Diluted earnings attributable to DIRECTV per common share	\$ 1.21	\$ 1.28	\$ 3.88	\$ 3.65
Weighted average number of total common shares outstanding (in millions):				
Basic	502	541	505	557
Diluted	507	545	510	562

	September 30, 2014	December 31, 2013
(Dollars in Millions)		
Consolidated Balance Sheets Data:		
Cash and cash equivalents	\$ 2,898	\$ 2,180
Total current assets	6,515	5,953
Total assets	22,594	21,905
Total current liabilities	6,472	6,530
Long-term debt	18,311	18,284
Redeemable noncontrolling interest	375	

Edgar Filing: DIRECTV - Form 10-Q

<u>Total stockholders' deficit</u>	(5,557)	(6,544)
------------------------------------	---------	---------

Reference

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

Table of Contents**DIRECTV****SUMMARY DATA (continued)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
(Dollars in Millions)				
Other Data:				
Operating profit before depreciation and amortization(1)				
Operating profit	\$ 1,222	\$ 1,225	\$ 3,873	\$ 3,817
Add: Depreciation and amortization expense	755	708	2,198	2,117
Operating profit before depreciation and amortization	\$ 1,977	\$ 1,933	\$ 6,071	\$ 5,934
Operating profit before depreciation and amortization margin	23.6%	24.5%	24.9%	25.6%
Cash flow information				
Net cash provided by operating activities	\$ 1,662	\$ 1,345	\$ 4,726	\$ 4,355
Net cash used in investing activities	(875)	(1,133)	(2,384)	(2,812)
Net cash used in financing activities	(112)	(955)	(1,241)	(1,636)
Free cash flow(2)				
Net cash provided by operating activities	1,662	1,345	4,726	4,355
Less: Cash paid for property and equipment	(790)	(891)	(2,207)	(2,471)
Less: Cash paid for satellites	(80)	(82)	(189)	(276)
Free cash flow	\$ 792	\$ 372	\$ 2,330	\$ 1,608

Table of Contents**DIRECTV****SUMMARY DATA (continued)****(Unaudited)****Selected Segment Data**

	Revenues	Percentage of Total Revenues	Operating Profit (Loss)	Depreciation and Amortization Expense	Operating Profit (Loss) Before Depreciation and Amortization(1)
(Dollars in Millions)					
Three Months Ended					
<u>September 30, 2014</u>					
DIRECTV U.S.	\$ 6,506	77.7%	\$ 1,113	\$ 435	\$ 1,548
Sky Brasil	1,014	12.1%	118	189	307
PanAmericana and Other	806	9.6%	19	127	146
DIRECTV Latin America	1,820	21.7%	137	316	453
Sports Networks, Eliminations and Other	48	0.6%	(28)	4	(24)
Total	\$ 8,374	100.0%	\$ 1,222	\$ 755	\$ 1,977
<u>September 30, 2013</u>					
DIRECTV U.S.	\$ 6,170	78.3%	\$ 987	\$ 409	\$ 1,396
Sky Brasil	883	11.2%	169	184	353
PanAmericana and Other	779	9.9%	93	112	205
DIRECTV Latin America	1,662	21.1%	262	296	558
Sports Networks, Eliminations and Other	48	0.6%	(24)	3	(21)
Total	\$ 7,880	100.0%	\$ 1,225	\$ 708	\$ 1,933

Table of Contents**DIRECTV****SUMMARY DATA (continued)****(Unaudited)**

	Revenues	Percentage of Total Revenues	Operating Profit (Loss)	Depreciation and Amortization Expense	Operating Profit (Loss) Before Depreciation and Amortization(1)
Nine Months Ended					
<u>September 30, 2014</u>					
DIRECTV U.S.	\$ 18,865	77.5%	\$ 3,675	\$ 1,290	\$ 4,965
Sky Brasil	2,964	12.2%	380	527	907
PanAmericana and Other	2,366	9.7%	(127)	370	243
DIRECTV Latin America	5,330	21.9%	253	897	1,150
Sports Networks, Eliminations and Other	143	0.6%	(55)	11	(44)
Total	\$ 24,338	100.0%	\$ 3,873	\$ 2,198	\$ 6,071
<u>September 30, 2013</u>					
DIRECTV U.S.	\$ 17,903	77.3%	\$ 3,343	\$ 1,225	\$ 4,568
Sky Brasil	2,790	12.0%	379	547	926
PanAmericana and Other	2,286	9.9%	139	328	467
DIRECTV Latin America	5,076	21.9%	518	875	1,393
Sports Networks, Eliminations and Other	181	0.8%	(44)	17	(27)
Total	\$ 23,160	100.0%	\$ 3,817	\$ 2,117	\$ 5,934

(1)

Operating profit (loss) before depreciation and amortization, which is a financial measure that is not determined in accordance with accounting principles generally accepted in the United States of America, or 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

Edgar Filing: DIRECTV - Form 10-Q

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 our 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

Table of Contents

DIRECTV

SUMMARY DATA (continued)

(Unaudited)

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 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 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

DIRECTV

BUSINESS OVERVIEW

DIRECTV, which we also refer to as the Company, we, or us, is a leading provider of digital television entertainment in the United States and Latin America. We operate two direct-to-home, or DTH, business units: DIRECTV U.S. and DIRECTV Latin America, which are differentiated by their geographic location and are engaged in acquiring, promoting, selling and distributing digital entertainment programming primarily via satellite to residential and commercial subscribers. In addition, we own and operate two regional sports networks, or RSNs, hold a minority ownership interest in ROOT SPORTS Northwest and own a 42% interest in Game Show Network LLC, or GSN, a television network dedicated to game-related programming and Internet interactive game playing. We account for our investments in ROOT SPORTS Northwest and GSN using the equity method of accounting.

DIRECTV U.S. DIRECTV Holdings LLC and its subsidiaries, which we refer to as DIRECTV U.S., is the largest provider of DTH digital television services and the second largest provider in the multi-channel video programming distribution, or MVPD, industry in the United States. As of September 30, 2014, DIRECTV U.S. had approximately 20.2 million subscribers.

DIRECTV Latin America. DIRECTV Latin America Holdings, Inc. and its subsidiaries, or DIRECTV Latin America, is a leading provider of DTH digital television services throughout Latin America. DIRECTV Latin America is comprised of: PanAmericana, which provides services in Argentina, Chile, Colombia, Ecuador, Peru, Puerto Rico, Venezuela and certain other countries in the region, and Sky Brasil Servicos Ltda., or Sky Brasil, which is a 93% owned subsidiary. DIRECTV Latin America also includes our 41% equity method investment in Innova, S. de R.L. de C.V., or Sky Mexico, which we include in the PanAmericana segment. As of September 30, 2014, PanAmericana had approximately 6.7 million subscribers, Sky Brasil had approximately 5.6 million subscribers and Sky Mexico had approximately 6.5 million subscribers.

DIRECTV Sports Networks. DIRECTV Sports Networks LLC and its subsidiaries, or DSN, is comprised primarily of two wholly owned regional sports networks based in Denver, Colorado and Pittsburgh, Pennsylvania, and a regional sports network based in Seattle, Washington in which DSN retains a noncontrolling interest, each of which operates under the brand name ROOT SPORTS. On April 16, 2013, DSN transferred 100% of its interest in a regional sports network based in Seattle, Washington, or DSN Northwest, to NW Sports Net LLC. The Seattle Mariners have a majority interest in NW Sports Net LLC and DSN retains a noncontrolling interest, which we account for using the equity method of accounting. The operating results of DSN are reported as part of the "Sports Networks, Eliminations and Other" reporting segment.

Proposed AT&T Merger Transaction

On May 18, 2014, DIRECTV and AT&T Inc., or AT&T, announced that they entered into a definitive agreement under which DIRECTV will combine with AT&T in a stock and cash transaction. The Agreement and Plan of Merger, which was included as Exhibit 2.1 to the Form 8-K filed with the SEC on May 19, 2014, or the Merger Agreement, was approved unanimously by the Board of Directors of each company and was approved by our stockholders at a special meeting held on September 25, 2014.

Subject to the conditions in the Merger Agreement, at the effective time of the merger, our shareholders will receive \$95.00 per share, subject to adjustments as described below under the terms of the merger, comprised of \$28.50 per share in cash and \$66.50 per share in AT&T stock. The stock portion will be subject to a collar such that our shareholders will receive 1.905 AT&T shares if AT&T stock price is below \$34.90 at closing and 1.724 AT&T shares if AT&T stock price is above \$38.58 at

Table of Contents

DIRECTV

closing. If AT&T stock price at closing is between \$34.90 and \$38.58, our shareholders will receive a number of shares between 1.724 and 1.905, equal to \$66.50 in value based on a volume-weighted average as provided in the Merger Agreement. The value of the shares may differ on the date of exchange. The transaction is subject to review by the U.S. Department of Justice and the Federal Communications Commission. The transaction has been reviewed and approved by Brazil telecommunications and antitrust authorities and is under review by Mexican antitrust authorities. The transaction is expected to close in the first half of 2015.

In connection with the proposed combination, we have made certain representations, warranties and covenants in the Merger Agreement, including, among other things, covenants by DIRECTV to conduct its business in the ordinary course during the interim period between the execution of the Merger Agreement and consummation of the merger and not to take certain actions prior to the closing of the merger without the prior approval of AT&T.

Also, during the third quarter of 2014, we entered into an agreement with the National Football League, or NFL, to renew and extend our rights to exclusively distribute the NFL Sunday Ticket service, or the NFL Agreement. Pursuant to the Merger Agreement, AT&T had the right to terminate the Merger Agreement or not consummate the merger if we failed to enter into a contract with the NFL providing for exclusive distribution rights for "NFL Sunday Ticket" service. AT&T has confirmed to us that the NFL Agreement satisfies the requirements of the Merger Agreement.

In connection with the proposed combination, we recognized costs of \$19 million for the three months ended September 30, 2014 and \$39 million for the nine months ended September 30, 2014 in "General and administrative expenses" in the Consolidated Statements of Operations, primarily related to professional services fees.

SIGNIFICANT EVENTS AFFECTING THE COMPARABILITY OF THE RESULTS OF OPERATIONS

Venezuela Devaluation and Foreign Currency Exchange Controls

Companies operating in Venezuela are required to obtain Venezuelan government approval to exchange Venezuelan bolivars into U.S. dollars and such approval has not consistently been granted for several years. Consequently, our ability to pay U.S. dollar denominated obligations and repatriate cash generated in Venezuela in excess of local operating requirements is limited, which has resulted in increases in the cash balance at our Venezuelan subsidiary. In February 2013, the Venezuelan government announced a devaluation of the Venezuelan bolivar from the official exchange rate of 4.3 Venezuelan bolivars per U.S. dollar to an official rate of 6.3 Venezuelan bolivars per U.S. dollar. As a result of the devaluation, we recorded a pre-tax charge in "Venezuelan currency devaluation charge" in the Consolidated Statements of Operations of \$166 million (\$136 million after tax) in the first quarter of 2013, related to the remeasurement of the bolivar denominated net monetary assets of our Venezuelan subsidiary as of the date of the devaluation.

In the first quarter of 2013, the Venezuelan government announced a new currency exchange system, the Sistema Complementario de Administración de Divisas, or SICAD 1, which is intended to function as an auction system for participants to exchange Venezuelan bolivars for U.S. dollars. The volume of amounts exchanged through such SICAD 1 system and the resulting exchange rate are published by the Venezuelan Central Bank. Effective January 24, 2014, the Venezuelan government announced that dividends and royalties would be subject to the SICAD 1 program. The SICAD 1 exchange rate, which was 12 Venezuelan bolivars per U.S. dollar as of September 30, 2014, is determined by periodic auctions. Additionally, in February 2014, the Venezuelan government announced SICAD 2, which is an exchange mechanism that became available on March 24, 2014. The exchange rate for SICAD 2 was 49.99 Venezuelan bolivars per U.S. dollar as of September 30, 2014.

Table of Contents

DIRECTV

We currently believe the SICAD 1 rate is the most representative rate to use for remeasurement, as the official rate of 6.3 Venezuelan bolivars per U.S. dollar will likely be reserved only for the settlement of U.S. dollar denominated obligations related to purchases of "essential goods and services," and the equity of our Venezuelan subsidiary would be realized, if at all, through permitted dividends paid at the SICAD 1 rate. Therefore, as of September 30, 2014, we are continuing to remeasure our Venezuelan subsidiary's financial statements in U.S. dollars using the exchange rate determined by periodic auctions under SICAD 1, which was 12.0 Venezuelan bolivars per U.S. dollar. Prior to March 31, 2014, we used the official exchange rate of 6.3 Venezuelan bolivars per U.S. dollar. As a result of the devaluation, we recorded a pre-tax charge in "Venezuelan currency devaluation charge" in the Consolidated Statements of Operations of \$281 million in the first quarter of 2014, related to the remeasurement of the bolivar denominated net monetary assets of our Venezuelan subsidiary on March 31, 2014.

As of September 30, 2014, our Venezuelan subsidiary had Venezuelan bolivar denominated net monetary assets of \$494 million, including cash of \$547 million, based on the SICAD 1 exchange rate of 12.0 Venezuelan bolivars per U.S. dollar. The exchange rate used to report net monetary assets and operating results of our Venezuelan subsidiary is currently based on the results of periodic SICAD 1 auctions, which is expected to result in fluctuations in reported amounts that could be material to the results of operations in Venezuela in future periods and could materially affect the comparability of results for our Venezuelan subsidiary between periods. The comparability of our results of operations and financial position in Venezuela will also be affected in the event of additional changes to the exchange rate system and further devaluations of the Venezuelan bolivar.

ECAD

As previously reported, Escritorio Central de Arrecadacao, or ECAD, the organization responsible for collecting performance rights fees under Brazilian law, had outstanding claims against Sky Brasil, along with other video distributors in Brazil. In the third quarter of 2013, Sky Brasil entered into an agreement with ECAD whereby Sky Brasil agreed to settle all claims for the period from 2004 through December 31, 2013 for a cash payment of \$92 million in September 2013. As a result of this settlement, Sky Brasil recognized a \$128 million pre-tax gain from the reversal of amounts previously accrued during such period, of which \$70 million was recorded as a reduction in "Broadcast programming and other", \$37 million was recorded as a reduction in "Interest expense" and \$21 million was recorded in "Other, net" in the Consolidated Statements of Operations.

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, advanced receiver service fees (which include HD, DVR and multi-room viewing), pay-per-view programming, and seasonal live sporting events. We also earn revenues from monthly fees we charge subscribers for multiple set-top receivers, hardware revenues from subscribers who lease or purchase set-top receivers from us, 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, seasonal live sporting and other events. Other costs include continuing service fees paid to third parties for active subscribers and warranty service costs.

Table of Contents

DIRECTV

Subscriber Service Expenses. Subscriber service expenses include the costs of customer call centers, billing, remittance processing and service calls.

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 and telcos, 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 useful lives. In certain countries in Latin America, where our customer agreements provide for the lease of the entire DIRECTV or SKY System, we also capitalize the costs of the other customer premises equipment and related installation costs. 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.

Upgrade and Retention Costs. 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 advanced receivers 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 subscribers who have suspended their account for a particular season of the year because they are temporarily away from their primary residence, subscribers who are in the process of relocating and commercial equivalent viewing units.

Table of Contents

DIRECTV

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

DIRECTV Consolidated. We previously reported in our Annual Report on Form 10-K/A for the year ended December 31, 2013 that we anticipated earnings per share to increase in the mid-teen percentage range from the \$5.22 earnings per share reported in 2013. We now expect earnings per share to increase in the low single digit percentage range as a result of lower than expected net income driven by unfavorable foreign currency exchange rates and AT&T merger transaction costs, as well as higher weighted average shares outstanding than previously anticipated due to the suspension of our share repurchase program. These estimates are highly volatile depending on changes in foreign currency exchange rates, as well as changes in the macroeconomic and political environment in Latin America.

We previously reported in our Annual Report on Form 10-K/A for the year ended December 31, 2013 that we expected free cash flow, or cash provided by operating activities less capital expenditures, to increase approximately 10%. We now expect free cash flow to increase nearly 20% driven by an increase in operating profit before depreciation and amortization as well as a reduction in cash paid for income taxes.

Table of Contents**DIRECTV****RESULTS OF OPERATIONS****Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013***DIRECTV U.S. Results of Operations*

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 September 30,		Change	
	2014	2013	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 6,506	\$ 6,170	\$ 336	5.4%
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	3,057	2,904	153	5.3%
Subscriber service expenses	397	391	6	1.5%
Broadcast operations expenses	74	68	6	8.8%
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	776	756	20	2.6%
Upgrade and retention costs	347	359	(12)	(3.3)%
General and administrative expenses	307	296	11	3.7%
Depreciation and amortization expense	435	409	26	6.4%
Total operating costs and expenses	5,393	5,183	210	4.1%
Operating profit	\$ 1,113	\$ 987	\$ 126	12.8%
Operating profit margin	17.1%	16.0%		
Other data:				
Operating profit before depreciation and amortization	\$ 1,548	\$ 1,396	\$ 152	10.9%
Operating profit before depreciation and amortization margin	23.8%	22.6%		
Total number of subscribers (in thousands)	20,203	20,160	43	0.2%
ARPU	\$ 107.27	\$ 102.37	\$ 4.90	4.8%
Average monthly subscriber churn %	1.73%	1.61%		7.5%
Gross subscriber additions (in thousands)	1,023	1,109	(86)	(7.8)%
Subscriber disconnections (in thousands)	1,051	970	81	8.4%
Net subscriber (disconnections) additions (in thousands)	(28)	139	(167)	(120.1)%
Average subscriber acquisition costs per subscriber (SAC)	\$ 898	\$ 853	\$ 45	5.3%
Capital expenditures:				
Property and equipment	\$ 187	\$ 155	\$ 32	20.6%
Subscriber leased equipment subscriber acquisitions	143	190	(47)	(24.7)%
Subscriber leased equipment upgrade and retention	134	162	(28)	(17.3)%

Edgar Filing: DIRECTV - Form 10-Q

Satellites	19	46	(27)	(58.7)%
Total capital expenditures	\$ 483	\$ 553	\$ (70)	(12.7)%

Subscribers. In the third quarter of 2014, DIRECTV U.S. had net subscriber disconnections of 28,000 as compared to net subscriber additions of 139,000 in the third quarter of 2013. This decrease

Table of Contents

DIRECTV

was due to both lower gross subscriber additions and a higher number of subscriber disconnections. Gross subscriber additions decreased mainly as a result of stricter credit policies. Average monthly subscriber churn was higher in the third quarter of 2014 as compared to the third quarter of 2013 primarily due to a more competitive environment and subscribers with larger average promotional offers that have ended.

Revenues. DIRECTV U.S. revenues increased in the third quarter of 2014 as a result of higher ARPU. The increase in ARPU resulted primarily from price increases on programming packages, higher advanced receiver service fees, higher fees for our enhanced warranty program, as well as higher ad sales and commercial revenues, partially offset by increased promotional offers to existing customers and lower revenue from pay-per-view events.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization increased in the third quarter of 2014 as compared to the third quarter of 2013 primarily due to higher revenues coupled with lower upgrade and retention costs, partially offset by higher broadcast programming and other costs, as well as higher subscriber acquisition costs. Upgrade and retention costs decreased primarily due to lower equipment costs. Broadcast programming and other costs increased primarily due to annual program supplier rate increases. Subscriber acquisition costs increased primarily due to an increase in promotional offers targeted at higher quality subscribers and higher marketing costs, partially offset by lower gross subscriber additions. SAC on a per subscriber basis, which includes the cost of capitalized set-top receivers, increased due to the increase in subscriber acquisition costs, partially offset by lower equipment costs.

Operating profit before depreciation and amortization margin improved primarily due to the higher revenues combined with lower upgrade and retention costs, relatively unchanged subscriber service expenses, as well as slower relative growth in subscriber acquisition costs.

Operating profit. Operating profit and operating profit margin increased in the third quarter of 2014 as compared to the third quarter of 2013 due to an increase in operating profit before depreciation and amortization and operating profit before depreciation and amortization margin, partially offset by an increase in depreciation and amortization expense due to higher total capitalized subscriber leased equipment.

Table of Contents**DIRECTV***DIRECTV Latin America Results of Operations*

The following table provides operating results and a summary of key subscriber data for the consolidated DIRECTV Latin America operations, which does not include Sky Mexico:

	Three Months Ended and As of September 30,		Change	
	2014	2013	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 1,820	\$ 1,662	\$ 158	9.5%
Operating profit before depreciation and amortization	453	558	(105)	(18.8)%
Operating profit before depreciation and amortization margin	24.9%	33.6%		
Operating profit	\$ 137	\$ 262	\$ (125)	(47.7)%
Operating profit margin	7.5%	15.8%		
Other data:				
ARPU	\$ 48.88	\$ 49.42	\$ (0.54)	(1.1)%
Average monthly total subscriber churn %	2.99%	2.27%		31.7%
Average monthly post-paid subscriber churn %	2.06%	1.93%		6.7%
Total number of subscribers (in thousands)(1)	12,353	11,337	1,016	9.0%
Gross subscriber additions (in thousands)(1)	993	1,023	(30)	(2.9)%
Net subscriber (disconnections) additions (in thousands)(1)	(119)	260	(379)	(145.8)%
Capital expenditures:				
Property and equipment	\$ 69	\$ 62	\$ 7	11.3%
Subscriber leased equipment subscriber acquisitions	184	228	(44)	(19.3)%
Subscriber leased equipment upgrade and retention	73	93	(20)	(21.5)%
Satellites	55	32	23	71.9%
Total capital expenditures	\$ 381	\$ 415	\$ (34)	(8.2)%

(1) DIRECTV Latin America subscriber data excludes subscribers on the Sky Mexico platform.

Sky Brasil Results of Operations

The following table provides operating results and a summary of key subscriber data for the consolidated Sky Brasil operations:

	Three Months Ended and As of September 30,		Change	
	2014	2013	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 1,014	\$ 883	\$ 131	14.8%
Operating profit before depreciation and amortization	307	353	(46)	(13.0)%
Operating profit before depreciation and amortization margin	30.3%	40.0%		

Edgar Filing: DIRECTV - Form 10-Q

Operating profit	\$ 118	\$ 169	\$ (51)	(30.2)%
Operating profit margin	11.6%	19.1%		
Other Data:				
ARPU	\$ 60.00	\$ 56.50	\$ 3.50	6.2%
Total number of subscribers (in thousands)	5,644	5,255	389	7.4%
Total capital expenditures	\$ 254	\$ 222	\$ 32	14.4%

63

Table of Contents**DIRECTV**

Subscribers. In the third quarter of 2014 net subscriber additions decreased as compared to the third quarter of 2013 due to higher average monthly churn, partially offset by higher gross subscriber additions. Total average monthly churn increased primarily due to a reduction in credits to existing subscribers, and the introduction of our prepaid service in the fourth quarter of 2013.

Revenues. Revenues increased in the third quarter of 2014 as compared to the third quarter of 2013 primarily due to subscriber growth and an increase in ARPU. The increase in ARPU was driven by reduced promotional offers to subscribers and an increase in advanced services.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization and operating profit before depreciation and amortization margin decreased in the third quarter of 2014 primarily due to the settlement of the ECAD dispute in the third quarter of 2013. The decrease was also attributable to increased subscriber service and general and administrative expenses related to customer service and systems initiatives.

Operating profit. Operating profit and operating profit margin decreased in the third quarter of 2014 as compared to the third quarter of 2013. This decrease was due to the decrease in operating profit before depreciation and amortization and operating profit before depreciation and amortization margin.

PanAmericana and Other Results of Operations

The following table provides operating results and a summary of key subscriber data for the consolidated PanAmericana and Other operations:

	Three Months Ended and As of September 30,		Change	
	2014	2013	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 806	\$ 779	\$ 27	3.5%
Operating profit before depreciation and amortization	146	205	(59)	(28.8)%
Operating profit before depreciation and amortization margin	18.1%	26.3%		
Operating profit	\$ 19	\$ 93	\$ (74)	(79.6)%
Operating profit margin	2.4%	11.9%		
Other Data:				
ARPU	\$ 39.64	\$ 43.07	\$ (3.43)	(8.0)%
Total number of subscribers (in thousands)	6,709	6,082	627	10.3%
Total capital expenditures	\$ 127	\$ 193	\$ (66)	(34.2)%

Subscribers. In the third quarter of 2014 we had net subscriber disconnections as compared to net subscriber additions in the third quarter of 2013. The change is primarily due to lower gross subscriber additions and higher average monthly total subscriber churn resulting from higher subscriber disconnections and lower prepaid subscriber reconnections following the end of the FIFA World Cup.

Revenues. Revenues increased in the third quarter of 2014 primarily due to subscriber growth, partially offset by a decrease in ARPU. The decrease in ARPU was primarily driven by currency depreciation in Venezuela and Argentina and a higher penetration of lower ARPU mass market subscribers, partially offset by price increases and an increase in the number of subscribers with advanced services.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization and operating profit before depreciation and amortization margin decreased in the third

Table of Contents**DIRECTV**

quarter of 2014 as compared to the third quarter of 2013 primarily due to a \$62 million charge in "General and administrative expenses" in the Consolidated Statements of Operations related to the remeasurement of the Venezuelan bolivar denominated net monetary assets during the third quarter of 2014 and higher broadcast programming costs in Venezuela, as well as higher subscriber acquisition costs primarily resulting from labor cost inflation.

Operating profit. Operating profit and operating profit margin decreased in the third quarter of 2014 as compared to the third quarter of 2013 due to a decrease in operating profit before depreciation and amortization and operating profit before depreciation and amortization margin, as well as an increase in depreciation and amortization expense due to subscriber leased equipment and infrastructure costs capitalized over the last year.

DIRECTV Other Income and Income Taxes

Interest income. Interest income was \$18 million in the third quarter of 2014 and \$15 million in the third quarter of 2013.

Interest expense. The increase in interest expense to \$215 million in the third quarter of 2014 from \$182 million in the third quarter of 2013 was primarily due to a higher average debt balance.

Other, net. The significant components of "Other, net" were as follows:

	Three Months Ended September 30,		Change \$
	2014	2013	
	(Dollars in Millions)		
Equity in earnings from unconsolidated affiliates	\$ 21	\$ 30	\$ (9)
Net gains from sale of investments	1		1
Net foreign currency transaction loss	(19)	(9)	(10)
Fair-value gain on non-employee stock options		2	(2)
ECAD settlement gain		21	(21)
Other	(2)	(1)	(1)
Total	\$ 1	\$ 43	\$ (42)

Income Tax Expense. We recognized income tax expense of \$411 million for the third quarter of 2014 compared to \$391 million for the third quarter of 2013. The effective tax rate for the third quarter of 2014 was 40.1% compared to 35.5% for the third quarter of 2013, primarily due to the unfavorable tax impact of the Venezuela exchange rate in 2014, and the recognition of uncertain tax benefits as a result of the expiration of the statute of limitations in 2013.

Earnings Per Share

Earnings per share and weighted average shares outstanding were as follows:

	Three Months Ended September 30,	
	2014	2013
	(Shares in Millions)	
Basic earnings attributable to DIRECTV per common share	\$ 1.22	\$ 1.29
Diluted earnings attributable to DIRECTV per common share	\$ 1.21	\$ 1.28
Weighted average number of common shares outstanding:		
Basic	502	541

Diluted	507	545
---------	-----	-----

65

Table of Contents**DIRECTV**

The decreases in basic and diluted earnings per share were due to lower net income attributable to DIRECTV, partially offset by a reduction in weighted average shares outstanding resulting from our share repurchase program.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013*DIRECTV U.S. Results of Operations*

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

	Nine Months Ended and As of September 30,		Change	
	2014	2013	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 18,865	\$ 17,903	\$ 962	5.4%
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	8,625	8,147	478	5.9%
Subscriber service expenses	1,130	1,102	28	2.5%
Broadcast operations expenses	221	220	1	0.5%
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	2,085	1,979	106	5.4%
Upgrade and retention costs	942	1,002	(60)	(6.0)%
General and administrative expenses	897	885	12	1.4%
Depreciation and amortization expense	1,290	1,225	65	5.3%
Total operating costs and expenses	15,190	14,560	630	4.3%
Operating profit	\$ 3,675	\$ 3,343	\$ 332	9.9%
Operating profit margin	19.5%	18.7%		
Other data:				
Operating profit before depreciation and amortization	\$ 4,965	\$ 4,568	\$ 397	8.7%
Operating profit before depreciation and amortization margin	26.3%	25.5%		
Total number of subscribers (in thousands)	20,203	20,160	43	0.2%
ARPU	\$ 103.57	\$ 99.00	\$ 4.57	4.6%
Average monthly subscriber churn %	1.58%	1.53%		3.3%
Gross subscriber additions (in thousands)	2,822	2,841	(19)	(0.7)%
Subscriber disconnections (in thousands)	2,872	2,765	107	3.9%
Net subscriber (disconnections) additions (in thousands)	(50)	76	(126)	(165.8)%
Average subscriber acquisition costs per subscriber (SAC)	\$ 872	\$ 878	\$ (6)	(0.7)%
Capital expenditures:				
Property and equipment	\$ 514	\$ 420	\$ 94	22.4%
Subscriber leased equipment subscriber acquisitions	375	515	(140)	(27.2)%
Subscriber leased equipment upgrade and retention	348	392	(44)	(11.2)%
Satellites	52	154	(102)	(66.2)%

Edgar Filing: DIRECTV - Form 10-Q

Total capital expenditures	\$	1,289	\$	1,481	\$	(192)	(13.0)%
----------------------------	----	-------	----	-------	----	-------	---------

Subscribers. In the nine months ended September 30, 2014, DIRECTV U.S. had net subscriber disconnections of 50,000 as compared to net subscriber additions of 76,000 in the nine months ended September 30, 2013. The decrease was due to lower gross subscriber additions and a higher number of

Table of Contents

DIRECTV

subscriber disconnections. Gross subscriber additions decreased mainly as a result of stricter credit policies. Average monthly subscriber churn was higher for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to a more competitive environment and subscribers with larger average promotional offers that have ended.

Revenues. DIRECTV U.S. revenues increased in the nine months ended September 30, 2014 as a result of higher ARPU. The increase in ARPU resulted primarily from higher advanced receiver service fees, price increases on programming packages, higher fees for our enhanced warranty program, as well as higher ad sales and commercial revenues, partially offset by increased promotional offers for new and existing customers.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization increased in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to higher revenues coupled with lower upgrade and retention costs, partially offset by higher broadcast programming and other costs and higher subscriber acquisition costs. Upgrade and retention costs decreased primarily due to lower equipment costs. Broadcast programming and other costs increased primarily due to annual program supplier rate increases. Subscriber acquisition costs increased primarily due to an increase in promotional offers targeted at higher quality subscribers.

Operating profit before depreciation and amortization margin increased in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to the higher revenues coupled with lower upgrade and retention costs, as well as slower relative growth in subscriber service expenses and general and administrative expenses, partially offset by higher broadcast programming and other costs.

Operating profit. Operating profit and operating profit margin increased in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 due to an increase in operating profit before depreciation and amortization and operating profit before depreciation and amortization margin, partially offset by an increase in depreciation and amortization expense due to higher total capitalized subscriber leased equipment.

Table of Contents**DIRECTV***DIRECTV Latin America Results of Operations*

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

	Nine Months Ended and As of September 30,		Change	
	2014	2013	\$	%
(Dollars in Millions, Except Per Subscriber Amounts)				
Revenues	\$ 5,330	\$ 5,076	\$ 254	5.0%
Operating profit before depreciation and amortization(1)	1,150	1,393	(243)	(17.4)%
Operating profit before depreciation and amortization margin(1)	21.6%	27.4%		
Operating profit(1)	\$ 253	\$ 518	\$ (265)	(51.2)%
Operating profit margin(1)	4.7%	10.2%		
Other data:				
ARPU(2)	\$ 49.02	\$ 51.68	\$ (2.66)	(5.1)%
Average monthly total subscriber churn %(2)	2.42%	2.43%		(0.4)%
Average monthly post-paid subscriber churn %(2)	1.94%	2.18%		(11.0)%
Total number of subscribers (in thousands)(2)(3)	12,353	11,337	1,016	9.0%
Gross subscriber additions (in thousands)(3)(4)	3,415	3,393	22	0.6%
Net subscriber additions (in thousands)(2)(3)(4)	785	1,008	(223)	(22.1)%
Capital expenditures:				
Property and equipment	\$ 195	\$ 142	\$ 53	37.3%
Subscriber leased equipment subscriber acquisitions	497	675	(178)	(26.4)%
Subscriber leased equipment upgrade and retention	277	326	(49)	(15.0)%
Satellites	120	112	8	7.1%
 Total capital expenditures	 \$ 1,089	 \$ 1,255	 \$ (166)	 (13.2)%

(1) Amounts include the impact of the Venezuelan devaluation charge of \$281 million recorded in the first quarter of 2014 and \$166 million recorded in the first quarter of 2013, as well as the ongoing impact of foreign currency exchange fluctuations.

(2) Based on the results of an internal investigation, we determined that, beginning in 2012, certain employees of Sky Brasil directed activities which were inconsistent with Sky Brasil's authorized policies for subscriber retention and churn management. These activities had the effect of artificially reducing churn and increasing the Sky Brasil subscriber base during portions of 2013. As a result, subscribers who would have previously ceased receiving Sky Brasil service were terminated as subscribers pursuant to Sky Brasil's authorized policies. We estimate that as of March 31, 2013, our subscriber count would have been approximately 200,000 lower than the number of subscribers previously reported if the identified improper actions had not been taken. See the Current Report on Form 8-K filed with the SEC on June 27, 2013 for further details.

(3)

Edgar Filing: DIRECTV - Form 10-Q

DIRECTV Latin America subscriber data excludes subscribers on the Sky Mexico platform.

(4)

Gross and net subscriber additions exclude 1,000 subscribers acquired in transactions in Brazil during during the first quarter of 2013.

Table of Contents**DIRECTV***Sky Brasil Results of Operations*

The following table provides operating results and a summary of key subscriber data for the consolidated Sky Brasil operations:

	Nine Months Ended and As of September 30,		Change	
	2014	2013	\$	%
(Dollars in Millions, Except Per Subscriber Amounts)				
Revenues	\$ 2,964	\$ 2,790	\$ 174	6.2%
Operating profit before depreciation and amortization	907	926	(19)	(2.1)%
Operating profit before depreciation and amortization margin	30.6%	33.2%		
Operating profit	\$ 380	\$ 379	\$ 1	0.3%
Operating profit margin	12.8%	13.6%		
Other Data:				
ARPU	\$ 59.57	\$ 59.90	\$ (0.33)	(0.6)%
Total number of subscribers (in thousands)(1)	5,644	5,255	389	7.4%
Total capital expenditures	\$ 644	\$ 692	\$ (48)	(6.9)%

(1)

See Note (2) on the table showing consolidated DIRECTV Latin America results of operations above.

Subscribers. In the nine months ended September 30, 2014, net subscriber additions increased primarily due to higher gross subscriber additions as well as lower total average monthly churn. The increase in gross subscriber additions was driven by higher demand for FIFA World Cup and advanced products. Total average monthly churn decreased primarily due to the improper crediting of certain subscriber accounts and associated corrective actions in 2013 described above.

Revenues. Revenues increased in the nine months ended September 30, 2014, primarily due to subscriber growth, partially offset by a decrease in ARPU. The decrease in ARPU was primarily due to unfavorable exchange rates, partially offset by higher ARPU in local currency terms, which resulted from a reduction in promotional offers to subscribers and an increase in subscribers with advanced services.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization and operating profit before depreciation and amortization margin decreased in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 as the higher revenues were more that offset by higher broadcast programming and other costs mainly due to the settlement of the ECAD dispute in the third quarter of 2013.

Operating profit. Operating profit increased slightly in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 as the decrease in operating profit before depreciation and amortization was more than offset by a decrease in depreciation and amortization expense.

Operating profit margin decreased in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 due to the decrease in operating profit before depreciation and amortization margin, partially offset by a decrease in depreciation and amortization expense in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, as discussed above.

Table of Contents**DIRECTV***PanAmericana and Other Results of Operations*

The following table provides operating results and a summary of key subscriber data for the consolidated PanAmericana and Other operations:

	Nine Months Ended and As of September 30,		Change	
	2014	2013	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 2,366	\$ 2,286	\$ 80	3.5%
Operating profit before depreciation and amortization(1)	243	467	(224)	(48.0)%
Operating profit before depreciation and amortization margin(1)	10.3%	20.4%		
Operating profit (loss)(1)	\$ (127)	\$ 139	\$ (266)	(191.4)%
Operating profit margin(1)	NM*	6.1%		
Other Data:				
ARPU	\$ 40.12	\$ 44.27	\$ (4.15)	(9.4)%
Total number of subscribers (in thousands)	6,709	6,082	627	10.3%
Total capital expenditures	\$ 445	\$ 563	\$ (118)	(21.0)%

*
Not meaningful

(1) Amounts include the impact of the Venezuelan devaluation charge of \$281 million recorded in the first quarter of 2014 and \$166 million recorded in the first quarter of 2013, as well as the ongoing impact of foreign currency exchange fluctuations.

Subscribers. In the nine months ended September 30, 2014, net subscriber additions decreased due to higher total average monthly subscriber churn and lower gross subscriber additions. Gross subscriber additions decreased primarily from certain limitations on importing set-top receivers for new subscribers in Venezuela. Total average monthly churn increased primarily due to lower prepaid subscriber reconnections following the end of the FIFA World Cup.

Revenues. Revenues increased in the nine months ended September 30, 2014 primarily due to subscriber growth partially offset by a decrease in ARPU. The decrease in ARPU was primarily due to unfavorable exchange rates, primarily in Venezuela and Argentina, partially offset by price increases and an increase in subscribers with advanced services.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization and operating profit before depreciation and amortization margin decreased in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily in Venezuela as a result of the \$346 million devaluation charge, of which \$281 million was recorded in "Venezuelan currency devaluation charge" and \$65 million was recorded in "General and administrative expenses" in the Consolidated Statements of Operations related to the remeasurement of Venezuelan bolivar denominated net monetary assets during the nine months ended September 30, 2014 as compared to the \$166 million charge recorded in "Venezuelan devaluation charge" in the Consolidated Statements of Operations during the nine months ended September 30, 2013. Also contributing to the decrease were unfavorable exchange rates in Argentina, as well as higher broadcast programming costs associated with special events, including the FIFA World Cup.

Table of Contents**DIRECTV**

Operating profit. Operating profit and operating profit margin decreased in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 due to the decrease in operating profit before depreciation and amortization and operating profit before depreciation and amortization margin, as well as an increase in depreciation and amortization expense due to subscriber leased equipment and infrastructure costs capitalized over the last year.

DIRECTV Other Income and Income Taxes

Interest income. Interest income was \$43 million in the nine months ended September 30, 2014 and \$56 million in the nine months ended September 30, 2013.

Interest expense. The increase in interest expense to \$677 million in the nine months ended September 30, 2014 from \$618 million in the nine months ended September 30, 2013 was primarily a result of a higher average debt balance.

Other, net. The significant components of "Other, net" were as follows:

	Nine Months Ended September 30,		Change
	2014	2013	\$
	(Dollars in Millions)		
Equity in earnings from unconsolidated affiliates	\$ 99	\$ 86	\$ 13
Net gains from sale of investments	25	8	17
Loss on early extinguishment of debt	(19)		(19)
Net foreign currency transaction loss	(8)	(42)	34
Fair-value gain (loss) on non-employee stock options	3	(2)	5
DSN Northwest deconsolidation charge		(59)	59
ECAD settlement gain		21	(21)
Other	(7)	(6)	(1)
Total	\$ 93	\$ 6	\$ 87

Income Tax Expense. We recognized income tax expense of \$1,338 million for the nine months ended September 30, 2014 compared to \$1,192 million for the nine months ended September 30, 2013. The effective tax rate for the nine months ended September 30, 2014 was 40.2% compared to 36.6% for the nine months ended September 30, 2013, primarily due to the unfavorable tax impact of the larger Venezuelan currency devaluation in 2014, and the benefits recorded for the settlement with state taxing authorities and the expiration of the statute of limitations in 2013.

Earnings Per Share

Earnings per share and weighted average shares outstanding were as follows:

	Nine Months Ended September 30,	
	2014	2013
	(Shares in Millions)	
Basic earnings attributable to DIRECTV per common share	\$ 3.92	\$ 3.68
Diluted earnings attributable to DIRECTV per common share	\$ 3.88	\$ 3.65
Weighted average number of common shares outstanding:		
Basic	505	557
Diluted	510	562

Table of Contents

DIRECTV

The increases in basic and diluted earnings per share were due to a reduction in weighted average shares outstanding resulting from our share repurchase program, partially offset by lower net income attributable to DIRECTV.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are our cash, cash equivalents and the cash flow that we generate from our operations. We expect that net cash provided by operating activities will grow and believe that our existing cash balances and cash provided by operations will be sufficient to fund our existing business plan. DIRECTV U.S. has the ability to borrow up to \$2.5 billion under its revolving credit facilities. As of September 30, 2014, there were no borrowings outstanding under the revolving credit facilities. DIRECTV U.S. also has a commercial paper program backed by its revolving credit facilities. As of September 30, 2014, we had \$129 million of short-term commercial paper outstanding. Aggregate amounts outstanding under the revolving credit facilities and the commercial paper program are limited to \$2.5 billion.

In March 2013, Sky Brasil entered into a Brazilian Real denominated financing facility with Banco Nacional de Desenvolvimento Econômico e Social, or BNDES, a government owned bank in Brazil, under which Sky Brasil may borrow funds for the purchase of set-top receivers. As of September 30, 2014, Sky Brasil had borrowings of R\$573 million (\$234 million) outstanding under the BNDES facility.

In the second quarter of 2014, Sky Brasil entered into a Brazilian Real denominated financing facility with Desenvolve SP, an agency created by Sao Paulo State Government for economic development, under which Sky Brasil may borrow funds for the construction of a satellite and broadcast facility. As of September 30, 2014, Sky Brasil had borrowings of R\$48 million (\$20 million) under the facility.

As of September 30, 2014, our cash and cash equivalents totaled \$2,898 million compared to \$2,180 million at December 31, 2013. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.01 at September 30, 2014 and 0.91 at December 31, 2013.

Cash Flows Provided by Operating Activities

Net cash flows provided by operating activities increased to \$4,726 million for the nine months ended September 30, 2014 from \$4,355 million for the nine months ended September 30, 2013. The increase is primarily a result of an increase in operating profit before depreciation and amortization expense and changes in working capital.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities decreased to \$2,384 million for the nine months ended September 30, 2014 from \$2,812 million for the nine months ended September 30, 2013. The decrease resulted primarily from lower capital expenditures for subscriber leased set-top receivers at DIRECTV U.S. and DIRECTV Latin America and a decrease in capital expenditures for satellites, as well as a decrease in the acquisition of spectrum licenses at DIRECTV Latin America and patent licenses at DIRECTV U.S. In addition, proceeds from the sale of investments decreased due to the partial sale of our equity method investment in GSN, for which we received proceeds in April 2013.

Cash Flows Used in Financing Activities

Net cash flows used in financing activities decreased to \$1,241 million for the nine months ended September 30, 2014 from \$1,636 million for the nine months ended September 30, 2013. The decrease is primarily due to a reduction in common shares repurchased and retired, partially offset by the repayment of our 4.750% senior notes due in 2014.

Table of Contents

DIRECTV

Share Repurchase Program

Since 2006 our Board of Directors has approved multiple authorizations for the repurchase of our common stock. In February 2014 our Board of Directors approved a new authorization for up to \$3.5 billion for repurchases of our common stock. On May 18, 2014, DIRECTV and AT&T entered into a definitive agreement under which AT&T will combine with DIRECTV in a stock-and-cash transaction. As a result, we have suspended the share repurchase program and agreed to not purchase, repurchase, redeem or otherwise acquire any shares of our capital stock during the pendency of the proposed transaction with and without AT&T's consent. During the nine months ended September 30, 2014, we repurchased and retired 19 million common shares for \$1,386 million, at an average price of \$73.82.

Debt

At September 30, 2014, we had \$19,750 million in total outstanding borrowings, which consisted of senior notes and commercial paper issued by DIRECTV U.S. and borrowings under the BNDES and Desenvolve SP financing facilities at Sky Brasil. Our outstanding borrowings are 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 10 of the Notes to the Consolidated Financial Statements in Item 8, Part II of our 2013 Form 10-K/A.

We anticipate additional borrowings in the future in order to maintain a ratio of outstanding long-term debt equal to approximately 2.5 times operating profit before depreciation and amortization of DIRECTV on a consolidated basis. We will continue to evaluate our optimal leverage on an ongoing basis. We may purchase our outstanding senior notes in the future from time to time in open market transactions or otherwise as part of liability management initiatives.

Senior Notes. On March 20, 2014, DIRECTV U.S. exercised its early redemption right under the indenture of the 4.750% senior notes due in 2014, or the 2014 Notes, effective April 24, 2014. The redemption price was based on the remaining scheduled payments of principal and interest using a discount rate equal to the Treasury Rate (as defined in the indenture governing the 2014 Notes) plus 40 basis points, together with accrued and unpaid interest as of April 24, 2014. The aggregate principal amount of the 2014 Notes outstanding on March 20, 2014 was \$1,000 million and we made a cash payment of \$1,022 million to redeem such Notes.

During the second quarter of 2014, DIRECTV U.S. entered into interest rate swap contracts with a total notional amount of \$3,000 million, converting a portion of the total aggregate principal amounts of the 5.000% senior notes due in 2021, the 3.800% senior notes due in 2022 and the 4.450% senior notes due in 2024 from a fixed to floating interest rate in order to manage our interest rate exposure by adjusting our mix of fixed rate and floating rate debt.

During the third quarter of 2014, DIRECTV U.S. terminated \$1,000 million notional amount of fixed-to-floating interest rate swap contracts for each of the fixed-to-floating interest rate swap contracts for the 5.000% senior notes due in 2021 and the 3.800% senior notes due in 2022 and received cash proceeds in the aggregate of \$20 million, which included \$7 million of interest receivable from the swap counterparties. As of the date of termination, there was an increase in the carrying value of the 5.000% senior notes due in 2021 and the 3.800% senior notes due in 2022 of \$14 million, which will be amortized to "Interest expense" in the Consolidated Statements of Operations over the remaining term of the senior notes. In connection with the termination of the fixed-to-floating interest rate swap contracts, we recognized a \$3 million loss in "Other, net" in the Consolidated Statements of Operations. The cash proceeds received upon termination of the fixed-to-floating interest rate swap contracts are included in "Net cash provided by operations" in the Consolidated Statements of Cash

Table of Contents

DIRECTV

Flows. Subsequently, DIRECTV U.S. entered into new fixed-to-floating interest rate swap contracts for \$1,000 million notional for each of the 5.00% senior notes due in 2021 and the 3.800% senior notes due in 2022. The total notional amount of these interest rate swaps was \$3,000 million as of September 30, 2014. These interest rate swaps are designated and qualify as fair value hedges. The terms of the interest rate swap contracts correspond to the related hedged senior notes and have maturities ranging from March 2021 to April 2024.

At September 30, 2014, DIRECTV U.S.' senior notes had a carrying value of \$19,367 million and a weighted-average coupon of 4.49%. The principal amount of our senior notes mature as follows: \$1,200 million in 2015, \$2,250 million in 2016, \$1,250 million in 2017, \$750 million in 2018 and \$13,965 million in 2019 and thereafter.

Included in the amounts above are DIRECTV U.S.' €500 million in aggregate principal of 2.750% senior notes due in 2023, £750 million in aggregate principal of 4.375% senior notes due in 2029, and £350 million in aggregate principal of 5.200% senior notes due in 2033. In connection with the issuance of these senior notes, DIRECTV U.S. entered into cross-currency swap agreements to manage the related foreign exchange risk by effectively converting all of the fixed-rate British pound sterling and fixed-rate euro denominated debt, including annual interest payments and the payment of principal at maturity, to fixed-rate U.S. dollar denominated debt. These cross-currency swaps are designated and qualify as cash flow hedges. The terms of the cross-currency swap agreements correspond to the related hedged senior notes and have maturities ranging from May 2023 to November 2033.

All of our senior notes were issued by DIRECTV Holdings LLC and DIRECTV Financing Co., Inc., or the Co-Issuers, and have been registered under the Securities Act of 1933, as amended.

Commercial Paper. On November 27, 2012, DIRECTV U.S. established a commercial paper program backed by its revolving credit facilities, which provides for the issuance of short-term commercial paper in the United States up to a maximum aggregate principal of \$2.5 billion. As of September 30, 2014, we had \$129 million of short-term commercial paper outstanding, with a weighted average maturity of 43 days, at a weighted average yield of 0.42%, which may be refinanced on a periodic basis as borrowings mature.

Revolving Credit Facilities

DIRECTV U.S. has a \$1.0 billion revolving credit facility, which expires in February 2016, and a \$1.5 billion revolving credit facility, which expires in September 2017. We pay a commitment fee of 0.15% per year for the unused commitment under the revolving credit facilities. Borrowings currently bear interest at a rate equal to the London Interbank Offer Rate (LIBOR) plus 1.25%. Both the commitment fee and the annual interest rate may increase or decrease under certain conditions due to changes in DIRECTV U.S.' long-term, unsecured debt ratings. Under certain conditions, DIRECTV U.S. may increase the borrowing capacity of the revolving credit facilities by an aggregate amount of up to \$500 million. Aggregate amounts outstanding under the revolving credit facilities and the commercial paper program are limited to \$2.5 billion. As of September 30, 2014, there were no borrowings outstanding under the revolving credit facilities.

Borrowings under the revolving credit facilities are unsecured senior obligations of DIRECTV U.S. and will rank equally in right of payment with all of DIRECTV U.S.' existing and future senior debt and will rank senior in right of payment to all of DIRECTV U.S.' future subordinated debt, if any.

Table of Contents

DIRECTV

Covenants and Restrictions

The revolving credit facilities require DIRECTV U.S. to maintain at the end of each fiscal quarter a specified ratio of indebtedness to earnings before interest, taxes and depreciation and amortization. The revolving credit facilities also include covenants that limit DIRECTV U.S.' ability to, among other things, (i) incur additional subsidiary indebtedness, (ii) incur liens, (iii) enter into certain transactions with affiliates, (iv) merge or consolidate with another entity, (v) sell, assign, lease or otherwise dispose of all or substantially all of its assets, and (vi) change its lines of business. Additionally, the senior notes contain restrictive covenants that are similar. If DIRECTV U.S. fails to comply with these covenants, all or a portion of its borrowings under the senior notes could become immediately payable and its revolving credit facilities could be terminated. At September 30, 2014, management believes DIRECTV U.S. was in compliance with all such covenants. The senior notes provide that the borrowings may be required to be prepaid if certain change-in-control events, coupled with a ratings decline, occur. The revolving credit facilities provide that the borrowings may be required to be prepaid if certain change-in-control events occur.

DIRECTV Guarantors. DIRECTV guarantees all of the senior notes then outstanding, jointly and severally with DIRECTV Holdings LLC's material domestic subsidiaries. DIRECTV unconditionally guarantees that the principal and interest on the respective senior notes will be paid in full when due and that the obligations of the Co-Issuers to the holders of the outstanding senior notes will be performed. The revolving credit facilities and the commercial paper program are also similarly fully guaranteed by DIRECTV.

As a result of the guarantees, holders of the senior notes, the revolving credit debt and the commercial paper have the benefit of DIRECTV's interests in the assets and related earnings of our operations that are not held through DIRECTV Holdings LLC and its subsidiaries. Those operations are primarily our DTH digital television services throughout Latin America which are held by DIRECTV Latin America and our regional sports networks which are held by DSN. However, the subsidiaries that own and operate the DIRECTV Latin America business and the regional sports networks have not guaranteed the senior notes, the revolving credit facilities and the commercial paper program.

The guarantees are unsecured senior obligations of DIRECTV and rank equally in right of payment with all of DIRECTV's existing and future senior debt and rank senior in right of payment to all of DIRECTV's future subordinated debt, if any. The guarantees are effectively subordinated to all existing and future secured obligations, if any, of DIRECTV to the extent of the value of the assets securing the obligations. DIRECTV is not subject to the covenants contained in each indenture of the senior notes and our guarantees will terminate and be released on the terms set forth in each of the indentures.

BNDES Financing Facility

In March 2013, Sky Brasil entered into a Brazilian Real denominated financing facility with BNDES, a government owned bank in Brazil, under which Sky Brasil may borrow funds for the purchase of set-top receivers. As of September 30, 2014, Sky Brasil had borrowings of R\$573 million (\$234 million) outstanding under the BNDES facility bearing interest at a weighted-average rate of 4.75% per year. Borrowings under the facility are required to be repaid in 30 monthly installments. The U.S. dollar amounts reflect the conversion of the Brazilian Real denominated amounts into U.S. dollars based on the exchange rate of R\$2.45 / \$1.00 at September 30, 2014.

Borrowings under the BNDES facility mature as follows: R\$56 million (\$23 million) in 2014, R\$277 million (\$113 million) in 2015, R\$196 million (\$80 million) in 2016 and R\$44 million (\$18 million) in 2017. The financing facility is collateralized by the financed set-top receivers with an

Table of Contents

DIRECTV

original purchase price of approximately R\$800 million (\$326 million) based on the exchange rate of R\$2.45 / \$1.00 as of September 30, 2014.

Desenvolve SP Financing Facility

In the second quarter of 2014, Sky Brasil entered into a Brazilian Real denominated financing facility with Desenvolve SP, an agency created by the Sao Paulo State Government for economic development, under which Sky Brasil may borrow funds for the construction of a satellite and broadcast facility. Each borrowing under the facility, including accrued interest, will be repaid in a single installment five years from the date of such borrowing. The financing facility is secured by a third party bank guarantee. As of September 30, 2014, Sky Brasil had borrowings of R\$48 million (\$20 million) under the facility bearing interest of 2.5% per year, with a maturity of 2019. The U.S. dollar amounts reflect the conversion of the Brazilian Real denominated amounts into U.S. dollars based on the exchange rate of R\$2.45 / \$1.00 at September 30, 2014.

Contingencies

Venezuela Devaluation and Foreign Currency Exchange Controls. Companies operating in Venezuela are required to obtain Venezuelan government approval to exchange Venezuelan bolivars into U.S. dollars and such approval has not consistently been granted for several years. Consequently, our ability to pay U.S. dollar denominated obligations and repatriate cash generated in Venezuela in excess of local operating requirements is limited, which has resulted in increases in the cash balance at our Venezuelan subsidiary. In February 2013, the Venezuelan government announced a devaluation of the Venezuelan bolivar from the official exchange rate of 4.3 Venezuelan bolivars per U.S. dollar to an official rate of 6.3 Venezuelan bolivars per U.S. dollar. As a result of the devaluation, we recorded a pre-tax charge in "Venezuelan currency devaluation charge" in the Consolidated Statements of Operations of \$166 million (\$136 million after tax) in the first quarter of 2013, related to the remeasurement of the bolivar denominated net monetary assets of our Venezuelan subsidiary as of the date of the devaluation.

In the first quarter of 2013, the Venezuelan government announced a new currency exchange system, the Sistema Complementario de Administración de Divisas, or SICAD 1, which is intended to function as an auction system for participants to exchange Venezuelan bolivars for U.S. dollars. The volume of amounts exchanged through such SICAD 1 system and the resulting exchange rate are published by the Venezuelan Central Bank. Effective January 24, 2014, the Venezuelan government announced that dividends and royalties would be subject to the SICAD 1 program. The SICAD 1 exchange rate, which was 12 Venezuelan bolivars per U.S. dollar as of September 30, 2014, is determined by periodic auctions. Additionally, in February 2014, the Venezuelan government announced SICAD 2, which is an exchange mechanism that became available on March 24, 2014. The exchange rate for SICAD 2 was 49.99 Venezuelan bolivars per U.S. dollar as of September 30, 2014.

We currently believe the SICAD 1 rate is the most representative rate to use for remeasurement, as the official rate of 6.3 Venezuelan bolivars per U.S. dollar will likely be reserved only for the settlement of U.S. dollar denominated obligations related to purchases of "essential goods and services," and the equity of our Venezuelan subsidiary would be realized, if at all, through permitted dividends paid at the SICAD 1 rate. Therefore, as of September 30, 2014, we are continuing to remeasure our Venezuelan subsidiary's financial statements in U.S. dollars using the exchange rate determined by periodic auctions under SICAD 1, which was 12.0 Venezuelan bolivars per U.S. dollar. Prior to March 31, 2014, we used the official exchange rate of 6.3 Venezuelan bolivars per U.S. dollar. As a result of the devaluation, we recorded a pre-tax charge in "Venezuelan currency devaluation charge" in the Consolidated Statements of Operations of \$281 million in the first quarter of 2014,

Table of Contents

DIRECTV

- (b) Purchase obligations consist primarily of broadcast programming commitments, regional professional team rights agreements, service contract commitments and satellite construction and launch contracts. Broadcast programming commitments include guaranteed minimum contractual commitments that are typically based on a flat fee or 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 variable escalation clauses and renewal or purchase options, which we do not consider in the amounts disclosed.
- (d) Capital lease obligations include prepayments related to a satellite lease contract which we expect to account for as a capital lease upon commencement.

CONTINGENCIES

For a discussion of "Contingencies," see Part I, Item 1, and Note 7 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 8 of the Notes to the Consolidated Financial Statements of this Quarterly Report, which we incorporate herein by reference.

CRITICAL ACCOUNTING ESTIMATES

For a discussion of our "Critical Accounting Estimates," see Item 7. Critical Accounting Estimates in Part II of our Annual Report on Form 10-K/A for the year ended December 31, 2013.

* * *

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the nine months ended September 30, 2014. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Part II of our Annual Report on Form 10-K/A for the year ended December 31, 2013.

* * *

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 September 30, 2014.

Table of Contents

DIRECTV

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 September 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

* * *

Table of Contents

DIRECTV

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 September 30, 2014 or subsequent thereto, but before the filing of the report, are summarized below:

DIRECTV Shareholder Litigation Proposed DIRECTV and AT&T Merger. As previously reported, beginning on May 21, 2014, and following the May 18, 2014 announcement that DIRECTV had entered into a definitive agreement to combine with AT&T Inc., several shareholder putative class action lawsuits were filed, six in Delaware Chancery Court, or the Delaware Actions, and one in California Superior Court, or the California Action, against DIRECTV, its directors and AT&T Inc., alleging breach of fiduciary duties in connection with the proposed transaction. The complaints generally and collectively asserted that defendants failed to maximize the value of DIRECTV, and sought to enjoin the proposed transaction as well as unspecified damages, costs and fees. An Order consolidating the Delaware Actions and appointing Lead Plaintiff and Lead Counsel was entered on July 21, 2014 and discovery in the Delaware Actions was stayed pending the filing of a Consolidated Complaint. Subsequently, Lead Counsel in the Delaware Actions filed a motion to voluntarily dismiss the Delaware Actions against all defendants and that motion was granted by order entered by the Chancery Court on October 28, 2014. The California Action has been stayed (including discovery) by stipulation dated September 30, 2014 subject to the court's order approving the stipulation and remains pending at this time.

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. Further, in certain of these cases, suppliers of equipment to DIRECTV are also defendants, and DIRECTV has contractual obligations to indemnify and hold harmless those suppliers in those cases. 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. We have determined the likelihood of a material liability in such matters is remote or have made appropriate accruals and the final disposition of these claims is not expected to have a material effect on our consolidated financial position. However, if an adverse ruling is made in a lawsuit involving key intellectual property, such ruling 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.

State and Federal Inquiries. From time to time, we receive investigative inquiries or subpoenas from state and federal authorities with respect to alleged violations of state and federal statutes. These inquiries may lead to legal proceedings in some cases. As reported previously, DIRECTV U.S. received a request for information from the Federal Trade Commission, or FTC, on issues similar to those resolved in 2011 with a multistate group of state attorneys general. We have been cooperating with the FTC by providing information about our sales and marketing practices and customer complaints and have engaged in ongoing negotiations with FTC staff concerning these issues. The FTC staff has advised that they will refer this matter to the Commissioners to obtain authority to file suit if we are unable to agree upon a resolution of these issues.

Table of Contents

DIRECTV

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) The following previously reported legal proceeding was terminated during the third quarter ended September 30, 2014:

Federal Lawsuit Companion Case to International Trade Commission Proceedings. As previously reported, on April 17, 2014, ViXS Systems, Inc., or ViXS, submitted to the International Trade Commission, or ITC, a request to commence an investigation alleging that certain patents owned by ViXS are infringed by components supplied by Entropic Communications, Inc., or Entropic, or by devices that contain those components, including set-top boxes and other devices used in the DIRECTV service. DIRECTV, among others, was identified as a respondent. The request sought an order excluding the accused devices from entry into the United States. Also on April 17, 2014, ViXS filed in United States District Court a companion lawsuit alleging infringement of the same patents by the same products and sought an injunction and monetary damages. ViXS and Entropic have since finalized a settlement agreement, as a result of which the District Court action against DIRECTV was dismissed with prejudice on September 15, 2014, and the ITC investigation was terminated on October 30, 2014.

* * *

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K/A for the year ended December 31, 2013 have not materially changed. See Part I Item 2 of this Quarterly Report related to "forward-looking statements" which we incorporate by reference.

* * *

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchase Program

Since 2006 our Board of Directors has approved multiple authorizations for the repurchase of our common stock. In February 2014 our Board of Directors approved a new authorization for up to \$3.5 billion for repurchases of our common stock. On May 18, 2014, DIRECTV and AT&T entered into a definitive agreement under which DIRECTV will combine with AT&T in a stock-and-cash transaction and we have suspended the share repurchase program and agreed to not purchase, repurchase, redeem or otherwise acquire any shares of our capital stock without AT&T's consent.

During the three months ended September 30, 2014 there were no share repurchases.

* * *

Table of Contents

DIRECTV

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Name
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

*
Furnished, not filed.

* * *

Table of Contents

DIRECTV

EXHIBIT INDEX

Exhibit Number	Exhibit Name
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

*

Furnished, not filed.
