DIRECTV
Form 10-Q
May 08, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

o **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 ý No o

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 ý No o

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

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

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

As of May 1, 2015, the registrant had outstanding 504,062,549 shares of common stock.

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PART I FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(Dollars in Millions, Except Per Share Amounts)	
Revenues	$ 8,143	$ 7,855
Operating costs and expenses		
Costs of revenues, exclusive of depreciation and amortization expense		
Broadcast programming and other	3,576	3,383
Subscriber service expenses	581	551
Broadcast operations expenses	117	97
Selling, general and administrative expenses, exclusive of depreciation and amortization expense		
Subscriber acquisition costs	888	827
Upgrade and retention costs	350	321
General and administrative expenses	514	454
Venezuelan currency devaluation charge		281
Depreciation and amortization expense	730	714
Total operating costs and expenses	6,756	6,628
Operating profit	1,387	1,227
Interest income	22	13
Interest expense	(245)	(232)
Other, net	7	57
Income before income taxes	1,171	1,065
Income tax expense	(441)	(496)
Net income	730	569
Less: Net income attributable to noncontrolling interest		(8)
Net income attributable to DIRECTV	$ 730	$ 561
Basic earnings attributable to DIRECTV per common share	$ 1.45	$ 1.10
Diluted earnings attributable to DIRECTV per common share	$ 1.44	$ 1.09
Weighted average number of common shares outstanding (in millions):		
Basic	503	511
Diluted	507	515

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
	2015	**2014**
	(Dollars in Millions)	
Net income	$ 730	$ 569
Other comprehensive income (loss), net of taxes:		
Cash flows hedges:		
Unrealized losses arising during the period	(121)	(7)
Reclassification adjustments included in net income	94	(8)
Foreign currency translation adjustments	(132)	39
Other comprehensive income (loss)	(159)	24
Comprehensive income	571	593
Comprehensive (income) loss attributable to noncontrolling interest	18	(11)
Comprehensive income attributable to DIRECTV	$ 589	$ 582

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

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CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2015	December 31, 2014
	(Dollars in Millions, Except Share Data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,284	$ 4,635
Accounts receivable, net of allowances of $92 and $109	2,635	2,800
Inventories	334	299
Deferred income taxes	71	68
Prepaid expenses and other	722	1,017
Total current assets	8,046	8,819
Satellites, net	3,045	3,040
Property and equipment, net	6,455	6,721
Goodwill	3,877	3,929
Intangible assets, net	954	994
Investments and other assets	1,924	1,956
Total assets	$ 24,301	$ 25,459
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,639	$ 5,048
Unearned subscriber revenues and deferred credits	570	584
Current debt	2,355	1,327
Total current liabilities	7,564	6,959
Long-term debt	17,058	19,485
Deferred income taxes	1,606	1,726
Other liabilities and deferred credits	2,353	2,117
Commitments and contingencies		
Stockholders' deficit		
Common stock and additional paid-in capital $0.01 par value, 3,950,000,000 shares authorized, 503,981,177 and 502,733,342 shares issued and outstanding of common stock at March 31, 2015 and December 31, 2014, respectively	3,608	3,613
Accumulated deficit	(7,678)	(8,408)
Accumulated other comprehensive loss	(577)	(418)
Total DIRECTV stockholders' deficit	(4,647)	(5,213)
Noncontrolling interest	367	385
Total stockholders' deficit	(4,280)	(4,828)
Total liabilities and stockholders' deficit	$ 24,301	$ 25,459

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Dollars in Millions)	
Cash Flows From Operating Activities		
Net income	$ 730	$ 569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	730	714
Venezuelan currency devaluation charge		281
Amortization of deferred revenues and deferred credits	(11)	(12)
Share-based compensation expense	27	20
Equity in earnings from unconsolidated affiliates	(33)	(44)
Net foreign currency transaction loss (gain)	31	(6)
Dividends received	7	
Net gains from sale of investments		(2)
Deferred income taxes	44	84
Excess tax benefit from share-based compensation	(31)	(22)
Other	6	15
Change in other operating assets and liabilities:		
Accounts receivable	151	98
Inventories	(37)	(36)
Prepaid expenses and other	293	303
Accounts payable and accrued liabilities	(358)	(397)
Unearned subscriber revenue and deferred credits	3	43
Other, net	84	(18)
Net cash provided by operating activities	1,636	1,590
Cash Flows From Investing Activities		
Cash paid for property and equipment	(613)	(650)
Cash paid for satellites	(96)	(54)
Investment in companies, net of cash acquired	(10)	(4)
Proceeds from sale of investments		4
Other, net	3	(3)
Net cash used in investing activities	(716)	(707)
Cash Flows From Financing Activities		
Issuance of commercial paper (maturity 90 days or less), net		105
Proceeds from short-term borrowings		90
Repayment of short-term borrowings		(200)
Proceeds from long-term debt	17	1,260
Debt issuance costs		(6)
Repayment of long-term debt	(1,226)	(11)
Repayment of other long-term obligations	(29)	(15)
Common shares repurchased and retired		(895)
Taxes paid in lieu of shares issued for share-based compensation	(64)	(57)
Excess tax benefit from share-based compensation	31	22
Other, net		(26)
Net cash provided by (used in) in financing activities	(1,271)	267

Effect of exchange rate changes on Venezuelan cash and cash equivalents		(316)
Net increase (decrease) in cash and cash equivalents	(351)	834
Cash and cash equivalents at beginning of the period	4,635	2,180
Cash and cash equivalents at end of the period	$ 4,284	$ 3,014
Supplemental Cash Flow Information		
Cash paid for interest	$ 318	$ 328
Cash paid for income taxes	49	84

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

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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, and also own non-controlling interests in two others, ROOT SPORTS Northwest and ROOT SPORTS Southwest. We 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 investment in ROOT SPORTS Northwest, ROOT SPORTS Southwest 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 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 two regional sports networks based in Seattle, Washington and Houston, Texas in which DSN retains a noncontrolling interest, each of which operates under the brand name ROOT SPORTS. In the fourth quarter of 2014, we acquired a noncontrolling interest in Houston Sports Holdings, LLC, or HSH, the regional sports network based in Houston, Texas. 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 for the year ended December 31, 2014 filed with the SEC on February 24, 2015, and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report.

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 assumptions on historical experience and on various other factors that we believe to be reasonable

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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 the AT&T stock price is below $34.90 at closing and 1.724 AT&T shares if the AT&T stock price is above $38.58 at closing. If the 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. In all cases the AT&T stock price at closing is 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 Mexican antitrust authorities. The transaction is expected to close in the second quarter 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.

Note 2: New Accounting Standards

Debt Issuance Costs. In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and is effective for fiscal periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this ASU will not have a material impact on our financial statements.

Revenue Recognition. In May 2014, the FASB issued 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 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard will likely be effective for fiscal periods beginning after December 15, 2017 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: Goodwill

The following table sets forth changes in the carrying amounts of "Goodwill" in the Consolidated Balance Sheets by reportable segment for the three months ended March 31, 2015:

		DIRECTV Latin America			
	DIRECTV U.S.	Sky Brasil	PanAmericana and Other	Sports Networks, Eliminations and Other	Total
			(Dollars in Millions)		
Balance as of January 1, 2015	$ 3,191	$ 305	$ 211	$ 222	$ 3,929
Sky Brasil foreign currency translation adjustment		(52)			(52)
Balance as of March 31, 2015	$ 3,191	$ 253	$ 211	$ 222	$ 3,877

Note 4: Debt

The following table sets forth our outstanding debt as of:

	March 31, 2015	December 31, 2014
	(Dollars in Millions)	
Current debt		
Current portion of long-term debt	$ 2,249	$ 1,200
Current portion of borrowings under BNDES financing facility	106	127
Long-term debt		
Senior notes	16,936	19,327
Borrowings under BNDES financing facility	91	140
Borrowings under Desenvolve SP financing facility	31	18
Total debt	$ 19,413	$ 20,812

The amount of interest accrued related to our outstanding debt was $185 million at March 31, 2015 and $278 million at December 31, 2014.

Senior Notes

Three Months Ended March 31, 2015 Financing Transaction

In March 2015, DIRECTV U.S. repaid the 3.550% senior notes due in 2015, or the 2015 Notes, for the unpaid principal balance of $1,200 million, together with accrued and unpaid interest as of that date, as required by the indenture for the 2015 Notes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Three Months Ended March 31, 2014 Financing Transactions

In March 2014, DIRECTV U.S. issued, pursuant to a registration statement, $1,250 million in aggregate principal of 4.45% 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.

Also in March 2014, DIRECTV U.S. exercised its early redemption right under the indenture for 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 was $1,000 million and we made a cash payment of $1,022 million to redeem such Notes.

The following table sets forth our outstanding senior notes:

	Principal amount	Carrying value, net of unamortized original issue discounts	
	March 31, 2015	March 31, 2015	December 31, 2014
	(Dollars in Millions)		
3.550% senior notes due in 2015	$	$	$ 1,200
3.125% senior notes due in 2016	750	750	750
3.500% senior notes due in 2016	1,500	1,499	1,499
2.400% senior notes due in 2017	1,250	1,249	1,249
1.750% senior notes due in 2018	750	746	746
5.875% senior notes due in 2019	1,000	996	996
5.200% senior notes due in 2020	1,300	1,299	1,299
4.600% senior notes due in 2021	1,000	1,000	999
5.000% senior notes due in 2021(1)	1,500	1,508	1,506
3.800% senior notes due in 2022(1)	1,500	1,522	1,520
2.750% senior notes due in 2023(2)	537	534	602
4.450% senior notes due in 2024(1)	1,250	1,289	1,285
3.950% senior notes due in 2025	1,200	1,192	1,192
4.375% senior notes due in 2029(2)	1,111	1,101	1,157
5.200% senior notes due in 2033(2)	518	516	543
6.350% senior notes due in 2040	500	500	500
6.000% senior notes due in 2040	1,250	1,236	1,236
6.375% senior notes due in 2041	1,000	1,000	1,000
5.150% senior notes due in 2042	1,250	1,248	1,248
Total senior notes	$ 19,166	$ 19,185	$ 20,527

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(1) The carrying values as of March 31, 2015 and December 31, 2014 include the following fair value adjustments, respectively: increases of $12 million and $10 million for the 5.000% senior notes due in 2021, increases of $22 million and $20 million for the 3.800% senior notes due in 2022 and increases of $43 million and $39 million for the 4.450% senior notes due in 2024.

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(Unaudited)

(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 $21,077 million at March 31, 2015 and $22,044 million at December 31, 2014. 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.

The principal amount of our senior notes mature as follows: $2,250 million in 2016, $1,250 million in 2017, $750 million in 2018, $1,000 million in 2019, $1,300 million in 2020 and $12,616 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 March 31, 2015 and December 31, 2014 we had no short-term commercial paper outstanding. 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 March 31, 2015 and December 31, 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

portion of its borrowings under the senior notes could become immediately payable and its revolving credit facilities could be terminated. The senior notes and revolving credit facilities also provide that the borrowings may be required to be prepaid if certain change-in-control events, coupled with a ratings decline, 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 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 may 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 March 31, 2015, Sky Brasil had borrowings of R$98 million ($31 million) under the facility bearing interest of 2.5% per year. As of December 31, 2014, Sky Brasil had borrowings of R$48 million ($18 million) under the facility bearing interest of 2.5% per year. 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$3.21 / $1.00 and R$2.66 / $1.00 as of March 31, 2015 and December 31, 2014, respectively.

Borrowings under the Desenvolve SP facility mature as follows: R$48 million ($15 million) in 2019 and R$50 million ($16 million) in 2020.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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 March 31, 2015, Sky Brasil had borrowings of R$633 million ($197 million) outstanding under the BNDES facility bearing interest at a weighted-average rate of 5.22% per year. As of December 31, 2014, Sky Brasil had borrowings of R$710 million ($267 million) outstanding under the BNDES facility bearing interest at a weighted-average rate of 5.11% 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$3.21 / $1.00 and R$2.66 / $1.00 as of March 31, 2015 and December 31, 2014, respectively.

Borrowings under the BNDES facility mature as follows: R$260 million ($81 million) in 2015, R$273 million ($85 million) in 2016 and R$100 million ($31 million) in 2017. The financing facility is collateralized by the financed set-top receivers with an original purchase price of approximately R$1,022 million ($318 million) based on the exchange rate of R$3.21 / $1.00 as of March 31, 2015.

Restricted Cash

Restricted cash of $7 million as of March 31, 2015 and $10 million as of December 31, 2014 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 5: 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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

	Assets		Liabilities	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
	(Dollars in millions)			
Cash flow hedges:				
Cross-currency swap contracts	$	$ 8	$ 210	$ 24
Fair value hedges:				
Interest rate swap contracts		12		6
Total derivative financial instruments	$	$ 20	$ 210	$ 30

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.

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

	March 31, 2015	December 31, 2014
	(Dollars in millions)	
Cash flow hedges:		
Cross-currency swap contracts	$ 2,418	$ 2,418
Fair value hedges:		
Interest rate swaps		3,000
Total notional amount of derivative financial instruments	$ 2,418	$ 5,418

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 March 31, 2015 and December 31, 2014. We did not have any cash collateral posted with counterparties as of March 31, 2015 and December 31, 2014. 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

In a series of financing transactions, DIRECTV U.S. issued, pursuant to a U.S. registration statement, the following senior notes: £750 million in aggregate principal of 4.375% senior notes due in 2029, €500 million in aggregate principal of 2.750% senior notes due in 2023 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 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

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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 three months ended March 31, 2015, DIRECTV U.S. recorded net remeasurement gains of $151 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 $151 million ($94 million after tax) from "Accumulated other comprehensive loss" in the Consolidated Balance Sheets to "Other, net" in the Consolidated Statements of Operations. During the three months ended March 31, 2014, DIRECTV U.S. recorded net remeasurement losses of $13 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 $13 million ($8 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.

Interest Rate Lock Contracts

Periodically we enter into interest rate lock contracts such as forward starting swaps and treasury locks to hedge against changes in interest payments attributable to changes in the benchmark interest rate during the period leading up to a forecasted issuance of fixed rate debt. These interest rate locks are designated and qualify as cash flow hedges. 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 March 31, 2015, we had $8 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

DIRECTV U.S. may enter into fixed-to-floating interest rate swap contracts from time to time in order to manage its interest rate exposure. We designate such swaps as fair value hedges. Depending on market conditions, the mix of our fixed interest rate and floating interest rate debt and other factors, we may periodically discontinue these fair value hedges and terminate our fixed-to-floating interest rate swap contracts by settling the contracts or by entering into offsetting contracts.

During 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 January 2015, DIRECTV U.S. discontinued the fair value

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hedges and settled these fixed-to-floating interest rate swap contracts. As a result of these settlements, DIRECTV U.S. received cash proceeds of $18 million, which are included in "Net cash provided by operations" in the Consolidated Statements of Cash Flows.

As of March 31, 2015, there was $77 million of favorable adjustments to the carrying value of the senior notes, which will be amortized to "Interest expense" in the Consolidated Statements of Operations over the remaining term of the hedged senior notes. We calculated 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. In connection with the settlement of the fixed-to-floating interest rate swap contracts, we recognized a $2 million gain in "Other, net" in the Consolidated Statements of Operations for the quarter ended March 31, 2015. The periodic interest settlements for the interest rate swap contracts are recorded in "Interest expense" in the Consolidated Statements of Operations.

Note 6: Commitments and Contingencies

Commitments

At March 31, 2015, 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 $16,305 million, payable as follows: $1,744 million in the remainder of 2015, $2,140 million in 2016, $1,880 million in 2017, $1,760 million in 2018, $1,936 million in 2019 and $6,845 million thereafter.

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, and limited our ability to import set-top receivers and other equipment, limiting the growth of our business in Venezuela.

As of March 31, 2015, the mechanisms in Venezuela for exchanging Venezuelan bolivars into U.S. dollars were as follows: (i) the official government mechanism operated by the Venezuelan Central Bank, which has a fixed exchange rate of 6.3 Venezuelan bolivars per U.S. dollar mainly reserved for essential goods and services (ii) the auction based Sistema Complementario de Administración de Divisas, or SICAD, which is intended for dividend and royalty remittances as well as certain imports, including telecommunications equipment and (iii) an open market currency exchange system Sistema Marginal de Divisas, or SIMADI, which is based on supply and demand. As of March 31, 2015, the SICAD exchange rate was 12.0 Venezuelan bolivars per U.S. dollars and the SIMADI exchange rate was 193.0 Venezuelan bolivars per U.S. dollars.

Effective March 31, 2014, we changed the exchange rate for remeasuring our Venezuelan subsidiary's monetary net assets from the official exchange rate of 6.3 Venezuelan bolivars per U.S. dollar to the SICAD rate, which was 10.7 Venezuelan bolivars per U.S. dollar as of March 31, 2014. 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

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(Unaudited)

remeasurement of the Venezuelan bolivar denominated net monetary assets of our Venezuelan subsidiary on March 31, 2014.

As of March 31, 2015, the SICAD rate was the most representative rate to use for remeasurement, as a limited amount of telecommunications equipment was imported at the SICAD rate during the quarter and the official rate of 6.3 Venezuelan bolivars per U.S. dollar continued to be reserved only for the settlement of U.S. dollar denominated obligations related to purchases of "essential goods and services". In addition, we did not transact in the SIMADI mechanism during the three months ended March 31, 2015.

Our Venezuelan subsidiary had Venezuelan bolivar denominated net monetary assets of $534 million, including cash of $554 million, as of March 31, 2015, as compared to Venezuelan bolivar denominated net monetary assets of $481 million, including cash of $481 million, as of December 31, 2014, based on the SICAD exchange rate of 12.0 Venezuelan bolivars per U.S. dollar. In the first quarter of 2015, our Venezuelan subsidiary generated revenues of approximately $200 million and operating profit before depreciation and amortization of approximately $75 million.

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 auctions, which are 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. Significant uncertainties exist regarding the exchange mechanisms in Venezuela including the nature of transactions that are eligible for repatriation though the official process, SICAD or SIMADI, or any other new exchange mechanism that may emerge, how such mechanisms will operate in the future, as well as the volume of U.S. dollars available under each mechanism. Changes in exchange mechanisms and rates will impact the comparability of our results of operations and financial position, and would likely result in significant future devaluations.

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 March 31, 2015. 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.

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

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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.

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 with the individual plaintiffs in the federal cases. In the California state court action, the United States Supreme Court agreed to review the California Court of Appeal's opinion affirming the denial of our motion to compel arbitration. 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.

FTC Litigation. On March 11, 2015, the Federal Trade Commission, or FTC, filed a lawsuit against DIRECTV and DIRECTV, LLC in United States District Court for the Northern District of California. The FTC alleges that DIRECTV failed to disclose adequately in our advertisements certain terms and conditions of our programming package offers. The complaint also alleges that DIRECTV violated applicable law by failing adequately to disclose, and to obtain consumers' express consent to, the terms of negative option offers for premium channels. The complaint seeks a permanent injunction to prevent further violations, as well as relief to redress injury to consumers. We believe we have valid defenses to the FTC's claims and we intend to vigorously defend the lawsuit.

Waste Disposal Inquiry. In August 2012, DIRECTV U.S. received from the State of California subpoenas and interrogatories related to our generation, handling, record keeping, transportation and disposal of hazardous waste, including universal waste, in the State of California, and the training of employees regarding the same. The investigation is jointly conducted by the Office of the Attorney General and the District Attorney for Alameda County and appears to be part of a broader effort to investigate waste handling and disposal processes of a number of industries. We are continuing to review our policies and procedures applicable to all facilities, cooperating with the investigation and recently began discussions with regulators directed at reaching resolution of this matter.

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.

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 result of operations.

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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 March 31, 2015, the net book value of in-orbit satellites was $2,119 million, all of which was uninsured.

Other

As of March 31, 2015, we were contingently liable under standby letters of credit and bonds in the aggregate amount of $352 million primarily related to judicial deposit and payment guarantees in Latin America and insurance deductibles.

Note 7: 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, HSH and ROOT SPORTS Northwest.

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 March 31,	
	2015	2014
	(Dollars in Millions)	
Revenues	$ 2	$ 2
Expenses	241	241

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

	March 31, 2015	December 31, 2014
	(Dollars in Millions)	
Accounts receivable	$ 7	$ 26
Accounts payable	112	123
Short-term liability	162	149
Long-term liability	1	1

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Note 8: Stockholders' Deficit and Noncontrolling Interest

Capital Stock and Additional Paid-In Capital

Our certificate of incorporation provides for 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. DIRECTV common stock is entitled to one vote per share and trades on the NASDAQ, under the ticker "DTV". As of March 31, 2015 and December 31, 2014, 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 an authorization for up to $3.5 billion for repurchases of our common stock. In accordance with the Merger Agreement, we 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, effective May 18, 2014.

For the three months months ended March 31, 2014, we repurchased 13 million shares at an average price of $71.53 per share for a total cost of $925 million. Of the $925 million in repurchases during the three months ended March 31, 2014, $30 million were paid for in April 2014. Amounts repurchased but settled subsequent to the end of such periods are considered non-cash financing activities and excluded from the Consolidated Statements of Cash Flows.

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.

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The following tables set forth a reconciliation of stockholders' deficit for the three months ended March 31, 2015:

			Stockholders' Deficit				
	DIRECTV Common Shares	Common Stock and Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total DIRECTV Stockholders' Deficit	Noncontrolling Interest	Total Stockholders' Deficit
		(Amounts in Millions, Except Share Data)					
Balance as of January 1, 2015	502,733,342	$ 3,613	$ (8,408)	$ (418)	$ (5,213)	$ 385	$ (4,828)
Net income			730		730		730
Stock options exercised and restricted stock units vested and distributed	1,247,835	(62)			(62)		(62)
Share-based compensation expense		27			27		27
Tax benefit from share-based compensation		31			31		31
Other		(1)			(1)		(1)
Other comprehensive loss				(159)	(159)		(159)
CTA adjustment allocated to noncontrolling interest						(18)	(18)
Balance as of March 31, 2015	503,981,177	$ 3,608	$ (7,678)	$ (577)	$ (4,647)	$ 367	$ (4,280)

The following tables set forth a reconciliation of stockholders' deficit and redeemable noncontrolling interest for the three months ended March 31, 2014:

			Stockholders' Deficit					
	DIRECTV Common Shares	Common Stock and Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total DIRECTV Stockholders' Deficit	Noncontrolling Interest	Total Stockholders' Deficit	Redeemable Noncontrolling Interest
		(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			561		561	8	569	
Stock repurchased and retired	(12,928,118)	(89)	(836)		(925)		(925)	
Stock options exercised and restricted stock units vested and distributed	1,220,957	(57)			(57)		(57)	
Share-based compensation expense		20			20		20	
Tax benefit from share-based compensation		22			22		22	
Other		1			1		1	
Other comprehensive income				24	24		24	
CTA adjustment allocated to noncontrolling interest						3	3	
Noncontrolling interest						375	375	(375)
Balance as of March 31, 2014	507,599,071	$ 3,549	$ (10,149)	$ (298)	$ (6,898)	$ 386	$ (6,512)	$

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Other Comprehensive Income (Loss)

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

	Three Months Ended March 31,					
	2015			2014		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
	(Dollars in Millions)					
Cash flows hedges:						
Unrealized losses arising during the period	$ (194)	$ 73	$ (121)	$ (12)	$ 5	$ (7)
Reclassification adjustments included in "Other, net"	151	(57)	94	(13)	5	(8)
Foreign currency translation adjustments	(218)	86	(132)	63	(24)	39
Other comprehensive income (loss)	$ (261)	$ 102	$ (159)	$ 38	$ (14)	$ 24

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, 2015	$ (141)	$ 44	$ (321)	$ (418)
Other comprehensive loss		(27)	(132)	(159)
Balance as of March 31, 2015	$ (141)	$ 17	$ (453)	$ (577)

	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)	39	24
Balance as of March 31, 2014	$ (123)	$ (1)	$ (174)	$ (298)

Note 9: 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. We excluded 0.2 million common stock awards from the computation of diluted EPS, for both the three months ended March 31, 2015 and March 31, 2014, because the inclusion of the potential common shares would have had an antidilutive effect.

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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			
March 31, 2015			
Basic EPS			
Net income attributable to DIRECTV	$ 730	503	$ 1.45
Effect of dilutive securities			
Dilutive effect of stock options and restricted stock units		4	(0.01)
Diluted EPS			
Adjusted net income attributable to DIRECTV	$ 730	507	$ 1.44
March 31, 2014			
Basic EPS			
Net income attributable to DIRECTV	$ 561	511	$ 1.10
Effect of dilutive securities			
Dilutive effect of stock options and restricted stock units		4	(0.01)
Diluted EPS			
Adjusted net income attributable to DIRECTV	$ 561	515	$ 1.09

Note 10: 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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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)
			(Dollars in Millions)			
Three Months Ended March 31, 2015						
DIRECTV U.S.	$ 6,456	$ 2	$ 6,458	$ 1,249	$ 438	$ 1,687
Sky Brasil	795		795	54	145	199
PanAmericana and Other	840		840	102	144	246
DIRECTV Latin America	1,635		1,635	156	289	445
Sports Networks, Eliminations and Other	52	(2)	50	(18)	3	(15)
Total	$ 8,143	$	$ 8,143	$ 1,387	$ 730	$ 2,117
March 31, 2014						
DIRECTV U.S.	$ 6,085	$ 2	$ 6,087	$ 1,243	$ 426	$ 1,669
Sky Brasil	939		939	148	163	311
PanAmericana and Other	782		782	(174)	122	(52)
DIRECTV Latin America	1,721		1,721	(26)	285	259
Sports Networks, Eliminations and Other	49	(2)	47	10	3	13
Total	$ 7,855	$	$ 7,855	$ 1,227	$ 714	$ 1,941

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

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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 March 31,	
	2015	2014
	(Dollars in Millions)	
Operating profit before depreciation and amortization	$ 2,117	$ 1,941
Depreciation and amortization	(730)	(714)
Operating profit	1,387	1,227
Interest income	22	13
Interest expense	(245)	(232)
Other, net	7	57
Income before income taxes	1,171	1,065
Income tax expense	(441)	(496)
Net income	730	569
Less: Net income attributable to noncontrolling interest		(8)
Net income attributable to DIRECTV	$ 730	$ 561

Note 11: Condensed Consolidating Financial Statements

As discussed above in Note 4, 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.

These condensed consolidating financial statements present the condensed consolidating statements of operations and condensed consolidating statements of comprehensive income for the three months ended March 31, 2015 and 2014, the condensed consolidating statements of cash flows for the three months ended March 31, 2015 and 2014, and the condensed consolidating balance sheets as of March 31, 2015 and December 31, 2014.

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 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

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Statement of Operations
For the Three Months Ended March 31, 2015

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
			(Dollars in Millions)			
Revenues	$	$	$ 6,458	$ 1,725	$ (40)	$ 8,143
Operating costs and expenses						
Costs of revenues, exclusive of depreciation and amortization expense						
Broadcast programming and other			2,998	616	(38)	3,576
Subscriber service expenses			385	196		581
Broadcast operations expenses			81	38	(2)	117
Selling, general and administrative expenses, exclusive of depreciation and amortization expense						
Subscriber acquisition costs			703	185		888
Upgrade and retention costs			308	42		350
General and administrative expenses	32		296	186		514
Depreciation and amortization expense			438	292		730
Total operating costs and expenses	32		5,209	1,555	(40)	6,756
Operating profit (loss)	(32)		1,249	170		1,387
Equity in income of consolidated subsidiaries	750	751		615	(2,116)	
Interest income		3		19		22
Interest expense		(231)		(14)		(245)
Other, net		2	6	(1)		7
Income before income taxes	718	525	1,255	789	(2,116)	1,171
Income tax benefit (expense)	12	90	(504)	(39)		(441)
Net income	730	615	751	750	(2,116)	730
Less: Net income attributable to noncontrolling interest						
Net income attributable to DIRECTV	$ 730	$ 615	$ 751	$ 750	$ (2,116)	$ 730

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Statement of Operations
For the Three Months Ended March 31, 2014

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Revenues	$	$	$ 6,087	$ 1,798	$ (30)	$ 7,855
Operating costs and expenses						
Costs of revenues, exclusive of depreciation and amortization expense						
Broadcast programming and other			2,768	641	(26)	3,383
Subscriber service expenses			359	192		551
Broadcast operations expenses			72	27	(2)	97
Selling, general and administrative expenses, exclusive of depreciation and amortization expense						
Subscriber acquisition costs			648	180	(1)	827
Upgrade and retention costs			281	41	(1)	321
General and administrative expenses	9		290	155		454
Venezuelan currency devaluation charge				281		281
Depreciation and amortization expense			426	288		714
Total operating costs and expenses	9		4,844	1,805	(30)	6,628
Operating profit (loss)	(9)		1,243	(7)		1,227
Equity in income of consolidated subsidiaries	568	787		648	(2,003)	
Interest income			1	12		13
Interest expense		(220)	(3)	(9)		(232)
Other, net	(2)		5	54		57
Income before income taxes	557	567	1,246	698	(2,003)	1,065
Income tax benefit (expense)	4	81	(459)	(122)		(496)
Net income	561	648	787	576	(2,003)	569
Less: Net income attributable to noncontrolling interest				(8)		(8)
Net income attributable to DIRECTV	$ 561	$ 648	$ 787	$ 568	$ (2,003)	$ 561

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income
For the Three Months Ended March 31, 2015

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Net income	$ 730	$ 615	$ 751	$ 750	$ (2,116)	$ 730
Other comprehensive income (loss), net of taxes:						
Cash flows hedges:						
Unrealized losses arising during the period	(121)	(121)		(121)	242	(121)
Reclassification adjustments included in net income	94	94		94	(188)	94
Foreign currency translation adjustments	(114)			(132)	114	(132)
Other comprehensive loss	(141)	(27)		(159)	168	(159)
Comprehensive income	589	588	751	591	(1,948)	571
Comprehensive loss attributable to noncontrolling interest				18		18
Comprehensive income attributable to DIRECTV	$ 589	$ 588	$ 751	$ 609	$ (1,948)	$ 589

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income
For the Three Months Ended March 31, 2014

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
			(Dollars in Millions)			
Net income	$ 561	$ 648	$ 787	$ 576	$ (2,003)	$ 569
Other comprehensive income (loss), net of taxes:						
Cash flows hedges:						
Unrealized losses arising during the period		(7)				(7)
Reclassification adjustments included in net income		(8)				(8)
Foreign currency translation adjustments				39		39
Other comprehensive income (loss)		(15)		39		24
Comprehensive income	561	633	787	615	(2,003)	593
Comprehensive income attributable to noncontrolling interest				(11)		(11)
Comprehensive income attributable to DIRECTV	$ 561	$ 633	$ 787	$ 604	$ (2,003)	$ 582

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Balance Sheet
As of March 31, 2015

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
ASSETS						
Total current assets	$ 725	$ 2,975	$ 2,928	$ 1,705	$ (287)	$ 8,046
Satellites, net			1,713	1,332		3,045
Property and equipment, net			3,841	2,614		6,455
Goodwill		1,828	1,363	686		3,877
Intangible assets, net			509	453	(8)	954
Intercompany receivables	4,532	12,561	29,652	603	(47,348)	
Investment in subsidiaries	(8,730)	22,133		(10,092)	(3,311)	
Investments and other assets	136	75	645	1,199	(131)	1,924
Total assets	$ (3,337)	$ 39,572	$ 40,651	$ (1,500)	$ (51,085)	$ 24,301
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Total current liabilities	$ 244	$ 2,421	$ 3,888	$ 1,298	$ (287)	$ 7,564
Long-term debt		16,936		122		17,058
Deferred income taxes		17	1,731	(11)	(131)	1,606
Intercompany liabilities	612	29,623	12,646	4,467	(47,348)	
Other liabilities and deferred credits	454	667	253	987	(8)	2,353
Stockholders' equity (deficit)						
Common stock and additional paid-in capital	3,608	476	5,447	3,510	(9,433)	3,608
Retained earnings (accumulated deficit)	(7,678)	(10,586)	16,686	(11,804)	5,704	(7,678)
Accumulated other comprehensive income (loss)	(577)	18		(436)	418	(577)
Total DIRECTV stockholders' equity (deficit)	(4,647)	(10,092)	22,133	(8,730)	(3,311)	(4,647)
Noncontrolling interest				367		367
Total stockholders' equity (deficit)	(4,647)	(10,092)	22,133	(8,363)	(3,311)	(4,280)
Total liabilities and stockholders' equity (deficit)	$ (3,337)	$ 39,572	$ 40,651	$ (1,500)	$ (51,085)	$ 24,301

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Balance Sheet
As of December 31, 2014

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
ASSETS						
Total current assets	$ 1,201	$ 3,690	$ 2,964	$ 1,592	$ (628)	$ 8,819
Satellites, net			1,717	1,323		3,040
Property and equipment, net			3,891	2,830		6,721
Goodwill		1,828	1,363	738		3,929
Intangible assets, net			512	490	(8)	994
Intercompany receivables	4,975	11,698	28,132	1,143	(45,948)	
Investment in subsidiaries	(9,341)	21,337		(10,725)	(1,271)	
Investments and other assets	134	99	670	1,185	(132)	1,956
Total assets	$ (3,031)	$ 38,652	$ 39,249	$ (1,424)	$ (47,987)	$ 25,459
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Total current liabilities	$ 527	$ 1,454	$ 4,244	$ 1,362	$ (628)	$ 6,959
Long-term debt		19,327		158		19,485
Deferred income taxes		33	1,736	89	(132)	1,726
Intercompany liabilities	1,212	28,110	11,698	4,928	(45,948)	
Other liabilities and deferred credits	443	453	234	995	(8)	2,117
Stockholders' equity (deficit)						
Common stock and additional paid-in capital	3,613	432	5,403	3,489	(9,324)	3,613
Retained earnings (accumulated deficit)	(8,408)	(11,202)	15,934	(12,554)	7,822	(8,408)
Accumulated other comprehensive income (loss)	(418)	45		(276)	231	(418)
Total DIRECTV stockholders' equity (deficit)	(5,213)	(10,725)	21,337	(9,341)	(1,271)	(5,213)
Noncontrolling interest				385		385
Total stockholders' equity (deficit)	(5,213)	(10,725)	21,337	(8,956)	(1,271)	(4,828)
Total liabilities and stockholders' equity (deficit)	$ (3,031)	$ 38,652	$ 39,249	$ (1,424)	$ (47,987)	$ 25,459

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 2015

	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	$ 32	$ (274)	$ 1,465	$ 446	$ (33)	$ 1,636
Cash flows from investing activities						
Cash paid for property and equipment			(337)	(276)		(613)
Cash paid for satellites			(45)	(51)		(96)
Investment in companies, net of cash acquired			(8)	(2)		(10)
Intercompany funding	(139)	(435)	(1,596)	(14)	2,184	
Other, net				3		3
Net cash used in investing activities	(139)	(435)	(1,986)	(340)	2,184	(716)
Cash flows from financing activities						
Proceeds from long-term debt				17		17
Repayment of long-term debt		(1,200)		(26)		(1,226)
Repayment of other long-term obligations			(7)	(22)		(29)
Taxes paid in lieu of shares issued for share-based compensation	(64)		(50)	(14)	64	(64)
Excess tax benefit from share-based compensation	31		23	8	(31)	31
Intercompany payments	23	1,532	546	83	(2,184)	
Net cash provided by (used in) financing activities	(10)	332	512	46	(2,151)	(1,271)
Net increase (decrease) in cash and cash equivalents	(117)	(377)	(9)	152		(351)
Cash and cash equivalents at beginning of the period	680	3,191	20	744		4,635
Cash and cash equivalents at end of the period	$ 563	$ 2,814	$ 11	$ 896	$	$ 4,284

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 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	$ 594	$ (305)	$ 1,482	$ 489	$ (670)	$ 1,590
Cash flows from investing activities						
Cash paid for property and equipment			(371)	(279)		(650)
Cash paid for satellites			(11)	(43)		(54)
Investment in companies, net of cash acquired			(1)	(3)		(4)
Proceeds from sale of investments			4			4
Return of capital from subsidiary	400				(400)	
Intercompany funding	(117)	(408)	(1,464)	(77)	2,066	
Other, net				(3)		(3)
Net cash provided by (used in) investing activities	283	(408)	(1,843)	(405)	1,666	(707)
Cash flows from financing activities						
Issuance of commercial paper (maturity 90 days or less), net		105				105
Proceeds from short-term borrowings		90				90
Repayment of short-term borrowings		(200)				(200)
Proceeds from long-term debt		1,245		15		1,260
Debt issuance costs		(6)				(6)
Repayment of long-term debt				(11)		(11)
Repayment of other long-term obligations			(6)	(9)		(15)
Common shares repurchased and retired	(895)					(895)
Taxes paid in lieu of shares issued for share-based compensation	(57)		(47)	(10)	57	(57)
Excess tax benefit from share-based compensation	22		18	4	(22)	22
Intercompany payments	9	1,465	407	150	(2,031)	
Cash dividend to Parent		(1,000)			1,000	
Other, net		(26)				(26)
Net cash provided by (used in) financing activities	(921)	1,673	372	139	(996)	267
Effect of exchange rate changes on Venezuelan cash and cash equivalents				(316)		(316)
Net increase (decrease) in cash and cash equivalents	(44)	960	11	(93)		834
Cash and cash equivalents at beginning of the period	498	791	6	885		2,180
Cash and cash equivalents at end of the period	$ 454	$ 1,751	$ 17	$ 792	$	$ 3,014

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

The following management's discussion and analysis should be read in conjunction with our management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on February 24, 2015, and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report.

This Quarterly Report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, "forward-looking statements" within the meaning of various provisions of the Securities Act of 1933 and of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by 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 2015 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 for the year ended December 31, 2014:

- 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, especially in Venezuela.
- 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.
- 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.

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- 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 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.

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

- 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.

- DIRECTV's business relationships may be subject to disruption due to uncertainty associated with the merger.

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

Those and the other factors that are described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

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SUMMARY DATA

(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Dollars in Millions, Except Per Share Amounts)	
Consolidated Statements of Operations Data:		
Revenues	$ 8,143	$ 7,855
Total operating costs and expenses	6,756	6,628
Operating profit	1,387	1,227
Interest income	22	13
Interest expense	(245)	(232)
Other, net	7	57
Income before income taxes	1,171	1,065
Income tax expense	(441)	(496)
Net income	730	569
Less: Net income attributable to noncontrolling interest		(8)
Net income attributable to DIRECTV	$ 730	$ 561
Basic earnings attributable to DIRECTV per common share	$ 1.45	$ 1.10
Diluted earnings attributable to DIRECTV per common share	$ 1.44	$ 1.09
Weighted average number of total common shares outstanding (in millions):		
Basic	503	511
Diluted	507	515

	March 31, 2015	December 31, 2014
	(Dollars in Millions)	
Consolidated Balance Sheets Data:		
Cash and cash equivalents	$ 4,284	$ 4,635
Total current assets	8,046	8,819
Total assets	24,301	25,459
Total current liabilities	7,564	6,959
Long-term debt	17,058	19,485
Total stockholders' deficit	(4,280)	(4,828)

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

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SUMMARY DATA (continued)

(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Dollars in Millions)	
Other Data:		
Operating profit before depreciation and amortization(1)		
Operating profit	$ 1,387	$ 1,227
Add: Depreciation and amortization expense	730	714
Operating profit before depreciation and amortization	$ 2,117	$ 1,941
Operating profit before depreciation and amortization margin	26.0%	24.7%
Cash flow information		
Net cash provided by operating activities	$ 1,636	$ 1,590
Net cash used in investing activities	(716)	(707)
Net cash provided by (used in) financing activities	(1,271)	267
Free cash flow(2)		
Net cash provided by operating activities	1,636	1,590
Less: Cash paid for property and equipment	(613)	(650)
Less: Cash paid for satellites	(96)	(54)
Free cash flow	$ 927	$ 886

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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					
March 31, 2015					
DIRECTV U.S.	$ 6,458	79.3%	$ 1,249	$ 438	$ 1,687
Sky Brasil	795	9.8%	54	145	199
PanAmericana and Other	840	10.3%	102	144	246
DIRECTV Latin America	1,635	20.1%	156	289	445
Sports Networks, Eliminations and Other	50	0.6%	(18)	3	(15)
Total	$ 8,143	100.0%	$ 1,387	$ 730	$ 2,117
March 31, 2014					
DIRECTV U.S.	$ 6,087	77.5%	$ 1,243	$ 426	$ 1,669
Sky Brasil	939	12.0%	148	163	311
PanAmericana and Other	782	10.0%	(174)	122	(52)
DIRECTV Latin America	1,721	22.0%	(26)	285	259
Sports Networks, Eliminations and Other	47	0.5%	10	3	13
Total	$ 7,855	100.0%	$ 1,227	$ 714	$ 1,941

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(1) Operating profit 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." This measure should be used in conjunction with GAAP financial measures and is not presented as an alternative measure of operating results, as determined in accordance with GAAP. Our management and our Board of Directors use operating profit before depreciation and amortization to evaluate the operating performance of our company and our business segments and to allocate resources and capital to business segments. This metric is also used as a measure of performance for incentive compensation purposes and to measure income generated from operations that could

be used to fund capital expenditures, service debt or pay taxes. Depreciation and amortization expense primarily represents an allocation to current expense of the cost of historical capital expenditures and for acquired intangible assets resulting from prior business acquisitions. To compensate for the exclusion of depreciation and amortization expense from operating profit, our management and 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

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SUMMARY DATA (continued)

(Unaudited)

operating profit before depreciation and amortization and similar measures to estimate our current or prospective enterprise value and make investment decisions. This metric provides investors with a means to compare operating results exclusive of depreciation and amortization expense. Our management believes this is useful given the significant variation in depreciation and amortization expense that can result from the timing of capital expenditures, the capitalization of intangible 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.

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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 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, and also own non-controlling interests in two others, ROOT SPORTS Northwest and ROOT SPORTS Southwest. We 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 investment in ROOT SPORTS Northwest, ROOT SPORTS Southwest 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 March 31, 2015, DIRECTV U.S. had approximately 20.4 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 and Other segment. As of March 31, 2015, PanAmericana had approximately 7.0 million subscribers, Sky Brasil had approximately 5.7 million subscribers and Sky Mexico had nearly 6.8 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 two regional sports networks based in Seattle, Washington and Houston, Texas in which DSN retains a noncontrolling interest, each of which operates under the brand name ROOT SPORTS. In the fourth quarter of 2014, we acquired a noncontrolling interest in Houston Sports Holdings, LLC, or HSH, the regional sports network based in Houston, Texas. The operating results of DSN are reported as part of the "Sports Networks, Eliminations and Other" reporting segment.

SIGNIFICANT EVENT 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, and limited our ability to import set-top receivers and other equipment, limiting the growth of our business in Venezuela.

As of March 31, 2015, the mechanisms in Venezuela for exchanging Venezuelan bolivars into U.S. dollars were as follows: (i) the official government mechanism operated by the Venezuelan Central Bank, which has a fixed exchange rate of 6.3 Venezuelan bolivars per U.S. dollar mainly reserved for essential goods and services (ii) the auction based Sistema Complementario de Administración de Divisas, or SICAD, which is intended for dividend and royalty remittances as well as certain imports, including telecommunications equipment and (iii) an open market currency exchange system Sistema Marginal de Divisas, or SIMADI, which is based on supply and demand. As of March 31, 2015, the SICAD exchange rate was 12.0 Venezuelan bolivars per U.S. dollars and the SIMADI exchange rate was 193.0 Venezuelan bolivars per U.S. dollars.

Effective March 31, 2014, we changed the exchange rate for remeasuring our Venezuelan subsidiary's monetary net assets from the official exchange rate of 6.3 Venezuelan bolivars per U.S. dollar to the SICAD rate, which was 10.7 Venezuelan bolivars per U.S. dollar as of March 31, 2014. 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 Venezuelan bolivar denominated net monetary assets of our Venezuelan subsidiary on March 31, 2014.

As of March 31, 2015, the SICAD rate was the most representative rate to use for remeasurement, as a limited amount of telecommunications equipment was imported at the SICAD rate during the quarter and the official rate of 6.3 Venezuelan bolivars per U.S. dollar continued to be reserved only for the settlement of U.S. dollar denominated obligations related to purchases of "essential goods and services". In addition, we did not transact in the SIMADI mechanism during the three months ended March 31, 2015.

Our Venezuelan subsidiary had Venezuelan bolivar denominated net monetary assets of $534 million, including cash of $554 million, as of March 31, 2015, as compared to Venezuelan bolivar denominated net monetary assets of $481 million, including cash of $481 million, as of December 31, 2014, based on the SICAD exchange rate of 12.0 Venezuelan bolivars per U.S. dollar. In the first quarter of 2015, our Venezuelan subsidiary generated revenues of approximately $200 million and operating profit before depreciation and amortization of approximately $75 million.

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 auctions, which are 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. Significant uncertainties exist regarding the exchange mechanisms in Venezuela including the nature of transactions that are eligible for repatriation though the official process, SICAD or SIMADI, or any other new exchange mechanism that may emerge, how such mechanisms will operate in the future, as well as the volume of U.S. dollars available under each mechanism. Changes in exchange mechanisms and rates will impact the comparability of our results of operations and financial position, and would likely result in significant future devaluations.

AT&T Merger-Related Costs

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.

In connection with the proposed merger, we recognized costs of $26 million for the quarter ended March 31, 2015 in "General and administrative expenses" in the Consolidated Statements of

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Operations, primarily related to professional services fees. These costs are reported in the "Sports Networks, Eliminations and Other" segment.

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 fees (which include HD, DVR and multi-room viewing), seasonal live sporting events and pay-per-view programming. 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.

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, net of customer credits and discounted promotions, 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 and subscribers who are in the process of relocating and commercial equivalent viewing units.

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

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RESULTS OF OPERATIONS

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

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 March 31,		Change	
	2015	2014	$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	$ 6,458	$ 6,087	$ 371	6.1%
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	2,998	2,768	230	8.3%
Subscriber service expenses	385	359	26	7.2%
Broadcast operations expenses	81	72	9	12.5%
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	703	648	55	8.5%
Upgrade and retention costs	308	281	27	9.6%
General and administrative expenses	296	290	6	2.1%
Depreciation and amortization expense	438	426	12	2.8%
Total operating costs and expenses	5,209	4,844	365	7.5%
Operating profit	$ 1,249	$ 1,243	$ 6	0.5%
Operating profit margin	19.3%	20.4%		
Other data:				
Operating profit before depreciation and amortization	$ 1,687	$ 1,669	$ 18	1.1%
Operating profit before depreciation and amortization margin	26.1%	27.4%		
Total number of subscribers (in thousands)	20,412	20,265	147	0.7%
ARPU	$ 105.62	$ 100.16	$ 5.46	5.5%
Average monthly subscriber churn %	1.37%	1.45%		(5.5)%
Gross subscriber additions (in thousands)	895	891	4	0.4%
Subscriber disconnections (in thousands)	835	879	(44)	(5.0)%
Net subscriber additions (in thousands)	60	12	48	NM*
Average subscriber acquisition costs per subscriber (SAC)	$ 914	$ 859	$ 55	6.4%
Capital expenditures:				
Property and equipment	$ 136	$ 144	$ (8)	(5.6)%
Subscriber leased equipment subscriber acquisitions	115	117	(2)	(1.7)%
Subscriber leased equipment upgrade and retention	86	110	(24)	NM*
Satellites	45	11	34	309.1%
Total capital expenditures	$ 382	$ 382	$	%

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* Percentage not meaningful.

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Subscribers. In the first quarter of 2015, net subscriber additions increased as compared to the first quarter of 2014 primarily due to lower average monthly churn. The improvement in average monthly churn was primarily due to a continued focus on attracting higher quality new subscribers and improved macroeconomic conditions, which resulted in higher customer pay rates, as well as successful winback initiatives. Gross subscriber additions remained relatively flat in the first quarter of 2015 as compared to the first quarter of 2014.

Revenues. DIRECTV U.S. revenues increased in the first quarter of 2015 as a result of higher ARPU and a larger subscriber base. The increase in ARPU resulted primarily from price increases on programming packages and regional sports networks, higher set-top box lease fees, increased advanced receiver service fees, a reduction in new customer credits, as well as increased commercial business revenues, warranty program fees and ad sales. These increases were partially offset by increased promotional offers for existing customers.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization increased in the first quarter of 2015 as compared to the first quarter of 2014 primarily due to higher revenues partially offset by higher broadcast programming and other costs, higher subscriber acquisition and upgrade and retention costs, as well as higher subscriber service expenses. Broadcast programming and other costs increased primarily due to annual program supplier rate increases, partially offset by the favorable resolution of a prior year dispute with a programmer. Subscriber acquisition costs increased primarily due to an increase in higher quality subscribers from the consumer electronics distribution channel, and higher ancillary equipment costs. Upgrade and retention costs increased primarily due to improved results from our customer winback campaigns.

Operating profit before depreciation and amortization margin decreased in the first quarter of 2015 as compared to the first quarter of 2014 primarily due to higher broadcast programming and other costs, as well as higher subscriber acquisition costs.

Operating profit. Operating profit increased in the first quarter of 2015 as compared to the first quarter of 2014 due to an increase in operating profit before depreciation and amortization partially offset by an increase of depreciation and amortization due to higher total capitalized subscriber leased equipment. Operating profit margin decreased in the first quarter of 2015 as compared to the first quarter of 2014 primarily due to the decrease in operating profit before depreciation and amortization margin.

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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 March 31, 2015	Three Months Ended and As of March 31, 2014	Change $	Change %
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	$ 1,635	$ 1,721	$ (86)	(5.0)%
Operating profit before depreciation and amortization(1)	445	259	186	71.8%
Operating profit before depreciation and amortization margin(1)	27.2%	15.0%		
Operating profit(1)	$ 156	$ (26)	$ 182	(700.0)%
Operating profit margin(1)	9.5%	(1.5)%		
Other data:				
ARPU	$ 43.32	$ 48.83	$ (5.51)	(11.3)%
Average monthly total subscriber churn %	2.34%	2.13%		9.9%
Average monthly post-paid subscriber churn %	2.15%	1.85%		16.2%
Total number of subscribers (in thousands)(2)	12,690	11,929	761	6.4%
Gross subscriber additions (in thousands)(2)	1,103	1,111	(8)	(0.7)%
Net subscriber additions (in thousands)(2)	219	361	(142)	(39.3)%
Capital expenditures:				
Property and equipment	$ 28	$ 56	$ (28)	(50.0)%
Subscriber leased equipment subscriber acquisitions	189	128	61	47.7%
Subscriber leased equipment upgrade and retention	58	96	(38)	(39.6)%
Satellites	45	38	7	18.4%
Total capital expenditures	$ 320	$ 318	$ 2	0.6%

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

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

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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 March 31, 2015	Three Months Ended and As of March 31, 2014	Change $	Change %
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	$ 795	$ 939	$ (144)	(15.3)%
Operating profit before depreciation and amortization	199	311	(112)	(36.0)%
Operating profit before depreciation and amortization margin	25.0%	33.1%		
Operating profit	$ 54	$ 148	$ (94)	(63.5)%
Operating profit margin	6.8%	15.8%		
Other Data:				
ARPU	$ 46.80	$ 57.67	$ (10.87)	(18.8)%
Total number of subscribers (in thousands)	5,684	5,480	204	3.7%
Total capital expenditures	$ 182	$ 161	$ 21	13.0%

Subscribers. In the first quarter of 2015 net subscriber additions were lower as compared to the first quarter of 2014 as higher gross subscriber additions were more than offset by higher average monthly churn. Gross subscriber additions increased driven by higher demand for advanced products. Total average monthly churn increased due to several factors, including the migration of key systems that impacted existing subscribers, the effect of a higher mix of mass market subscribers, along with more challenging economic and competitive conditions in the first quarter of 2015.

Revenues. Revenues decreased in the first quarter of 2015 primarily due to a decrease in ARPU, partially offset by subscriber growth. The decrease in ARPU was primarily due to unfavorable exchange rates and the system migration of subscribers in the first quarter of 2015.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization and operating profit before depreciation and amortization margin decreased in the first quarter of 2015 as compared to the first quarter of 2014 primarily due to issues related to the system migration of subscribers that impacted revenues as well as subscriber service and general and administrative expenses. Also contributing to the decrease were higher subscriber acquisition costs due to an increase in advanced products and higher costs associated with the continued rollout of a new broadband service.

Operating profit. Operating profit and operating profit margin decreased in the first quarter of 2015 as compared to the first quarter of 2014 due to a decrease in operating profit before depreciation and amortization and operating profit before depreciation and amortization margin.

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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 March 31, 2015	Three Months Ended and As of March 31, 2014	Change $	Change %
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	$ 840	$ 782	$ 58	7.4%
Operating profit (loss) before depreciation and amortization(1)	246	(52)	298	(573.1)%
Operating profit before depreciation and amortization margin(1)	29.3%	NM*		
Operating profit (loss)(1)	$ 102	$ (174)	$ 276	(158.6)%
Operating profit margin(1)	12.1%	NM*		
Other Data:				
ARPU	$ 40.47	$ 41.23	$ (0.76)	(1.8)%
Total number of subscribers (in thousands)	7,006	6,449	557	8.6%
Total capital expenditures	$ 138	$ 157	$ (19)	(12.1)%

* Not meaningful

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

Subscribers. In the first quarter of 2015 net subscriber additions decreased primarily due to lower prepaid gross additions mainly in Argentina and Peru, as well as an increase in demand in the first quarter of 2014 in advance of the World Cup soccer tournament. Average monthly subscriber churn improved in the first quarter of 2015 in part due to higher prepaid reconnection rates.

Revenues. Revenues increased in the first quarter of 2015 primarily due to subscriber growth partially offset by a decrease in ARPU. The decrease in ARPU was primarily due to unfavorable exchange rates and a higher penetration of lower ARPU mass market subscribers, partially offset by higher ARPU in local currency terms, which resulted from price increases and an increase in subscribers with advanced products.

Operating profit before depreciation and amortization. Operating profit before depreciation and amortization and operating profit before depreciation and amortization margin increased in the first quarter of 2015 as compared to the first quarter of 2014 primarily in Venezuela as a result of the $281 million devaluation charge recorded in the first quarter of 2014. Also contributing to the increase in operating profit before depreciation and amortization margin were an increase in scale, lower subscriber acquisition costs resulting from lower gross subscriber additions and the settlement of a performance rights fee dispute in Argentina in 2014, partially offset by the timing of price increases in Venezuela and the impact on average margins from the depreciation of the Venezuelan bolivar.

Operating profit. Operating profit and operating profit margin increased in the first quarter of 2015 as compared to the first quarter of 2014 due to the 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 and installations costs, as well as higher capitalized infrastructure costs.

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DIRECTV Other Income and Income Taxes

Interest income. Interest income was $22 million in the first quarter of 2015 and $13 million in the first quarter of 2014.

Interest expense. Interest expense was $245 million in the first quarter of 2015 and $232 million in the first quarter of 2014.

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Change $
	(Dollars in Millions)		
Equity in earnings from unconsolidated affiliates	$ 33	$ 44	$ (11)
Net foreign currency transaction gain (loss)	(31)	6	(37)
Other	3	(4)	7
Interest rate swap gain	2		2
Net gains from sale of investments		9	(9)
Fair-value gain on non-employee stock options		2	(2)
Total	$ 7	$ 57	$ (50)

Income Tax Expense. We recognized income tax expense of $441 million for the first quarter of 2015 compared to $496 million for the first quarter of 2014. The effective tax rate for the first quarter of 2015 was 37.7% compared to 46.6% for the first quarter of 2014, primarily due to the unfavorable tax impact of the Venezuela devaluation in the first quarter of 2014.

Earnings Per Share

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Shares in Millions)	
Basic earnings attributable to DIRECTV per common share	$ 1.45	$ 1.10
Diluted earnings attributable to DIRECTV per common share	$ 1.44	$ 1.09
Weighted average number of common shares outstanding:		
Basic	503	511
Diluted	507	515

The increases in basic and diluted earnings per share were due to higher net income attributable to DIRECTV as well as a slight reduction in weighted average shares outstanding.

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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 March 31, 2015, 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 March 31, 2015, we had no 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 March 31, 2015, Sky Brasil had borrowings of R$633 million ($197 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 March 31, 2015, Sky Brasil had borrowings of R$98 million ($31 million) under the facility.

As of March 31, 2015, our cash and cash equivalents totaled $4,284 million compared to $4,635 million at December 31, 2014. As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.06 at March 31, 2015 and 1.27 at December 31, 2014.

Cash Flows Provided by Operating Activities

Net cash flows provided by operating activities increased to $1,636 million for the three months ended March 31, 2015 from $1,590 million for the three months ended March 31, 2014. The increase is primarily a result of an increase in operating profit before depreciation and amortization expense and an increase in working capital related to the timing of receivables and payables.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities increased to $716 million for the three months ended March 31, 2015 from $707 million for the three months ended March 31, 2014. The increase was primarily due to an increase in satellite capital expenditures, partially offset by lower capital expenditures for subscriber leased set-top receivers.

Cash Flows Provided by (Used in) Financing Activities

Net cash flows used by financing activities increased to $1,271 million for the three months ended March 31, 2015 from net cash provided by financing activities of $267 million for the three months ended March 31, 2014. The increase is primarily due to the repayment of our 3.550% senior notes in March 2015.

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 an authorization for up to $3.5 billion for repurchases of our common stock. In accordance with the Merger Agreement, 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 without AT&T's consent, effective May 18, 2014.

Debt

At March 31, 2015, we had $19,413 million in total outstanding borrowings, which consisted of senior notes issued by DIRECTV U.S. and borrowings under the BNDES financing facility at Sky Brasil. Our outstanding borrowings are more fully described in Note 4 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 2014 Form 10-K.

As appropriate, we will 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. In March 2015, DIRECTV U.S. repaid the 3.550% senior notes due in 2015, or the 2015 Notes, for the unpaid principal balance of $1,200 million, together with accrued and unpaid interest as of that date, as required by the indenture for the 2015 Notes.

On March 20, 2014, we exercised our 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 in the second quarter of 2014 to redeem such Notes.

At March 31, 2015, DIRECTV U.S.' senior notes had a carrying value of $19,185 million and a weighted-average coupon of 4.51%. The principal amount of our senior notes which have not been redeemed mature as follows: $2,250 million in 2016, $1,250 million in 2017, $750 million in 2018, $1,000 million in 2019, $1,300 million in 2020 and $12,616 million 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. 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 March 31, 2015 and December 31, 2014 we had no short-term commercial paper outstanding. Aggregate amounts outstanding under the revolving credit facilities described below and the commercial paper program are limited to $2.5 billion.

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DIRECTV

Revolving Credit Facilities

On September 28, 2012, DIRECTV U.S.' five year, $2.0 billion revolving credit facility dated February 7, 2011 was terminated and replaced with a three and one-half year, $1.0 billion revolving credit facility and a five year, $1.5 billion revolving credit facility. 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 March 31, 2015, 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.

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 March 31, 2015, management believes DIRECTV U.S. was in compliance with all such covenants. The senior notes and revolving credit facilities also provide that the borrowings may be required to be prepaid if certain change-in-control events, coupled with a ratings decline, 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

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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 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 March 31, 2015, Sky Brasil had borrowings of R$633 million ($197 million) outstanding under the BNDES facility bearing interest at a weighted-average rate of 5.22% per year. As of December 31, 2014, Sky Brasil had borrowings of R$710 million ($267 million) outstanding under the BNDES facility bearing interest at a weighted-average rate of 5.11% 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$3.21 / $1.00 and R$2.66 / $1.00 as of March 31, 2015 and December 31, 2014, respectively.

Borrowings under the BNDES facility mature as follows: R$260 million ($81 million) in 2015, R$273 million ($85 million) in 2016 and R$100 million ($31 million) in 2017. The financing facility is collateralized by the financed set-top receivers with an original purchase price of approximately R$1,022 million ($318 million) based on the exchange rate of R$3.21 / $1.00 as of March 31, 2015.

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 March 31, 2015, Sky Brasil had borrowings of R$98 million ($31 million) under the facility bearing interest of 2.5% per year. As of December 31, 2014, Sky Brasil had borrowings of R$48 million ($18 million) under the facility bearing interest of 2.5% per year. 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$3.21 / $1.00 and R$2.66 / $1.00 as of March 31, 2015 and December 31, 2014, respectively.

Borrowings under the Desenvolve SP facility mature as follows: R$48 million ($15 million) in 2019 and R$50 million ($16 million) in 2020.

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, and limited our ability to import set-top receivers and other equipment, limiting the growth of our business in Venezuela.

As of March 31, 2015, the mechanisms in Venezuela for exchanging Venezuelan bolivars into U.S. dollars were as follows: (i) the official government mechanism operated by the Venezuelan Central

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Bank, which has a fixed exchange rate of 6.3 Venezuelan bolivars per U.S. dollar mainly reserved for essential goods and services (ii) the auction based Sistema Complementario de Administración de Divisas, or SICAD, which is intended for dividend and royalty remittances as well as certain imports, including telecommunications equipment and (iii) an open market currency exchange system Sistema Marginal de Divisas, or SIMADI, which is based on supply and demand. As of March 31, 2015, the SICAD exchange rate was 12.0 Venezuelan bolivars per U.S. dollars and the SIMADI exchange rate was 193.0 Venezuelan bolivars per U.S. dollars.

Effective March 31, 2014, we changed the exchange rate for remeasuring our Venezuelan subsidiary's monetary net assets from the official exchange rate of 6.3 Venezuelan bolivars per U.S. dollar to the SICAD rate, which was 10.7 Venezuelan bolivars per U.S. dollar as of March 31, 2014. 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 Venezuelan bolivar denominated net monetary assets of our Venezuelan subsidiary on March 31, 2014.

As of March 31, 2015, the SICAD rate was the most representative rate to use for remeasurement, as a limited amount of telecommunications equipment was imported at the SICAD rate during the quarter and the official rate of 6.3 Venezuelan bolivars per U.S. dollar continued to be reserved only for the settlement of U.S. dollar denominated obligations related to purchases of "essential goods and services". In addition, we did not transact in the SIMADI mechanism during the three months ended March 31, 2015.

Our Venezuelan subsidiary had Venezuelan bolivar denominated net monetary assets of $534 million, including cash of $554 million, as of March 31, 2015, as compared to Venezuelan bolivar denominated net monetary assets of $481 million, including cash of $481 million, as of December 31, 2014, based on the SICAD exchange rate of 12.0 Venezuelan bolivars per U.S. dollar. In the first quarter of 2015, our Venezuelan subsidiary generated revenues of approximately $200 million and operating profit before depreciation and amortization of approximately $75 million.

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 auctions, which are 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. Significant uncertainties exist regarding the exchange mechanisms in Venezuela including the nature of transactions that are eligible for repatriation though the official process, SICAD or SIMADI, or any other new exchange mechanism that may emerge, how such mechanisms will operate in the future, as well as the volume of U.S. dollars available under each mechanism. Changes in exchange mechanisms and rates will impact the comparability of our results of operations and financial position, and would likely result in significant future devaluations.

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

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Dividend Policy

The Merger Agreement precludes the Company from paying a dividend so long as the Merger Agreement is in effect.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of March 31, 2015, including the future periods in which payments are expected. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements in Part I, Item 1 referenced in the table below and the Notes to the Consolidated Financial Statements in Part II, Item 8 in our Form 10-K for the year ended December 31, 2014. The contractual obligations below do not include payments that could be made related to our net unrecognized tax benefits liability, which amounted to $548 million as of March 31, 2015. The timing and amount of any future payments is not reasonably estimable, as such payments are dependent on the completion and resolution of examinations with tax authorities. We do not expect a significant payment related to these obligations within the next twelve months.

	Payments Due By Period				
Contractual Obligations	**Total**	**2015**	**2016-2017**	**2018-2019**	**2020 and thereafter**
	(Dollars in Millions)				
Long-term debt obligations (Note 3)(a)	$ 30,164	$ 648	$ 5,249	$ 3,286	$ 20,981
Purchase obligations(b)	16,305	1,744	4,020	3,696	6,845
Operating lease obligations(c)	966	86	200	198	482
Capital lease obligations(d)	1,288	108	282	254	644
Total	$ 48,723	$ 2,586	$ 9,751	$ 7,434	$ 28,952

(a) Long-term debt obligations include interest calculated based on the rates in effect at March 31, 2015, however, the obligations do not reflect potential prepayments required under indentures.

(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 5 of the Notes to the Consolidated Financial Statements of this Quarterly Report, which we incorporate herein by reference.

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CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

For a discussion of "Certain Relationships and Related-Party Transactions," see Part I, Item 1, Note 6 of the Notes to the Consolidated Financial Statements of this Quarterly Report, which we incorporate herein by reference.

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 for the year ended December 31, 2014.

* * *

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the three months ended March 31, 2015. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Part II of our Annual Report on Form 10-K for the year ended December 31, 2014.

* * *

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 March 31, 2015.

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 March 31, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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 March 31, 2015 or subsequent thereto, but before the filing of the report, are summarized below:

Intellectual Property Litigation. We are a defendant in several unrelated lawsuits claiming infringement of various patents relating to various aspects of our businesses. In certain of these cases other industry participants are also defendants, and also in certain of these cases we expect that any potential liability would be the responsibility of our equipment vendors pursuant to applicable contractual indemnification provisions. 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.

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 with the individual plaintiffs in the federal cases. In the California state court action, the United States Supreme Court agreed to review the California Court of Appeal's opinion affirming the denial of our motion to compel arbitration. 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.

FTC Litigation. On March 11, 2015, the Federal Trade Commission, or FTC, filed a lawsuit against DIRECTV and DIRECTV, LLC in United States District Court for the Northern District of California. The FTC alleges that DIRECTV failed to disclose adequately in our advertisements certain terms and conditions of our programming package offers. The complaint also alleges that DIRECTV violated applicable law by failing adequately to disclose, and to obtain consumers' express consent to, the terms of negative option offers for premium channels. The complaint seeks a permanent injunction to prevent further violations, as well as relief to redress injury to consumers. We believe we have valid defenses to the FTC's claims and we intend to vigorously defend the lawsuit.

Waste Disposal Inquiry. In August 2012, DIRECTV U.S. received from the State of California subpoenas and interrogatories related to our generation, handling, record keeping, transportation and disposal of hazardous waste, including universal waste, in the State of California, and the training of employees regarding the same. The investigation is jointly conducted by the Office of the Attorney General and the District Attorney for Alameda County and appears to be part of a broader effort to investigate waste handling and disposal processes of a number of industries. We are continuing to review our policies and procedures applicable to all facilities, cooperating with the investigation and recently began discussions with regulators directed at reaching resolution of this matter.

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.

* * *

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2014 have not materially changed. See Part I Item 2 of this Quarterly Report related to "forward-looking statements" which we incorporate by reference.

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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. In accordance with the Merger Agreement, we 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, effective May 18, 2014.

During the three months ended March 31, 2015 there were no share repurchases.

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ITEM 6. EXHIBITS

Exhibit Number	Exhibit Name
10.1	Form of 2015 Restricted Stock Unit Award Agreement between DIRECTV and Michael D. White (incorporated by reference to Exhibit 10.1 to the Form 8-K of DIRECTV filed February 19, 2015 (SEC File No. 1-34554) (The "February 2015 8-K")
10.2	Summary Terms and Conditions for the 2015 Time-Based RSU Grants (incorporated by reference to Exhibit 10.2 to the February 2015 8-K (SEC File No.1-34554))
10.3	Summary Terms and Conditions for the 2015 Elected Officer Cash Bonus Plan (incorporated by reference to Exhibit 10.3 to the February 2015 8-K (SEC File No.1-34554))
*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

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* Furnished, not filed.

Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIRECTV
(Registrant)

Date: May 8, 2015

By: /s/ PATRICK T. DOYLE

Patrick T. Doyle
(Duly Authorized Officer and Executive Vice President and Chief Financial Officer)

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