DIRECTV GROUP INC
Form 10-Q
August 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from to to

Commission file number 1-31945

THE DIRECTV GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**52-1106564**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2230 East Imperial Highway **El Segundo, California**	**90245**
(Address of principal executive offices)	(Zip Code)

(310) 964-5000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant 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.

Accelerated filer o

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

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

As of August 4, 2008, the registrant had 1,110,077,506 shares of common stock outstanding.

THE DIRECTV GROUP, INC.

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THE DIRECTV GROUP, INC.

PART I FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(Dollars in Millions, Except Per Share Amounts)			
Revenues	$4,807	$4,135	$9,398	$8,043
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	1,930	1,670	3,822	3,295
Subscriber service expenses	307	306	613	608
Broadcast operations expenses	89	81	179	156
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	573	498	1,156	967
Upgrade and retention costs	217	199	477	431
General and administrative expenses	333	248	612	523
Depreciation and amortization expense	557	393	1,081	760
Total operating costs and expenses	4,006	3,395	7,940	6,740
Operating profit	801	740	1,458	1,303
Interest income	21	34	37	71
Interest expense	(82)	(57)	(145)	(115)
Other, net	15	7	18	17
Income from continuing operations before income taxes and minority interests	755	724	1,368	1,276
Income tax expense	(287)	(287)	(517)	(503)
Minority interests in net earnings of subsidiaries	(13)	(6)	(25)	(6)
Income from continuing operations	455	431	826	767
Income from discontinued operations, net of taxes		17		17
Net income	$ 455	$ 448	$ 826	$ 784
Basic and diluted earnings per common share:				
Income from continuing operations	$ 0.40	$ 0.36	$ 0.72	$ 0.63
Income from discontinued operations, net of taxes		0.01		0.01
Basic and diluted earnings per common share	$ 0.40	$ 0.37	$ 0.72	$ 0.64
Weighted average number of common shares outstanding (in millions)				
Basic	1,140	1,217	1,144	1,222
Diluted	1,146	1,224	1,149	1,230

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

THE DIRECTV GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2008	December 31, 2007
	(Dollars in Millions, Except Per Share Amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,837	$ 1,083
Accounts receivable, net of allowances of $63 and $56	1,319	1,535
Inventories	202	193
Deferred income taxes	87	90
Prepaid expenses and other	261	245
Total current assets	5,706	3,146
Satellites, net	2,239	2,026
Property and equipment, net	3,962	3,807
Goodwill	3,666	3,669
Intangible assets, net	1,378	1,577
Investments and other assets	883	838
Total assets	$ 17,834	$ 15,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,783	$ 3,032
Unearned subscriber revenues and deferred credits	390	354
Current portion of long-term debt	83	48
Total current liabilities	3,256	3,434
Long-term debt	5,784	3,347
Deferred income taxes	680	567
Other liabilities and deferred credits	1,500	1,402
Commitments and contingencies		
Minority interest redeemable at fair value of $300 million as of June 30, 2008	36	11
Stockholders' equity		
Common stock and additional paid-in capital $0.01 par value, 3,000,000,000 shares authorized; 1,124,523,799 shares and 1,148,268,203 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	9,329	9,318
Accumulated deficit	(2,718)	(2,995)
Accumulated other comprehensive loss	(33)	(21)
Total stockholders' equity	6,578	6,302
Total liabilities and stockholders' equity	$ 17,834	$ 15,063

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Dollars in Millions)	
Cash Flows From Operating Activities		
Net income	$ 826	$ 784
Income from discontinued operations, net of taxes		(17)
Income from continuing operations	826	767
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	1,081	760
Amortization of deferred revenues and deferred credits	(50)	(31)
Dividends received	35	
Deferred income taxes	124	197
Other	46	22
Change in other operating assets and liabilities:		
Accounts receivable, net	185	197
Inventories	(9)	(52)
Prepaid expenses and other	(27)	
Accounts payable and accrued liabilities	(353)	(145)
Unearned subscriber revenue and deferred credits	36	71
Other, net	59	70
Net cash provided by operating activities	1,953	1,856
Cash Flows From Investing Activities		
Cash paid for property and equipment	(959)	(1,234)
Cash paid for satellites	(77)	(112)
Investment in companies	(104)	(332)
Purchase of short-term investments		(528)
Sale of short-term investments		649
Other, net	36	35
Net cash used in investing activities	(1,104)	(1,522)
Cash Flows From Financing Activities		
Cash proceeds from debt issuance	2,490	
Debt issuance costs	(19)	
Repayment of long-term debt	(18)	(215)
Net increase in short-term borrowings		2
Repayment of other long-term obligations	(62)	(63)
Capital contribution	160	
Common shares repurchased and retired	(736)	(697)
Stock options exercised	82	72
Excess tax benefit from share-based compensation	8	6
Net cash provided by (used in) financing activities	1,905	(895)
Net increase (decrease) in cash and cash equivalents	2,754	(561)
Cash and cash equivalents at beginning of the period	1,083	2,499
Cash and cash equivalents at end of the period	$ 3,837	$ 1,938

Supplemental Cash Flow Information		
Cash paid for interest	$ 124	$ 113
Cash paid for income taxes	331	101

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

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

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

On February 27, 2008, Liberty Media Corporation, or Liberty Media, and News Corporation completed a transaction in which Liberty Media acquired News Corporation's approximately 41% interest in us, which we refer to as the Liberty Transaction. See Note 6, Contingencies Puerto Rico Condition below for further information regarding an agreement entered into at the close of this transaction. On April 3, 2008, Liberty Media announced that it had purchased an additional 78.3 million shares of our common stock in a private transaction. Currently, Liberty Media owns approximately 49% of our outstanding common stock, however Liberty Media has agreed to limit its voting rights to approximately 47.9%. See our Current Report on Form 8-K filed with the Securities and Exchange Commission, or SEC, on May 7, 2008 for further discussion of this agreement.

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, 2007 filed with the SEC on February 25, 2008, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 filed with the SEC on May 7, 2008 and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report.

Note 2: Accounting Changes and New Accounting Standards

Accounting Changes

On January 1, 2008 we adopted Statement of Financial Accounting Standards, or SFAS, No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." SFAS No. 159 permits, but does not require, companies to report at fair value the majority of recognized financial assets, financial liabilities and firm commitments. Under this standard, unrealized gains and losses on items for which the fair value option is elected are reported in earnings at each subsequent reporting date. Our adoption of SFAS No. 159 did not have any effect on our consolidated results of operations or financial position, as we have not elected to report subject instruments at fair value.

On January 1, 2008 we adopted SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, sets out a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements of assets and liabilities to include disclosure about inputs used in the determination of fair value using the following three categories:

Level 1:	Quoted market prices in active markets for identical assets or liabilities.
Level 2:	Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3:	Unobservable inputs that are not corroborated by market data.

SFAS No. 157 applies under other accounting pronouncements previously issued by the Financial Accounting Standards Board FASB that require or permit fair value measurements. Our adoption of SFAS No. 157 did not have any effect on our consolidated results of operations or financial position.

On January 1, 2008 we adopted Emerging Issues Task Force, or EITF, Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to a Manufacturer or Reseller of Equipment Necessary for an End-Customer to Receive Service from the Service Provider." EITF No. 06-1 provides guidance to service providers regarding the proper reporting of consideration given to manufacturers or resellers of equipment necessary for an end-customer to receive its services. Depending on the circumstances, such consideration is reported as either an expense or a reduction of revenues. Our adoption of EITF No. 06-1 did not have any effect on our consolidated results of operations or financial position.

New Accounting Standards

At the March 12, 2008 EITF meeting, the SEC Observer announced revisions to Topic D-98 "Classification and Measurement of Redeemable Securities", which provides SEC registrants guidance on the financial statement classification and measurement of equity securities that are subject to mandatory redemption requirements or whose redemption is outside the control of the issuer. The revised Topic D-98 provides guidance that redeemable minority interests, such as Globo Comunicacoes e Participacoes S.A.'s, or Globo's, redeemable interest described in Note 6 to the Notes to the Consolidated Financial Statements that are redeemable at the option of the holder should be recorded outside of permanent equity at fair value, and the redeemable minority interests should be adjusted to their fair value at each balance sheet date. Adjustments to the carrying amount of a noncontrolling interest from the application of Topic D-98 are recorded to retained earnings (or additional paid-in-capital in the absence of retained earnings). We are required to apply this guidance no later than our January 1, 2009 adoption of SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51." Our adoption of this guidance will result in us recording the fair value of our redeemable minority interest as of January 1, 2009 with a corresponding adjustment to "Additional paid in capital" in the Consolidated Balance Sheets. Had we adopted this guidance as of June 30, 2008, we would have recorded a $264 million increase to "Minority interest" with a corresponding decrease to "Common stock and additional paid-in-capital" in the Consolidated Balance Sheets.

In December 2007, the FASB, issued SFAS No. 160, which establishes standards of accounting and reporting of noncontrolling interests in subsidiaries, currently known as minority interests, in consolidated financial statements, provides guidance on accounting for changes in the parent's ownership interest in a subsidiary and establishes standards of accounting of the deconsolidation of a subsidiary due to the loss of control. SFAS No.160 requires an entity to present minority interests as a component of equity. Additionally, SFAS No. 160 requires an entity to present net income and consolidated comprehensive income attributable to the parent and the minority interest separately on

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

the face of the consolidated financial statements. We are currently assessing the effect SFAS No. 160 will have on our consolidated results of operations and financial position when adopted, as required, on January 1, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations." SFAS No. 141R requires the acquiring entity to recognize and measure at an acquisition date fair value all identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree. The Statement recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. SFAS No. 141R requires disclosures about the nature and financial effect of the business combination and also changes the accounting for certain income tax assets recorded in purchase accounting. We are currently assessing the effect SFAS No. 141R will have on our consolidated results of operations and financial position when adopted, as required, on January 1, 2009.

Note 3: Goodwill and Intangible Assets

The changes in the carrying amounts of goodwill by reporting unit for the six months ended June 30, 2008 were as follows:

	DIRECTV U.S.	DIRECTV Latin America	Total
	(Dollars in Millions)		
Balance as of December 31, 2007	$ 3,032	$ 637	$3,669
Sky Brazil		(3)	(3)
Balance as of June 30, 2008	$ 3,032	$ 634	$3,666

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

	Estimated Useful Lives (years)	June 30, 2008			December 31, 2007		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
		(Dollars in Millions)					
Orbital slots	Indefinite	$ 432		$ 432	$ 432		$ 432
72.5 WL Orbital license	5	208	$ 151	57	208	$ 132	76
Subscriber related	5-10	1,697	1,099	598	1,697	942	755
Dealer network	15	130	75	55	130	71	59
Trade name and other	10-20	102	7	95	95	5	90
Distribution rights	7	334	193	141	334	169	165
Total intangible assets		$2,903	$ 1,525	$ 1,378	$2,896	$ 1,319	$ 1,577

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in Millions)			
Amortization expense	$103	$104	$ 206	$ 207

Estimated amortization expense for intangible assets in each of the next five years and thereafter is as follows: $206 million in the remainder of 2008; $350 million in 2009; $153 million in 2010; $97 million in 2011; $55 million in 2012; and $85 million thereafter.

Note 4: Borrowings

The following table sets forth our outstanding borrowings:

	Interest Rates at June 30, 2008	June 30, 2008	December 31, 2007
		(Dollars in Millions)	
8.375% senior notes due in 2013	8.375%	$ 910	$ 910
6.375% senior notes due in 2015	6.375%	1,000	1,000
7.625% senior notes due in 2016	7.625%	1,500	
Senior secured credit facility, net of unamortized discount of $10 million as of June 30, 2008	4.348%	2,455	1,483
Other debt		2	2
Total debt		5,867	3,395
Less: current portion of long-term debt		83	48
Long-term debt		$5,784	$ 3,347

The senior notes and the senior secured credit facility were issued by DIRECTV U.S. The 8.375% senior notes and the 6.375% senior notes are registered under the Securities Act of 1933, as amended.

2008 Financing Transactions

In May 2008, DIRECTV U.S. completed financing transactions that included the issuance of senior notes and an amendment to its existing senior secured credit facility as discussed below. We incurred $20 million of debt issuance costs in connection with these transactions.

DIRECTV U.S. issued $1,500 million in senior notes due in 2016 in a private placement transaction. The eight-year notes bear interest at 7.625%. Principal on the senior notes is payable upon maturity, while interest is payable semi-annually commencing November 15, 2008. The senior notes have been fully and unconditionally guaranteed, jointly and severally, by substantially all of DIRECTV U.S.' current and certain of its future domestic subsidiaries on a senior unsecured basis. Pursuant to a registration rights agreement with the initial purchasers of the senior notes, DIRECTV U.S. has agreed to use its reasonable best efforts to cause to become effective a registration statement, whereby all holders of the original notes can elect to exchange their existing notes for registered notes with identical terms, except that the registered notes will be registered under the Securities Act of 1933, as amended and will not bear the legends restricting their transfer. We expect to complete the registration process of the 7.625% senior notes during the second half of 2008.

DIRECTV U.S. also amended its senior secured credit facility to include a new $1,000 million Term Loan C, which was issued at a 1% discount, resulting in $990 million of proceeds. Initially, borrowings under Term Loan C bear interest at 5.25%, however the rate is variable based on changes in the London InterBank Offered Rate, or LIBOR. The interest rate may be increased or decreased under certain conditions. The Term Loan C has a final maturity of April 13, 2013, and prior to that date we will make quarterly principal payments totaling 1% annually beginning on September 30, 2008. The senior secured credit facility is secured by substantially all of DIRECTV U.S.' assets and the assets of its current and certain of its future domestic subsidiaries and is fully and unconditionally guaranteed, jointly and severally by substantially all of DIRECTV U.S.' current and certain of its future domestic subsidiaries.

Notes Payable

The fair value of our 8.375% senior notes was approximately $936 million at June 30, 2008 and approximately $948 million at December 31, 2007. The fair value of our 6.375% senior notes was approximately $940 million at June 30, 2008 and approximately $962 million at December 31, 2007. The fair value of our 7.625% senior notes was approximately $1,478 million at June 30, 2008. We calculated the fair values based on quoted market prices of our senior notes, which is a Level 1 input under SFAS No. 157, on those dates.

Other

As a result of our acquisition of Sky Brazil in 2006, we assumed Sky Brazil's $210 million U.S. dollar denominated variable rate bank loan due in August 2007. In January 2007, we paid $210 million to the lending banks, who in turn assigned the loan to a wholly-owned subsidiary of the company. As a result, this loan is no longer outstanding on a consolidated basis.

Our notes payable and senior secured credit facility mature as follows: $35 million in the remainder of 2008, $108 million in 2009, $308 million in 2010, $108 million in 2011, $20 million in 2012 and $5,296 million thereafter. These amounts do not reflect potential prepayments that may be required under our senior secured credit facility, which could result from a computation that we may be required to make at each year end under the credit agreement. We were not required to make a prepayment for the year ended December 31, 2007. The amount of interest accrued related to our outstanding debt was $45 million at June 30, 2008 and $26 million at December 31, 2007.

Covenants and Restrictions. The senior secured credit facility requires DIRECTV U.S. to comply with certain financial covenants. The senior notes and the senior secured credit facility also include covenants that restrict DIRECTV U.S.' ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) merge or consolidate with another entity, (vi) sell, assign, lease or otherwise dispose of all or substantially all of its assets, and (vii) make voluntary prepayments of certain debt, in each case subject to exceptions as provided in the credit agreement and senior notes indentures. Should DIRECTV U.S. fail to comply with these covenants, all or a portion of its borrowings under the senior notes and senior secured credit facility could become immediately payable and its revolving credit facility could be terminated. At June 30, 2008, DIRECTV

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

U.S. was in compliance with all such covenants. The senior notes and senior secured credit facility also provide that the borrowings may be required to be prepaid if certain change-in-control events occur.

Note 5: Capital Lease Obligation

During the first quarter of 2008, Sky Brazil began broadcasting its service on a new satellite, IS 11, pursuant to a satellite transponder capacity agreement which we are accounting for as a capital lease. The present value of the lease payments at the inception of the 15 year lease term was $247 million. The capitalized value of the satellite has been included in "Satellites, net" in the Consolidated Balance Sheets. The capitalized lease obligations are included in "Accounts payable and accrued liabilities" and "Other liabilities and deferred credits" in the Consolidated Balance Sheets.

The following table sets forth total minimum lease payments under this capital lease along with the present value of the net minimum lease payments as of June 30, 2008:

	(Dollars in Millions)
2008	$ 15
2009	30
2010	30
2011	30
2012	30
Thereafter	303
Total minimum lease payments	438
Less: amount representing interest	194
Present value of net minimum lease payments	$ 244

Note 6: Contingencies

Puerto Rico Condition

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

Although satisfaction of the Puerto Rico Condition may require divestiture of DIRECTV Puerto Rico, we have determined that there is no impairment of the DIRECTV Puerto Rico assets as a result of this agreement, and we will continue to report DIRECTV Puerto Rico as a continuing operation, unless we ultimately sell or deconsolidate it. As of June 30, 2008, DIRECTV Puerto Rico had approximately 159,000 subscribers and, for the quarter then ended, had $31 million of revenues and a $2 million operating loss.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

Redeemable Minority Interest

In connection with our acquisition of Sky Brazil in 2006, our partner who holds the remaining 25.9% interest, Globo was granted the right, until January 2014, to require us to purchase all or a portion (but not less than half) of its shares in Sky Brazil. Upon exercising this right, the fair value of Sky Brazil shares will be determined, by mutual agreement or by an outside valuation expert and we have the option to elect to pay for the Sky Brazil shares in cash, shares of our common stock or a combination of both. As of June 30, 2008, we estimate that Globo's 25.9% equity interest in Sky Brazil has a fair value of approximately $300 million to $450 million. We determined the range of fair values using significant unobservable inputs, which is a Level 3 input under SFAS No. 157.

Litigation

Litigation is subject to uncertainties and the outcome of individual litigated matters is not predictable with assurance. Various legal actions, claims and proceedings are pending against us arising in the ordinary course of business. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. Some of the matters may involve compensatory, punitive, or treble damage claims, or demands that, if granted, could require us to pay damages or make other expenditures in amounts that could not be estimated at June 30, 2008. After discussion with counsel representing us in those actions, it is the opinion of management that such litigation is not expected to have a material adverse effect on our consolidated results of operations or financial position.

Finisar Corporation. As previously reported, we filed a notice of appeal to the Court of Appeals for the Federal Circuit on October 5, 2006 from a jury determination that The DIRECTV Group, Inc. and certain of its subsidiaries willfully infringed a patent owned by Finisar Corporation and an award by the jury of approximately $79 million in damages. The trial court increased the damages award by $25 million because of the jury finding of willful infringement and awarded pre-judgment interest of $13 million to Finisar. We were was also ordered to pay into escrow $1.60 per new set-top receiver manufactured for use with the DIRECTV system beginning June 17, 2006 and continuing until the patent expires in 2012 or was otherwise found to be invalid.

On April 18, 2008, the Court of Appeals vacated (set aside) the verdict of infringement, and sent the case back to the district court for further proceedings and possible retrial on a limited number of claims. The Court of Appeals, ruled that the lower court had used erroneous interpretations of certain important terms in the patent claims. Thus, the district court must now determine whether there is any infringement using the correct interpretations, which are the ones we originally suggested. Regarding our defenses of invalidity, the Court of Appeals found that one of the principal independent claims of the patent is clearly anticipated by the prior art we presented. The Court of Appeals then remanded the question of validity for the remaining claims back to the district court for further consideration in view of this invalidity ruling. The Court of Appeals also reversed the verdict of willful infringement, and affirmed earlier rulings of the district court that held several additional claims to be invalid. Through the date of the vacated verdict, the ongoing royalties amounted to $37 million, which had been paid into escrow. On May 2, 2008, Finisar filed a petition for rehearing by the Court of Appeals, which was denied on May 29, 2008. By agreement of the parties and subject to an Order of the district court, the appeal bond has been terminated, and the escrowed royalties were returned to us (with interest) on June 10, 2008.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

Satellites

We may purchase in-orbit and launch insurance to mitigate the potential financial impact of satellite launch and in-orbit failures if the premium costs are considered economic relative to the risk of satellite failure. The insurance generally covers the unamortized book value of covered satellites. We do not insure against lost revenues in the event of a total or partial loss of the capacity of a satellite. We generally rely on in-orbit spare satellites and excess transponder capacity at key orbital slots to mitigate the impact a satellite failure could have on our ability to provide service. At June 30, 2008, the net book value of in-orbit satellites was $1,935 million of which $1,719 million was uninsured.

Other

In July 2008, we amended our agreement with Thomson such that the amount of the rebate we can earn from the purchase of set-top receivers was reduced from $57 million to $42 million and in return, we are no longer required to purchase $4 billion in set-top receivers over the contract term. We continue to be obligated to grant Thomson a portion of all set-top receiver purchases. As of June 30, 2008, included in "Investments and other assets" in the Consolidated Balance Sheets is a receivable for $34 million related to this agreement.

Note 7: Related-Party Transactions

In the ordinary course of our operations, we enter into transactions with related parties as discussed below.

Liberty Media, Liberty Global and Discovery Holding Company

As a result of the completion of the Liberty Transaction, beginning February 27, 2008, transactions with Liberty Media and its affiliates, including its equity method investees, may be considered to be related party transactions as Liberty Media currently owns approximately 49% of our outstanding common stock. Our transactions with Liberty Media and its affiliates consist primarily of the purchase of programming.

In addition, John Malone, Chairman of the Board of Directors of The DIRECTV Group, Inc. and of Liberty Media, has an approximate 31% voting interest in Discovery Holding Company, or Discovery Holding, and an approximate 34% voting interest in Liberty Global Inc., or Liberty Global, and serves as Chairman for both companies, and certain of Liberty Media's management and directors also serve in management or director roles at Discovery Holding or Liberty Global. As a result of this common ownership and management, transactions with Discovery Holding and Liberty Global, and their equity method investees may be considered to be related party transactions. Our transactions with Discovery Holding and Liberty Global consist primarily of purchases of programming created, owned or distributed by Discovery Holding and its subsidiaries and investees.

News Corporation and affiliates

News Corporation and its affiliates were considered related parties until February 27, 2008, when it transferred its 41% interest in our common stock to Liberty Media. Accordingly, the following contractual arrangements with News Corporation and its affiliates are considered related party transactions and reported through February 27, 2008: purchase of programming, products and advertising; license of certain intellectual property, including patents; purchase of system access

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

products, set-top receiver software and support services; sale of advertising space; purchase of employee services; and use of facilities.

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

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

Other

Companies in which we hold equity method investments are also considered related parties, which include Sky Mexico.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(Dollars in Millions)			
Sales:				
Liberty Media and affiliates	$ 10	$	$ 12	$
Discovery Holding, Liberty Global and affiliates	3		4	
News Corporation and affiliates		5	2	10
Other	2		4	
Total	$ 15	$ 5	$ 22	$ 10
Purchases:				
Liberty Media and affiliates	$ 76	$	$ 103	$
Discovery Holding, Liberty Global and affiliates	56		74	
News Corporation and affiliates		225	167	445
Other	104	49	193	98
Total	$236	$274	$ 537	$ 543

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

	June 30, 2008	December 31, 2007
	(Dollars in Millions)	
Accounts receivable	$ 17	$ 22
Accounts payable	178	285

The accounts receivable and accounts payable balances as of June 30, 2008 are primarily related to affiliates of Liberty Media and the accounts receivable and accounts payable balances as of December 31, 2007 are primarily related to affiliates of News Corporation.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

Note 8: Earnings Per Common Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Shares in Millions)			
Common stock options excluded	31	34	31	34

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

	Six Months Ended June 30,	
	2008	2007
	(Shares in Millions)	
Common shares outstanding at January 1	1,148	1,226
Decrease for common shares repurchased and retired	(30)	(32)
Increase for stock options exercised and restricted stock units vested and distributed	7	6
Common shares outstanding at June 30	1,125	1,200
Weighted average number of common shares outstanding	1,144	1,222

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

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

	Income	Shares	Per Share Amounts
	(Dollars and Shares in Millions, Except Per Share Amounts)		
Three Months Ended June 30, 2008:			
Basic EPS			
Income from continuing operations	$ 455	1,140	$ 0.40
Effect of Dilutive Securities			
Dilutive effect of stock options and restricted stock units		6	
Diluted EPS			
Adjusted income from continuing operations	$ 455	1,146	$ 0.40
Three Months Ended June 30, 2007:			
Basic EPS			
Income from continuing operations	$ 431	1,217	$ 0.36
Effect of Dilutive Securities			
Dilutive effect of stock options and restricted stock units		7	
Diluted EPS			
Adjusted income from continuing operations	$ 431	1,224	$ 0.36
Six Months Ended June 30, 2008:			
Basic EPS			
Income from continuing operations	$ 826	1,144	$ 0.72
Effect of Dilutive Securities			
Dilutive effect of stock options and restricted stock units		5	
Diluted EPS			
Adjusted income from continuing operations	$ 826	1,149	$ 0.72
Six Months Ended June 30, 2007:			
Basic EPS			
Income from continuing operations	$ 767	1,222	$ 0.63
Effect of Dilutive Securities			
Dilutive effect of stock options and restricted stock units		8	
Diluted EPS			
Adjusted income from continuing operations	$ 767	1,230	$ 0.63

Note 9: Stockholders' Equity

Share Repurchase Program

During 2008 and 2007 our Board of Directors approved multiple authorizations for the repurchase of our common stock, the most recent of which was in May 2008, and increased authorized share repurchases to $3.0 billion. As of June 30, 2008, we had approximately $2.4 billion remaining to spend under this authorization. The authorizations allow us to repurchase our common stock from time to time through open market purchases and negotiated transactions, or otherwise. The timing, nature and amount of such transactions will depend on a variety of factors, including market conditions, and the

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

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

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Amounts in Millions, Except Per Share Amounts)	
Total cost of repurchased shares	$ 796	$ 737
Average price per share	26.52	23.31
Number of shares repurchased and retired	30	32

For the six months ended June 30, 2008, we recorded the $796 million in repurchases as a decrease of $247 million to "Common stock and additional paid in capital" and an increase of $549 million to "Accumulated deficit" in the Consolidated Balance Sheets. $60 million of the $796 million in repurchases during the first half of 2008 were paid for in July 2008. $40 million of the $737 million in repurchases during the first half of 2007 were paid for in July 2007.

Accumulated Other Comprehensive Loss

	As of June 30, 2008	As of December 31, 2007
	(Dollars in Millions)	
Unamortized net amount resulting from changes in defined benefit plan experience and actuarial assumptions, net of taxes	$ (37)	$ (37)
Unamortized amount resulting from changes in defined benefit plan provisions, net of taxes	(4)	(4)
Accumulated unrealized gains on securities, net of taxes	9	21
Accumulated foreign currency translation adjustments	(1)	(1)
Total Accumulated Other Comprehensive Loss	$ (33)	$ (21)

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

Other Comprehensive Income

Total comprehensive income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in Millions)			
Net income	$455	$448	$ 826	$ 784
Other comprehensive income (loss):				
Foreign currency translation adjustments		(1)		(1)
Unrealized gains (losses) on securities, net of taxes	(3)	6	(12)	13
Other comprehensive income (loss)	(3)	5	(12)	12
Total comprehensive income	$452	$453	$ 814	$ 796

Note 10: Acquisitions and Divestitures

Investments

During the six months ended June 30, 2008, we paid $97 million in cash to acquire equity method investments and $7 million in cash for other investments.

On January 30, 2007, we acquired Darlene's 14% equity interest in DLA LLC for $325 million in cash. We accounted for the acquisition of this interest using the purchase method of accounting and have allocated the excess purchase price over the book value of the minority interest acquired to a subscriber related intangible asset of $75 million and goodwill of $187 million.

Divestitures

During the second quarter of 2007, we recorded a $17 million reduction to our unrecognized tax benefits in "Income from continued operations, net of taxes" in our Consolidated Statements of Operations as a result of a settlement of a foreign withholding dispute from a previously divested business.

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

Note 11: Segment Reporting

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

Selected information for our operating segments is reported as follows:

	DIRECTV U.S.	DIRECTV Latin America	Corporate and Other	Total
		(Dollars in Millions)		
Three Months Ended:				
June 30, 2008				
Revenues	$ 4,196	$ 611	$	$ 4,807
Operating profit (loss)	$ 717	$ 102	$ (18)	$ 801
Add: Depreciation and amortization expense	501	59	(3)	557
Operating profit (loss) before depreciation and amortization(1)	$ 1,218	$ 161	$ (21)	$ 1,358
June 30, 2007				
Revenues	$ 3,726	$ 409	$	$ 4,135
Operating profit (loss)	$ 722	$ 41	$ (23)	$ 740
Add: Depreciation and amortization expense	340	54	(1)	393
Operating profit (loss) before depreciation and amortization(1)	$ 1,062	$ 95	$ (24)	$ 1,133

	DIRECTV U.S.	DIRECTV Latin America	Corporate and Other	Total
		(Dollars in Millions)		
Six Months Ended:				
June 30, 2008				
Revenues	$ 8,245	$ 1,153	$	$ 9,398
Operating profit (loss)	$ 1,310	$ 180	$ (32)	$ 1,458
Add: Depreciation and amortization expense	965	119	(3)	1,081
Operating profit (loss) before depreciation and amortization(1)	$ 2,275	$ 299	$ (35)	$ 2,539
June 30, 2007				
Revenues	$ 7,265	$ 778	$	$ 8,043
Operating profit (loss)	$ 1,288	$ 57	$ (42)	$ 1,303
Add: Depreciation and amortization expense	643	118	(1)	760
	$ 1,931	$ 175	$ (43)	$ 2,063

Operating profit (loss) before depreciation and amortization(1)

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(1) Operating profit (loss) before depreciation and amortization, which is a financial measure that is not determined in accordance with GAAP can be calculated by adding amounts under the caption

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(continued)

(Unaudited)

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in Millions)			
Operating profit before depreciation and amortization	$1,358	$1,133	$2,539	$2,063
Depreciation and amortization	557	393	1,081	760
Operating profit	801	740	1,458	1,303
Interest income	21	34	37	71
Interest expense	(82)	(57)	(145)	(115)
Other, net	15	7	18	17
Income from continuing operations before income taxes and minority interests	755	724	1,368	1,276
Income tax expense	(287)	(287)	(517)	(503)
Minority interests in net earnings of subsidiaries	(13)	(6)	(25)	(6)
Income from continuing operations	455	431	826	767
Income from discontinued operations, net of taxes		17		17
Net income	$ 455	$ 448	$ 826	$ 784

THE DIRECTV GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (concluded)

(Unaudited)

Note 12: Subsequent Event

180 Connect

On July 8, 2008, we acquired 100% of 180 Connect, Inc.'s outstanding common stock and exchangeable shares. Simultaneously, in a separate transaction, UniTek USA, LLC acquired 100% of 180 Connect's cable service operating unit and operations in certain of our installation services markets in exchange for satellite installation operations in certain markets and $7 million in cash. These transactions will provide us with control over a significant portion of DIRECTV U.S.' installation and home service network. We paid $98 million in cash for the acquisition, including the equity purchase price, repayment of assumed debt and related transaction costs. We will account for these transactions using the purchase method of accounting.

* * *

THE DIRECTV GROUP, INC.

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

The following management's discussion and analysis should be read in conjunction with our management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 25, 2008, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 filed with the SEC on May 7, 2008 and all of our other filings, including Current Reports on Form 8-K, filed with the SEC after such date and through the date of this report.

This Quarterly Report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, "forward-looking statements" within the meaning of various provisions of the Securities Act of 1933 and of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by use of statements that include phrases such as we "believe," "expect," "estimate," "anticipate," "intend," "plan," "foresee," "project" or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. All of these forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from historical results or from those expressed or implied by the relevant forward-looking statement. We discuss these risks and uncertainties in detail in Part I, Item 1A of our 2007 Form 10-K.

THE DIRECTV GROUP, INC.
SUMMARY DATA
(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Dollars in Millions, Except Per Share Amounts)			
Consolidated Statements of Operations Data:				
Revenues	$4,807	$4,135	$9,398	$8,043
Total operating costs and expenses	4,006	3,395	7,940	6,740
Operating profit	801	740	1,458	1,303
Other expenses	(46)	(16)	(90)	(27)
Income from continuing operations before income taxes and minority interests	755	724	1,368	1,276
Income tax expense	(287)	(287)	(517)	(503)
Minority interests in net earnings of subsidiaries	(13)	(6)	(25)	(6)
Income from continuing operations	455	431	826	767
Income from discontinued operations, net of taxes		17		17
Net income	$ 455	$ 448	$ 826	$ 784
Basic and diluted earnings per common share:				
Income from continuing operations	$ 0.40	$ 0.36	$ 0.72	$ 0.63
Income from discontinued operations, net of taxes		0.01		0.01
Basic and diluted earnings per common share	$ 0.40	$ 0.37	$ 0.72	$ 0.64
Weighted average number of common shares outstanding (in millions)				
Basic	1,140	1,217	1,144	1,222
Diluted	1,146	1,224	1,149	1,230

	June 30, 2008	December 31, 2007
	(Dollars in Millions)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 3,837	$ 1,083
Total current assets	5,706	3,146
Total assets	17,834	15,063
Total current liabilities	3,256	3,434
Long-term debt	5,784	3,347
Minority interest	36	11
Total stockholders' equity	6,578	6,302

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

THE DIRECTV GROUP, INC.
SUMMARY DATA (continued)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in Millions, Except Per Share Amounts)			
Other Data:				
Operating profit before depreciation and amortization(1)				
Operating profit	$ 801	$ 740	$ 1,458	$ 1,303
Add: Depreciation and amortization expense	557	393	1,081	760
Operating profit before depreciation and amortization	$1,358	$1,133	$ 2,539	$ 2,063
Operating profit before depreciation and amortization margin(1)	28.3%	27.4%	27.0%	25.6%
Cash flow information				
Net cash provided by operating activities	$ 843	$ 857	$ 1,953	$ 1,856
Net cash used in investing activities	(539)	(567)	(1,104)	(1,522)
Net cash provided by (used in) financing activities	1,907	(612)	1,905	(895)
Free cash flow(2)				
Net cash provided by operating activities	$ 843	$ 857	$ 1,953	$ 1,856
Less: Cash paid for property and equipment	(439)	(598)	(959)	(1,234)
Less: Cash paid for satellites	(31)	(58)	(77)	(112)
Free cash flow	$ 373	$ 201	$ 917	$ 510

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(1)

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

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

THE DIRECTV GROUP, INC.
SUMMARY DATA (continued)
(Unaudited)

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

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

(2)

Free cash flow, which is a financial measure that is not determined in accordance with GAAP, can be calculated by deducting amounts under the captions "Cash paid for property and equipment" and "Cash paid for satellites" from "Net cash provided by operating activities" from the Consolidated Statements of Cash Flows. This financial measure should be used in conjunction with other GAAP financial measures and is not presented as an alternative measure of cash flows from operating activities, as determined in accordance with GAAP. Our management and our Board of Directors use free cash flow to evaluate the cash generated by our current subscriber base, net of capital expenditures, for the purpose of allocating resources to activities such as adding new subscribers, retaining and upgrading existing subscribers, for additional capital expenditures 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.

THE DIRECTV GROUP, INC.
SUMMARY DATA (continued)
(Unaudited)

Selected Segment Data

	DIRECTV U.S.	DIRECTV Latin America	Corporate and Other	Total
	(Dollars in Millions)			
Three Months Ended:				
June 30, 2008				
Revenues	$ 4,196	$ 611	$	$4,807
% of total revenue	87.3%	12.7%		100.0%
Operating profit (loss)	$ 717	$ 102	$ (18)	$ 801
Add: Depreciation and amortization expense	501	59	(3)	557
Operating profit (loss) before depreciation and amortization	$ 1,218	$ 161	$ (21)	$1,358
Operating profit before depreciation and amortization margin	29.0%	26.4%	N/A	28.3%
Capital expenditures(1)	$ 360	$ 115	$ 3	$ 478
June 30, 2007				
Revenues	$ 3,726	$ 409	$	$4,135
% of total revenue	90.1%	9.9%		100.0%
Operating profit (loss)	$ 722	$ 41	$ (23)	$ 740
Add: Depreciation and amortization expense	340	54	(1)	393
Operating profit (loss) before depreciation and amortization	$ 1,062	$ 95	$ (24)	$1,133
Operating profit before depreciation and amortization margin	28.5%	23.2%	N/A	27.4%
Capital expenditures(1)	$ 546	$ 82	$ 28	$ 656

THE DIRECTV GROUP, INC.
SUMMARY DATA (concluded)
(Unaudited)

	DIRECTV U.S.	DIRECTV Latin America	Corporate and Other	Total
	(Dollars in Millions)			
Six Months Ended:				
June 30, 2008				
Revenues	$ 8,245	$ 1,153	$	$9,398
% of total revenue	87.7%	12.3%		100.0%
Operating profit (loss)	$ 1,310	$ 180	$ (32)	$1,458
Add: Depreciation and amortization expense	965	119	(3)	1,081
Operating profit (loss) before depreciation and amortization	$ 2,275	$ 299	$ (35)	$2,539
Operating profit before depreciation and amortization margin	27.6%	25.9%	N/A	27.0%
Capital expenditures(1)	$ 842	$ 212	$ 3	$1,057
June 30, 2007				
Revenues	$ 7,265	$ 778	$	$8,043
% of total revenue	90.3%	9.7%		100.0%
Operating profit (loss)	$ 1,288	$ 57	$ (42)	$1,303
Add: Depreciation and amortization expense	643	118	(1)	760
Operating profit (loss) before depreciation and amortization	$ 1,931	$ 175	$ (43)	$2,063
Operating profit before depreciation and amortization margin	26.6%	22.5%	N/A	25.6%
Capital expenditures(1)	$ 1,164	$ 141	$ 29	$1,334

(1) Capital expenditures include cash paid and amounts accrued during the period for property, equipment and satellites.

THE DIRECTV GROUP, INC.

BUSINESS OVERVIEW

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

DIRECTV U.S. DIRECTV Holdings LLC and its subsidiaries, or DIRECTV U.S., is the largest provider of direct-to-home digital television services and the second largest provider in the multi-channel video programming distribution industry in the United States. As of June 30, 2008, DIRECTV U.S. had approximately 17.2 million subscribers.

DIRECTV U.S. currently broadcasts from a fleet of eleven geosynchronous satellites, including ten owned satellites and one leased satellite. In July 2008, after completing in-orbit testing, DIRECTV 11 went into service and provides us with increased capability for local and national high definition, or HD, programming as well as capacity for new interactive and enhanced services. DIRECTV 12 is under construction and will be ready for launch in the second half of 2009.

DIRECTV Latin America. DIRECTV Latin America is a leading provider of DTH digital television services throughout Latin America. DTVLA is comprised of PanAmericana, which provides services in Venezuela, Argentina, Chile, Colombia, Puerto Rico and certain other countries in the region through our wholly-owned subsidiary, DIRECTV Latin America, LLC, or DLA LLC, our 74% owned subsidiary Sky Brasil Servicos Ltda., which we refer to as Sky Brazil, and our 41% equity method investment in Innova, S. de R.L. de C.V., or Sky Mexico. As of June 30, 2008, PanAmericana had approximately 2.1 million subscribers, Sky Brazil had approximately 1.6 million subscribers and Sky Mexico had approximately 1.7 million subscribers.

SIGNIFICANT TRANSACTIONS

Financing Transactions

In May 2008, DIRECTV U.S. issued $1.5 billion in senior notes and amended its senior secured credit facility to include a new $1.0 billion Term Loan C. The senior notes bear interest at 7.625% and the principal balance is due in May 2016. The Term Loan C currently bears interest at a rate of 5.25% and was issued at a 1% discount. Principal on the Term Loan C is payable in installments beginning September 30, 2008 with the final installment due in April 2013.

Acquisitions

Investments

During the six months ended June 30, 2008, we paid $97 million in cash to acquire equity method investments and $7 million in cash for other investments.

On January 30, 2007, we acquired Darlene's 14% equity interest in DLA LLC for $325 million in cash and resolved all outstanding disputes with Darlene. We accounted for this acquisition using the purchase method of accounting.

Lease Program

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

Capitalized subscriber leased equipment:	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Dollars in Millions)			
Subscriber leased equipment subscriber acquisitions	$125	$171	$ 281	$ 359
Subscriber leased equipment upgrade and retention	84	164	245	382
Total subscriber leased equipment capitalized	$209	$335	$ 526	$ 741
Depreciation expense subscriber leased equipment	$261	$143	$ 502	$ 257

KEY TERMINOLOGY

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

Three Months Ended June 20, 2008 Compared to Three Months Ended June 30, 2007

Consolidated Results of Operations

Revenues. The following table presents our revenues by segment:

Revenues By Segment:	**Three Months Ended June 30, 2008**	**2007**	**Change $**	**%**
	(Dollars in Millions)			
DIRECTV U.S.	$ 4,196	$ 3,726	$ 470	12.6%
DIRECTV Latin America	611	409	202	49.4%
Total revenues	$ 4,807	$ 4,135	$ 672	16.3%

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

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

Operating profit (loss) before depreciation and amortization:	**Three Months Ended June 30, 2008**	**2007**	**Change $**	**%**
	(Dollars in Millions)			
DIRECTV U.S.	$ 1,218	$ 1,062	$ 156	14.7%
DIRECTV Latin America	161	95	66	69.5%
Corporate and Other	(21)	(24)	3	(12.5)%
Total operating profit before depreciation and amortization	$ 1,358	$ 1,133	$ 225	19.9%

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

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

Operating profit (loss):	**Three Months Ended June 30, 2008**	**2007**	**Change $**	**%**
	(Dollars in Millions)			
DIRECTV U.S.	$ 717	$ 722	$ (5)	(0.7)%
DIRECTV Latin America	102	41	61	148.8%
Corporate and Other	(18)	(23)	5	(21.7)%
Total operating profit	$ 801	$ 740	$ 61	8.2%

The increase in our operating profit was primarily due to the increase in operating profit before depreciation and amortization, partially offset by higher depreciation and amortization expense due to the DIRECTV U.S. lease program. We discuss the changes for each of our segments in more detail below.

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Other expenses, net. The following table presents our other expenses, net:

	Three Months Ended June 30,		Change
	2008	**2007**	**$**
	(Dollars in Millions)		
Interest income	$ 21	$ 34	$ (13)
Interest expense	(82)	(57)	(25)
Other, net	15	7	8
Total other expenses, net	$ (46)	$ (16)	$ (30)

The decrease in interest income was due to lower average interest rates throughout the quarter. The increase in interest expense was from an increase in the average debt balance compared to the second quarter of 2007 and lower capitalization of interest cost in 2008. We capitalized $4 million of interest costs in the second quarter of 2008 and $14 million in the second quarter of 2007.

Income Tax Expense. We recognized income tax expense of $287 million for the second quarter of 2008 and the second quarter of 2007. Income tax expense in the second quarter of 2008 would have increased due to higher taxable net income, however, we recorded a $10 million tax benefit due to the reversal of a valuation allowance on deferred tax assets of a foreign subsidiary.

Income from discontinued operations, net of taxes. During the second quarter of 2007, we recorded a $17 million reduction to our unrecognized tax benefits in "Income from continued operations, net of taxes" in our Consolidated Statements of Operations as a result of a settlement of a foreign withholding dispute from a previously divested business.

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DIRECTV U.S. Segment

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

	Three Months Ended and As of June 30,		Change	
	2008	2007	$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	$ 4,196	$ 3,726	$ 470	12.6%
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	1,692	1,513	179	11.8%
Subscriber service expenses	269	281	(12)	(4.3)%
Broadcast operations expenses	65	53	12	22.6%
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	507	447	60	13.4%
Upgrade and retention costs	209	197	12	6.1%
General and administrative expenses	236	173	63	36.4%
Depreciation and amortization expense	501	340	161	47.4%
Total operating costs and expenses	3,479	3,004	475	15.8%
Operating Profit	$ 717	$ 722	$ (5)	(0.7)%
Other Data:				
Operating profit before depreciation & amortization	$ 1,218	$ 1,062	$ 156	14.7%
Total number of subscribers (000's)	17,164	16,316	848	5.2%
ARPU	$ 81.80	$ 76.43	$5.37	7.0%
Average monthly subscriber churn %	1.49%	1.58%		(5.7)%
Gross subscriber additions (000's)	894	900	(6)	(0.7)%
Net subscriber additions (000's)	129	128	1	0.8%
Average subscriber acquisition costs per subscriber (SAC)	$ 707	$ 688	$ 19	2.8%

Subscribers. In the second quarter of 2008, gross subscriber additions decreased compared to the second quarter of 2007 primarily due to the termination of the AT&T distribution agreement on April 1, 2008, partially offset by increased sales in our direct sales channel. The reduction in churn was principally due to an increase in the number of subscribers with advanced services as well as the effect of more stringent credit policies. Net subscriber additions increased due to the lower average monthly subscriber churn, mostly offset by the decrease in gross subscriber additions.

Revenues. DIRECTV U.S.' revenues increased as of result of higher ARPU and the larger subscriber base. The increase in ARPU resulted primarily from price increases on programming packages, higher HD and DVR equipment and service fees, and an increase in lease fees due to higher average number of receivers per subscriber.

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

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Broadcast programming and other costs increased due to annual program supplier rate increases, the larger number of subscribers in the second quarter of 2008 as compared to the second quarter of 2007 and increased channel launches. Subscriber service expenses decreased in the second quarter of 2008 compared to the second quarter of 2007 primarily due to improved performance at customer call centers. Broadcast operations expense increased in the second quarter of 2008 as compared to the second quarter 2007 due primarily to costs to support new HD local channel markets and an increase in labor expenses to support advanced services, HD enhancements and video-on-demand.

Subscriber acquisition costs increased due to higher direct sales marketing costs, an increase in installation costs due to an increase in subscribers taking advanced services and higher dealer incentives for higher quality subscribers. SAC per subscriber, which includes the cost of capitalized set-top receivers, increased due to higher direct sales marketing costs, an increase in installation costs due to an increase in subscribers taking advanced services and higher dealer incentives for higher quality subscribers, partially offset by lower set-top receiver manufacturing costs.

Upgrade and retention costs increased in the second quarter of 2008 due to an increase in upgrades to advanced services and higher upgrade and retention marketing costs.

General and administrative expenses increased in the second quarter of 2008 primarily due to a $25 million one time gain recognized in the second quarter of 2007 related to hurricane insurance claims, a $14 million charge in the second quarter of 2008 for the write-off of accounts receivable for equipment and other costs incurred to effect the orderly transition of services from one of our Home Service Providers that ceased operations and an increase in labor and benefit costs.

Operating profit. The decrease in operating profit was primarily due to higher operating profit before depreciation and amortization, more than offset by higher depreciation and amortization expense in the second quarter of 2008 resulting from the capitalization of set-top receivers under the lease program.

DIRECTV Latin America Segment

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

	Three Months Ended and As of June 30,		Change	
	2008	**2007**	**$**	**%**
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	$ 611	$ 409	$ 202	49.4%
Operating Profit Before Depreciation & Amortization	161	95	66	69.5%
Operating Profit	102	41	61	148.8%
Other Data:				
ARPU	$57.07	$47.51	$9.56	20.1%
Average monthly subscriber churn %	1.81%	1.38%		31.2%
Total number of subscribers (000's)	3,659	2,940	719	24.5%
Gross subscriber additions (000's)	378	260	118	45.4%
Net subscriber additions (000's)	184	141	43	30.5%

The increase in net subscriber additions was due to higher gross subscriber additions mainly in Brazil, Argentina and Venezuela, partially offset by higher churn of 1.81% in the region. The increase in churn was primarily due to a 21,000 subscriber adjustment in Brazil identified as part of the completion of the integration of the Sky Brazil and DIRECTV Brazil businesses. Excluding the subscriber adjustment in the second quarter of 2008, churn would have been 1.61%, higher than the second quarter of 2007, primarily due to higher churn in PanAmericana related to our prepaid business, competition and growth.

Revenues increased primarily due to strong subscriber and ARPU growth. ARPU increased mainly due to favorable exchange rates in Brazil, the benefits from the merger with Sky Brazil as well as strong ARPU growth in PanAmericana, particularly Venezuela and Argentina.

The higher operating profit before depreciation and amortization is primarily due to the gross profit generated from the higher revenues, partially offset by subscriber acquisition costs mostly due to the increase in gross additions and increased costs related to exchange rate appreciation and currency transaction related fees.

The higher operating profit was primarily due to the increase in operating profit before depreciation and amortization.

Corporate and Other

Operating loss from Corporate and Other decreased to $18 million in the second quarter of 2008 from $23 million in the second quarter of 2007.

Six Months Ended June 20, 2008 Compared to Six Months Ended June 30, 2007

Consolidated Results of Operations

Revenues. The following table presents our revenues by segment:

	Six Months Ended June 30,		Change	
Revenues By Segment:	**2008**	**2007**	**$**	**%**
	(Dollars in Millions)			
DIRECTV U.S.	$8,245	$7,265	$ 980	13.5%
DIRECTV Latin America	1,153	778	375	48.2%
Total revenues	$9,398	$8,043	$1,355	16.8%

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

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

	Six Months Ended June 30,		Change	
Operating profit (loss) before depreciation and amortization:	**2008**	**2007**	**$**	**%**
	(Dollars in Millions)			
DIRECTV U.S.	$2,275	$1,931	$344	17.8%
DIRECTV Latin America	299	175	124	70.9%
Corporate and Other	(35)	(43)	8	(18.6)%
Total operating profit before depreciation and amortization	$2,539	$2,063	$476	23.1%

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

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

Operating profit (loss):	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Change $	Change %
	(Dollars in Millions)			
DIRECTV U.S.	$ 1,310	$ 1,288	$ 22	1.7%
DIRECTV Latin America	180	57	123	215.8%
Corporate and Other	(32)	(42)	10	(23.8)%
Total operating profit	$ 1,458	$ 1,303	$ 155	11.9%

The increase in our operating profit was primarily due to the increase in operating profit before depreciation and amortization, partially offset by higher depreciation and amortization expense due to the DIRECTV U.S.' lease program. We discuss the changes for each of our segments in more detail below.

Other expenses, net. The following table presents our other expenses, net:

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Change $
	(Dollars in Millions)		
Interest income	$ 37	$ 71	$ (34)
Interest expense	(145)	(115)	(30)
Other, net	18	17	1
Total other expenses, net	$ (90)	$ (27)	$ (63)

The decrease in interest income was due to lower average interest rates. The increase in interest expense was from an increase in the average debt balance compared to 2007 and lower capitalization of interest cost in 2008. We capitalized $9 million of interest costs in 2008 and $29 million in 2007.

Income Tax Expense. We recognized income tax expense of $517 million during the six months ended June 30, 2008 compared to income tax expense of $503 million during the six months ended June 30, 2007. The increase in income tax expense during the six months ended June 30, 2008 is primarily attributable to the increase in income before income taxes and minority interests partially offset by a $13 million tax benefit recorded due to the expiration of the statute of limitations for a former foreign subsidiary and a $10 million benefit recorded due to the reversal of a valuation allowance on deferred tax assets of a foreign subsidiary.

Income from discontinued operations, net of taxes. During 2007, we recorded a $17 million reduction to our unrecognized tax benefits in "Income from continued operations, net of taxes" in our Consolidated Statements of Operations as a result of a settlement of a foreign withholding dispute from a previously divested business.

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DIRECTV U.S. Segment

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

	Six Months Ended and As of June 30, 2008	Six Months Ended and As of June 30, 2007	Change $	Change %
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	$ 8,245	$ 7,265	$ 980	13.5%
Operating costs and expenses				
Costs of revenues, exclusive of depreciation and amortization expense				
Broadcast programming and other	3,375	2,996	379	12.7%
Subscriber service expenses	543	561	(18)	(3.2)%
Broadcast operations expenses	126	105	21	20.0%
Selling, general and administrative expenses, exclusive of depreciation and amortization expense				
Subscriber acquisition costs	1,037	879	158	18.0%
Upgrade and retention costs	464	423	41	9.7%
General and administrative expenses	425	370	55	14.9%
Depreciation and amortization expense	965	643	322	50.1%
Total operating costs and expenses	6,935	5,977	958	16.0%
Operating Profit	$ 1,310	$ 1,288	$ 22	1.7%
Other Data:				
Operating profit before depreciation & amortization	$ 2,275	$ 1,931	$ 344	17.8%
Total number of subscribers (000's)(1)	17,164	16,316	848	5.2%
ARPU	$ 80.79	$ 74.96	$ 5.83	7.8%
Average monthly subscriber churn %	1.42%	1.51%		(6.0)%
Gross subscriber additions (000's)	1,858	1,829	29	1.6%
Net subscriber additions (000's)	404	363	41	11.3%
Average subscriber acquisition costs per subscriber (SAC)	$ 709	$ 677	$ 32	4.7%

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

Subscribers. Gross subscriber additions increased in 2008 due to higher demand for HD and DVR services and increased sales in our direct sales channel, partially offset by the termination of the AT&T distribution agreement on April 1, 2008. Average monthly subscriber churn decreased primarily due an increase in the number of subscribers with advanced services, as well as the effect of more stringent credit policies. Net subscriber additions increased due to the higher gross subscriber additions and lower average monthly subscriber churn.

Revenues. DIRECTV U.S.' revenues increased as of result of higher ARPU and the larger subscriber base. The increase in ARPU resulted primarily from price increases on programming packages, higher HD and DVR equipment and service fees, and an increase in lease fees due to higher average number of receivers per subscriber.

Operating profit before depreciation and amortization. The improvement of operating profit before depreciation and amortization was primarily due to the gross profit generated from the higher revenues, partially offset by higher subscriber acquisition, upgrade and retention costs for the increased number of new and existing customers adding HD and DVR services, and increased general and administration costs.

Broadcast programming and other costs increased due to annual program supplier rate increases, the larger number of subscribers in 2008 and increased channel launches. Subscriber service expenses decreased in 2008 primarily due to improved performance at customer call centers. Broadcast operations expenses increased primarily due to costs to support new HD local channel markets, and an increase in labor expenses to support advanced services, HD enhancements and video-on-demand.

Subscriber acquisition costs increased due to increased installation costs driven by increasing subscriber demand for advanced services, higher dealer incentives due to the acquisition of higher quality subscribers, higher direct sales marketing costs and higher gross subscriber additions. SAC per subscriber, which includes the cost of capitalized set-top receivers, increased due to increased installation costs driven by increasing subscriber demand for advanced services, higher dealer incentives due to the acquisition of higher quality subscribers and higher direct sales marketing costs, partially offset by lower set-top receiver manufacturing costs.

Upgrade and retention costs increased in 2008 due to an increase in upgrades to advanced services and higher upgrade and retention marketing costs.

General and administrative expenses increased in 2008 primarily due to a $25 million one-time gain recognized in the second quarter of 2007 related to hurricane insurance claims, a $14 million charge for the write-off of accounts receivable for equipment and other costs incurred to effect the orderly transition of services from one of our Home Service Providers that ceased operations, and an increase in labor and benefit costs.

Operating profit. The increase in operating profit was primarily due to higher operating profit before depreciation and amortization, partially offset by higher depreciation and amortization expense in 2008 resulting from the capitalization of set-top receivers under the lease program.

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DIRECTV Latin America Segment

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

	Six Months Ended and As of June 30,		Change	
	2008	2007	$	%
	(Dollars in Millions, Except Per Subscriber Amounts)			
Revenues	$1,153	$ 778	$ 375	48.2%
Operating Profit Before Depreciation & Amortization	299	175	124	70.9%
Operating Profit	180	57	123	215.8%
Other Data:				
ARPU	$55.36	$46.04	$9.32	20.2%
Average monthly subscriber churn %	1.69%	1.39%		21.6%
Total number of subscribers (000's)(1)	3,659	2,940	719	24.5%
Gross subscriber additions (000's)	737	464	273	58.8%
Net subscriber additions (000's)	384	229	155	67.7%

(1) During the first half of 2008, the total number of subscribers was reduced by 4,000 Central American subscribers that migrated to Sky Mexico during the period. This migration did not affect net subscriber additions or average monthly subscriber churn.

The increase in net subscriber additions was due to higher gross subscriber additions mainly in Brazil, Argentina and Venezuela, partially offset by higher churn of 1.69% in the region. The increase in churn was primarily due to a 21,000 subscriber adjustment in Brazil identified as part of the completion of the integration of the Sky Brazil and DIRECTV Brazil businesses. Excluding the subscriber adjustment in the current year, churn would have been 1.59%, higher than the prior year period primarily due to higher churn in PanAmericana related to our prepaid business, competition and growth.

Revenues increased primarily due to strong subscriber and ARPU growth. ARPU increased mainly due to favorable exchange rates in Brazil, the benefits from the merger with Sky Brazil as well as strong ARPU growth in PanAmericana, particularly Venezuela and Argentina.

The higher operating profit before depreciation and amortization is primarily due to the gross profit generated from the higher revenues, partially offset by higher acquisition costs mostly due to the increase in gross additions and increased costs related to exchange rate appreciation and currency transaction related fees.

The higher operating profit was primarily due to the increase in operating profit before depreciation and amortization.

Corporate and Other

Operating loss from Corporate and Other decreased to $32 million in 2008 from $42 million in 2007.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2008, our cash and cash equivalents totaled $3.8 billion compared with $1.1 billion at December 31, 2007. The $2.7 billion increase resulted primarily from the $2.5 billion of net cash proceeds from the issuance of senior notes and borrowings under our senior secured credit facility which were completed in May 2008 as described in Note 4 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report, $2.0 billion of cash provided by operating activities and a $160 million capital contribution, partially offset by $1.0 billion of cash paid for the acquisition of satellites, property and equipment, $736 million in cash used for the repurchase of shares and $104 million of cash paid for investments.

As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.75 at June 30, 2008 compared to 0.92 at December 31, 2007. The increase in our current ratio during the six months ended June 30, 2008 was primarily due to the change in our cash and cash equivalents balance discussed above.

As of June 30, 2008, DIRECTV U.S. had the ability to borrow up to $500 million under its existing credit facility, which is available until 2011. DIRECTV U.S. is subject to restrictive covenants under its credit facility. These covenants limit the ability of DIRECTV U.S. and its respective subsidiaries to, among other things, make restricted payments, including dividends, loans or advances to us.

During 2008 and 2007 our Board of Directors approved multiple authorizations for the repurchase of our common stock, the most recent of which was in May 2008 and increased authorized share repurchases to $3.0 billion. As of June 30, 2008, we had approximately $2.4 billion remaining to spend under this authorization. During the six months ended June 30, 2008, we repurchased and retired 30 million shares for $796 million, at an average price of $26.52. We may make purchases under this program in the open market, through negotiated transactions or otherwise. The timing, nature and amount of such transactions will depend on a variety of factors, including market conditions, and the program may be suspended, discontinued or accelerated at any time. The sources of funds for the purchases are our existing cash on hand and cash from operations.

We expect to fund our cash requirements and our existing business plan using our available cash balances, and cash provided by operations. Additional borrowings, which may include borrowings under the $500 million DIRECTV U.S. revolving credit facility, may be required to fund strategic investment opportunities should they arise. Also, as discussed in Note 6 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report, Globo has the right to exchange Sky Brazil shares for cash or our common shares. If Globo exercises this right, we have the option to elect to pay the consideration in cash, shares of our common stock, or a combination of both. In addition, we have approximately $80 million of cash on deposit at our Venezuelan subsidiary that is subject to exchange controls that limit our ability to transfer the cash outside of Venezuela. Venezuelan deposits are denominated in bolivars and translated at the official exchange rate.

Several factors may affect our ability to fund our operations and commitments that we discuss in "Contingencies" below. In addition, our future cash flows may be reduced if we experience, among other things, significantly higher subscriber additions than planned, increased subscriber churn or upgrade and retention costs, higher than planned capital expenditures for satellites and broadcast equipment, satellite anomalies or signal theft or if we are required to make a prepayment on our term loans under DIRECTV U.S.' senior secured credit facility. Additionally, DIRECTV U.S.' ability to borrow under the senior secured credit facility is contingent upon DIRECTV U.S. meeting financial and other covenants associated with its credit facility as more fully described in Note 4 of the Notes to the Consolidated Financial Statements in Item 1, Part I of this Quarterly Report and in Note 8 to the Notes to the Consolidated Financial Statements in Item 8, Part II of our 2007 Form 10-K.

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Borrowings

At June 30, 2008, we had $5,867 million in total outstanding borrowings, bearing a weighted average interest rate of 6.15%. Our outstanding borrowings primarily consist of notes payable and amounts borrowed under a senior secured credit facility as more fully described in Note 4 of the Notes to the Consolidated Financial Statements in Item 1, Part I of this Quarterly Report and in Note 8 to the Notes to the Consolidated Financial Statements in Item 8, Part II of our 2007 Form 10-K.

Our notes payable and senior secured credit facility mature as follows: $35 million in the remainder of 2008, $108 million in 2009, $308 million in 2010, $108 million in 2011, $20 million in 2012 and $5,296 million thereafter. These amounts do not reflect potential prepayments that may be required under our senior secured credit facility, which could result from a computation that we are required to make at each year end under the credit agreement. We were not required to make a prepayment for the year ended December 31, 2007.

Debt ratings by the various rating agencies reflect each agency's opinion of the ability of issuers to repay debt obligations as they come due and the expected estimated loss given a default. In general, lower ratings result in higher borrowing costs. Please refer to our 2007 Form 10-K for discussion of Moody's Investors Service and Standard & Poor's Rating Service ratings range.

Currently, The DIRECTV Group has the following security rating:

	Corporate	Outlook
Standard & Poor's	BB	Stable

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

	Senior Secured	Senior Unsecured	Corporate	Outlook
Standard & Poor's	BBB-	BB	BB	Stable
Moody's	Baa3	Ba3	Ba2	Stable

Dividend Policy

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

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of June 30, 2008, including the future periods in which payments are expected. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements in Part I, Item 1 referenced in the table below and the Notes to the Consolidated Financial Statements in Part II, Item 8 in our Form 10-K for the year ended December 31, 2007.

	Payments Due By Period				
Contractual Obligations	**Total**	**2008**	**2009-2010**	**2011-2012**	**2013 and thereafter**
	(Dollars in Millions)				
Long-term debt obligations (Note 4)(a)	$ 8,212	$216	$ 1,130	$ 811	$ 6,055
Purchase obligations(b)	4,165	657	2,396	936	176
Operating lease obligations(c)	555	50	177	181	147
Capital lease obligations	455	16	62	62	315
Other long-term liabilities reflected on the Consolidated Balance Sheets under GAAP(d)(e)	248	38	163	47	
Total	$13,635	$977	$ 3,928	$ 2,037	$ 6,693

(a) Long-term debt obligations include interest calculated based on the rates in effect at June 30, 2008, however, the obligations do not reflect potential prepayments that may be required under DIRECTV U.S.' senior secured credit facility, if any, or permitted under its indentures.

(b) Purchase obligations consist of broadcast programming commitments, satellite construction and launch contracts and service contract commitments. Broadcast programming commitments include guaranteed minimum contractual commitments that are typically based on a minimum number of required subscribers subscribing to the related programming. Actual payments may exceed the minimum payment requirements if the actual number of subscribers subscribing to the related programming exceeds the minimum amounts. Service contract commitments include minimum commitments for the purchase of services that have been outsourced to third parties, such as billing services, telemetry, tracking and control services and broadcast center services. In most cases, actual payments, which are typically based on volume, usually exceed these minimum amounts.

(c) Certain of the operating leases contain escalation clauses and renewal or purchase options, which we do not consider in the amounts disclosed.

(d) Other long-term liabilities consist of amounts DIRECTV U.S. owes to the National Rural Telecommunications Cooperative, or NRTC, for the purchase of distribution rights and to the NRTC members that elected the long-term payment option resulting from the NRTC acquisition transactions we consummated in 2004, and satellite contracts.

(e) Payments due by period for other long-term liabilities reflected on the Consolidated Balance Sheet under GAAP do not include payments that could be made related to our unrecognized tax benefits liability, which amounted to $372 million as of June 30, 2008. The timing and amount of any future payments is not reasonably estimable, as such payments are dependent on the completion and resolution of examinations with tax authorities. We do not expect a significant payment related to these obligations within the next twelve months.

CONTINGENCIES

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

CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

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

ACCOUNTING CHANGES

For a discussion of "Accounting Changes," see Part I, Item 1, Note 2 of the Notes to the Consolidated Financial Statements of this Quarterly Report, which we incorporate herein by reference.

* * *

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the six months ended June 30, 2008. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Part II of our Annual Report on Form 10-K for the year ended December 31, 2007.

* * *

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q under the supervision and with the participation of management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based on the evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2008.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our fiscal quarter ended June 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

* * *

THE DIRECTV GROUP, INC.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

(a) Material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we became or were a party during the quarter ended June 30, 2008 or subsequent thereto, but before the filing of this report, are summarized below:

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

Finisar Corporation. As previously reported, we filed a notice of appeal to the Court of Appeals for the Federal Circuit on October 5, 2006 from a jury determination that The DIRECTV Group, Inc. and certain of its subsidiaries willfully infringed a patent owned by Finisar Corporation and an award by the jury of approximately $79 million in damages. The trial court increased the damages award by $25 million because of the jury finding of willful infringement and awarded pre-judgment interest of $13 million to Finisar. DIRECTV was also ordered to pay into escrow $1.60 per new set-top receiver manufactured for use with the DIRECTV system beginning June 17, 2006 and continuing until the patent expires in 2012 or was otherwise found to be invalid.

On April 18, 2008, the Court of Appeals vacated (set aside) the verdict of infringement, and sent the case back to the district court for further proceedings and possible retrial on a limited number of claims. The Court of Appeals, ruled that the lower court had used erroneous interpretations of certain important terms in the patent claims. Thus, the district court must now determine whether there is any infringement using the correct interpretations, which are the ones we originally suggested. Regarding our defenses of invalidity, the Court of Appeals found that one of the principal independent claims of the patent is clearly anticipated by the prior art we presented. The Court of Appeals then remanded the question of validity for the remaining claims back to the district court for further consideration in view of this invalidity ruling. The Court of Appeals also reversed the verdict of willful infringement, and affirmed earlier rulings of the district court that held several additional claims to be invalid. Through the date of the vacated verdict, the ongoing royalties amounted to $37 million, which had been paid into escrow. On May 2, 2008, Finisar filed a petition for rehearing by the Court of Appeals, which was denied on May 29, 2008. By agreement of the parties and subject to an Order of the district court, the appeal bond has been terminated, and the escrowed royalties were returned to us (with interest) on June 10, 2008.

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

(b) No previous reported legal proceedings were terminated during the second quarter ended June 30, 2008.

THE DIRECTV GROUP, INC.

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2007 have not materially changed.

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

Share Repurchase Program

During 2008 our Board of Directors approved multiple authorizations for the repurchase of our common stock, the most recent of which was in May 2008 and increased our share repurchase program to $3.0 billion. The authorizations allow us to repurchase our common stock from time to time through open market purchases and negotiated transactions, subject to market conditions. The program may be suspended, discontinued or accelerated at any time. The sources of funds for the purchases are our existing cash on hand, including the $2.5 billion of borrowings at DIRECTV U.S., and cash from operations. Repurchased shares are retired but remain authorized for registration and issuance in the future.

During the six months ended June 30, 2008, we repurchased and retired 30 million shares for $796 million, at an average price of $26.52. To date, no plans or programs for the purchase of our stock have been terminated prior to expiration.

A summary of the repurchase activity for the three months ended June 30, 2008 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
	(Amounts in Millions, Except Per Share Amounts)			
April 1 30, 2008		$ 25.74		$ 828
May 1 31, 2008	7	27.45	7	2,797
June 1 30, 2008	16	27.16	16	2,376
Total	23	27.25	23	2,376

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

At our annual meeting of stockholders held on June 3, 2008, the following matters were submitted to a vote of the stockholders of The DIRECTV Group, Inc.:

The DIRECTV Group, Inc.
Final Voting Results

Item No. 1

The election of Ralph F. Boyd, Jr., James M. Cornelius, Gregory Maffei, John C. Malone and Nancy S. Newcomb as directors. Messrs. Boyd, Cornelius, Malone and Ms. Newcomb were standing for election for three year terms expiring on the date of the annual meeting of the company in 2011 and

THE DIRECTV GROUP, INC.

Mr. Maffei was standing for election for a term expiring on the date of the annual meeting of the company in 2010. The final voting results were:

Ralph F. Boyd, Jr.	For	1,053,719,376
	Withheld	17,851,398
James M. Cornelius	For	1,051,698,360
	Withheld	19,872,414
Gregory B. Maffei	For	1,059,941,124
	Withheld	11,629,650
John C. Malone	For	996,031,457
	Withheld	75,539,317
Nancy S. Newcomb	For	1,053,820,983
	Withheld	17,749,791

Item No. 2

Ratification of the appointment of Deloitte & Touche LLP as independent registered public accountants for us for the fiscal year ending December 31, 2008. The final voting results were:

For	1,065,466,043
Against	748,768
Abstain	5,355,963
No Vote	

All matters voted on at the annual meeting were approved. In addition to the directors elected at the annual meeting, Neil R. Austrian, Chase Carey, Charles R. Lee, Peter A. Lund, and Haim Saban continue to serve as directors. To fill a remaining vacancy on the Board of Directors, Mark S. Carleton was appointed by the Board of Directors effective June 3, 2008 to serve as director with a term expiring on the date of the annual meeting of the company in 2009.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Name
*10.1	Letter Agreement dated May 6, 2008 among The DIRECTV Group, Inc., Liberty Media Corporation, Greenlady Corporation and Greenlady II, LLC (incorporated by reference to Exhibit 10.1 to the Form 8-K of the Company filed May 6, 2008).
*10.2	Indenture, dated as of May 14, 2008, by and among DIRECTV Holdings LLC, DIRECTV Financing Co, Inc., the Guarantors signatory thereto and The Bank of New York, as trustee (incorporated by reference to Exhibit 10.1 to the Form 8-K of DIRECTV Holdings LLC and DIRECTV Finance Co., Inc. filed May 16, 2008 (the "Holdings May 16, 2008 8-K")).
*10.3	Registration Rights Agreement, dated as of May 14, 2008, by and among DIRECTV Holdings LLC, DIRECTV Financing Co., Inc., the Guarantors signatory thereto and the Initial Purchasers named therein (incorporated by reference to Exhibit 10.2 of the Holdings May 16, 2008 8-K).
*10.4	Amendment No.1, dated as of May 14, 2008, by and among DIRECTV Holdings LLC, the Guarantors and Lenders signatory thereto and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.3 of the Holdings May 16, 2008 8-K).
*10.5	Tranche C Term Loan Joinder Agreement, dated as of May 14, 2008, by and among DIRECTV Holdings LLC and Bank of America, N.A., as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.4 of the Holdings May 16, 2008 8-K).
**31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
**32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

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* Incorporated by reference.

** Filed herewith.

* * *

SIGNATURE

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

	THE DIRECTV GROUP, INC. (Registrant)
Date: August 7, 2008	By: /s/ PATRICK T. DOYLE
	Patrick T. Doyle *(Senior Vice President and Chief Financial Officer)*

QuickLinks