

DIRECTV  
Form 10-Q  
May 12, 2014

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2014**

**OR**

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

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

**DIRECTV**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**26-4772533**

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

**2260 East Imperial Highway  
El Segundo, California**  
(Address of principal executive offices)

**90245**  
(Zip Code)

**(310) 964-5000**

(Registrant's telephone number, including area code)

**N/A**

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

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

## Edgar Filing: DIRECTV - Form 10-Q

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a  
smaller reporting company)

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

As of May 1, 2014, the registrant had outstanding 503,824,432 shares of common stock.

---

Table of Contents

**DIRECTV**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<u>Part I. Financial Information (Unaudited)</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013</u>	<u>3</u>
<u>Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013</u>	<u>5</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>57</u>
<u>Item 4. Controls and Procedures</u>	<u>57</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>58</u>
<u>Item 1A. Risk Factors</u>	<u>59</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>59</u>
<u>Item 6. Exhibits</u>	<u>60</u>
<u>Signatures</u>	<u>61</u>

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in Millions, Except Per Share Amounts)</b>	
Revenues	\$ 7,855	\$ 7,580
Operating costs and expenses		
Costs of revenues, exclusive of depreciation and amortization expense		
Broadcast programming and other	3,383	3,196
Subscriber service expenses	551	537
Broadcast operations expenses	97	110
Selling, general and administrative expenses, exclusive of depreciation and amortization expense		
Subscriber acquisition costs	827	814
Upgrade and retention costs	321	368
General and administrative expenses	454	469
Venezuelan currency devaluation charge	281	166
Depreciation and amortization expense	714	678
Total operating costs and expenses	6,628	6,338
Operating profit	1,227	1,242
Interest income	13	22
Interest expense	(232)	(217)
Other, net	57	38
Income before income taxes	1,065	1,085
Income tax expense	(496)	(387)
Net income	569	698
Less: Net income attributable to noncontrolling interest	(8)	(8)
Net income attributable to DIRECTV	\$ 561	\$ 690

Edgar Filing: DIRECTV - Form 10-Q

Basic earnings attributable to DIRECTV per common share	\$ 1.10	\$ 1.21
Diluted earnings attributable to DIRECTV per common share	\$ 1.09	\$ 1.20
Weighted average number of common shares outstanding (in millions):		
Basic	511	572
Diluted	515	577

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in Millions)</b>	
Net income	\$ 569	\$ 698
Other comprehensive income (loss), net of taxes:		
Cash flows hedges:		
Unrealized losses arising during the period	(7)	(36)
Reclassification adjustments included in net income	(8)	49
Foreign currency translation adjustments	39	(26)
Available for sale securities:		
Unrealized holding gains on securities		3
Reclassification adjustment for net losses recognized during the period		(1)
Other comprehensive income (loss)	24	(11)
Comprehensive income	593	687
Less: Comprehensive income attributable to noncontrolling interest	(11)	(16)
Comprehensive income attributable to DIRECTV	\$ 582	\$ 671

---

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

Table of Contents

**DIRECTV**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	March 31, 2014	December 31, 2013
	(Dollars in Millions, Except Share Data)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,014	\$ 2,180
Accounts receivable, net of allowances of \$104 and \$95	2,483	2,547
Inventories	319	283
Deferred income taxes	146	140
Prepaid expenses and other	487	803
Total current assets	6,449	5,953
Satellites, net	2,468	2,467
Property and equipment, net	6,737	6,650
Goodwill	3,982	3,970
Intangible assets, net	911	920
Investments and other assets	1,973	1,945
Total assets	\$ 22,520	\$ 21,905
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,286	\$ 4,685
Unearned subscriber revenues and deferred credits	632	589
Current debt	2,460	1,256
Total current liabilities	7,378	6,530
Long-term debt	18,338	18,284
Deferred income taxes	1,838	1,804
Other liabilities and deferred credits	1,478	1,456
Commitments and contingencies		
Redeemable noncontrolling interest		375
Stockholders' deficit		
Common stock and additional paid-in capital \$0.01 par value, 3,950,000,000 shares authorized, 507,599,071 and 519,306,232 shares issued and outstanding of common stock at March 31, 2014 and December 31, 2013, respectively	3,549	3,652
Accumulated deficit	(10,149)	(9,874)
Accumulated other comprehensive loss	(298)	(322)
Total DIRECTV stockholders' deficit	(6,898)	(6,544)

Edgar Filing: DIRECTV - Form 10-Q

Noncontrolling interest	386	
Total stockholders' deficit	(6,512)	(6,544)
Total liabilities and stockholders' deficit	\$ 22,520	\$ 21,905

---

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



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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in Millions)</b>	
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 569	\$ 698
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	714	678
Venezuelan currency devaluation charge	281	166
Amortization of deferred revenues and deferred credits	(12)	(13)
Share-based compensation expense	20	34
Equity in earnings from unconsolidated affiliates	(44)	(32)
Net foreign currency transaction gain	(6)	(6)
Net gains from sale of investments	(2)	(7)
Deferred income taxes	84	95
Excess tax benefit from share-based compensation	(22)	(24)
Other	15	5
Change in other operating assets and liabilities:		
Accounts receivable	98	51
Inventories	(36)	(10)
Prepaid expenses and other	303	43
Accounts payable and accrued liabilities	(397)	(167)
Unearned subscriber revenue and deferred credits	43	41
Other, net	(18)	(16)
<b>Net cash provided by operating activities</b>	<b>1,590</b>	<b>1,536</b>
<b>Cash Flows From Investing Activities</b>		
Cash paid for property and equipment	(650)	(748)
Cash paid for satellites	(54)	(78)
Investment in companies, net of cash acquired	(4)	(3)
Proceeds from sale of investments	4	16
Other, net	(3)	(5)
<b>Net cash used in investing activities</b>	<b>(707)</b>	<b>(818)</b>
<b>Cash Flows From Financing Activities</b>		
Issuance of commercial paper (maturity 90 days or less), net	105	190
Proceeds from short-term borrowings	90	84
Repayment of short-term borrowings	(200)	(153)
Proceeds from long-term debt	1,260	792
Debt issuance costs	(6)	(4)
Repayment of long-term debt	(11)	
Repayment of other long-term obligations	(15)	(18)
Common shares repurchased and retired	(895)	(1,378)
Prepayment of accelerated share repurchase		(230)
Taxes paid in lieu of shares issued for share-based compensation	(57)	(61)
Excess tax benefit from share-based compensation	22	24

Edgar Filing: DIRECTV - Form 10-Q

Other, net	(26)	
Net cash provided by (used in) in financing activities	267	(754)
Effect of exchange rate changes on Venezuelan cash and cash equivalents	(316)	(187)
Net increase (decrease) in cash and cash equivalents	834	(223)
Cash and cash equivalents at beginning of the period	2,180	1,902
Cash and cash equivalents at end of the period	\$ 3,014	\$ 1,679

**Supplemental Cash Flow Information**

Cash paid for interest	\$ 328	\$ 325
Cash paid for income taxes	84	94

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

Table of Contents

**DIRECTV**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1: Description of Business and Basis of Presentation**

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

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

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

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

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial reporting. In the opinion of management, all adjustments (consisting only of normal recurring items) that are necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 24, 2014, 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

Table of Contents**DIRECTV****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.

**Note 2: 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, 2014:

	DIRECTV U.S.	Sky Brasil	DIRECTV Latin America PanAmericana and Other	Sports Networks, Eliminations and Other	Total
	(Dollars in Millions)				
Balance as of January 1, 2014	\$ 3,191	\$ 346	\$ 211	\$ 222	\$ 3,970
Sky Brasil foreign currency translation adjustment		12			12
Balance as of March 31, 2014	\$ 3,191	\$ 358	\$ 211	\$ 222	\$ 3,982

**Note 3: Debt**

The following table sets forth our outstanding debt as of:

	March 31, 2014	December 31, 2013
	(Dollars in Millions)	
Current debt		
Commercial paper	\$ 195	\$ 200
Current portion of long-term debt	2,200	1,000
Current portion of borrowings under BNDES financing facility	65	56
Long-term debt		
Senior notes	18,263	18,203
Borrowings under BNDES financing facility	75	81
Total debt	\$ 20,798	\$ 19,540

The amount of interest accrued related to our outstanding debt was \$169 million at March 31, 2014 and \$271 million at December 31, 2013.

*Senior Notes*

*Three Months Ended March 31, 2014 Financing Transactions*

On March 17, 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.

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

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

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.

*Three Months Ended March 31, 2013 Financing Transactions*

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

The following table sets forth our outstanding senior notes:

	Principal amount March 31, 2014	Carrying value, net of unamortized original issue discounts	
		March 31, 2014	December 31, 2013
(Dollars in Millions)			
4.750% senior notes due in 2014	\$ 1,000	\$ 1,000	\$ 1,000
3.550% senior notes due in 2015	1,200	1,200	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	745	744
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	1,500	1,495	1,495
3.800% senior notes due in 2022	1,500	1,499	1,499
2.750% senior notes due in 2023(1)	688	685	684
4.450% senior notes due in 2024	1,250	1,245	
4.375% senior notes due in 2029(1)	1,250	1,237	1,229
5.200% senior notes due in 2033(1)	583	581	577
6.350% senior notes due in 2040	500	500	500
6.000% senior notes due in 2040	1,250	1,235	1,235
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
<b>Total senior notes</b>	<b>\$ 20,521</b>	<b>\$ 20,463</b>	<b>\$ 19,203</b>

(1)

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.

## Edgar Filing: DIRECTV - Form 10-Q

The fair value of our senior notes was approximately \$21,078 million at March 31, 2014 and \$19,424 million at December 31, 2013. We calculated the fair values based on quoted market prices of our senior notes, which is a Level 1 input under accounting guidance for fair value measurements of assets and liabilities.

Table of Contents

**DIRECTV**

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

**(Unaudited)**

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.

Our senior notes which have not been redeemed mature as follows: \$1,200 million in 2015, \$2,250 million in 2016, \$1,250 million in 2017, \$750 million in 2018 and \$14,071 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, 2014, we had \$195 million of short-term commercial paper outstanding, with a weighted average remaining maturity of 34 days, at a weighted average yield of 0.38%, which may be refinanced on a periodic basis as borrowings mature. Aggregate amounts outstanding under the revolving credit facilities described below and the commercial paper program are limited to \$2.5 billion.

*Revolving Credit Facilities*

DIRECTV U.S. has a 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, 2014, there were no borrowings outstanding under the revolving credit facilities.

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

*Covenants and Restrictions*

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



Table of Contents

**DIRECTV**

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

**(Unaudited)**

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

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

*BNDES Financing Facility*

In March 2013, Sky Brasil entered into a 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, 2014, Sky Brasil had borrowings of \$140 million outstanding under the BNDES facility bearing interest at a weighted-average rate of 3.12% per year. As of December 31, 2013, Sky Brasil had borrowings of \$137 million outstanding under the BNDES facility bearing interest at a weighted-average rate of 3.07% per year. Borrowings under the facility are required to be repaid in 30 monthly installments. The U.S. dollar amounts reflect the conversion of the Brazilian real denominated amounts into U.S. dollars based on the exchange rate of R\$2.26 / \$1.00 at March 31, 2014.

Borrowings under the BNDES facility mature as follows: \$48 million in 2014, \$64 million in 2015 and \$28 million in 2016. The financing facility is collateralized by the financed set-top receivers with an original purchase price of approximately \$185 million based on the exchange rate at the time of purchase.

*Restricted Cash*

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

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 4: 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 record derivative financial instruments in the Consolidated Balance Sheets as either assets or liabilities at fair value. 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. We measured \$1 million of ineffectiveness for the three months ended March 31, 2014 related to the settlement of the forward starting interest rate swaps discussed below and no ineffectiveness for the three months ended March 31, 2013.

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

	Assets		Liabilities	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
	(Dollars in millions)			
Cash flow hedges:				
Cross-currency swap contracts	\$ 117	\$ 112	\$	\$
Interest rate contracts		3		1
Total fair value of derivative financial instruments	\$ 117	\$ 115	\$	\$ 1

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

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

	March 31, 2014	December 31, 2013
	(Dollars in millions)	
Cash flow hedges:		
Cross-currency swap contracts	\$ 2,418	\$ 2,418
Interest rate swaps		500
Total notional amount of derivative financial instruments	\$ 2,418	\$ 2,918

## Edgar Filing: DIRECTV - Form 10-Q

*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

Table of Contents

**DIRECTV**

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

**(Unaudited)**

counterparties as of March 31, 2014 and held \$10 million of cash collateral from counterparties as of December 31, 2013. We did not have any cash collateral posted with counterparties as of March 31, 2014 and December 31, 2013. We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

*Cross-Currency Swap Contracts*

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

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

During the 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. During the three months ended March 31, 2013, DIRECTV U.S. recorded net remeasurement gains of \$78 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 \$78 million (\$49 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 Contracts*

On March 17, 2014, DIRECTV U.S. issued \$1,250 million in aggregate principal of 4.45% senior notes due in 2024. In connection with this transaction, DIRECTV U.S. settled forward-starting interest rate swaps, which were previously entered into in order 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 of March 31, 2014, we had recorded \$10 million in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets related to these forward-starting interest rate swaps that will be recognized as interest expense over the term of the 4.45% senior notes due in 2024.

Table of Contents

**DIRECTV**

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

**(Unaudited)**

**Note 5: Contingencies**

*Venezuela Devaluation and Foreign Currency Exchange Controls*

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

In the first quarter of 2013, the Venezuelan government announced a new currency exchange system, the Sistema Complementario de Administración de Divisas, or SICAD 1, which is intended to function as an auction system for participants to exchange bolivars for U.S. dollars. The volume of amounts exchanged through such SICAD 1 system, and the resulting exchange rate, are published by the Venezuelan Central Bank. Effective January 24, 2014, the Venezuelan government announced that dividends and royalties would be subject to the SICAD 1 program. The SICAD 1 exchange rate, which was 10.7 bolivars per U.S. dollar as of March 31, 2014, is determined by periodic auctions. Additionally, in February 2014, the Venezuelan government announced SICAD 2, which is an exchange mechanism that became available on March 24, 2014. The exchange rate for SICAD 2 closed at 49.81 bolivars per U.S. dollar as of March 31, 2014.

We currently believe the SICAD 1 rate is the most representative rate to use for remeasurement, as the official rate of 6.3 bolivars per U.S. dollar will likely be reserved only for the settlement of U.S. dollar denominated obligations related to purchases of "essential goods and services," and the equity of our Venezuelan subsidiary would be realized, if at all, through permitted dividends paid at the SICAD 1 rate. Therefore, as of March 31, 2014, we are remeasuring our Venezuelan subsidiary's financial statements in U.S. dollars using the exchange rate determined by periodic auctions under SICAD 1, which was 10.7 bolivars per U.S. dollar. Until that date, we used the official exchange rate of 6.3 bolivars per U.S. dollar. As a result of the devaluation, we recorded a pre-tax charge in "Venezuelan currency devaluation charge" in the Consolidated Statements of Operations of \$281 million in the first quarter of 2014, related to the remeasurement of the bolivar denominated net monetary assets of our Venezuelan subsidiary on March 31, 2014.

As of March 31, 2014, our Venezuelan subsidiary had Venezuelan bolivar denominated net monetary assets of \$408 million, including cash of \$453 million, based on the SICAD 1 exchange rate of 10.7 bolivars per U.S. dollar. Using the official exchange rate of 6.3 bolivars per U.S. dollar, our Venezuelan subsidiary reported revenues of approximately \$261 million and operating profit of approximately \$80 million in the first quarter of 2014, excluding the impact of the \$281 million Venezuelan devaluation charge. The exchange rate used to report net monetary assets and operating results of our Venezuelan subsidiary is currently expected to be based on the results of periodic SICAD 1 auctions, which would result in fluctuations in reported amounts that could be material to the results of operations in Venezuela in future periods and could materially affect the comparability of results for our Venezuelan subsidiary between periods. The comparability of our results of operations

Table of Contents

**DIRECTV**

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

**(Unaudited)**

and financial position in Venezuela will also be affected in the event of additional changes to the exchange rate system and further devaluations of the Venezuelan bolivar.

*Litigation*

Litigation is subject to uncertainties and the outcome of individual litigated matters is not predictable with assurance. Various legal actions, claims and proceedings are pending against us arising in the ordinary course of business. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. Some of the matters may involve compensatory, punitive, or treble damage claims, or demands that, if granted, could require us to pay damages or make other expenditures in amounts that could not be estimated at March 31, 2014. After discussion with counsel representing us in those actions, it is the opinion of management that such litigation is not expected to have a material effect on our consolidated financial statements. We expense legal costs as incurred.

*International Trade Commission Proceedings.* On April 17, 2014, ViXS Systems, Inc. submitted to the International Trade Commission a request to commence an investigation pursuant to Section 337 of the Tariff Act. The request alleges that certain patents owned by ViXS Systems, Inc. are infringed by components supplied by Entropic Communications, Inc., or by devices that contain those components. Among those accused devices are satellite receivers and other devices for use in systems for receiving the DIRECTV service. DIRECTV LLC, along with Entropic Communications, Inc. and certain companies alleged to be manufacturers of devices for DIRECTV, are identified as respondents. The request seeks an order excluding the accused devices from entry into the United States, and a cease and desist order prohibiting unlawful importation and/or sale of the accused devices after importation. Also on April 17, 2014, ViXS Systems Inc. filed in United States District Court a companion lawsuit alleging infringement of the same patents by the same products of the respondents named in the action before the ITC. The lawsuit seeks an injunction and monetary damages. DIRECTV is in the process of evaluating the claims made in these actions and intends to defend them vigorously.

*Intellectual Property Litigation.* We are a defendant in several unrelated lawsuits claiming infringement of various patents relating to various aspects of our businesses. In certain of these cases other industry participants are also defendants, and also in certain of these cases we expect that at least some potential liability would be the responsibility of our equipment vendors pursuant to applicable contractual indemnification provisions. Further, in certain of these cases, suppliers of equipment to DIRECTV are also defendants, and DIRECTV has contractual obligations to indemnify and hold harmless certain suppliers in those cases. To the extent that the allegations in these lawsuits can be analyzed by us at this stage of their proceedings, we believe the claims are without merit and intend to defend the actions vigorously. We have determined that the likelihood of a material liability in such matters is remote or have made appropriate accruals. The final disposition of these claims is not expected to have a material effect on our consolidated financial position or results of operations. However, if an adverse ruling is made in a lawsuit involving key intellectual property, such ruling could result in a loss that would be material to our consolidated results of operations of any one period. No assurance can be given that any adverse outcome would not be material to our consolidated financial position.

*Early Cancellation Fees.* 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. Several of these lawsuits are pending, some in California state court purporting to represent statewide classes, and some in federal courts purporting to represent

Table of Contents

**DIRECTV**

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

**(Unaudited)**

nationwide classes. The lawsuits seek both monetary and injunctive relief. While the theories of liability vary, the lawsuits generally challenge these fees under state consumer protection laws as both unfair and inadequately disclosed to customers. Our motions to compel arbitration of all claims have been granted in all of the federal cases, except for a case originally filed in Arkansas state court. The denial of our motion to compel arbitration in the California state court case is currently on appeal. We have moved to decertify the class and strike class allegations in the Arkansas federal case. We believe that our early cancellation fees are adequately disclosed, and represent reasonable estimates of the costs we incur when customers cancel service before fulfilling their programming commitments.

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

*SAGAI.* In 2009, Sociedad Argentina de Gestion de Actores Interpretes ("SAGAI") sued DIRECTV Argentina over the payment of performance rights fees. SAGAI claimed that under applicable laws, we are required to pay them 2% of our programming revenues. In the first quarter of 2014, DIRECTV Argentina entered into an agreement with SAGAI whereby DIRECTV agreed to settle all claims for the periods up to December 31, 2013 and agreed on a rate to be paid going forward.

*Waste Disposal Inquiry.* On August 20, 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 diligently reviewing our policies and procedures applicable to all facilities and cooperating with the investigation.

*Income Tax Matters*

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

*Satellites*

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

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

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, 2014, the net book value of in-orbit satellites was \$1,342 million, all of which was uninsured.

*Other*

As of March 31, 2014, we were contingently liable under standby letters of credit and bonds in the aggregate amount of \$259 million primarily related to judicial deposit and payment guarantees in Latin America and insurance deductibles.

**Note 6: Related Party Transactions**

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

The majority of payments under contractual arrangements with related parties are pursuant to multi-year programming contracts. Payments under these contracts are typically subject to annual rate increases and are based on the number of subscribers receiving the related programming.

The following table summarizes revenues and expenses with related parties:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in Millions)</b>	
Revenues	\$ 2	\$ 2
Expenses	241	236

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

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(Dollars in Millions)</b>	
Accounts receivable	\$ 7	\$ 18
Accounts payable	87	100
Long-term liability	85	69



Table of Contents

**DIRECTV**

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

**(Unaudited)**

**Note 7: Stockholders' Deficit and Noncontrolling Interest**

*Capital Stock and Additional Paid-In Capital*

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

*Share Repurchase Program*

Since 2006 our Board of Directors has approved multiple authorizations for the repurchase of our common stock. In February 2014 our Board of Directors approved a new authorization for up to \$3.5 billion for repurchases of our common stock. As of March 31, 2014, we had approximately \$3,438 million remaining under this authorization. The authorization allows us to repurchase our common stock from time to time through open market purchases and negotiated transactions, or otherwise. The timing, nature and amount of such transactions will depend on a variety of factors, including market conditions, and the program may be suspended, discontinued or accelerated at any time. The sources of funds for the purchases under the remaining authorizations are our existing cash on hand, cash from operations and potential additional borrowings. Purchases are made in the open market, through block trades and other negotiated transactions. Repurchased shares are retired, but remain authorized for registration and issuance in the future.

*Accelerated Share Repurchase.* On March 20, 2013, we entered into a variable notional/variable maturity accelerated share repurchase agreement, or ASR, with a third-party financial institution to repurchase \$300 million to \$500 million of our common stock, which was settled during the second quarter of 2013. Under the agreement, we paid \$500 million up-front and received an initial delivery of 4.9 million shares. We retired these shares and recorded a \$270 million reduction to stockholders' equity in the first quarter of 2013. As of March 31, 2013, \$30 million of the \$500 million up-front payment was included as a reduction to "Common stock and additional paid-in capital" and \$200 million was included in "Prepaid expenses and other" in the Consolidated Balance Sheets. We accounted for the ASR as a repurchase of common stock for purposes of calculating earnings per share and as a forward contract indexed to our own common stock, which met all of the applicable criteria for equity classification, and, therefore, was not accounted for as a derivative instrument.

The ASR agreement was settled on April 19, 2013 for a final notional amount of \$337 million. Accordingly, we received an additional 1.2 million shares, which were retired, and we received a \$163 million cash payment from our counterparty equal to the difference between the \$500 million up-front payment and the final notional amount. The final notional amount was determined based upon the volume-weighted average share price of our common stock during the term of the ASR agreement. The number of shares ultimately delivered under the ASR agreement was based upon the final notional amount and the volume-weighted average share price of our common stock during the term of the ASR agreement, less an agreed discount.

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Amounts in Millions, Except Per Share Amounts)</b>	
Total cost of repurchased shares (1)	\$ 925	\$ 1,378
Average price per share	\$ 71.53	\$ 52.09
Number of shares repurchased and retired	13	26

(1)

The \$1,378 million in repurchases during the three months ended March 31, 2013 does not include the \$30 million of stock received upon the settlement of the ASR in April 2013.

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.

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

The following tables set forth a reconciliation of stockholders' deficit 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)								
<b>Balance as of January 1, 2014</b>	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)
<b>Balance as of March 31, 2014</b>	507,599,071	\$ 3,549	\$ (10,149)	\$ (298)	\$ (6,898)	\$ 386	\$ (6,512)	\$

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

The following tables set forth a reconciliation of stockholders' deficit and redeemable noncontrolling interest for the three months ended March 31, 2013:

	DIRECTV Common Shares	Common Stock and Additional Paid-In Capital	Stockholders' Deficit			Total Stockholders' Deficit	Redeemable Noncontrolling Interest	Net Income
			Accumulated Deficit	Accumulated Other Comprehensive Loss				
(Amounts in Millions, Except Share Data)								
<b>Balance as of January 1, 2013</b>	586,839,817	\$ 4,021	\$ (9,210)	\$ (242)	\$ (5,431)	\$ 400		
Net income			690		690	8	\$ 698	
Stock repurchased and retired	(26,452,953)	(181)	(1,197)		(1,378)			
Stock to be received upon settlement of ASR		(30)			(30)			
Stock options exercised and restricted stock units vested and distributed	1,960,643	(61)			(61)			
Share-based compensation expense		34			34			
Tax benefit from share-based compensation		24			24			
Adjustment to the fair value of redeemable noncontrolling interest		16			16	(16)		
Other		(1)			(1)			
Other comprehensive loss				(11)	(11)	8		
<b>Balance as of March 31, 2013</b>	562,347,507	\$ 3,822	\$ (9,717)	\$ (253)	\$ (6,148)	\$ 400		

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

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

	Three Months Ended March 31,					
	Pre-Tax	2014 Tax Benefit (Expense)	Net of Tax	Pre-Tax	2013 Tax Benefit (Expense)	Net of Tax
(Dollars in Millions)						
<b>Cash flows hedges:</b>						
Unrealized losses arising during the period	\$ (12)	\$ 5	\$ (7)	\$ (57)	\$ 21	\$ (36)
Reclassification adjustments included in "Other, net"	(13)	5	(8)	78	(29)	49
Foreign currency translation adjustments	63	(24)	39	(43)	17	(26)
<b>Available for sale securities:</b>						
Unrealized holding gains on securities				5	(2)	3
Reclassification adjustment for net losses recognized during the period, included in "Other, net"				(2)	1	(1)
<b>Other comprehensive income (loss)</b>	<b>\$ 38</b>	<b>\$ (14)</b>	<b>\$ 24</b>	<b>\$ (19)</b>	<b>\$ 8</b>	<b>\$ (11)</b>

*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	Unrealized Gains (Losses) on Available for Sale Securities	Accumulated Other Comprehensive Loss
(Dollars in Millions)					
<b>Balance as of January 1, 2014</b>	\$ (123)	\$ 14	\$ (213)	\$	\$ (322)
Other comprehensive income (loss)		(15)	39		24
<b>Balance as of March 31, 2014</b>	<b>\$ (123)</b>	<b>\$ (1)</b>	<b>\$ (174)</b>	<b>\$</b>	<b>\$ (298)</b>

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

	Defined Benefit Plan Items	Gains (Losses) on Cash Flow Hedges	Foreign Currency Items	Unrealized Gains (Losses) on Available for Sale Securities	Accumulated Other Comprehensive Loss
(Dollars in Millions)					
<b>Balance as of January 1, 2013</b>	\$ (184)	\$ (17)	\$ (40)	\$ (1)	\$ (242)
Other comprehensive income (loss)		13	(26)	2	(11)
<b>Balance as of March 31, 2013</b>	\$ (184)	\$ (4)	\$ (66)	\$ 1	\$ (253)

**Note 8: 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 and 1.7 million common stock awards from the computation of diluted EPS, during the three months ended March 31, 2014 and March 31, 2013, respectively, because the inclusion of the potential common shares would have had an antidilutive effect.

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

	Income	Shares	Per Share Amounts
	(Dollars and Shares in Millions, Except Per Share Amounts)		
<b>Three Months Ended</b>			
<b>March 31, 2014</b>			
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

**March 31, 2013**

Basic EPS

Net income attributable to DIRECTV	\$	690	572	\$	1.21
------------------------------------	----	-----	-----	----	------

Effect of dilutive securities

Dilutive effect of stock options and restricted stock units			5		(0.01)
---	--	--	---	--	--------

Diluted EPS

Adjusted net income attributable to DIRECTV	\$	690	577	\$	1.20
---	----	-----	-----	----	------

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Note 9: Segment Reporting**

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

Selected information for our operating segments is reported as follows:

	External Revenues	Intersegment Revenues	Total Revenues	Operating Profit (Loss)	Depreciation and Amortization Expense	Operating Profit (Loss) Before Depreciation and Amortization(1)
<b>Three Months Ended</b>						
<b><u>March 31, 2014</u></b>						
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
<b><u>March 31, 2013</u></b>						
DIRECTV U.S.	\$ 5,788	\$ 2	\$ 5,790	\$ 1,115	\$ 406	\$ 1,521
Sky Brasil	965		965	154	157	311
PanAmericana and Other	763		763	(37)	106	69
DIRECTV Latin America	1,728		1,728	117	263	380
Sports Networks, Eliminations and Other	64	(2)	62	10	9	19



Total	\$ 7,580	\$	\$ 7,580	\$ 1,242	\$	678	\$	1,920
-------	----------	----	----------	----------	----	-----	----	-------

---

(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

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

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 or prospective enterprise value and make investment decisions. This metric provides investors with a means to compare operating results exclusive of depreciation and amortization. Our management believes this is useful given the significant variation in depreciation and amortization expense that can result from the timing of capital expenditures, the capitalization of intangible assets, potential variations in expected useful lives when compared to other companies and periodic changes to estimated useful lives.

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in Millions)</b>	
Operating profit before depreciation and amortization	\$ 1,941	\$ 1,920
Depreciation and amortization	(714)	(678)
Operating profit	1,227	1,242
Interest income	13	22
Interest expense	(232)	(217)
Other, net	57	38
Income before income taxes	1,065	1,085
Income tax expense	(496)	(387)
Net income	569	698
Less: Net income attributable to noncontrolling interest	(8)	(8)
Net income attributable to DIRECTV	\$ 561	\$ 690



Table of Contents

**DIRECTV**

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

**(Unaudited)**

**Note 10: Condensed Consolidating Financial Statements**

As discussed above in Note 3, 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, 2014 and 2013, the condensed consolidating statements of cash flows for the three months ended March 31, 2014 and 2013, and the condensed consolidating balance sheets as of March 31, 2014 and December 31, 2013.

The condensed consolidating financial statements are comprised of DIRECTV, or the Parent Guarantor, its indirect 100% owned subsidiaries, DIRECTV Holdings, DIRECTV Financing and each of DIRECTV Holdings' material subsidiaries (other than DIRECTV Financing), or the Guarantor Subsidiaries, as well as other subsidiaries who are not guarantors of the senior notes, or the Non-Guarantor Subsidiaries, and the eliminations necessary to present DIRECTV's financial statements on a consolidated basis. The Non-Guarantor Subsidiaries consist primarily of DIRECTV's DTH digital television services throughout Latin America which are held by DIRECTV Latin America Holdings, Inc. and its subsidiaries, and our regional sports networks which are held by DIRECTV Sports Networks LLC and its subsidiaries. In addition, the Non-Guarantor Subsidiaries include the entity that is the parent of DIRECTV Holdings.

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

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

Subsequent to the issuance of our 2013 financial statements, management identified certain corrections that were needed in the presentation of the condensed consolidating financial information. With respect to the Non-Guarantor Subsidiaries, we previously presented the investment of the parent entity, which is a Non-Guarantor Subsidiary, that owns DIRECTV Latin America Holdings, Inc. and DIRECTV Sports Networks LLC in "Investment in subsidiaries" with the corresponding equity of those subsidiaries in "Stockholders' equity (deficit)." We previously recorded the elimination of those amounts in the Eliminations column. We now present the elimination of those amounts, including the elimination of all intercompany receivables and payables within the Non-Guarantor Subsidiaries column. Accordingly, we eliminated \$410 million from "Investment in subsidiaries" and "Stockholders' equity (deficit)" in the Condensed Consolidating Balance Sheets as of December 31, 2013 and eliminated \$3,612 million from "Total current assets" and "Intercompany receivables", "Total current liabilities" and "Intercompany liabilities" in the Condensed Consolidating Balance Sheets as of December 31, 2013. Also in the Non-Guarantor subsidiaries, we reclassified \$19,036 million from "Common stock and additional paid-in-capital" to "Retained earnings (accumulated deficit)" in the Condensed Consolidated Balance Sheet as of December 31, 2013 to correctly classify dividends paid to the Parent Guarantor. Lastly, we recorded a \$494 million adjustment to "Total current assets" and

Table of Contents

**DIRECTV**

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

**(Unaudited)**

"Total current liabilities" and related entries to "Investment in subsidiaries" and "Stockholders' equity (deficit)" in the Condensed Consolidating Balance Sheets for the Parent Guarantor, Co-Issuers, Guarantor Subsidiaries and Non-Guarantor Subsidiaries to reclassify the tax allocation as of December 31, 2013.

We now present the equity earnings of DIRECTV Holdings, which is a subsidiary of DIRECTV Group, an entity included in Non-Guarantor Subsidiaries, in "Equity in income of consolidated subsidiaries" in the Condensed Consolidating Statements of Operations. Accordingly, we present \$652 million in "Equity in income of consolidated subsidiaries" in the Condensed Consolidating Statements of Operations for the three months ended March 31, 2013.

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

There was no impact to our consolidated results of operations, balance sheet or cash flows as a result of these changes.

Table of Contents**DIRECTV****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	
<b>Total operating costs and expenses</b>		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	
<b>Income before income taxes</b>		557	567	1,246	698	(2,003)	1,065
Income tax benefit (expense)		4	81	(459)	(122)		(496)
<b>Net income</b>		561	648	787	576	(2,003)	569
Less: Net income attributable to noncontrolling interest					(8)		(8)
<b>Net income attributable to DIRECTV</b>	\$	\$ 561	\$ 648	\$ 787	\$ 568	\$ (2,003)	\$ 561



Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Operations  
For the Three Months Ended March 31, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
(Dollars in Millions)						
Revenues	\$	\$	\$ 5,790	\$ 1,811	\$ (21)	\$ 7,580
Operating costs and expenses						
Costs of revenues, exclusive of depreciation and amortization expense						
Broadcast programming and other			2,601	613	(18)	3,196
Subscriber service expenses			351	186		537
Broadcast operations expenses			81	32	(3)	110
Selling, general and administrative expenses, exclusive of depreciation and amortization expense						
Subscriber acquisition costs			629	185		814
Upgrade and retention costs			319	49		368
General and administrative expenses	13		288	168		469
Venezuelan currency devaluation charge				166		166
Depreciation and amortization expense			406	272		678
<b>Total operating costs and expenses</b>	<b>13</b>		<b>4,675</b>	<b>1,671</b>	<b>(21)</b>	<b>6,338</b>
Operating profit (loss)	(13)		1,115	140		1,242
Equity in income of consolidated subsidiaries	698	793		652	(2,143)	
Interest income	6			19	(3)	22
Interest expense		(201)	(1)	(18)	3	(217)
Other, net	(4)		12	30		38
Income before income taxes	687	592	1,126	823	(2,143)	1,085
Income tax benefit (expense)	3	60	(333)	(117)		(387)
Net income	690	652	793	706	(2,143)	698
Less: Net income attributable to noncontrolling interest				(8)		(8)
<b>Net income attributable to DIRECTV</b>	<b>\$ 690</b>	<b>\$ 652</b>	<b>\$ 793</b>	<b>\$ 698</b>	<b>\$ (2,143)</b>	<b>\$ 690</b>



Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Comprehensive Income  
For the Three Months Ended March 31, 2014**

	<b>Parent</b>	<b>Guarantor</b>	<b>Non- Guarantor</b>	<b>Non- Guarantor</b>	<b>Eliminations</b>	<b>DIRECTV</b>
	<b>Guarantor</b>	<b>Co-Issuers</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>		<b>Consolidated</b>
	<b>(Dollars in Millions)</b>					
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
Less: Comprehensive income attributable to noncontrolling interest				(11)		(11)
Comprehensive income attributable to DIRECTV	\$ 561	\$ 633	\$ 787	\$ 604	\$ (2,003)	\$ 582

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Comprehensive Income  
For the Three Months Ended March 31, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
	(Dollars in Millions)					
Net income	\$ 690	\$ 652	\$ 793	\$ 706	\$ (2,143)	\$ 698
Other comprehensive income (loss), net of taxes:						
Cash flows hedges:						
Unrealized losses arising during the period		(36)				(36)
Reclassification adjustments included in net income		49				49
Foreign currency translation adjustments				(26)		(26)
Available for sale securities:						
Unrealized holding gains on securities				3		3
Reclassification adjustments recognized for net losses during the period				(1)		(1)
Other comprehensive income (loss)		13		(24)		(11)
Comprehensive income	690	665	793	682	(2,143)	687
Less: Comprehensive income attributable to noncontrolling interest				(16)		(16)
Comprehensive income attributable to DIRECTV	\$ 690	\$ 665	\$ 793	\$ 666	\$ (2,143)	\$ 671

Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Balance Sheet  
As of March 31, 2014**

	<b>Parent Guarantor</b>	<b>Co-Issuers</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>DIRECTV Consolidated</b>
<b>ASSETS</b>						
Total current assets	\$ 644	\$ 1,785	\$ 2,518	\$ 1,711	\$ (209)	\$ 6,449
Satellites, net			1,782	686		2,468
Property and equipment, net			3,724	3,013		6,737
Goodwill		1,828	1,363	791		3,982
Intangible assets, net			521	398	(8)	911
Intercompany receivables	5,024	8,441	22,283	1,507	(37,255)	
Investment in subsidiaries	(10,556)	18,633		(12,579)	4,502	
Investments and other assets	96	199	334	1,453	(109)	1,973
<b>Total assets</b>	<b>\$ (4,792)</b>	<b>\$ 30,886</b>	<b>\$ 32,525</b>	<b>\$ (3,020)</b>	<b>\$ (33,079)</b>	<b>\$ 22,520</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>						
Total current liabilities	\$ 131	\$ 2,598	\$ 3,542	\$ 1,316	\$ (209)	\$ 7,378
Long-term debt		18,263		75		18,338
Deferred income taxes		6	1,618	323	(109)	1,838
Intercompany liabilities	1,576	22,262	8,441	4,976	(37,255)	
Other liabilities and deferred credits	399	336	291	460	(8)	1,478
Stockholders' equity (deficit)						
Common stock and additional paid-in capital	3,549	21	4,963	3,664	(8,648)	3,549
Retained earnings (accumulated deficit)	(10,149)	(12,600)	13,670	(14,016)	12,946	(10,149)
Accumulated other comprehensive loss	(298)			(204)	204	(298)
<b>Total DIRECTV stockholders' equity (deficit)</b>	<b>(6,898)</b>	<b>(12,579)</b>	<b>18,633</b>	<b>(10,556)</b>	<b>4,502</b>	<b>(6,898)</b>
Noncontrolling interest				386		386
<b>Total stockholders' equity (deficit)</b>	<b>(6,898)</b>	<b>(12,579)</b>	<b>18,633</b>	<b>(10,170)</b>	<b>4,502</b>	<b>(6,512)</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ (4,792)</b>	<b>\$ 30,886</b>	<b>\$ 32,525</b>	<b>\$ (3,020)</b>	<b>\$ (33,079)</b>	<b>\$ 22,520</b>



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

	<b>Parent Guarantor</b>	<b>Co-Issuers</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>DIRECTV Consolidated</b>
<b>(Dollars in Millions)</b>						
<b>ASSETS</b>						
Total current assets	\$ 979	\$ 1,133	\$ 2,577	\$ 1,775	\$ (511)	\$ 5,953
Satellites, net			1,810	657		2,467
Property and equipment, net			3,724	2,926		6,650
Goodwill		1,828	1,363	779		3,970
Intangible assets, net			527	401	(8)	920
Intercompany receivables	4,750	7,820	20,985	1,387	(34,942)	
Investment in subsidiaries	(10,131)	17,809		(12,214)	4,536	
Investments and other assets	92	190	361	1,416	(114)	1,945
<b>Total assets</b>	<b>\$ (4,310)</b>	<b>\$ 28,780</b>	<b>\$ 31,347</b>	<b>\$ (2,873)</b>	<b>\$ (31,039)</b>	<b>\$ 21,905</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>						
Total current liabilities	\$ 448	\$ 1,476	\$ 3,812	\$ 1,305	\$ (511)	\$ 6,530
Long-term debt		18,203		81		18,284
Deferred income taxes		9	1,632	277	(114)	1,804
Intercompany liabilities	1,387	20,985	7,820	4,750	(34,942)	
Other liabilities and deferred credits	399	321	274	470	(8)	1,456
Redeemable noncontrolling interest				375		375
Stockholders' equity (deficit)						
Common stock and additional paid-in capital	3,652	25	4,930	3,671	(8,626)	3,652
Retained earnings (accumulated deficit)	(9,874)	(12,253)	12,879	(13,574)	12,948	(9,874)
Accumulated other comprehensive income (loss)	(322)	14		(228)	214	(322)
<b>Total stockholders' equity (deficit)</b>	<b>(6,544)</b>	<b>(12,214)</b>	<b>17,809</b>	<b>(10,131)</b>	<b>4,536</b>	<b>(6,544)</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ (4,310)</b>	<b>\$ 28,780</b>	<b>\$ 31,347</b>	<b>\$ (2,873)</b>	<b>\$ (31,039)</b>	<b>\$ 21,905</b>



Table of Contents

## DIRECTV

## 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)						
<b>Cash flows from operating activities</b>						
Net cash provided by (used in) operating activities	\$ 594	\$ (305)	\$ 1,482	\$ 489	\$ (670)	\$ 1,590
<b>Cash flows from investing activities</b>						
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)
<b>Cash flows from financing activities</b>						
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)

Edgar Filing: DIRECTV - Form 10-Q

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



Table of Contents**DIRECTV****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****Condensed Consolidating Statement of Cash Flows  
For the Three Months Ended March 31, 2013**

	Parent Guarantor	Co-Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	DIRECTV Consolidated
(Dollars in Millions)						
<b>Cash flows from operating activities</b>						
Net cash provided by (used in) operating activities	\$ 570	\$ (311)	\$ 1,488	\$ 422	\$ (633)	\$ 1,536
<b>Cash flows from investing activities</b>						
Cash paid for property and equipment			(396)	(352)		(748)
Cash paid for satellites			(53)	(25)		(78)
Investment in companies, net of cash acquired				(3)		(3)
Proceeds from sale of investments			12	4		16
Return of capital from subsidiary	1,382				(1,382)	
Intercompany funding	(152)	(391)	(1,418)	(78)	2,039	
Other, net			2	(7)		(5)
Net cash provided by (used in) investing activities	1,230	(391)	(1,853)	(461)	657	(818)
<b>Cash flows from financing activities</b>						
Issuance of commercial paper (maturity 90 days or less), net		190				190
Proceeds from short-term borrowings		84				84
Repayment of short-term borrowings		(153)				(153)
Proceeds from long-term debt		743		49		792
Debt issuance costs		(4)				(4)
Repayment of other long-term obligations			(6)	(12)		(18)
Common shares repurchased and retired	(1,378)					(1,378)
Prepayment of accelerated share repurchase	(230)					(230)
Taxes paid in lieu of shares issued for share-based compensation	(61)		(51)	(10)	61	(61)
Excess tax benefit from share-based compensation	24		20	4	(24)	24
Intercompany payments	17	1,418	396	180	(2,011)	
Cash dividend to Parent		(1,950)			1,950	
Net cash provided by (used in) financing activities	(1,628)	328	359	211	(24)	(754)
Effect of exchange rate changes on Venezuelan cash and cash equivalents				(187)		(187)

Edgar Filing: DIRECTV - Form 10-Q

Net increase (decrease) in cash and cash equivalents	172	(374)	(6)	(15)	(223)
Cash and cash equivalents at beginning of the period	408	728	11	755	1,902
Cash and cash equivalents at end of the period	\$ 580	\$ 354	\$ 5	\$ 740	\$ 1,679

Table of Contents

**DIRECTV**

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

The following management's discussion and analysis should be read in conjunction with our management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 24, 2014, 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 2014 financial results, liquidity and capital resources.

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

Levels of competition are increasing.

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

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

Our subscriber acquisition costs could materially increase.

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

Our ability to keep pace with technological developments is uncertain.

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

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

Our satellites are subject to significant launch and operational risks.

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

Table of Contents

**DIRECTV**

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

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

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

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

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

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

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

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

**CONTENTS**

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

Summary Data

Business Overview

Significant Events Affecting the Comparability of the Results of Operations

Key Terminology

Executive Outlook

Results of Operations

Liquidity and Capital Resources

Contractual Obligations

Contingencies

Certain Relationships and Related-Party Transactions

Critical Accounting Estimates

Table of Contents

**DIRECTV**  
**SUMMARY DATA**  
**(Unaudited)**

	<b>Three Months            Ended            March 31,</b> <b>2014          2013</b> <b>(Dollars in Millions,            Except Per Share            Amounts)</b>	
<b>Consolidated Statements of Operations Data:</b>		
Revenues	\$ 7,855	\$ 7,580
Total operating costs and expenses	6,628	6,338
Operating profit	1,227	1,242
Interest income	13	22
Interest expense	(232)	(217)
Other, net	57	38
Income before income taxes	1,065	1,085
Income tax expense	(496)	(387)
Net income	569	698
Less: Net income attributable to noncontrolling interest	(8)	(8)
Net income attributable to DIRECTV	\$ 561	\$ 690
Basic earnings attributable to DIRECTV per common share	\$ 1.10	\$ 1.21
Diluted earnings attributable to DIRECTV per common share	\$ 1.09	\$ 1.20
Weighted average number of total common shares outstanding (in millions):		
Basic	511	572
Diluted	515	577

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

	March 31, 2014	December 31, 2013
--	-------------------	----------------------

**(Dollars in Millions)**

<b>Consolidated Balance Sheets Data:</b>		
Cash and cash equivalents	\$ 3,014	\$ 2,180
Total current assets	6,449	5,953
Total assets	22,520	21,905
Total current liabilities	7,378	6,530
Long-term debt	18,338	18,284
Redeemable noncontrolling interest		375
Total stockholders' deficit	(6,512)	(6,544)

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

	<b>Three Months Ended March 31,</b>	
	2014	2013

**(Dollars in Millions)**

<b>Other Data:</b>		
<b>Operating profit before depreciation and amortization(1)</b>		
Operating profit	\$ 1,227	\$ 1,242
Add: Depreciation and amortization expense	714	678
Operating profit before depreciation and amortization	\$ 1,941	\$ 1,920

Operating profit before depreciation and amortization margin	24.7%	25.3%
--	-------	-------

**Cash flow information**

Net cash provided by operating activities	\$ 1,590	\$ 1,536
Net cash used in investing activities	(707)	(818)
Net cash provided by (used in) financing activities	267	(754)
<b>Free cash flow(2)</b>		
Net cash provided by operating activities	1,590	1,536
Less: Cash paid for property and equipment	(650)	(748)
Less: Cash paid for satellites	(54)	(78)

Free cash flow	\$ 886	\$ 710
----------------	--------	--------



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

	Revenues	Percentage of Total Revenues	Operating Profit (Loss)	Depreciation and Amortization Expense	Operating Profit (Loss) Before Depreciation and Amortization <sup>(1)</sup>
(Dollars in Millions)					
<b>Three Months Ended</b>					
<b><u>March 31, 2014</u></b>					
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
<b>Total</b>	<b>\$ 7,855</b>	<b>100.0%</b>	<b>\$ 1,227</b>	<b>\$ 714</b>	<b>\$ 1,941</b>
<b><u>March 31, 2013</u></b>					
DIRECTV U.S.	\$ 5,790	76.4%	\$ 1,115	\$ 406	\$ 1,521
Sky Brasil	965	12.7%	154	157	311
PanAmericana and Other	763	10.1%	(37)	106	69
DIRECTV Latin America	1,728	22.8%	117	263	380
Sports Networks, Eliminations and Other	62	0.8%	10	9	19
<b>Total</b>	<b>\$ 7,580</b>	<b>100.0%</b>	<b>\$ 1,242</b>	<b>\$ 678</b>	<b>\$ 1,920</b>

---

  
(1)

## Edgar Filing: DIRECTV - Form 10-Q

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

Table of Contents

**DIRECTV**

**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.

Table of Contents

**DIRECTV**

**BUSINESS OVERVIEW**

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

***DIRECTV U.S.*** DIRECTV Holdings LLC and its subsidiaries, which we refer to as DIRECTV U.S., is the largest provider of DTH digital television services and the second largest provider in the multi-channel video programming distribution, or MVPD, industry in the United States. As of March 31, 2014, DIRECTV U.S. had approximately 20.3 million subscribers.

***DIRECTV Latin America.*** DIRECTV Latin America Holdings, Inc. and its subsidiaries, or DIRECTV Latin America, is a leading provider of DTH digital television services throughout Latin America. DIRECTV Latin America is comprised of: PanAmericana, which provides services in Argentina, Chile, Colombia, Ecuador, Peru, Puerto Rico, Venezuela and certain other countries in the region, and Sky Brasil Servicos Ltda., or Sky Brasil, which is a 93% owned subsidiary. DIRECTV Latin America also includes our 41% equity method investment in Innova, S. de R.L. de C.V., or Sky Mexico, which we include in the PanAmericana segment. As of March 31, 2014, PanAmericana had approximately 6.4 million subscribers, Sky Brasil had approximately 5.5 million subscribers and Sky Mexico had approximately 6.2 million subscribers.

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

**SIGNIFICANT EVENTS AFFECTING THE COMPARABILITY OF THE RESULTS OF OPERATIONS**

**Senior Notes**

*Three Months Ended March 31, 2014 Financing Transactions*

On March 17, 2014, DIRECTV U.S. issued \$1,250 million of senior notes resulting in \$1,245 million proceeds, net of original issue discount.

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

Table of Contents

**DIRECTV**

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.

*Three Months Ended March 31, 2013 Financing Transactions*

On January 10, 2013, DIRECTV U.S. issued \$750 million of senior notes resulting in \$743 million proceeds, net of discount.

In March 2013, Sky Brasil entered into a financing facility with Banco Nacional de Desenvolvimento Econômico e Social, or BNDES, a government owned bank in Brazil. During the three months ended March 31, 2013, borrowings under the BNDES facility were approximately \$49 million.

During the three months ended March 31, 2013, borrowings under DIRECTV U.S.' commercial paper program, net of repayments, were \$121 million.

**Venezuela Devaluation and Foreign Currency Exchange Controls**

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

In the first quarter of 2013, the Venezuelan government announced a new currency exchange system, the Sistema Complementario de Administración de Divisas, or SICAD 1, which is intended to function as an auction system for participants to exchange bolivars for U.S. dollars. The volume of amounts exchanged through such SICAD 1 system, and the resulting exchange rate, are published by the Venezuelan Central Bank. Effective January 24, 2014, the Venezuelan government announced that dividends and royalties would be subject to the SICAD 1 program. The SICAD 1 exchange rate, which was 10.7 bolivars per U.S. dollar as of March 31, 2014, is determined by periodic auctions. Additionally, in February 2014, the Venezuelan government announced SICAD 2, which is an exchange mechanism that became available on March 24, 2014. The exchange rate for SICAD 2 closed at 49.81 bolivars per U.S. dollar as of March 31, 2014.

We currently believe the SICAD 1 rate is the most representative rate to use for remeasurement, as the official rate of 6.3 bolivars per U.S. dollar will likely be reserved only for the settlement of U.S. dollar denominated obligations related to purchases of "essential goods and services," and the equity of our Venezuelan subsidiary would be realized, if at all, through permitted dividends paid at the SICAD 1 rate. Therefore, as of March 31, 2014, we are remeasuring our Venezuelan subsidiary's financial statements in U.S. dollars using the exchange rate determined by periodic auctions under SICAD 1, which was 10.7 bolivars per U.S. dollar. Until that date, we used the official exchange rate of 6.3 bolivars per U.S. dollar. As a result of the devaluation, we recorded a pre-tax charge in "Venezuelan currency devaluation charge" in the Consolidated Statements of Operations of \$281 million in the first quarter of 2014, related to the remeasurement of the bolivar denominated net monetary assets of our Venezuelan subsidiary on March 31, 2014.

Table of Contents

**DIRECTV**

As of March 31, 2014, our Venezuelan subsidiary had Venezuelan bolivar denominated net monetary assets of \$408 million, including cash of \$453 million, based on the SICAD 1 exchange rate of 10.7 bolivars per U.S. dollar. Using the official exchange rate of 6.3 bolivars per U.S. dollar, our Venezuelan subsidiary reported revenues of approximately \$261 million and operating profit of approximately \$80 million in the first quarter of 2014, excluding the impact of the \$281 million Venezuelan devaluation charge. The exchange rate used to report net monetary assets and operating results of our Venezuelan subsidiary is currently expected to be based on the results of periodic SICAD 1 auctions, which would result in fluctuations in reported amounts that could be material to the results of operations in Venezuela in future periods and could materially affect the comparability of results for our Venezuelan subsidiary between periods. The comparability of our results of operations and financial position in Venezuela will also be affected in the event of additional changes to the exchange rate system and further devaluations of the Venezuelan bolivar.

**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), pay-per-view programming, and seasonal live sporting events. We also earn revenues from monthly fees we charge subscribers for multiple set-top receivers, monthly fees that we charge subscribers with multiple non-leased set-top receivers (which we refer to as mirroring fees), 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, live sports 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.

Table of Contents

**DIRECTV**

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

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

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

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

*Subscriber Count.* The total number of subscribers represents the total number of subscribers actively subscribing to our service, including subscribers who have suspended their account for a particular season of the year because they are temporarily away from their primary residence 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.

**EXECUTIVE OUTLOOK**

*DIRECTV Latin America.* Excluding the Venezuelan devaluation charges recorded in 2013 and 2014 and the Escritório Central de Arrecadação e Distribuição, or ECAD, gain of \$70 million in 2013, we now expect revenue to be flat and operating profit before depreciation and amortization to decline in the low-single digit percentage range as compared to 2013. This outlook assumes the SICAD 1 exchange rate of 10.7 as of March 31, 2014 remains constant for the balance of the year.

Table of Contents**DIRECTV****RESULTS OF OPERATIONS****Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013***DIRECTV U.S. Results of Operations*

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

	Three Months Ended and As of March 31,		Change	
	2014	2013	\$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	\$ 6,087	\$ 5,790	\$ 297	5.1%
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	2,768	2,601	167	6.4%
Subscriber service expenses	359	351	8	2.3%
Broadcast operations expenses	72	81	(9)	(11.1)%
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	648	629	19	3.0%
Upgrade and retention costs	281	319	(38)	(11.9)%
General and administrative expenses	290	288	2	0.7%
Depreciation and amortization expense	426	406	20	4.9%
Total operating costs and expenses	4,844	4,675	169	3.6%
Operating profit	\$ 1,243	\$ 1,115	\$ 128	11.5%
Operating profit margin	20.4%	19.3%		
Other data:				
Operating profit before depreciation and amortization	\$ 1,669	\$ 1,521	\$ 148	9.7%
Operating profit before depreciation and amortization margin	27.4%	26.3%		
Total number of subscribers (in thousands)	20,265	20,105	160	0.8%
ARPU	\$ 100.16	\$ 96.05	\$ 4.11	4.3%
Average monthly subscriber churn %	1.45%	1.45%		%
Gross subscriber additions (in thousands)	891	893	(2)	(0.2)%
Subscriber disconnections (in thousands)	879	872	7	0.8%
Net subscriber additions (in thousands)	12	21	(9)	NM*
Average subscriber acquisition costs per subscriber (SAC)	\$ 859	\$ 899	\$ (40)	(4.4)%
Capital expenditures:				
Property and equipment	\$ 144	\$ 111	\$ 33	29.7%
Subscriber leased equipment subscriber acquisitions	117	174	(57)	(32.8)%
Subscriber leased equipment upgrade and retention	110	111	(1)	NM*



Edgar Filing: DIRECTV - Form 10-Q

Satellites	11	53	(42)	(79.2)%
Total capital expenditures	\$ 382	\$ 449	\$ (67)	(14.9)%